

Summary of Consolidated Financial Results For the Year Ended March 2015

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|--|---|
| Name of Company: | Sumitomo Forestry Co., Ltd. |
| Stock Code: | 1911 |
| Stock Exchange Listing: | Tokyo |
| URL: | http://sfc.jp/ |
| Representative | |
| Title: | President / Representative Director |
| Name: | Akira Ichikawa |
| Contact Person | |
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| Phone: | +81-3-3214-2270 |
| Date of regular general meeting of shareholders: | June 23, 2015 |
| Date of commencement of dividend payment (tentative): | June 24, 2015 |
| Date of filing of securities report: | June 23, 2015 |
| Existence or non-existence of preparation for supplemental explanation documents | Exist |
| Existence or non-existence of results briefing | Exist (For securities analysts and institutional investors) |

(Note: Amounts are rounded to nearest million Yen.)

1. Financial results for the current fiscal year (April 1, 2014 - March 31, 2015)

(1) Result of operations (Consolidated)

(Percentage figures represent year on year changes)

| | Net sales | | Operating income | | Recurring income | | Net income | |
|---------------------|-------------|------|------------------|------|------------------|------|-------------|-------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| FY ended March 2015 | 997,256 | 2.5 | 33,994 | 1.7 | 36,424 | 8.5 | 18,572 | -17.6 |
| FY ended March 2014 | 972,968 | 15.1 | 33,415 | 31.9 | 33,567 | 24.4 | 22,531 | 41.5 |

Note: Comprehensive income

FY ended March 2015 35,775 million yen (17.7%)

FY ended March 2014 30,385 million yen (17.2%)

| | Net income per share | Net income per share fully diluted | Return on equity | Ratio of recurring income to assets | Operating income margin |
|---------------------|----------------------|------------------------------------|------------------|-------------------------------------|-------------------------|
| | Yen | Yen | % | % | % |
| FY ended March 2015 | 104.85 | 98.87 | 8.0 | 5.6 | 3.4 |
| FY ended March 2014 | 127.20 | 122.16 | 11.0 | 5.6 | 3.4 |

Note: Equity in income(losses) of affiliates

FY ended March 2015 1,021 million yen

FY ended March 2014 (522) million yen

(2) Financial Position (Consolidated)

| | Total assets | Net assets | Equity ratio | Net assets per share |
|----------------------|--------------|-------------|--------------|----------------------|
| | Million yen | Million yen | % | Yen |
| As of March 31, 2015 | 665,538 | 260,782 | 36.9 | 1,387.39 |
| As of March 31, 2014 | 645,197 | 226,078 | 33.9 | 1,234.53 |

Note: Shareholders' equity

FY ended March 2015: 245,750 million yen

FY ended March 2014: 218,676 million yen

(3) Cash flow position (Consolidated)

| | Net cash provided by (used in) operating activities | Net cash provided by (used in) investment activities | Net cash provided by (used in) financing activities | Cash and cash equivalents at end of period |
|---------------------|---|--|---|--|
| | Million yen | Million yen | Million yen | Million yen |
| FY ended March 2015 | 14,709 | (23,575) | (17,286) | 103,296 |
| FY ended March 2014 | 54,057 | (10,476) | 8,511 | 128,343 |

2. Dividends

| | Dividend per share | | | | | Annual aggregate amount | Payout ratio (Consolidated) | Dividends/ net assets (Consolidated) |
|-----------------------------|--------------------|-----------|-----------|-----------|-----------|-------------------------------|--------------------------------|--|
| | End of 1Q | End of 2Q | End of 3Q | End of FY | Full year | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| FY ended March 2014 | - | 9.50 | - | 9.50 | 19.00 | 3,366 | 14.9 | 1.6 |
| FY ended March 2015 | - | 9.50 | - | 12.00 | 21.50 | 3,808 | 20.5 | 1.6 |
| FY ending March 2016 (est.) | - | 12.00 | - | 12.00 | 24.00 | | 21.8 | |

3. Forecast for the fiscal year ending March 2015 (Consolidated, April 1, 2015 - March 31, 2016)

| | Net sales | | Operating income | | Recurring income | | Profit for the year attributable to Owners of the parent | | Net income per share |
|------------|-------------|-----|------------------|-------|------------------|-------|---|-------|-------------------------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| First half | 488,000 | 3.9 | 7,000 | -42.7 | 7,500 | -43.7 | 3,000 | -58.8 | 16.94 |
| Full year | 1,062,000 | 6.5 | 35,000 | 3.0 | 36,500 | 0.2 | 19,500 | 5.0 | 110.09 |

* Notice

- (1) Changes in main subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None
- (2) Changes in accounting policies, accounting estimates, and restatements
- (a) Changes in accounting policies due to revision of accounting standards: Yes
- (b) Changes in accounting policies other than those in (a): None
- (c) Changes in accounting estimates: None
- (d) Restatements: None
- (Note) For details, please refer to accompanying materials page 23, "5. Consolidated Financial Statements (5) Notes to the Consolidated Financial Statements (Change in Accounting Policy)."

(3) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury stock)

| | | | |
|----------------------|-------------|----------------------|-------------|
| As of March 31, 2015 | 177,410,239 | As of March 31, 2014 | 177,410,239 |
|----------------------|-------------|----------------------|-------------|

(b) Treasury stock

| | | | |
|----------------------|---------|----------------------|---------|
| As of March 31, 2015 | 278,529 | As of March 31, 2014 | 276,468 |
|----------------------|---------|----------------------|---------|

(c) Average number of shares during the term

| | | | |
|----------------------|-------------|----------------------|-------------|
| As of March 31, 2015 | 177,132,685 | As of March 31, 2014 | 177,134,880 |
|----------------------|-------------|----------------------|-------------|

Non-consolidated Financial Results (For reference)

Financial results for the current fiscal year (April 1, 2014 – March 31, 2015)

(1) Result of operations (Non-consolidated)

(% displayed is change on previous FY)

| | Net sales | | Operating income | | Recurring income | | Net income | |
|------------------------------|-------------|-------|------------------|--------|------------------|-------|-------------|-------|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Fiscal year ended March 2015 | 714,583 | (5.5) | 18,922 | (18.5) | 24,640 | (7.9) | 14,851 | (7.7) |
| Fiscal year ended March 2014 | 756,497 | 10.9 | 23,231 | 20.3 | 26,752 | 16.1 | 16,092 | 10.0 |

| | Net income per share | Net income per share fully diluted |
|------------------------------|----------------------|------------------------------------|
| | Yen | Yen |
| Fiscal year ended March 2015 | 83.84 | 79.06 |
| Fiscal year ended March 2014 | 90.85 | 87.25 |

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1. Analysis of the Results of Operations and Financial Conditions

(1) Analysis of Results of Operations

(a) Results of Operations

In the period under review, the Japanese economy showed a gentle recovery, including improved corporate profits and an improving employment and income environment owing to a gradual recovery of the global economy centering on the United States and Europe and a trend of yen depreciation/high stock prices. At the same time, the Japanese economy as a whole showed steady movement even as consumer confidence was weak due to the consumption tax hike.

With respect to the domestic housing market which has a deep relationship to our Group businesses, in addition to continuing low interest rates, there were measures implemented by the government to promote home acquisition such as expansion of tax breaks on home loans. At the same time, the sharp reactive decline following the surge demand ahead of the consumption tax hike has been prolonged, so the number of new housing starts was approximately 880,000 (a decrease of 10.8% year-on-year). Of this number, owner-occupied dwellings accounted for approximately 278,000 (a decrease of 21.1% year-on-year).

Under this business environment, our Group engaged in efforts to improve profitability of the timber and building materials business and the custom-built detached housing business, which are the main businesses. Additionally, we endeavored to expand our growth businesses through efforts such as aggressively investing management resources in not only the overseas and renovation businesses but also the MOCCA (timber solution) Business, which promotes the adoption of timber construction in non-residential buildings and of wood-based interior finishings, and the biomass power generation business in order to build a balanced portfolio capable of responding to changes in the business environment. As a result of this, we posted sales of ¥997,256 million (an increase of 2.5% year-on-year), operating income of ¥33,994 million (an increase of 1.7% year-on-year), recurring income of ¥36,424 million (an increase of 8.5% year-on-year) and net income of ¥18,572 million (a decrease of 17.6% year-on-year). Various factors contributed to the year-on-year decrease in net income. These include the acquisition of additional equity shares in the Henley Group, which is engaged in the housing business in Australia and the United States, two years ago and making it a consolidated subsidiary, resulting in the posting of a marginal gain on step acquisition of ¥2,124 million as an extraordinary gain in the previous year, as well as a reduction in the previous year's income taxes due to reversal of ¥2,077 million in deferred tax liabilities recorded in previous years resulting from an exemption from withholding tax on dividends payable by a subsidiary in New Zealand which became applicable as the result of amendment to the tax treaty between Japan and New Zealand in the same year.

Additionally, the Sumitomo Forestry Group engaged in efforts that brought the whole group together, including focusing on taking orders for disaster public housing in the disaster-stricken areas of Tohoku to contribute to a quick recovery and completing construction of disaster public housings made of wood.

Business segment performance is described below. The net sales for each segment include intersegment internal sales and transfers.

1) Timber and Building Materials Business

In the timber and building materials distribution business, we promoted a community-based sales strategy to increase our market share and focused on market cultivation efforts, including strengthening sales of materials in the renovation market and working to build a stable system for supplying fuel chips for biomass power generation. With regards to the domestic timber distribution business, exports increased thanks to our efforts to expand sales of domestic timber in Asia against the backdrop of a weaker yen. However, the impact of sluggish demand associated with the decrease in the number of new housing starts was significant and resulted in stagnant performance.

In the domestic building materials manufacturing business, losses improved as a result of continued cost reductions. We also made the decision to consolidate our six manufacturing plants into four and restructure our operations in order to promote the concentration of management resources and optimization, thereby improving productivity.

As a result of the above, we posted sales of the timber and building materials business of ¥423,020 million (a decrease of 7.8% year-on-year) and recurring income of ¥4,039 million (a decrease of 18.4% year-on-year).

2) Housing Business

In the custom-built detached housing business, we worked to expand orders received for our “Big-Frame Construction method,” which has superior earthquake resistance and offers greater design flexibility allowing the proposal of floor plans where the position of columns differs on upper and lower floors. Moreover, we engaged in sales activities that emphasize the distinguishing characteristics of our company. This included holding “Sumai Haku” fairs in Osaka and Nagoya to provide people with the full experience of Sumitomo Forestry homes and constructing a technology housing display center showing the structural aspects of our “Big-Frame construction method” and a proto-housing display center that brings together the concepts of exterior appearance, floor plans, etc. We also rolled out our “Estate Design Project,” which aims to provide housing that will satisfy customers that are particular about design plans, design and materials in order to differentiate ourselves from our competitors. Last year in October we opened a model house in Setagaya-ku, Tokyo designed by our experienced and creative design group, and in January of this year, we opened one in Nagoya City, Aichi. We also promoted our “Female Focused Development Project,” which aims to offer more pleasant and comfortable lifestyle proposals by utilizing women’s perspectives and ideas in product development and services.

On our product strategy front, we launched “BF GranSQUARE,” a product that embodies our “Estate Design Project,” and “GRAND LIFE Stage,” a one-story product which allows smooth additions and improvements tailored to different life stages.

However, results were sluggish due to such factors as prolonged impact of the sharp reactive decline in surge demand accompanying the consumption tax hike, which caused a slump in orders received, and a decline in the number of completed and delivered units.

In the Apartment business, we strengthened our sales capabilities to respond to increased demand for asset utilization from land owners before the scheduled increase in the inheritance tax in January of this year. We also launched our “ForestMaison Plus BF” combined apartments and residential product featuring our “Big-Frame construction method.”

In the renovation business, we held simultaneous site tours nationwide and worked to raise recognition of our renovation product brand, “Reforest” through aggressive advertising. Additionally, we made efforts to improve orders received for earthquake resistance renovations utilizing our high level of technical capabilities, including “Seismic Resistance/Seismic Mitigation Double Construction,” and enhanced our sales force, such as increasing the number of personnel, primarily in the three major metropolitan areas. Moreover, we also made efforts to expand orders for condominium renovations, but we struggled to increase profits.

Profitability improved in our spec homes business thanks to the effort we poured into improving our sales force. In our real estate distribution and management business, we worked to develop a management organization corresponding to market trends and to bolster earnings power. In the timber solution integration business, we applied the technology and know-how cultivated in our custom-built detached housing business and accepted orders for a day-care center, a restaurant and other facilities. We also worked on developing a system by which to create and expand the medium- to large-sized timber constructed building market.

As a result of the above, we posted housing business net sales of ¥453,940 million yen (a decrease of 2.5% year-on-year) and recurring income of ¥28,302 million (a decrease of 12.1% year-on-year).

3) Overseas Business

In the resources and manufacturing business, profitability declined in New Zealand due to the heavy impact of exchange rate fluctuations despite the focus on sales to Japan. Results were strong in Indonesia thanks to favorable sales of plywood and particle board. On the other hand, extension of our market in Australia has not proceeded as planned, so profits hovered at a low level. In Vietnam we built a system for stable production of particle board and expanded production volumes. We worked to promote our environmentally friendly afforestation business in Indonesia and other countries to provide a stable supply of environmentally sound raw materials.

In the housing and real estate business, results were strong owing in part to the positive contribution of profits from the Henley Group following the acquisition of additional equity shares two years ago and its conversion into a consolidated subsidiary. In May of last year, we acquired new equity shares in the Gehan Homes Group, which operates in Texas and Arizona, and made it a consolidated subsidiary in order to further expand our housing business in the United States. Results were strong thanks to a favorable housing market. In Australia, the number of houses sold increased as the housing market showed a gentle recovery against a backdrop of low interest rates.

As a result of the above, we posted overseas business net sales of ¥147,024 million (an increase of 92.6% year-on-year) and a recurring income of 6,126 million (the recurring loss in the previous fiscal year was ¥149 million).

4) Other Businesses

Besides the aforementioned businesses, the Sumitomo Forestry Group operates the biomass power generation business, management of private-pay elderly care facilities, the leasing business and a wide range of service businesses for residential customers (including non-life insurance agency services) and also manufactures and sells farming and gardening materials and develops IT systems for its Group companies.

We posted net sales of other businesses of ¥16,565 (a decrease of 4.2% year-on-year) and a recurring income of ¥1,175 million yen (an increase of 43.1% year-on-year).

(b) Outlook for the Fiscal Year Ending March 31, 2016

With respect to future economic trends, as the employment and income environment continues to improve, the Japanese economy is expected to continue its gradual recovery thanks to the impact of falling oil prices, various governmental measures and other such factors. Additionally, the return of consumer confidence is expected to lead to stronger housing construction and consumer spending. At the same time, it is speculated that uncertainty will persist due to downward pressure placed on the Japanese economy by the risk of economic downturns overseas resulting from such factors as deceleration of economic growth in emerging countries and geopolitical risk.

Under this economic environment, our Group aims to further accelerate growth of our overseas and renovation businesses and secure new revenue streams in order to establish a business structure to consistently exceed net sales of ¥1 trillion and recurring income of ¥30 billion. We will also invest in new businesses on an ongoing basis while taking into account our fiscal health. Moreover, we will continue to increase the value of each business division and reduce costs to improve profitability.

In the timber and building materials business, we will further strengthen collaboration with our trade partners to cultivate growth markets like fuel chips for biomass power generation, for which increasing demand is expected, and non-residential timber construction. We will also place further emphasis on domestic timber exports and expansion of sales of our overseas subsidiaries' products principally in the Asian market.

As regards the housing business, we will actively invest management resources in the custom-built detached housing business in the Tokyo area, enhance our strategic urban products and construct new housing display centers while also actively promoting the provision of high value-added products to improve profitability. In the apartment business, we will strengthen our sales force and expand orders received by addressing asset utilization demand

associated with revision of the inheritance tax system. Additionally, in the renovation business, we will enhance our sales approach towards owners of Sumitomo Forestry Home houses and work to expand orders received for condominium renovations and renovation of traditional Japanese-style homes as we focus on further business expansion. Moreover, in the MOCCA(timber solution) Business, we will make efforts to create and expand the market for medium- to large-sized timber constructed buildings.

In the overseas business, we will pursue higher profitability in the manufacturing business by continuing to promote improvement of manufacturing technology and developing a stable production system. In the housing and real estate business, we aim to further expand our business in the United States and Australia by more deeply instilling the housing business know-how we have cultivated over the years in our group companies. With respect to new business projects, we will carry out continuous investments with the view of securing profitability while keeping marketability and risk in mind.

With regards to the forest operation business, we will contribute to the vitalization of the domestic afforestation business by utilizing the sustainable forestry know-how which has been cultivated up to now in our management of company-owned forests to offer forestry management consulting. Overseas we will engage in sustainable forest management which gives consideration to the environment. Additionally, in the environment and energy field, we will work to improve forest value by utilizing wood resources and contribute to the creation of jobs and other regional revitalization by engaging in the wood biomass power generation business utilizing unused left-over timber and thinnings and other materials in places like Mombetsu City, Hokkaido and Hachinohe City, Aomori.

In addition to the aforementioned activities, the Sumitomo Forestry Group will fulfill our corporate social responsibility by promoting environmental conservation and legal compliance efforts as well as by strengthening our efforts related to diversity and corporate governance while focusing on social change and listening to our stakeholders. We will also develop businesses which contribute to the creation of a sustainable society leveraging the knowledge and technology related to wood that we have cultivated in our business activities up until now.

(2) Analysis of the Financial Position

(a) Balance Sheet Highlights

| | (million yen) | |
|-------------------|---------------------------------|---------------------------------|
| | Fiscal year ended March 2014 | Fiscal year ended March 2015 |
| Total assets | 645,197 | 665,538 |
| Total liabilities | 419,120 | 404,756 |
| Total net assets | 226,078 | 260,782 |

Total assets totaled ¥665,538 million at the end of the current consolidated fiscal year, an increase of ¥20,341 million year on year. This increase was attributable mainly to an increase in inventories associated with the acquisition of new equity shares in the Gehan Homes Group and making it a consolidated subsidiary even as there was a decrease in cash on hand due primarily to repayment of bonds. Liabilities decreased ¥14,363 million compared to the end of the previous consolidated fiscal year to ¥404,756 million due primarily to the aforementioned repayment of bonds and a decrease in accounts payable from construction in progress associated with a decrease in construction completed. Net assets totaled ¥260,782 million, and the equity ratio was 36.9%.

(b) Cash Flow

(million yen)

| | Fiscal year ended March 2014 | Fiscal year ended March 2015 |
|---|---------------------------------|---------------------------------|
| Cash flows from operating activities | 54,057 | 14,709 |
| Cash flows from investment activities | (10,476) | (23,575) |
| Cash flows from financing activities | 8,511 | (17,286) |
| Effect of exchange rate change on cash and cash equivalents | 593 | 1,105 |
| Net increase (decrease) in cash and cash equivalents | 52,685 | (25,047) |
| Cash and cash equivalents at beginning of period | 75,658 | 128,343 |
| Cash and cash equivalents at end of period | 128,343 | 103,296 |

There was a net decrease of ¥25,047 million in cash and cash equivalents (hereinafter: “cash”) to ¥103,296 million.

A summary of cash flows is presented below.

1) Operating Activities

Net cash provided by operating activities increased ¥14,709 million. This increase was a result of cash-increasing factors such as the ¥34,738 million in income before income taxes and minority interests and the ¥11,453 million in depreciation expenses exceeding cash-decreasing factors such as a decrease in notes and accounts payable, trade and payment of income taxes.

2) Investment Activities

Net cash used in investment activities decreased ¥23,575 million. This was due primarily to the use of cash to acquire a stake in a US housing business company and in capital investments.

3) Financing Activities

Net cash used in financing activities decreased ¥17,286 million. This was due primarily to repayment of bonds, repayment of borrowings and payment of dividends.

The following table shows financial indicators associated with cash flows.

| | FY3/11 | FY3/12 | FY3/13 | FY3/14 | FY3/15 |
|--|--------|--------|--------|--------|--------|
| Equity ratio (%) | 33.3 | 33.6 | 35.1 | 33.9 | 36.9 |
| Equity ratio based on market value (%) | 27.4 | 26.5 | 32.7 | 28.5 | 34.9 |
| Ratio of interest-bearing debt against cash flow (years) | 4.0 | 2.5 | 1.5 | 1.7 | 7.0 |
| Interest coverage ratio (times) | 13.7 | 20.0 | 34.9 | 44.2 | 12.6 |

(Notes) Equity ratio = shareholders' equity/total assets

Equity ratio based on market value = market value of total shares/total assets

Ratio of interest-bearing debt against cash flow = interest-bearing debt/operating cash flow

Interest coverage ratio = operating cash flow/interest expense

* All calculations are on a consolidated base.

* Market value of total shares is calculated based on the year-end closing share price × the number of shares issued, except for treasury stock.

* Amounts used for operating cash flow and interest expense are taken from “cash flows from operating activities” and “interest expense” reported in the consolidated statements of cash flows. Interest-bearing debt consists of all debts appearing on the balance sheet that incur interest. Amounts used for interest expense are taken from “interest paid” reported in the consolidated statements of cash flows.

(3) Policy on Profit Distribution and Dividends for FY 3/15 and FY 3/16

Sumitomo Forestry has a fundamental policy of achieving stable and continuous shareholder returns and considers this to be one of its highest priorities. In the future, we will work to improve return on equity (ROE) and increase shareholders' equity effectively utilizing internal reserves in effective investments that contribute to the improvement of long-term corporate value and in research and development activities. At the same time, we will return an appropriate level of earnings to shareholders in accordance with total earnings, while taking into account the need to balance these distributions with the base of operations, financial position, cash flow and other items.

Based on the above-mentioned basic policy, as well as comprehensive consideration of the current period operating results, the Company plans to pay a fiscal year-end dividend of ¥12.00 per share for the fiscal year that ended in March 2015. Together with the interim dividend of ¥9.50 per share that the Company has already paid, this will bring the dividend for the full year to ¥21.50 per share, an increase in the dividend of ¥2.50 compared with the fiscal year that ended in March 2014.

For the fiscal year ending in March 2016, the company plans to pay an annual dividend of ¥24.00 per share – an interim and year-end dividend of ¥12.00 each.

(4) Business Risk

(a) Housing Market Trends

The Sumitomo Forestry Group business results are heavily reliant on housing market trends. Changes in the following business conditions may cause a significant decline in housing orders that could impact the Group's operating results and financial position.

1) Economic Cyclical Changes

An economic slump or deterioration in the economic outlook, or a consequential worsening of the employment situation and decline in personal consumption, could affect the Group's operating results and financial position by weakening customers' appetite for purchasing housing.

2) Interest Rate Fluctuations

Interest rate increases, particularly rises in long-term interest rates, can have an adverse effect on demand as they cause an increase in total payments for customers purchasing detached housing, many of whom take out loans for the purchase, and for customers who build apartment buildings to use their land more effectively. However, the anticipation of interest rate rises can induce a temporary surge in home purchases, as consumers seek to avoid high loan costs.

3) Land Price Fluctuations

A sharp rise in land prices can negatively impact consumers' inclination to purchase land on which to build housing. Conversely, a steep drop in land prices is a form of asset deflation and can reduce demand for home reconstruction. Consequently, both substantial rises and substantial falls in land prices have the potential to impact the Group's operating results and financial position.

4) Tax System and Housing-Related Policy Changes

In the future, the scheduled increase in the rate of the consumption tax has the potential to induce surge demand in housing purchases and thus temporarily increasing housing demand. However, this could later invite a sharp reactive decline. Moreover, changes to housing-related policies such as tax breaks associated with housing loans and subsidy programs could affect the motivation for customers to buy housing, impacting the Group's operating results and financial position.

(b) Statutory Changes

Laws and regulations surrounding the housing business include the Personal Information Protection Act, Building Standards Law, Construction Industry Law, Registered Architect Law, Building Lots and Building Transaction Business Law, Urban Planning Law, National Land Use Planning Law, Housing Quality Assurance Law, and Waste Disposal and Public Cleaning Law (law concerning procedures for waste disposal and site clean-up). The Sumitomo Forestry Group diligently conforms to all laws and regulations while recognizing that the abolition, revision, or adoption of laws and regulations can substantially influence the Group's operating results and financial position.

(c) Competition

The Sumitomo Forestry Group is engaged in various businesses, including timber and building materials and housing. In each of these businesses, we must compete with other companies. For that reason, failure to gain an advantage over our competitors in terms of the quality, price, sales, etc. of our products and services could negatively impact the Group's operating results and financial position.

(d) Capitalization and Investment Strategy

We invest in various businesses, so if profits and return on investment do not go as planned due to factors such as changes in the business environment or a downturn/stagnation in the performance of our investments or business partners, it could result in partial or total loss of our investment or the necessity of additional contribution of funds. Moreover, we may not be able to proceed with withdrawal from operations or restructuring according to our desired timing or methods due to factors such as the management policies of our partners or the low liquidity of the investment. In such cases there could be a negative impact on the Group's operating results and financial position.

(e) Timber and Building Materials Market Conditions

A decline in prices for timber and building materials reduces the profitability of the timber and building materials business. On the other hand, a steep increase in prices for timber and building materials or higher prices for other building materials can lead to higher materials costs for the housing business, which could impact Group results. For that reason, a sudden change in the price of timber and building materials and fluctuations in the market for direct/indirect materials other than timber and building materials such as oil could negatively impact the Group's operating results and financial position.

(f) Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks attendant on foreign currency-denominated imports through foreign exchange forward contracts and other means. However, temporary exchange rate fluctuations greater than those expected may occur. Also, there is a chance that fluctuations in the exchange rates of currencies of settlement may impact subsidiaries that sell and manufacture timber and construction materials overseas. For that reason, sudden fluctuations in exchange rates could negatively impact the Group's operating results and financial position.

(g) Product Quality Assurance

The Group endeavors to ensure complete quality control with respect to its products, housing and all other aspects of its operations. However, serious quality issues arising from unforeseen circumstances have the potential to impact the Group's operating results and financial position.

(h) Overseas Business Activities

The Group conducts various business activities overseas and engages in business transactions, such as product transactions, with various business partners overseas. Consequently, as is the case with domestic Japanese operations, laws and regulations, economic and social conditions, and consumer trends in the foreign countries in which the Group conducts business can influence the Group's operating results and financial position.

(i) Retirement Benefit Obligations

A significant deterioration in the investment performance of the Group's pension assets or the necessity to revise assumptions for pension actuarial calculations could entail an increase in pension assets or increase the costs associated with pension accounts, potentially impacting the Group's operating results and financial position.

(j) Stock Market

Volatile stock price fluctuations could cause the Group to book valuation losses on its securities holdings, thereby negatively impacting its operating results and financial position.

(k) Natural Disasters

Damage from a major earthquake, wind, flood, or other destructive natural element could result in cost increases arising from interrupted operations at facilities, verification of safety in our housing products, delays in the completion of construction contracts, or other events. A significant increase in costs caused by a natural disaster could influence the Group's operating results and financial position.

(l) Information Security

The Group makes every possible effort to ensure the proper and secure management of the large volume of customer information it holds, through establishing necessary rules and systems and conducting extensive education and training of employees. Despite such precautions, customer information could leak out due to a computer system breach by a malicious third party, the theft of recording media holding such information, a human error by an employee or contracted worker, an accident, or other causes. In such cases, the Group could face customer claims for compensatory damages and lose the trust of customers and the market, which could affect the Group's operating results and financial position.

(m) Environmental Risk

“Symbiosis with the Environment” is a top priority for the Group and is one of the four action guidelines of the Group's corporate philosophy. Changes to environmental regulations in Japan or overseas or major environmental issues could lead to fines, compensation payments, costs associated with resolving environmental problems that could influence the Group's operating results and financial position.

(n) Decline in the Value of Assets under Management

In the event that a marked deterioration in market conditions led to a decline in the value of Group assets under management such as real estate holdings and products, valuation losses could be incurred and assets could be written down due to impairment, which could influence the Group's operating results and financial position.

(o) Provision of Credit to Business Partners

The Group extends credit to business partners in the form of trade receivables etc., and is engaged in thorough credit management such as establishing appropriate credit limits to avoid exposure to credit risk, but there is still a possibility that such risk may manifest itself. Additionally, we have established reserves based on certain estimates to prepare for credit risk contingencies, but there is a possibility that the actual loss may exceed this amount. As such, our credit management efforts are not a guarantee that such risk can be completely avoided. Credit risk could still potentially influence the Group's operating results and financial position.

(p) Litigation Risk

As the Group is engaged in a range of business activities in Japan and overseas, it is possible that the said activities could be subject to litigation and/or a dispute. In the event that these activities became subject to litigation, the Group's operating results and financial position could be influenced adversely.

(q) Fundraising Risk

The Group conducts fundraising, such as borrowing from financial institutions, and as such there is the possibility that fundraising costs may increase or fundraising itself could be restricted due to changes in the economic environment or lower credit ratings. In this event, the Group's operating results and financial position could be impacted.

* Statements in this report with respect to matters in the future are forward-looking statements deemed logical by the Group as of the date of the production of this report.

2. Corporate Group

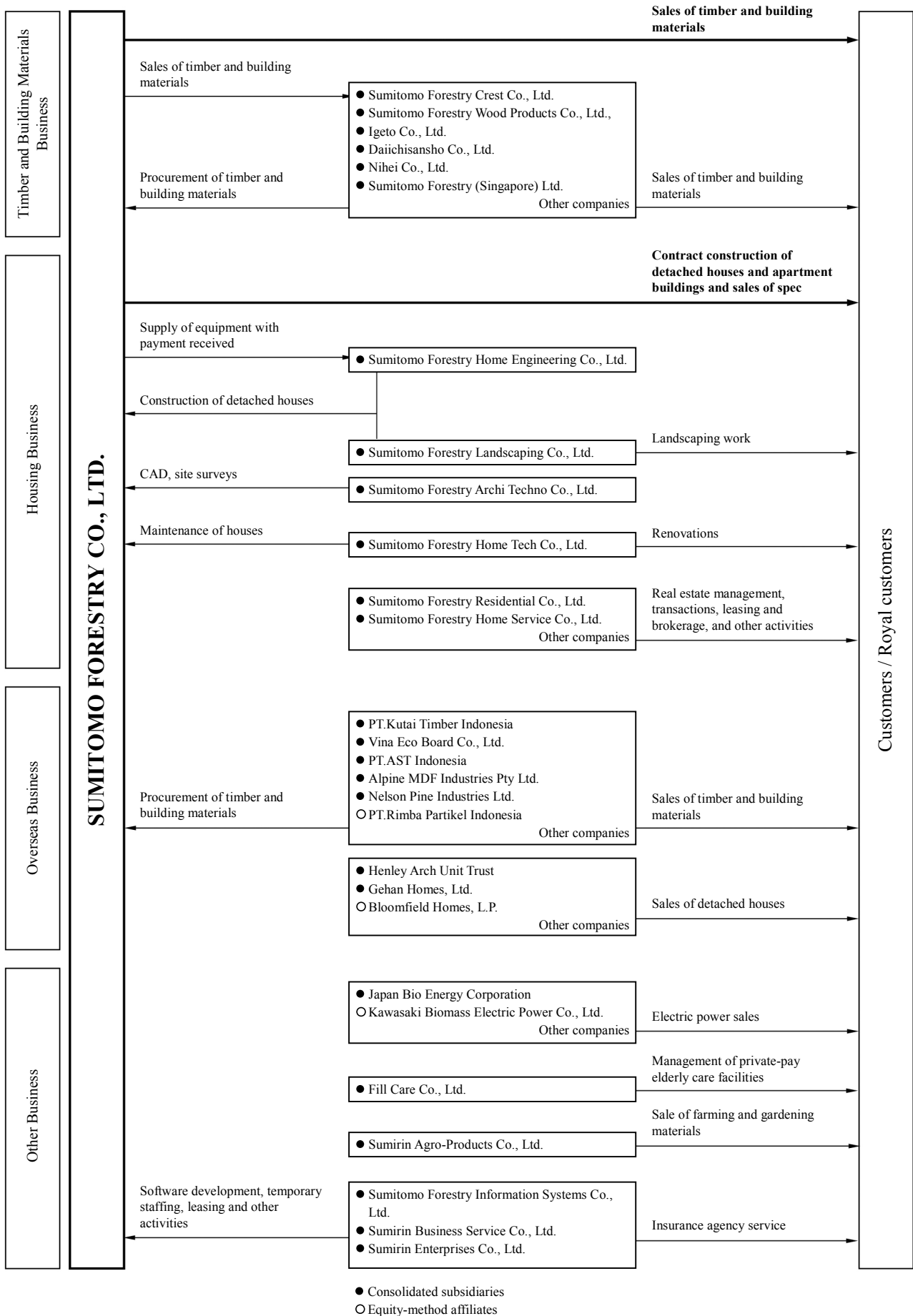
The Sumitomo Forestry Group (Sumitomo Forestry and its related companies) consists of Sumitomo Forestry, 72 consolidated subsidiaries and 21 equity-method affiliates. These companies are engaged primarily in the afforestation business, which includes the procurement, manufacture, processing and sale of timber and building materials, the construction and renovation of detached houses and apartment buildings, the sale of spec homes, real estate management and brokerage, and other business activities associated with these, both domestically and abroad.

The following table shows business activities and the positioning of these businesses within the group.

The following four business sectors are the same as the business segments used for financial reporting.

| | | |
|--|-------------------------|--|
| Timber and Building Materials Business | Business description | Procurement, manufacture, processing and sale of timber (logs, chips, lumber, laminated lumber, etc.) and building materials (plywood, fiberboard, processed wooden building materials, ceramic building materials, metal building materials, housing equipment, etc.) |
| | Major related companies | Sumitomo Forestry Crest Co., Ltd., Sumitomo Forestry Wood Products Co., Ltd., Igeto Co., Ltd., Daiichisansho Co., Ltd., Nihei Co., Ltd., Sumitomo Forestry (Singapore) Ltd. |
| Housing Business | Business description | Construction, maintenance and renovation of detached houses and apartment buildings, sale of spec homes, sale of interior goods, leasing, management, purchase and sale and brokerage of real estate, house exterior fixtures, landscaping works contracting, urban greening works, CAD, site surveys, etc. |
| | Major related companies | Sumitomo Forestry Residential Co., Ltd., Sumitomo Forestry Home Engineering Co., Ltd., Sumitomo Forestry Landscaping Co., Ltd., Sumitomo Forestry Archi Techno Co., Ltd., Sumitomo Forestry Home Tech Co., Ltd. |
| Overseas Business | Business description | Manufacture and sale of timber and building materials overseas, construction and sale of detached houses, etc., afforestation business, sale of forest lumber, etc. |
| | Major related companies | PT.Kutai Timber Indonesia, Vina Eco Board Co., Ltd., PT.AST Indonesia, Alpine MDF Industries Pty Ltd., Henley Group (Henley Arch Unit Trust and eight other companies), Nelson Pine Industries Ltd., Gehan Homes Group (Gehan Homes, Ltd. and eight other companies), PT.Rimba Partikel Indonesia, Bloomfield Homes Group (Bloomfield Homes, L.P. and two other companies) |
| Other Businesses | Business description | Biomass power generation business, management of private-pay elderly care facilities, leasing, insurance agency business, manufacture and sale of farming and gardening materials, information systems development, temporary staffing services, etc. |
| | Major related companies | Sumitomo Forestry Information Systems Co., Ltd., Sumirin Agro-Products Co., Ltd., Sumirin Business Service Co., Ltd., Sumirin Enterprises Co., Ltd., Fill Care Co., Ltd., Japan Bio Energy Corporation, Kawasaki Biomass Electric Power Co., Ltd. |

The diagram below presents the information in the table above in a flow chart format.



3. Management Policy

(1) Fundamental Management Policy

The corporate philosophy of the Sumitomo Forestry Group is “to utilize timber as a renewable, healthy, and environmentally friendly natural resource, and to contribute to a prosperous society through all types of housing-related services.” The fundamental management policy is to use this philosophy to achieve the goal of maximizing corporate value.

To accomplish this goal, the Group prioritizes the improvement of operating efficiency and profitability in its business operations. Operations are guided by four action guidelines: adherence to the “Sumitomo Spirit,” which places emphasis on fairness and trust and on conducting business activities that are beneficial to society; a dedication to “Respect for Humanity” by promoting diversity and an open and energetic corporate culture; extensive activities concerning “Environmental Responsibility” to help create a sustainable society; and “Putting Customers First” in order to achieve complete customer satisfaction by supplying products and services of outstanding quality.

Another goal is improving the quality of management through a voluntary disclosure program aimed at increasing management transparency.

(2) Targeted Performance Indicators

Sales and recurring income are positioned as performance indicators that show the growth of the entire Sumitomo Forestry Group. In addition, emphasis is placed on return on equity (ROE) and the return on capital employed (ROCE) as an indicator of operating efficiency.

(3) Medium and Long-term Strategies and Important Issues

The goal of the Sumitomo Forestry Group is to be an organization that “conducts a comprehensive portfolio of housing related businesses that utilize wood”. There are two main businesses: custom-built detached housing and timber and building materials. There are also other businesses that the Group plans to focus on building into strong businesses that can contribute to earnings. In particular, the Group will use the technical capabilities it has cultivated in the custom-built detached housing business to concentrate on the “stock business,” where it is engaged in the reform of the Group’s construction properties and general properties, and on the “overseas business,” in which the Group manufactures and sells wood construction materials, and builds and sells detached houses and other buildings in other countries where the markets are expected to grow.

Rapidly developing these activities into core businesses will ensure that earnings for the entire Group remain stable, regardless of changes in the operating environment. These priority growth businesses will also enable the Group to contribute to the creation of a prosperous society by supplying housing-related services. The Group is determined to continue making steady progress developing its technical expertise and human resources to fulfill these medium and long-term goals.

The Sumitomo Forestry Group has been growing forests and trees ever since its foundation about 320 years ago, and has continually maintained a harmonious relationship with the natural environment. The Group’s corporate culture is defined by its dedication to sustainability. With this dedication, the Group is a leader among Japanese companies in the preservation and utilization of biodiversity and in its educational activities. The objective is to conduct high-quality business activities that are in harmony with the environment and society.

Setting the medium and long-term goals described above will ensure the Group works steadily towards achieving its management strategy.

4. Basic Thinking on Selection of Accounting Standards

The Sumitomo Forestry Group applies Japanese standards when preparing consolidated financial statements. Our policy on the application of international accounting standards is to address the matter appropriately based on circumstances in Japan and other countries where we do business.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheet

(million yen)

| | As of March 31, 2014 | As of March 31, 2015 |
|---|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and time deposits | 75,694 | 81,756 |
| Notes and accounts receivable-trade | 128,580 | 118,156 |
| Accounts receivable from completed construction contracts | 4,341 | 6,059 |
| Marketable securities | 43,000 | 26,000 |
| Finished goods, logs and lumber | 19,831 | 18,351 |
| Work in process | 1,215 | 1,299 |
| Raw materials and supplies | 5,877 | 6,909 |
| Costs on uncompleted construction contracts | 24,433 | 22,863 |
| Developed land and housing for sale | 31,514 | 39,232 |
| Real estate for sale in process | 11,132 | 37,063 |
| Deferred tax assets | 8,754 | 7,590 |
| Short-term loans receivable | 33,397 | 32,571 |
| Accounts receivable-other | 54,254 | 44,619 |
| Other | 5,559 | 8,752 |
| Allowance for doubtful accounts | (724) | (998) |
| Total current assets | 446,855 | 450,220 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 59,845 | 62,856 |
| Accumulated depreciation | (28,514) | (30,968) |
| Buildings and structures, net | 31,331 | 31,888 |
| Machinery, equipment and vehicles | 71,418 | 78,696 |
| Accumulated depreciation | (51,284) | (57,492) |
| Machinery, equipment and vehicles, net | 20,134 | 21,204 |
| Land | 26,665 | 27,007 |
| Leased assets | 9,214 | 10,299 |
| Accumulated depreciation | (4,350) | (4,815) |
| Leased assets, net | 4,864 | 5,484 |
| Construction in progress | 6,917 | 8,628 |
| Other | 20,826 | 22,730 |
| Accumulated depreciation | (7,005) | (7,895) |
| Other, net | 13,821 | 14,835 |
| Total property, plant and equipment | 103,733 | 109,046 |
| Intangible assets | | |
| Goodwill | 3,122 | 5,981 |
| Other | 8,570 | 10,306 |
| Total intangible assets | 11,692 | 16,286 |
| Investments and other assets | | |
| Investment securities | 65,499 | 75,322 |
| Long-term loans receivable | 649 | 3,051 |
| Net defined benefit asset | 68 | 303 |
| Deferred tax assets | 1,797 | 2,196 |
| Other | 16,997 | 11,567 |
| Allowance for doubtful accounts | (2,093) | (2,452) |
| Total investments and other assets | 82,917 | 89,986 |
| Total noncurrent assets | 198,342 | 215,318 |
| Total assets | 645,197 | 665,538 |

(million yen)

| | As of March 31, 2014 | As of March 31, 2015 |
|---|----------------------|----------------------|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 115,294 | 102,951 |
| Accounts payable for construction contracts | 76,136 | 64,612 |
| Short-term debt | 26,434 | 31,340 |
| Current portion of bonds payable | 10,000 | – |
| Lease obligations | 1,468 | 2,146 |
| Income taxes payable | 8,102 | 4,617 |
| Advances received on uncompleted construction contracts | 55,120 | 46,791 |
| Provision for employees' bonuses | 10,360 | 9,866 |
| Provision for directors' bonuses | 120 | 135 |
| Provision for warranties for completed construction | 2,035 | 2,275 |
| Asset retirement obligation | 559 | 467 |
| Other | 20,502 | 26,910 |
| Total current liabilities | 326,130 | 292,110 |
| Long-term liabilities | | |
| Bonds issued | 5,000 | 5,000 |
| Convertible bonds | 20,000 | 20,000 |
| Long-term debt | 26,616 | 41,214 |
| Lease obligations | 3,458 | 3,669 |
| Deferred tax liabilities | 10,807 | 12,244 |
| Provision for directors' retirement benefits | 64 | 75 |
| Net defined benefit liability | 11,038 | 13,066 |
| Asset retirement obligation | 874 | 975 |
| Other | 15,133 | 16,403 |
| Total long-term liabilities | 92,989 | 112,646 |
| Total liabilities | 419,120 | 404,756 |
| Net assets | | |
| Shareholders' equity | | |
| Common stock | 27,672 | 27,672 |
| Capital surplus | 26,872 | 26,872 |
| Retained earnings | 146,654 | 161,286 |
| Treasury stock | (272) | (275) |
| Total shareholders' equity | 200,925 | 215,555 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 14,559 | 22,342 |
| Deferred gains or losses on hedges | 21 | (124) |
| Foreign currency translation adjustment | 3,284 | 8,101 |
| Remeasurements of defined benefit plans | (112) | (124) |
| Total accumulated other comprehensive income | 17,751 | 30,195 |
| Minority interests | 7,401 | 15,032 |
| Total net assets | 226,078 | 260,782 |
| Total liabilities and net assets | 645,197 | 665,538 |

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated Statements of Income)

(million yen)

| | Fiscal year ended March 31, 2014 | Fiscal year ended March 31, 2015 |
|---|-------------------------------------|-------------------------------------|
| Net sales | 972,968 | 997,256 |
| Cost of sales | 812,806 | 827,764 |
| Gross profit | 160,162 | 169,492 |
| Selling, general and administrative expenses | 126,747 | 135,498 |
| Operating income | 33,415 | 33,994 |
| Non-operating income | | |
| Interest income | 448 | 415 |
| Purchase discounts | 413 | 369 |
| Dividends income | 1,072 | 1,209 |
| Equity in earnings of affiliates | – | 1,021 |
| Foreign exchange gains | – | 301 |
| Other | 1,602 | 1,690 |
| Total non-operating income | 3,536 | 5,005 |
| Non-operating expenses | | |
| Interest expenses | 1,127 | 1,136 |
| Sales discounts | 758 | 732 |
| Equity in losses of affiliates | 522 | – |
| Foreign exchange losses | 240 | – |
| Other | 737 | 707 |
| Total non-operating expenses | 3,384 | 2,575 |
| Recurring income | 33,567 | 36,424 |
| Extraordinary gains | | |
| Gain on sales of noncurrent assets | 99 | 293 |
| Gain on sales of investment securities | 31 | 128 |
| Gain on negative goodwill | – | 70 |
| Gain on step acquisitions | 2,124 | – |
| Other | – | 40 |
| Total extraordinary gains | 2,254 | 531 |
| Extraordinary loss | | |
| Loss on sales of noncurrent assets | 26 | 15 |
| Loss on retirement of noncurrent assets | 261 | 177 |
| Impairment loss | 436 | 1,112 |
| Loss on sales of investment securities | – | 3 |
| Loss on devaluation of investment securities | 193 | 0 |
| Loss on step acquisitions | – | 338 |
| Special retirement expenses | – | 536 |
| Loss on sale of stocks of subsidiaries and affiliates | 1 | – |
| Loss on liquidation of subsidiaries and affiliates | 275 | – |
| Other | – | 35 |
| Total extraordinary loss | 1,192 | 2,217 |
| Income before income taxes and minority interests | 34,629 | 34,738 |
| Income taxes-current | 13,101 | 11,914 |
| Income taxes-deferred | (1,613) | 841 |
| Total income taxes | 11,488 | 12,756 |
| Net income before minority interests | 23,141 | 21,982 |
| Minority interests | 610 | 3,410 |
| Net income | 22,531 | 18,572 |

(Consolidated Statements of Comprehensive Income)

(million yen)

| | Fiscal year ended March 31, 2014 | Fiscal year ended March 31, 2015 |
|---|-------------------------------------|-------------------------------------|
| Net income before minority interests | 23,141 | 21,982 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 2,425 | 7,771 |
| Deferred gains or losses on hedges | (228) | (144) |
| Foreign currency translation adjustment | 4,940 | 4,936 |
| Remeasurements of defined benefit plan | – | (63) |
| Share in equity method affiliates | 106 | 1,293 |
| Total other comprehensive income | 7,244 | 13,793 |
| Comprehensive income | 30,385 | 35,775 |
| Comprehensive income attributable to owners of the parent | 29,667 | 31,016 |
| Comprehensive income attributable to minority interests | 718 | 4,759 |

(3) Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2014

(million yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of current period | 27,672 | 26,872 | 127,489 | (269) | 181,763 |
| Cumulative effect of changes in accounting policies | | | | | – |
| Balance at the beginning of current period reflecting changes in accounting policies | 27,672 | 26,872 | 127,489 | (269) | 181,763 |
| Changes during the period | | | | | |
| Dividends from surplus | | | (3,366) | | (3,366) |
| Net income | | | 22,531 | | 22,531 |
| Purchase of treasury stock | | | | (3) | (3) |
| Disposal of treasury stock | | 0 | | 0 | 0 |
| Changes to range of application of equity method | | | | | – |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during the period | – | 0 | 19,165 | (3) | 19,162 |
| Balance at the end of current period | 27,672 | 26,872 | 146,654 | (272) | 200,925 |

| | Accumulated other comprehensive income | | | | | Minority interests | Total net assets |
|--|---|------------------------------------|---|---|--|--------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at the beginning of current period | 12,132 | 249 | (1,654) | – | 10,727 | 760 | 193,250 |
| Cumulative effect of changes in accounting policies | | | | | | | – |
| Balance at the beginning of current period reflecting changes in accounting policies | 12,132 | 249 | (1,654) | – | 10,727 | 760 | 193,250 |
| Changes during the period | | | | | | | |
| Dividends from surplus | | | | | | | (3,366) |
| Net income | | | | | | | 22,531 |
| Purchase of treasury stock | | | | | | | (3) |
| Disposal of treasury stock | | | | | | | 0 |
| Changes to range of application of equity method | | | | | | | – |
| Net changes in items other than shareholders' equity | 2,426 | (228) | 4,937 | (112) | 7,023 | 6,642 | 13,665 |
| Total changes during the period | 2,426 | (228) | 4,937 | (112) | 7,023 | 6,642 | 32,827 |
| Balance at the end of current period | 14,559 | 21 | 3,284 | (112) | 17,751 | 7,401 | 226,078 |

Fiscal year ended March 31, 2015

(million yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of current period | 27,672 | 26,872 | 146,654 | (272) | 200,925 |
| Cumulative effect of changes in accounting policies | | | (574) | | (574) |
| Balance at the beginning of current period reflecting changes in accounting policies | 27,672 | 26,872 | 146,080 | (272) | 200,351 |
| Changes during the period | | | | | |
| Dividends from surplus | | | (3,366) | | (3,366) |
| Net income | | | 18,572 | | 18,572 |
| Purchase of treasury stock | | | | (3) | (3) |
| Disposal of treasury stock | | 0 | | 0 | 0 |
| Changes to range of application of equity method | | | (0) | | (0) |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during the period | - | 0 | 15,206 | (2) | 15,204 |
| Balance at the end of current period | 27,672 | 26,872 | 161,286 | (275) | 215,555 |

| | Accumulated other comprehensive income | | | | | Minority interests | Total net assets |
|--|---|------------------------------------|---|---|--|--------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at the beginning of current period | 14,559 | 21 | 3,284 | (112) | 17,751 | 7,401 | 226,078 |
| Cumulative effect of changes in accounting policies | | | | | | | (574) |
| Balance at the beginning of current period reflecting changes in accounting policies | 14,559 | 21 | 3,284 | (112) | 17,751 | 7,401 | 225,503 |
| Changes during the period | | | | | | | |
| Dividends from surplus | | | | | | | (3,366) |
| Net income | | | | | | | 18,572 |
| Purchase of treasury stock | | | | | | | (3) |
| Disposal of treasury stock | | | | | | | 0 |
| Changes to range of application of equity method | | | | | | | (0) |
| Net changes in items other than shareholders' equity | 7,783 | (144) | 4,817 | (11) | 12,444 | 7,630 | 20,075 |
| Total changes during the period | 7,783 | (144) | 4,817 | (11) | 12,444 | 7,630 | 35,279 |
| Balance at the end of current period | 22,342 | (124) | 8,101 | (124) | 30,195 | 15,032 | 260,782 |

(4) Consolidated Statements of Cash Flows

(million yen)

| | Fiscal year ended March 31, 2014 | Fiscal year ended March 31, 2015 |
|---|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | |
| Income before income taxes and minority interests | 34,629 | 34,738 |
| Depreciation and amortization | 9,810 | 11,453 |
| Impairment loss | 436 | 1,112 |
| Amortization of goodwill | 847 | 1,957 |
| Provision for (reversal of) doubtful accounts | (831) | 499 |
| Provision for (reversal of) employees' bonuses | 964 | (617) |
| Provision for (reversal of) directors' bonuses | 10 | 15 |
| Provision for (reversal of) warranties for completed construction | 88 | 132 |
| Provision for loss on liquidation of subsidiaries and affiliates | (344) | – |
| Provision for loss on business liquidation | (1,435) | – |
| Provision for (reversal of) disaster losses | (60) | – |
| Provision for (reversal of) directors' retirement benefits | (21) | 11 |
| Provision for (reversal of) retirement benefits, less payments | 1,082 | 469 |
| Interest and dividends income | (1,520) | (1,624) |
| Interest expenses | 1,127 | 1,136 |
| Equity in (earnings) losses of affiliates | 522 | (1,021) |
| Losses (gains) on sales of marketable securities and investment securities, net | (29) | (124) |
| Losses on devaluation of marketable securities and investment securities | 193 | 0 |
| Losses (gains) on step acquisitions | (2,124) | 338 |
| Losses (gains) on sales/disposal of fixed assets, net | 188 | (101) |
| Decrease (increase) in notes and accounts receivable-trade | (4,130) | 9,153 |
| Inventories | (551) | (7,257) |
| Other current assets | (4,948) | 9,391 |
| Notes and accounts payable, trade | 16,631 | (23,159) |
| Advances received | (297) | 712 |
| Advances received on uncompleted construction contracts | 12,775 | (8,329) |
| Accrued consumption taxes | 221 | (651) |
| Other current liabilities | (521) | 137 |
| Other, net | 1,506 | 659 |
| Subtotal | 64,218 | 29,031 |
| Interest and dividends income received | 1,945 | 2,205 |
| Interest paid | (1,224) | (1,172) |
| Income taxes paid | (10,882) | (15,355) |
| Net cash provided by (used in) operating activities | 54,057 | 14,709 |

(million yen)

| | Fiscal year ended March 31, 2014 | Fiscal year ended March 31, 2015 |
|---|-------------------------------------|-------------------------------------|
| Cash flows from investment activities | | |
| Payments into time deposits | (30,457) | (45,110) |
| Proceeds from withdrawal of time deposits | 40,099 | 35,411 |
| Decrease (increase) in short-term loans receivable | 164 | 3,126 |
| Payments for purchases of fixed assets | (14,403) | (12,075) |
| Proceeds from sales of fixed assets | 5,379 | 4,783 |
| Payments for purchases of intangible assets | (2,912) | (2,480) |
| Payments for purchase of investment securities | (9,071) | (997) |
| Proceeds from sales of investment securities | 155 | 3,295 |
| Proceeds from purchase of stock of subsidiaries accompanied by a change in the scope of consolidation | (4) | (7,353) |
| Proceeds from payments for sales of investments in subsidiaries resulting in change in scope of consolidation | (3) | – |
| Payments of long-term loans payable | (11) | (2,728) |
| Repayments of long-term loans receivable | 770 | 596 |
| Other payments | (1,176) | (876) |
| Other proceeds | 994 | 832 |
| Net cash used in investment activities | (10,476) | (23,575) |
| Net cash provided by (used in) financing activities | | |
| Net increase (decrease) in short-term debt | (3,074) | (2,352) |
| Repayments of finance lease obligations | (1,917) | (2,198) |
| Proceeds from long-term debt | 7,872 | 8,244 |
| Repayment of long-term debt | (11,001) | (6,854) |
| Repayment of bonds | – | (10,000) |
| Proceeds from issuance of convertible bonds | 20,000 | – |
| Proceeds from stock issuance to minority shareholders | 240 | 277 |
| Cash dividends paid | (3,366) | (3,366) |
| Cash dividends paid to minority shareholders | (241) | (1,035) |
| Other proceeds | 0 | 0 |
| Other payments | (3) | (3) |
| Net cash provided by (used in) financing activities | 8,511 | (17,286) |
| Effect of exchange rate change on cash and cash equivalents | 593 | 1,105 |
| Net increase (decrease) in cash and cash equivalents | 52,685 | (25,047) |
| Cash and cash equivalents at the beginning of period | 75,658 | 128,343 |
| Cash and cash equivalents at the end of period | 128,343 | 103,296 |

(5) Notes to the Consolidated Financial Statements

(Notes related to the Assumption of a Going Concern)

Not applicable

(Basis of Presenting the Consolidated Financial Statements)

1. Scope of Consolidation

The consolidated financial statements include the accounts of the Company and its 72 subsidiaries. Names of major consolidated subsidiaries are omitted because they are listed in “Corporate Group.”

SFA Land Developments Unit Trust, SFA Land Developments Pty Ltd., PAN ASIA PACKING LTD. and the Gehan Homes Group (Gehan Homes, Ltd. and six other companies), in which new stakes were acquired, and the newly established Hachinohe Biomass Electric Power Co., Ltd., Michinoku Bio Energy Co., Ltd. and SF Holdings (Thailand) Co., Ltd. are included in the consolidated results as of the consolidated fiscal year under review.

Additionally, Cascadia Resort Communities LLC was an equity method affiliate in the previous consolidated fiscal year, but additional stake has been acquired, so it is included in the consolidated results as of the consolidated fiscal year under review.

2. Application of Equity Method

- (1) The consolidated financial statements include 21 affiliates that are accounted for by the equity method, including PT. Rimba Partikel Indonesia and Bloomfield Homes, L.P.

Tomakomai Biomass Power Co., Ltd., Brookhollow Mortgage Services, Ltd., Advisa Mortgage Services, Ltd. and Rainbow Alpha Holdings Limited, in which new stakes were acquired, and the newly established MOS Lumber Products Co., Ltd. are included as equity method affiliates as of the consolidated fiscal year under review.

Additionally, Partner Ally Limited was a non-equity method affiliate in the previous consolidated fiscal year, but it has grown in importance, so it is included as an equity method affiliate as of the consolidated fiscal year under review.

At the same time, Cascadia Resort Communities LLC was an equity method affiliate in the previous consolidated fiscal year, but additional stake has been acquired, so it is no longer included as an equity method affiliate as of the consolidated fiscal year under review.

- (2) For equity-method affiliates that have a fiscal year end that differs from the Company’s fiscal year end, financial statements for these different fiscal years are used.

3. Fiscal Year End of Consolidated Subsidiaries

The fiscal year end of two consolidated subsidiaries, Daiichisansho Co., Ltd. and Nihei Co., Ltd., is March 20. Financial statements used in the preparation of the consolidated financial statements of the two subsidiaries are as of March 20, 2015. The fiscal year end of Kowa Lumber Co., Ltd. and overseas consolidated subsidiaries is December 31. The financial statements used in the preparation of the consolidated financial statements for these subsidiaries are as of December 31, 2014.

The fiscal year end of subsidiaries in Japan, excluding the three subsidiaries above, is March 31. The financial statements used in the preparation of the consolidated financial statements for these subsidiaries are as of March 31, 2015.

4. Significant Accounting Policies

(1) Valuation of Significant Assets

(i) Securities

| | | |
|-----------------------------|----------------------|---|
| Held-to-maturity securities | ... | Amortized cost method (straight-line method) |
| Other securities | With market value | ... |
| | | Value method based on the market price on the closing date (unrealized gains and losses are reported in the shareholders' equity section. Sales cost of securities is determined by the moving-average method.) |
| | Without market value | ... |
| | | Cost method based on the moving-average method |

(ii) Derivatives

Market value method

(iii) Inventories

Purchased products, manufactured products, work in process, raw materials and supplies are stated at cost, which is mainly determined by the moving average method. Housing projects in progress, developed land and housing for sale and land, and real estate for sale in process are stated at cost, determined by the specific cost method. Net book value of inventories as shown in the consolidated balance sheet is written down when profitability declines.

(2) Depreciation and Amortization Method for Principal Depreciable Assets

(i) Property, plant and equipment (excluding lease assets)

The declining-balance method of depreciation is mainly used. However, the straight-line method is used for buildings (excluding structures) acquired on or after April 1, 1998.

(ii) Intangible assets (excluding lease assets)

The straight-line method is used. The straight-line method is used for the amortization of software used internally based on the estimated internal use period (5 years).

(iii) Leased assets

Finance leases that do not transfer ownership of the leased assets are depreciated down to a residual value of zero over their useful lives using the straight-line method.

(3) Significant Allowances

(i) Allowance for doubtful accounts

In order to prepare for expected losses from bad debts, estimated unrecoverable amounts are recorded for general claims based on historical bad-debt ratios, and for specific claims including doubtful accounts, based on individual recoverability.

(ii) Provision for employees' bonuses

Estimated bonus payments to be charged to income in the current fiscal year are recorded to prepare for accrued bonus payments to employees.

(iii) Provision for directors' bonuses

Bonus payments to be charged to income in the current fiscal year are recorded to prepare for accrued bonus payments to directors of the Company and certain consolidated subsidiaries.

(iv) Provision for warranties for completed construction

A warranty reserve is recorded to prepare for repair costs that may be required for completed construction. The reserve is based on historical costs and future estimates.

(v) Provision for directors' retirement benefits

To prepare for the payment of directors' retirement benefits, accrued retirement benefits to directors of certain subsidiaries are recorded based on the amount required at year end in accordance with established internal regulations.

(4) Method of Accounting for Retirement Benefit Obligations

(i) Service period attribution method for projected retirement benefits

The method of attributing projected retirement benefits to the period up to fiscal year ended March 2015 when calculating retirement benefit obligations is as per the benefit formula standard.

(ii) Method of accounting for actuarial differences and past service liabilities

Actuarial differences and past service liabilities are typically accounted for collectively in the fiscal year in which they occur.

(5) Completed Contracts and Cost of Completed Contracts

At the end of the fiscal year that ended in March 2015, construction revenue is recognized by the percentage-of-completion method if the outcome of a construction contract could be estimated reliably (percentage of completion is estimated as a percentage of the estimated total cost, based on the cost incurred). The completed contract method is used for other short-term construction contracts.

(6) Accounting for Hedges

(i) Hedge accounting method

Deferral hedge accounting is used.

Appropriation accounting foreign currency transactions is applied to foreign exchange hedging transactions. Special accounting treatment is used for interest rate swaps when they satisfy the requirements for special treatment.

(ii) Hedging policy

Foreign exchange forward contracts and foreign currency swaps are utilized to mitigate foreign exchange risks. Interest rate swap transactions are utilized to mitigate interest rate risks.

(iii) Scope of hedging

Certain foreign exchange transactions, including planned transactions, and borrowings exposed to interest rate risks are hedged in accordance with policies laid out in the management regulations.

(iv) Assessment of hedge effectiveness

The Company believes foreign exchange forward contracts and foreign currency swaps to be highly effective hedging instruments. Therefore, an evaluation of their effectiveness is omitted. An evaluation of the effectiveness of the special accounting treatment used for interest rate swaps is omitted.

(7) Amortization of Goodwill

Goodwill is amortized by the straight-line method over a period of up to 20 years. However, if its materiality is low, the goodwill is amortized in the year in which it is recognized.

(8) Cash and Cash Equivalents in the Consolidated Statements of Cash Flows

The scope of cash (cash and cash equivalents) on the consolidated statements of cash flows is cash on hand, deposits readily convertible to cash and short-term investments that mature within three months and bear little risk of price fluctuation.

(9) Other Significant Accounting Policies

Consumption Tax

National and regional consumption taxes are accounted for using the net-of-tax method.

(Change in Accounting Policy)

(Application of accounting standards for retirement benefits)

Beginning the consolidated fiscal year under review, the Company adopted the provisions of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits as provided in the Accounting Standard for Retirement Benefits (Accounting Standard No.26, May 17, 2012) and the Guidance on Accounting Standard for Retirement Benefits (Accounting Standard No. 25, March 26, 2015). Under this new accounting policy, the Company has revised its method of calculating retirement benefit obligations and service costs. The Company has replaced the straight-line attribution basis with the benefit formula basis for the method of attributing expected benefit to periods. The method of determining the discount rate was reviewed, and the decision was made to switch from a method based on single year bond yield for average remaining service years to a method based on multiple bond yields set for each estimated timing of benefit payment.

In accordance with the transitional application as provided in Paragraph 37 of the Accounting Standard for Retirement Benefits, the Company has, beginning with the start of the consolidated fiscal year under review, taken the effects of the changes in calculation method for retirement benefit obligations and service costs directly to retained earnings.

As a result, net defined benefit assets at the beginning of the consolidated fiscal year under review increased ¥203 million, and net defined benefit liabilities increased ¥1,393 million, while retained earnings decreased ¥574 million. In addition, operating income, recurring income and income before income taxes and minority interests have each decreased ¥789 million in the consolidated fiscal year under review.

Net assets per share decreased ¥7.04, net income per share decreased ¥4.45 and net income per share (diluted) decreased ¥4.20 in the consolidated fiscal year under review.

(Consolidated Balance Sheets)

1. Guarantee obligation

| | As of March 31, 2014 | As of March 31, 2015 |
|----------------------|----------------------|----------------------|
| Guarantee obligation | 34,960 million yen | 31,526 million yen |

2. Certain buildings and structures, and land held as fixed assets have been reclassified and reported as follows in the real estate for sale section because the purpose of holding these assets was changed:

| | As of March 31, 2014 | As of March 31, 2015 |
|--------------------------|----------------------|----------------------|
| Buildings and structures | – million yen | 5 million yen |
| Land | 1 | 1 |
| Total | 1 | 6 |

(Consolidated Statements of Income)

1. Impairment loss

In the current fiscal year under review, the Company posted impairment losses in the following asset groups:

Previous fiscal year (April 1, 2013 - March 31, 2014)

| Application | Location | Type | Impairment loss (million yen) |
|------------------------------|--|--|----------------------------------|
| Culture soil producing plant | Sakura, Chiba Prefecture | Buildings and structures | 134 |
| | | Machinery, equipment and vehicles | 12 |
| | | Other | 0 |
| | | Total | 147 |
| Backbone system | Nagoya, Aichi Prefecture | Intangible assets (Software suspense account) | 158 |
| Idle assets | Ashigara Shimo-gun, Kanagawa Prefecture | Land | 35 |
| Idle assets | Shiraoka, Saitama Prefecture | Land | 90 |

In order to monitor earnings on a continuous basis, the Group determines asset groupings based on the units used for management accounting. Rental and idle assets are grouped according to individual property.

The main asset groups for which an impairment loss was recognized in the current consolidated fiscal year are shown in the table above.

Concerning the culture soil producing plant, because the Group has decided to withdraw from the business, the book values of the above assets are reduced to their recoverable amounts, and the amount of reduction is recognized as an extraordinary impairment loss. Because no future use or sale is expected, the recoverable amounts are calculated as zero.

Concerning the backbone system, in conjunction with the review of the development plan, the book values of the above assets are reduced to their recoverable amounts, and the amount of reduction is recognized as an extraordinary impairment loss. Because no future use or sale is expected, the recoverable amounts are calculated as zero.

For the idle assets, the book values of the assets are reduced to their recoverable amounts, and the amount of reduction is recognized as an extraordinary impairment loss.

The recoverable amounts are reasonable estimates based on roadside land prices and sales in neighboring areas.

Current fiscal year (April 1, 2014 - March 31, 2015)

| Application | Location | Type | Impairment loss (million yen) |
|---|--|-----------------------------------|----------------------------------|
| Timber and building materials manufacturing plant | Tobishima Village, Ama-gun, Aichi Imari City, Saga | Buildings and structures | 337 |
| | | Machinery, equipment and vehicles | 126 |
| | | Land | 114 |
| | | Other | 518 |
| | | Total | 1,095 |
| Idle assets | Ashigara Shimo-gun, Kanagawa Prefecture | Land | 17 |

In order to monitor earnings on a continuous basis, the Group determines asset groupings based on the units used for management accounting. Rental and idle assets are grouped according to individual property.

Concerning the timber and building materials manufacturing plants, because the Group has decided to withdraw from the business, the book values of the above assets are reduced to their recoverable amounts, and the amount of reduction is recognized as an extraordinary impairment loss. The recoverable amounts are calculated based on net sales prices. Land is calculated based on real property appraisals, and non-land assets are calculated as zero as future use and sale is not expected.

As for idle assets, the book values of the assets are reduced to their recoverable amounts with the conclusion of sales contracts, and the amount of reduction is recognized as an extraordinary impairment loss. The net sales prices from the sales contracts are used as the recoverable amounts.

2. Loss on liquidation of subsidiaries and affiliates

With respect to loss on liquidation of subsidiaries and affiliates in the previous consolidated fiscal year, the loss accompanying partial transfer of equity interest in the Group's consolidated subsidiary, Fuxin Sumirin Wood Products Co., Ltd., was recorded.

(Statements of Changes in Consolidated Shareholders' Equity)

Previous Fiscal Year (April 1, 2013 – March 31, 2014)

1. Type and Number of Shares Outstanding and Treasury Stock

| | Number of shares at the beginning of the current fiscal year (shares) | Increase during the current fiscal year (shares) | Decrease during the current fiscal year (shares) | Number of shares at the end of the current fiscal year (shares) |
|-------------------------------|---|--|--|---|
| Shares issued and outstanding | | | | |
| Common shares | 177,410,239 | – | – | 177,410,239 |
| Total | 177,410,239 | – | – | 177,410,239 |
| Treasury stock | | | | |
| Common shares (Note)1, 2 | 273,712 | 2,846 | 90 | 276,468 |
| Total | 273,712 | 2,846 | 90 | 276,468 |

(Notes) 1. Increase due to purchase of odd-lot shares: 2,846

2. Decrease due to sale of odd-lot shares: 90

2. Dividends

(1) Cash Dividends

| Resolution | Type of shares | Aggregate amount of dividend (million yen) | Dividend per share (yen) | Record date | Effective date |
|---|----------------|--|--------------------------|--------------------|------------------|
| Regular general meeting of shareholders (June 21, 2013) | Common shares | 1,683 | 9.50 | March 31, 2013 | June 24, 2013 |
| Board meeting (November 5, 2013) | Common shares | 1,683 | 9.50 | September 30, 2013 | December 5, 2013 |

(2) Of the Dividends whose Record Date Falls during the Fiscal Year under Review, those Dividends whose Effective Date Falls after the Said Fiscal Year End

| Resolution | Type of shares | Aggregate amount of dividend (million yen) | Dividend resource | Dividend per share (yen) | Record date | Effective date |
|---|----------------|--|-------------------|--------------------------|----------------|----------------|
| Regular general meeting of shareholders (June 20, 2014) | Common shares | 1,683 | Retained earnings | 9.50 | March 31, 2014 | June 23, 2014 |

Current Fiscal Year (April 1, 2014 – March 31, 2015)

1. Type and Number of Shares Outstanding and Treasury Stock

| | Number of shares at the beginning of the current fiscal year (shares) | Increase during the current fiscal year (shares) | Decrease during the current fiscal year (shares) | Number of shares at the end of the current fiscal year (shares) |
|-------------------------------|---|--|--|---|
| Shares issued and outstanding | | | | |
| Common shares | 177,410,239 | – | – | 177,410,239 |
| Total | 177,410,239 | – | – | 177,410,239 |
| Treasury stock | | | | |
| Common shares (Note)1, 2 | 276,468 | 2,156 | 95 | 278,529 |
| Total | 276,468 | 2,156 | 95 | 278,529 |

- (Notes) 1. Increase due to purchase of odd-lot shares: 2,156
2. Decrease due to sale of odd-lot shares: 95

2. Dividends

(1) Cash Dividends

| Resolution | Type of shares | Aggregate amount of dividend (million yen) | Dividend per share (yen) | Record date | Effective date |
|---|----------------|--|--------------------------|--------------------|------------------|
| Regular general meeting of shareholders (June 20, 2014) | Common shares | 1,683 | 9.50 | March 31, 2014 | June 23, 2014 |
| Board meeting (November 6, 2014) | Common shares | 1,683 | 9.50 | September 30, 2014 | December 5, 2014 |

(2) Of the Dividends whose Record Date Falls during the Fiscal Year under Review, those Dividends whose Effective Date Falls after the Said Fiscal Year End

| Resolution | Type of shares | Aggregate amount of dividend (million yen) | Dividend resource | Dividend per share (yen) | Record date | Effective date |
|--|----------------|--|-------------------|--------------------------|----------------|----------------|
| Regular general meeting of shareholders (June 23 2015) | Common shares | 2,126 | Retained earnings | 12.00 | March 31, 2015 | June 24, 2015 |

(Statements of Cash Flows)

1. Reconciliation of balance sheet items to cash and cash equivalents in the consolidated statements of cash flows.

| | Fiscal year ended March 31, 2014 | | Fiscal year ended March 31, 2015 | |
|---|----------------------------------|-------------|----------------------------------|-------------|
| Cash and deposits | 75,694 | million yen | 81,756 | million yen |
| Deposits with a term of over 3 months | (19,348) | | (34,453) | |
| Certificates of deposit issued by domestic companies included in marketable securities | 43,000 | | 26,000 | |
| Cash equivalents included in the short-term loans receivable account (re-purchase agreements) | 28,997 | | 29,993 | |
| Cash and cash equivalents at end of period | 128,343 | | 103,296 | |

2. Breakdown of main assets and liabilities of company made a consolidated subsidiary due to purchase of shares in the previous consolidated fiscal year

The breakdown of assets and liabilities at the time of consolidation in conjunction with the acquisition of equity shares along with the relationship between the equity acquisition price and the expenditures (net amount) related to the acquisition are presented below.

Henley Group (Henley Arch Unit Trust and eight other companies)

| | | |
|---|----------|-------------|
| Current assets | 18,138 | million yen |
| Noncurrent assets | 8,866 | |
| Goodwill | 2,986 | |
| Current liabilities | (15,292) | |
| Noncurrent liabilities | (5) | |
| Minority interests | (5,838) | |
| Foreign currency translation adjustment | 261 | |
| Gain on step acquisitions | (2,124) | |
| Equity method value until acquisition | (6,825) | |
| Acquisition price of equity interest | 166 | |
| Cash and cash equivalents | (162) | |
| Deduction: acquisition expenditures | 4 | |

3. Breakdown of main assets and liabilities of company no longer a consolidated subsidiary due to sale of shares in the previous consolidated fiscal year

The breakdown of assets and liabilities at the time of the sale of equity interest, after which the company was no longer a consolidated subsidiary, along with the relationship between the sale value of the company's equity and the expenditures (net amount) related to the sale are presented below.

Fuxin Sumirin Wood Products Co., Ltd.

| | | |
|---|-------|-------------|
| Current assets | 205 | million yen |
| Noncurrent assets | 0 | |
| Current liabilities | (0) | |
| Noncurrent liabilities | - | |
| Foreign currency translation adjustment | 414 | |
| Gain or loss on sale of equity interest | (619) | |
| Sale value of equity interest | - | |
| Cash and cash equivalents | (3) | |
| Deduction: Expenditures related to sale | (3) | |

4. Breakdown of main assets and liabilities of company made a consolidated subsidiary due to purchase of shares in the current consolidated fiscal year

The breakdown of assets and liabilities at the time of consolidation in conjunction with the acquisition of equity shares along with the relationship between the equity acquisition price and the expenditures (net amount) related to the acquisition are presented below.

Gehan Homes Group (Gehan Homes, Ltd. and six other companies)

| | |
|--------------------------------------|--------------------|
| Current assets | 19,640 million yen |
| Noncurrent assets | 2,108 |
| Goodwill | 4,080 |
| Current liabilities | (9,609) |
| Noncurrent liabilities | (4,732) |
| Minority interests | (3,629) |
| Acquisition price of equity interest | 7,858 |
| Cash and cash equivalents | (712) |
| Deduction: acquisition expenditures | 7,146 |

Cascadia Resort Communities LLC

| | |
|---|-----------------|
| Current assets | 558 million yen |
| Noncurrent assets | — |
| Goodwill | 4 |
| Current liabilities | (341) |
| Noncurrent liabilities | — |
| Foreign currency translation adjustment | 69 |
| Gain on step acquisitions | 338 |
| Equity method value until acquisition | (483) |
| Acquisition price of equity interest | 145 |
| Cash and cash equivalents | — |
| Deduction: acquisition expenditures | 145 |

(Segment Information)

1. Outline of Reporting Segments

Reporting segments are discrete constituent units of the Company for which financial statements are separately prepared. In order to determine the allocation of the Company's management resources and evaluate its business results, the Board of Directors regularly discusses the reporting segments.

The Company has established divisions in its Headquarters to handle its products, services and regions. Each division formulates comprehensive strategies for the products and services that it handles and uses these strategies to conduct its business activities.

Therefore, the Company consists of different product, service and region-oriented segments which are based around divisions. There are 3 reporting segments: the timber and building materials business, the housing business, and the overseas business.

The "Timber and building materials business" is engaged in the purchase, manufacture, processing and sale etc. of timber and building materials. The "Housing business" is engaged in the construction, maintenance and renovation of detached houses and apartment buildings, the sale of spec homes, the sale of interior goods, the leasing, management, purchase and sale and brokerage of real estate, house exterior fixtures, landscaping works contracting, urban greening works, CAD, site surveys, etc. The "Overseas business" is engaged in the manufacture and sale of timber and building materials overseas, construction and sale of detached houses, etc., afforestation business, sale of forest lumber, etc. in overseas markets.

2. Method Used for Calculating Sales, Income (loss), Assets and other Items by Each Reporting Segment

The accounting treatment used for all reporting segments is basically the same as that stated in "Basis of Presenting the Consolidated Financial Statements," except for the treatment used to account for retirement benefit cost.

Actuarial differences for retirement benefit cost are not treated as a lump-sum expense.

Segment income figures are based on recurring income.

Intersegment transactions are priced in accordance with prevailing market prices.

3. Information regarding Sales, Income (loss), Assets and Other Items by Each Reporting Segment

Previous Fiscal Year (April 1, 2013 - March 31, 2014)

(million yen)

| | Reporting segment | | | | Other (Note) 1 | Total | Adjustment (Note) 2 | Total shown in the consolidated financial statement (Note) 3 |
|--|---|---------------------|----------------------|-----------|-------------------|-----------|------------------------|---|
| | Timber and Building Materials Business | Housing Business | Overseas Business | Total | | | | |
| Sales | | | | | | | | |
| (1) Unaffiliated customers | 437,727 | 464,777 | 61,926 | 964,430 | 7,676 | 972,106 | 862 | 972,968 |
| (2) Intersegment sales/transfers | 20,884 | 591 | 14,395 | 35,869 | 9,610 | 45,479 | (45,479) | – |
| Total | 458,611 | 465,368 | 76,320 | 1,000,299 | 17,286 | 1,017,585 | (44,617) | 972,968 |
| Segment income (loss) | 4,950 | 32,211 | (149) | 37,013 | 821 | 37,835 | (4,268) | 33,567 |
| Segment assets | 164,324 | 146,267 | 101,408 | 412,000 | 24,303 | 436,302 | 208,895 | 645,197 |
| Other | | | | | | | | |
| Depreciation and amortization (Note) 4 | 670 | 4,244 | 3,073 | 7,986 | 981 | 8,967 | 842 | 9,810 |
| Amortization of goodwill | (0) | 8 | 836 | 844 | 3 | 847 | – | 847 |
| Interest income | 50 | 55 | 201 | 305 | 1 | 306 | 141 | 448 |
| Interest expenses | 574 | 612 | 952 | 2,138 | 100 | 2,237 | (1,110) | 1,127 |
| Equity in earnings (losses) of affiliates | (188) | 0 | (409) | (597) | 75 | (522) | 0 | (522) |
| Investments in equity method affiliates | 1,328 | 5 | 7,138 | 8,472 | 393 | 8,865 | (10) | 8,855 |
| Increase in property, plant and equipment and intangible assets (Note) 4 | 924 | 4,991 | 5,012 | 10,927 | 5,238 | 16,165 | 1,239 | 17,404 |

- (Notes)
- “Other” is business segments not included in the reporting segments. Such segments include the biomass power generation business, private-pay elderly care facilities business, leasing business, insurance agency business and farming and gardening material manufacturing and sales business.
 - Adjustments are as presented below.
 - Adjusted sales to unaffiliated customers of ¥862 million are attributable to the administrative departments, and comprised mainly of rent from Company landholdings.
 - The adjusted business loss of ¥4,268 million includes ¥211 million in eliminated intersegment transactions, ¥1,020 million in retirement benefit costs and ¥3,459 million in corporate losses which are not allocated to any of the reporting segments. Corporate losses are primarily selling, general and administrative expenses, and non-operating income and non-operating expenses not belonging to any reporting segments.
 - The adjusted segment assets of ¥208,895 million include ¥10,351 million in eliminated intersegment transactions and ¥219,246 million in corporate assets which are not allocated to any reporting segment. Corporate assets are mainly unused funds after management (cash, deposits and securities), long-term investments (investment securities) and assets used by administrative departments.
 - Total segment income (loss) and segment assets are the total adjusted recurring income and assets shown in the consolidated financial statements, respectively.
 - The increase in depreciation expenses, property, plant and equipment and intangible assets includes long-term prepaid expenses and write-offs associated with these expenses.

Current Fiscal Year (April 1, 2014 – March 31, 2015)

(million yen)

| | Reporting segment | | | | Other (Note) 1 | Total | Adjustment (Note) 2 | Total shown in the consolidated financial statement (Note) 3 |
|--|---|---------------------|----------------------|-----------|-------------------|-----------|------------------------|---|
| | Timber and Building Materials Business | Housing Business | Overseas Business | Total | | | | |
| Net sales | | | | | | | | |
| (1) Unaffiliated customers | 401,631 | 453,352 | 133,919 | 988,903 | 7,298 | 996,201 | 1,056 | 997,256 |
| (2) Intersegment sales/transfers | 21,389 | 588 | 13,105 | 35,082 | 9,267 | 44,349 | (44,349) | – |
| Total | 423,020 | 453,940 | 147,024 | 1,023,985 | 16,565 | 1,040,549 | (43,293) | 997,256 |
| Segment income (loss) | 4,039 | 28,302 | 6,126 | 38,467 | 1,175 | 39,643 | (3,219) | 36,424 |
| Segment assets | 147,990 | 141,197 | 149,854 | 439,042 | 27,494 | 466,536 | 199,002 | 665,538 |
| Other | | | | | | | | |
| Depreciation and amortization (Note) 4 | 730 | 4,530 | 4,203 | 9,463 | 1,158 | 10,622 | 832 | 11,453 |
| Amortization of goodwill | – | 8 | 1,950 | 1,957 | – | 1,957 | – | 1,957 |
| Interest income | 33 | 51 | 168 | 252 | 1 | 252 | 163 | 415 |
| Interest expenses | 526 | 551 | 1,188 | 2,265 | 123 | 2,388 | (1,252) | 1,136 |
| Equity in earnings (losses) of affiliates | (179) | 0 | 1,112 | 933 | 88 | 1,021 | 0 | 1,021 |
| Investments in equity method affiliates | 1,240 | 6 | 8,834 | 10,079 | 565 | 10,644 | (10) | 10,634 |
| Increase in property, plant and equipment and intangible assets (Note) 4 | 974 | 4,855 | 3,912 | 9,741 | 4,125 | 13,866 | 1,522 | 15,388 |

- (Notes) 1. “Other” is business segments not included in the reporting segments. Such segments include the biomass power generation business, private-pay elderly care facilities business, leasing business, insurance agency business and farming and gardening material manufacturing and sales business.
2. Adjustments are as presented below.
- (1) Adjusted sales to unaffiliated customers of ¥1,056 million are attributable to the administrative departments, and comprised mainly of rent from Company landholdings.
- (2) The adjusted business loss of ¥3,219 million includes ¥162 million in eliminated intersegment transactions, ¥257 million in retirement benefit costs and ¥2,800 million in corporate losses which are not allocated to any of the reporting segments. Corporate losses are primarily selling, general and administrative expenses, and non-operating income and non-operating expenses not belonging to any reporting segments.
- (3) The adjusted segment assets of ¥209,874 million include ¥10,073 million in eliminated intersegment transactions and ¥219,947 million in corporate assets which are not allocated to any reporting segment. Corporate assets are mainly unused funds after management (cash, deposits and securities), long-term investments (investment securities) and assets used by administrative departments.
3. Total segment income (loss) and segment assets are the total adjusted recurring income and assets shown in the consolidated financial statements, respectively.
4. The increase in depreciation expenses, property, plant and equipment and intangible assets includes long-term prepaid expenses and write-offs associated with these expenses.

4. Related Information

Previous Fiscal Year (April 1, 2013 - March 31, 2014)

(1) Information by Product and Service

(million yen)

| | Timber and Building Materials | Housing and Housing-related | Others | Total |
|---------------------------------|-------------------------------|-----------------------------|--------|---------|
| Sales to unaffiliated customers | 467,841 | 499,215 | 5,912 | 972,968 |

(2) Information by Regions

(a) Net Sales

Sales to unaffiliated Japanese customers are not shown because these sales account for over 90% of consolidated net sales.

(b) Property, plant and equipment

(million yen)

| Japan | Oceania | Asia | Other area | Total |
|--------|---------|--------|------------|---------|
| 61,864 | 26,471 | 13,208 | 2,190 | 103,733 |

(3) Information by Major Customer

Those sales to unaffiliated customers which are special customers are not shown as none of these sales accounts for more than 10% of consolidated net sales.

Current Fiscal Year (April 1, 2014 - March 31, 2015)

(1) Information by Product and Service

(million yen)

| | Timber and Building Materials | Housing and Housing-related | Others | Total |
|---------------------------------|-------------------------------|-----------------------------|--------|---------|
| Sales to unaffiliated customers | 438,722 | 552,991 | 5,544 | 997,256 |

(2) Information by Regions

(a) Net Sales

(million yen)

| Japan | Other area | Total |
|---------|------------|---------|
| 861,552 | 135,705 | 997,256 |

Note: Net sales are categorized based on customer location.

(b) Property, plant and equipment

(million yen)

| Japan | Oceania | Asia | Other area | Total |
|--------|---------|--------|------------|---------|
| 64,382 | 26,963 | 14,438 | 3,262 | 109,046 |

(3) Information by Major Customer

Those sales to unaffiliated customers which are special customers are not shown as none of these sales accounts for more than 10% consolidated net sales.

5. Impairment Loss of Fixed Assets by Reporting Segment

Previous Fiscal Year (April 1, 2013 - March 31, 2014)

(million yen)

| | Timber and Building Materials Business | Housing Business | Overseas Business | Other | Corporate/ Elimination | Total |
|-----------------|--|------------------|-------------------|-------|------------------------|-------|
| Impairment loss | 158 | 131 | – | 147 | – | 436 |

Current Fiscal Year (April 1, 2014 - March 31, 2015)

(million yen)

| | Timber and Building Materials Business | Housing Business | Overseas Business | Other | Corporate/ Elimination | Total |
|-----------------|--|------------------|-------------------|-------|------------------------|-------|
| Impairment loss | 1,095 | 17 | – | – | – | 1,112 |

6. Amortization and the Unamortized Balance of Goodwill by Reporting Segment

Previous Fiscal Year (April 1, 2013 - March 31, 2014)

(million yen)

| | Timber and Building Materials Business | Housing Business | Overseas Business | Other | Corporate/ Elimination | Total |
|---------------------|--|------------------|-------------------|-------|------------------------|-------|
| Amortization | (0) | 8 | 836 | 3 | – | 847 |
| Unamortized balance | – | 13 | 3,108 | – | – | 3,122 |

Current Fiscal Year (April 1, 2014 - March 31, 2015)

(million yen)

| | Timber and Building Materials Business | Housing Business | Overseas Business | Other | Corporate/ Elimination | Total |
|---------------------|--|------------------|-------------------|-------|------------------------|-------|
| Amortization | – | 8 | 1,950 | – | – | 1,957 |
| Unamortized balance | – | 6 | 5,975 | – | – | 5,981 |

7. Gain on Negative Goodwill by Reporting Segment

Previous Fiscal Year (April 1, 2013 - March 31, 2014)

Not applicable

Current Fiscal Year (April 1, 2014 - March 31, 2015)

In the timber and building materials business, PAN ASIA PACKING LTD. was made a consolidated subsidiary. Consequently, negative goodwill of ¥70 million was posted in the consolidated fiscal year under review.

(Per-Share Information)

| | Fiscal year ended March 31, 2014 | Fiscal year ended March 31, 2015 |
|--------------------------------|-------------------------------------|-------------------------------------|
| Net assets per share | ¥1,234.53 | ¥1,387.39 |
| Net income per share | ¥127.20 | ¥104.85 |
| Net income per share (diluted) | ¥122.16 | ¥98.87 |

(Notes) 1. The basis for calculating net asset per share is as follows.

| | Fiscal year ended March 31,2014 (As of March 31, 2014) | Fiscal year ended March 31,2015 (As of March 31, 2015) |
|--|--|--|
| Total net assets (million yen) | 226,078 | 260,782 |
| Breakdown of deductions from total net assets Minority interests(million yen) | 7,401 | 15,032 |
| Total net assets for common stock (million yen) | 218,676 | 245,750 |
| Number of common stocks issued (shares) | 177,410,239 | 177,410,239 |
| Number of treasury stocks (shares) | 276,468 | 278,529 |
| Number of common stocks used for calculation of net asset per share (shares) | 177,133,771 | 177,131,710 |

2. The basis for calculating net income per share and net income per share fully diluted is as follows.

| | Fiscal year ended March 31, 2014 | Fiscal year ended March 31, 2015 |
|--|-------------------------------------|-------------------------------------|
| Net income per share | | |
| Net income (million yen) | 22,531 | 18,572 |
| Income not available to common stockholders (million yen) | – | – |
| Income (loss) available to common stockholders (million yen) | 22,531 | 18,572 |
| Weighted average number of shares issued (shares) | 177,134,880 | 177,132,685 |
| Net income per share fully diluted | | |
| Adjusted net income (million yen) | – | – |
| Common shares increase (shares) | 7,303,981 | 10,706,638 |
| (Convertible bonds with stock acquisition rights (shares)) | (7,303,981) | (10,706,638) |
| Overview of potentially dilutive common shares not included in computation of diluted net income per share because of their anti-dilutive effect | – | – |

(Important Subsequent Events)

Not applicable

6. Non-consolidated Financial Statements

(1) Balance Sheets

(million yen)

| | As of March 31, 2014 | As of March 31, 2015 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and time deposits | 64,817 | 68,412 |
| Notes receivable-trade | 50,391 | 45,559 |
| Accounts receivable-trade | 64,194 | 57,990 |
| Accounts receivable from completed construction contracts | 809 | 1,403 |
| Marketable securities | 43,000 | 26,000 |
| Finished goods, logs and lumber | 14,679 | 12,939 |
| Costs on uncompleted construction contracts | 14,618 | 14,067 |
| Developed land and housing for sale | 22,652 | 22,434 |
| Real estate for sale in process | 3,067 | 5,028 |
| Advance payments | 478 | 287 |
| Prepaid expenses | 693 | 747 |
| Deferred tax assets | 5,393 | 4,519 |
| Short-term loans receivable | 28,997 | 30,193 |
| Short-term loans receivable from subsidiaries and affiliates | 20,677 | 26,586 |
| Accounts receivable-other | 77,120 | 65,595 |
| Accrued consumption taxes | — | 1,014 |
| Other | 122 | 147 |
| Allowance for doubtful accounts | (784) | (730) |
| Total current assets | 410,923 | 382,191 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings | 9,607 | 9,114 |
| Structures | 447 | 424 |
| Machinery and equipment | 392 | 379 |
| Vehicles | 3 | 2 |
| Tools, furniture and fixtures | 550 | 564 |
| Land | 10,986 | 10,989 |
| Mature timber | 8,709 | 8,668 |
| Growing timber | 332 | 328 |
| Leased assets | 4,260 | 4,814 |
| Construction in progress | 851 | 1,410 |
| Total property, plant and equipment | 36,137 | 36,692 |
| Intangible assets | | |
| Telephone subscription right | 181 | 181 |
| Right of utilization on forest road | 152 | 138 |
| Right of using facilities | 3 | 3 |
| Industrial property rights | 10 | 10 |
| Software | 4,819 | 4,761 |
| Total intangible assets | 5,167 | 5,093 |

(million yen)

| | As of March 31, 2014 | As of March 31, 2015 |
|--|----------------------|----------------------|
| Investments and other assets | | |
| Investment securities | 53,731 | 61,359 |
| Stocks of subsidiaries and affiliates | 25,539 | 27,070 |
| Investments in other securities of subsidiaries and affiliates | 2,038 | 1,072 |
| Long-term loans receivable | 101 | 39 |
| Long-term loans receivable from employees | 30 | 27 |
| Long-term loans receivable from subsidiaries and affiliates | 9,972 | 11,887 |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 1,611 | 1,984 |
| Long-term prepaid expenses | 563 | 454 |
| Long-term deposits | 5,400 | – |
| Other | 4,317 | 3,902 |
| Allowance for doubtful accounts | (3,871) | (4,217) |
| Total investments and other assets | 99,431 | 103,576 |
| Total noncurrent assets | 140,735 | 145,361 |
| Total assets | 551,657 | 527,552 |
| Liabilities | | |
| Current liabilities | | |
| Notes payable-trade | 11,020 | 12,488 |
| Accounts payable-trade | 81,069 | 69,613 |
| Accounts payable for construction contracts | 93,042 | 78,288 |
| Long-term debt due within 1 year | 4,689 | 6,361 |
| Current portion of bonds payable | 10,000 | – |
| Lease obligations | 1,578 | 1,947 |
| Accounts payable-other | 5,744 | 6,372 |
| Income taxes payable | 4,461 | 2,601 |
| Accrued consumption taxes | 1,090 | – |
| Accrued expenses | 1,015 | 870 |
| Advances received | 461 | 763 |
| Advances received on uncompleted construction contracts | 45,380 | 38,817 |
| Deposits received | 34,407 | 29,770 |
| Unearned revenue | 1,323 | 1,358 |
| Provision for employees' bonuses | 6,550 | 5,780 |
| Provision for directors' bonuses | 120 | 135 |
| Provision for warranties for completed construction | 1,408 | 1,367 |
| Asset retirement obligation | 512 | 467 |
| Other | 1 | 264 |
| Total current liabilities | 303,868 | 257,261 |
| Long-term liabilities | | |
| Bonds issued | 5,000 | 5,000 |
| Convertible bonds | 20,000 | 20,000 |
| Long-term debt | 12,639 | 11,932 |
| Guarantee deposited | 4,839 | 4,971 |
| Lease obligations | 2,484 | 2,933 |
| Deferred tax liabilities | 8,179 | 9,602 |
| Provision for retirement benefits | 3,807 | 5,901 |
| Provision for loss on business of subsidiaries and affiliates | 3,432 | 4,036 |
| Asset retirement obligation | 757 | 815 |
| Other | 1,214 | 2,050 |
| Total long-term liabilities | 62,351 | 67,239 |
| Total liabilities | 366,218 | 324,500 |

(million yen)

| | As of March 31, 2014 | As of March 31, 2015 |
|---|----------------------|----------------------|
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 27,672 | 27,672 |
| Capital surplus | | |
| Legal capital surplus | 26,613 | 26,613 |
| Other capital surplus | 259 | 259 |
| Total capital surpluses | 26,872 | 26,872 |
| Retained earnings | | |
| Legal retained earnings | 2,857 | 2,857 |
| Other retained earnings | | |
| Reserve for special depreciation | 156 | 140 |
| Reserve for reduction entry | 1,444 | 1,673 |
| General reserve | 94,387 | 106,887 |
| Retained earnings brought forward | 17,629 | 14,998 |
| Total retained earnings | 116,473 | 126,556 |
| Treasury stock | (272) | (275) |
| Total shareholders' equity | 170,745 | 180,825 |
| Valuation and translation adjustments | | |
| Valuation difference on available-for-sale securities | 14,666 | 22,389 |
| Deferred gains or losses on hedges | 28 | (162) |
| Total valuation and translation adjustments | 14,694 | 22,227 |
| Total net assets | 185,439 | 203,052 |
| Total liabilities and net assets | 551,657 | 527,552 |

(2) Statements of Income

(million yen)

| | As of March 31, 2014 | As of March 31, 2015 |
|--|----------------------|----------------------|
| Net sales | | |
| Net sales of goods | 421,445 | 383,776 |
| Completed contracts | 335,052 | 330,807 |
| Total net sales | 756,497 | 714,583 |
| Cost of sales | | |
| Cost of goods sold | 402,577 | 365,768 |
| Cost of completed contracts | 248,851 | 248,093 |
| Total cost of sales | 651,428 | 613,861 |
| Gross profit | 105,069 | 100,722 |
| Selling, general and administrative expenses | 81,839 | 81,800 |
| Operating income | 23,231 | 18,922 |
| Non-operating income | | |
| Interest income | 337 | 453 |
| Interest on securities | 35 | 55 |
| Purchase discounts | 330 | 291 |
| Dividends income | 3,647 | 5,170 |
| Other | 901 | 991 |
| Total non-operating income | 5,249 | 6,961 |
| Non-operating expenses | | |
| Interest expenses | 367 | 268 |
| Bond interest expenses | 203 | 115 |
| Sales discounts | 615 | 595 |
| Other | 544 | 266 |
| Total non-operating expenses | 1,729 | 1,244 |
| Recurring income | 26,752 | 24,640 |
| Extraordinary gains | | |
| Gain on sales of investment noncurrent assets | 60 | 289 |
| Gain on sales of investment securities | 27 | 128 |
| Total extraordinary gains | 88 | 417 |
| Extraordinary loss | | |
| Loss on sales of noncurrent assets | 9 | 1 |
| Loss on retirement of noncurrent assets | 148 | 110 |
| Impairment loss | 125 | 17 |
| Loss on sales of investment securities | – | 3 |
| Loss on devaluation of investment securities | 193 | 0 |
| Loss on valuation of investments in capital of subsidiaries and affiliates | 401 | 1,283 |
| Loss on valuation of stocks of subsidiaries and affiliates | 1,200 | 1,295 |
| Loss on sale of stocks of subsidiaries and affiliates | 0 | – |
| Loss on liquidation of subsidiaries and affiliates | 92 | – |
| Total extraordinary loss | 2,167 | 2,709 |
| Income before income taxes | 24,672 | 22,347 |
| Income taxes-current | 7,658 | 6,685 |
| Income taxes-deferred | 922 | 811 |
| Total income taxes | 8,580 | 7,496 |
| Net income | 16,092 | 14,851 |

(3) Statements of Changes in Net Assets

Fiscal year ended March 31, 2014

(million yen)

| | Shareholders' equity | | | | | | | | | |
|--|----------------------|-----------------------|-----------------------|-------------------------|----------------------------------|-----------------------------|-----------------|-----------------------------------|----------------|----------------------------|
| | Capital stock | Capital surplus | | Retained earnings | | | | | Treasury stock | Total shareholders' equity |
| | | Legal capital surplus | Other capital surplus | Legal retained earnings | Other retained earnings | | | | | |
| | | | | | Reserve for special depreciation | Reserve for reduction entry | General reserve | Retained earnings brought forward | | |
| Balance at the beginning of current period | 27,672 | 26,613 | 259 | 2,857 | — | 1,444 | 83,487 | 15,958 | (269) | 158,022 |
| Cumulative effect of changes in accounting policies | | | | | | | | | | — |
| Balance at the beginning of current period reflecting changes in accounting policies | 27,672 | 26,613 | 259 | 2,857 | — | 1,444 | 83,487 | 15,958 | (269) | 158,022 |
| Changes during the period | | | | | | | | | | |
| Provision of reserve for special depreciation | | | | | 156 | | | (156) | | — |
| Reversal of reserve for special depreciation | | | | | | | | | | — |
| Provision of reserve for reduction entry | | | | | | | | | | — |
| Provision of general reserve | | | | | | | 10,900 | (10,900) | | — |
| Dividends from surplus | | | | | | | | (3,366) | | (3,366) |
| Net income | | | | | | | | 16,092 | | 16,092 |
| Purchase of treasury stock | | | | | | | | | (3) | (3) |
| Disposal of treasury stock | | | 0 | | | | | | 0 | 0 |
| Net changes in items other than shareholders' equity | | | | | | | | | | |
| Total changes during the period | — | — | 0 | — | 156 | — | 10,900 | 1,670 | (3) | 12,723 |
| Balance at the end of current period | 27,672 | 26,613 | 259 | 2,857 | 156 | 1,444 | 94,387 | 17,629 | (272) | 170,745 |

| | Valuation and translation adjustments | | Total net assets |
|--|---|------------------------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | |
| Balance at the beginning of current period | 12,236 | 252 | 170,510 |
| Cumulative effect of changes in accounting policies | | | — |
| Balance at the beginning of current period reflecting changes in accounting policies | 12,236 | 252 | 170,510 |
| Changes during the period | | | |
| Provision of reserve for special depreciation | | | — |
| Reversal of reserve for special depreciation | | | — |
| Provision of reserve for reduction entry | | | — |
| Provision of general reserve | | | — |
| Dividends from surplus | | | (3,366) |
| Net income | | | 16,092 |
| Purchase of treasury stock | | | (3) |
| Disposal of treasury stock | | | 0 |
| Net changes in items other than shareholders' equity | 2,430 | (223) | 2,206 |
| Total changes during the period | 2,430 | (223) | 14,929 |
| Balance at the end of current period | 14,666 | 28 | 185,439 |

Fiscal year ended March 31, 2015

(million yen)

| | Shareholders' equity | | | | | | | | | |
|--|----------------------|-----------------------|-----------------------|-------------------------|----------------------------------|-----------------------------|-----------------|----------------|----------------------------|-----------------------------------|
| | Capital stock | Capital surplus | | Retained earnings | | | | Treasury stock | Total shareholders' equity | |
| | | Legal capital surplus | Other capital surplus | Legal retained earnings | Other retained earnings | | | | | |
| | | | | | Reserve for special depreciation | Reserve for reduction entry | General reserve | | | Retained earnings brought forward |
| Balance at the beginning of current period | 27,672 | 26,613 | 259 | 2,857 | 156 | 1,444 | 94,387 | 17,629 | (272) | 170,745 |
| Cumulative effect of changes in accounting policies | | | | | | | | (1,403) | | (1,403) |
| Balance at the beginning of current period reflecting changes in accounting policies | 27,672 | 26,613 | 259 | 2,857 | 156 | 1,444 | 94,387 | 16,226 | (272) | 169,342 |
| Changes during the period | | | | | | | | | | |
| Provision of reserve for special depreciation | | | | | 7 | | | (7) | | - |
| Reversal of reserve for special depreciation | | | | | (22) | | | 22 | | - |
| Provision of reserve for reduction entry | | | | | | 229 | | (229) | | - |
| Provision of general reserve | | | | | | | 12,500 | (12,500) | | - |
| Dividends from surplus | | | | | | | | (3,366) | | (3,366) |
| Net income | | | | | | | | 14,851 | | 14,851 |
| Purchase of treasury stock | | | | | | | | | (3) | (3) |
| Disposal of treasury stock | | | 0 | | | | | | 0 | 0 |
| Net changes in items other than shareholders' equity | | | | | | | | | | |
| Total changes during the period | - | - | 0 | - | (16) | 229 | 12,500 | (1,228) | (2) | 11,483 |
| Balance at the end of current period | 27,672 | 26,613 | 259 | 2,857 | 140 | 1,673 | 106,887 | 14,998 | (275) | 180,825 |

| | Valuation and translation adjustments | | Total net assets |
|--|---|------------------------------------|------------------|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | |
| Balance at the beginning of current period | 14,666 | 28 | 185,439 |
| Cumulative effect of changes in accounting policies | | | (1,403) |
| Balance at the beginning of current period reflecting changes in accounting policies | 14,666 | 28 | 184,036 |
| Changes during the period | | | |
| Provision of reserve for special depreciation | | | - |
| Reversal of reserve for special depreciation | | | - |
| Provision of reserve for reduction entry | | | - |
| Provision of general reserve | | | - |
| Dividends from surplus | | | (3,366) |
| Net income | | | 14,851 |
| Purchase of treasury stock | | | (3) |
| Disposal of treasury stock | | | 0 |
| Net changes in items other than shareholders' equity | 7,723 | (190) | 7,533 |
| Total changes during the period | 7,723 | (190) | 19,015 |
| Balance at the end of current period | 22,389 | (162) | 203,052 |

7. Others

Changes in Directors and Corporate Auditors

An announcement was made on February 27, 2015.

8. Supplementary Information

(1) Consolidated Statements of Income

(million yen)

| | FY 3/14 | | FY 3/15 | | YoY change | % of YoY change | FY 3/16 (Forecast) | | YoY change | % of YoY change |
|--|----------------|---------------|----------------|---------------|----------------|-----------------|--------------------|---------------|----------------|-----------------|
| Timber and Building Materials Business | 458,611 | | 423,020 | | (35,591) | (7.8%) | 445,000 | | +21,980 | +5.2% |
| Housing Business | 465,368 | | 453,940 | | (11,428) | (2.5%) | 465,000 | | +11,060 | +2.4% |
| Overseas Business | 76,320 | | 147,024 | | +70,704 | +92.6% | 182,000 | | +34,976 | +23.8% |
| Other | 17,286 | | 16,565 | | (721) | (4.2%) | 17,000 | | +435 | +2.6% |
| Adjustment | (44,617) | | (43,293) | | +1,324 | - | (47,000) | | (3,707) | - |
| Net sales | 972,968 | | 997,256 | | +24,288 | +2.5% | 1,062,000 | | +64,744 | +6.5% |
| Gross profit | 16.5% | 160,162 | 17.0% | 169,492 | +9,330 | +5.8% | 16.9% | 179,000 | +9,508 | +5.6% |
| Selling, general and administrative expenses | 126,747 | | 135,498 | | +8,751 | +6.9% | 144,000 | | +8,502 | +6.3% |
| Operating income | 3.4% | 33,415 | 3.4% | 33,994 | +579 | +1.7% | 3.3% | 35,000 | +1,006 | +3.0% |
| Non-operating income | 3,536 | | 5,005 | | +1,470 | +41.6% | 5,000 | | (5) | (0.1%) |
| Non-operating expenses | 3,384 | | 2,575 | | (808) | (23.9%) | 3,500 | | +925 | +35.9% |
| Non-operating income/loss | 152 | | 2,430 | | +2,278 | - | 1,500 | | (930) | (38.3%) |
| Timber and Building Materials Business | 1.1% | 4,950 | 1.0% | 4,039 | (912) | (18.4%) | 1.1% | 4,800 | +761 | +18.8% |
| Housing Business | 6.9% | 32,211 | 6.2% | 28,302 | (3,909) | (12.1%) | 6.0% | 28,000 | (302) | (1.1%) |
| Overseas Business | (0.2%) | (149) | 4.2% | 6,126 | +6,275 | - | 4.6% | 8,300 | +2,174 | +35.5% |
| Other | 4.8% | 821 | 7.1% | 1,175 | +354 | +43.1% | 0.6% | 100 | (1,075) | (91.5%) |
| Adjustment | (4,268) | | (3,219) | | +1,049 | - | (4,700) | | (1,481) | - |
| Recurring income | 3.4% | 33,567 | 3.7% | 36,424 | +2,857 | +8.5% | 3.4% | 36,500 | +76 | +0.2% |
| Extraordinary gains | 2,254 | | 531 | | (1,723) | (76.4%) | - | | (531) | - |
| Extraordinary loss | 1,192 | | 2,217 | | +1,025 | +86.0% | - | | (2,217) | - |
| Extraordinary gains/losses | 1,063 | | (1,686) | | (2,748) | - | - | | +1,686 | - |
| Net income * | 2.3% | 22,531 | 1.9% | 18,572 | (3,959) | (17.6%) | 1.8% | 19,500 | +928 | +5.0% |

* In the FY3/16 forecast, net income attributable to parent company shareholders is provided.

(2) <Housing Business & Real Estate Business> Sales and Orders Received (non-consolidated)

(million yen)

(a) Actual

| | | | FY 3/14 (Actual) | | | FY 3/15 (Actual) | | | Change | |
|--|---------------------------------|---------------------------------|------------------|---------|------------|------------------|---------|------------|---------|---------|
| | | | Volume | Amount | Unit price | Volume | Amount | Unit price | Volume | Amount |
| Orders Received | Contract Business | Custom-built detached houses *1 | 9,364 | 339,909 | 32.1 | 7,804 | 290,203 | 33.2 | (16.7%) | (14.6%) |
| | | Apartments *1 | 1,140 | 15,502 | 13.1 | 1,486 | 21,790 | 14.4 | +30.4% | +40.6% |
| | | Other contract work | | 2,562 | - | | 1,435 | - | | (44.0%) |
| Sales | Contract Business | Custom-built detached houses *2 | 9,243 | 320,260 | 34.6 | 8,743 | 313,396 | 35.8 | (5.4%) | (2.1%) |
| | | Apartments *2 | 1,124 | 13,130 | 11.7 | 1,014 | 13,569 | 13.4 | (9.8%) | +3.3% |
| | | Other contract work | | 1,375 | - | | 2,791 | - | | +102.9% |
| | Detached spec homes business *3 | 242 | 9,723 | 40.2 | 272 | 10,174 | 37.4 | +12.4% | +4.6% | |
| | Land for custom-built housing | | 5,579 | - | | 5,532 | - | | (0.8%) | |
| | Renovation Business | | 8,999 | - | | 5,685 | - | | (36.8%) | |
| | Other *4 | | 9,623 | - | | 8,026 | - | | (16.6%) | |
| Total | | | | 368,689 | - | | 359,173 | - | | (2.6%) |
| Profit Ratio | | | 24.7% | 91,203 | | 24.6% | 88,341 | | | |
| Gross profit | | | | | | | | | | |
| Backlog of Orders Received at Term End | Contract Business | Custom-built detached houses | 8,581 | 295,765 | 34.5 | 7,642 | 272,571 | 35.7 | (10.9%) | (7.8%) |
| | | Apartments | 1,393 | 17,477 | 12.5 | 1,865 | 25,698 | 13.8 | +33.9% | +47.0% |
| | | Other contracts | | 1,824 | - | | 468 | - | | (74.4%) |
| <<Sumitomo Forestry Home Tech (Renovation)>> | | | | | | | | | | |
| Orders Received | Contract Business | | | 61,004 | - | | 55,887 | - | | (8.4%) |
| Construction Completed | | | | 59,336 | - | | 56,656 | - | | (4.5%) |
| Backlog of Orders Received at Term End | | | | 23,096 | - | | 22,327 | - | | (3.3%) |

(b) Forecast

(million yen)

| | | | FY 3/15 (Actual) | | | FY 3/16 (Forecast) | | | Change | |
|--|---------------------------------|---------------------------------|------------------|---------|------------|--------------------|---------|------------|--------|---------|
| | | | Volume | Amount | Unit price | Volume | Amount | Unit price | Volume | Amount |
| Orders Received | Contract Business | Custom-built detached houses *1 | 7,804 | 290,203 | 33.2 | 8,600 | 313,800 | 33.2 | +10.2% | +8.1% |
| | | Apartments *1 | 1,486 | 21,790 | 14.4 | 1,550 | 22,700 | 14.5 | +4.3% | +4.2% |
| | | Other contract work | | 1,435 | - | | 4,200 | - | | +192.7% |
| Sales | Contract Business | Custom-built detached houses *2 | 8,743 | 313,396 | 35.8 | 8,200 | 299,100 | 36.5 | (6.2%) | (4.6%) |
| | | Apartments *2 | 1,014 | 13,569 | 13.4 | 1,340 | 18,700 | 14.0 | +32.1% | +37.8% |
| | | Other contract work | | 2,791 | - | | 4,100 | - | | +46.9% |
| | Detached spec homes business *3 | 272 | 10,174 | 37.4 | 295 | 11,800 | 40.0 | +8.5% | +16.0% | |
| | Land for custom-built housing | | 5,532 | - | | 5,300 | - | | (4.2%) | |
| | Renovation Business *4 | | 5,685 | - | | 5,900 | - | | +3.8% | |
| | Other *5 | | 8,026 | - | | 8,900 | - | | +10.9% | |
| Total | | | | 359,173 | - | | 353,800 | - | | (1.5%) |
| Profit Ratio | | | 24.6% | 88,341 | | 24.5% | 86,600 | | | |
| Gross profit | | | | | | | | | | |
| Backlog of Orders Received at Term End | Contract Business | Custom-built detached houses | 7,642 | 272,571 | 35.7 | 8,042 | 287,271 | 35.7 | +5.2% | +5.4% |
| | | Apartments | 1,865 | 25,698 | 13.8 | 2,075 | 29,698 | 14.3 | +11.3% | +15.6% |
| | | Other contract work | | 468 | - | | 568 | - | | +21.4% |
| <<Sumitomo Forestry Home Tech (Renovation)>> | | | | | | | | | | |
| Orders Received | Contract Business | | | 55,887 | - | | 69,200 | - | | +23.8% |
| Construction Completed | | | | 56,656 | - | | 68,200 | - | | +20.4% |
| Backlog of Orders Received at Term End | | | | 22,327 | - | | 23,327 | - | | +4.5% |

*1: The unit price of orders received for custom-built detached houses and apartments is calculated from orders received at the time the contract pertaining to the property is concluded in the current term, so orders received for additional construction and other work are excluded. Beginning with FY 3/15, "Wooden Apartments" has been changed to "Apartments."

*2: Sales volumes for custom-built detached housing and wooden apartments are delivered houses (number of houses is shown.)

*3: Detached spec homes business sales are the total for land and buildings.

*4: Other sales include interior products and condominiums.

(3) Main Subsidiaries

(million yen)

| Company name (Head Office) (Segment) | Founded | Capital stock | Ownership *1 | Accounting term | Statements of Income | | | | Balance Sheets | |
|---|----------|------------------------------|-----------------|--------------------|----------------------|---------------------|---------------------|---------------|-----------------|------------|
| | | | | | Net sales | Operating income | Recurring income | Net income | Total assets | Net assets |
| Sumitomo Forestry Crest Co., Ltd. (Nagoya, Aichi Prefecture) (Timber and Building Materials Business) | Aug 1959 | 2,050 | 100.0% | FY 3/14 | 39,932 | (767) | (856) | (1,133) | 19,897 | 5 |
| | | | | FY 3/15 | 37,469 | 154 | 73 | (1,438) | 18,209 | 1,194 |
| | | | | FY 3/16 (F) | 36,300 | 650 | 500 | 370 | - | - |
| Sumitomo Forestry Residential Co., Ltd. (Shinjuku-ku, Tokyo) (Housing Business) | Mar 1985 | 150 | 100.0% | FY 3/14 | 20,402 | 495 | 465 | 275 | 10,011 | 3,107 |
| | | | | FY 3/15 | 20,377 | 685 | 642 | 412 | 10,346 | 3,519 |
| | | | | FY 3/16 (F) | 21,800 | 730 | 700 | 470 | - | - |
| Sumitomo Forestry Home Engineering Co., Ltd. (Shinjuku-ku, Tokyo) (Housing Business) | Dec 1999 | 75 | 100.0% | FY 3/14 | 88,316 | 797 | 907 | 503 | 32,172 | 3,074 |
| | | | | FY 3/15 | 82,861 | 700 | 800 | 508 | 29,078 | 3,343 |
| | | | | FY 3/16 (F) | 78,900 | 570 | 720 | 480 | - | - |
| Sumitomo Forestry Home Service Co., Ltd. (Shinjuku-ku, Tokyo) (Housing Business) | Sep 1964 | 400 | 100.0% | FY 3/14 | 5,873 | 272 | 253 | 205 | 3,304 | 51 |
| | | | | FY 3/15 | 6,089 | 282 | 267 | 524 | 3,664 | 747 |
| | | | | FY 3/16 (F) | 6,100 | 380 | 350 | 650 | - | - |
| Sumitomo Forestry Landscaping Co., Ltd. (Nakano-ku, Tokyo) (Housing Business) | Apr 1977 | 200 | 100.0% | FY 3/14 | 24,315 | 357 | 394 | 218 | 10,360 | 2,922 |
| | | | | FY 3/15 | 27,946 | 1,108 | 1,141 | 686 | 11,445 | 3,761 |
| | | | | FY 3/16 (F) | 28,000 | 1,150 | 1,180 | 780 | - | - |
| Sumitomo Forestry Home Tech Co., Ltd. (Chiyoda-ku, Tokyo) (Housing Business) | Oct 1988 | 100 | 100.0% | FY 3/14 | 62,189 | 3,854 | 4,088 | 2,485 | 27,686 | 4,840 |
| | | | | FY 3/15 | 59,646 | 2,610 | 2,651 | 1,635 | 22,359 | 3,880 |
| | | | | FY 3/16 (F) | 71,000 | 4,000 | 4,000 | 2,700 | - | - |
| PT. Kutai Timber Indonesia (Jakarta, Indonesia) (Overseas Business) *2 | Sep 1970 | 27,000 (Thousand US\$) | 99.9% | FY 3/13 | 11,872 | 659 | 582 | 431 | 7,696 | 3,302 |
| | | | | FY 3/14 | 13,122 | 772 | 782 | 585 | 8,741 | 4,443 |
| | | | | FY 3/15 (F) | 14,700 | 940 | 920 | 690 | - | - |
| Alpine MDF Industries Pty Ltd. (Wangaratta, Victoria, Australia) (Overseas Business) *3 | May 1994 | 62,474 (Thousand AUS) | (100.0%) | FY 3/13 | 4,490 | 92 | 6 | 11 | 4,060 | 690 |
| | | | | FY 3/14 | 4,544 | (232) | (329) | (369) | 4,268 | 346 |
| | | | | FY 3/15 (F) | 5,000 | 100 | 0 | 0 | - | - |
| Henley Group (Mount Waverley, Victoria, Australia) (Overseas Business) *3 *5 | Oct 1989 | 42,325 (Thousand AUS) | (51.0%) | FY 3/13 | 52,633 | 2,862 | 2,634 | 1,833 | 30,203 | 12,950 |
| | | | | FY 3/14 | 67,671 | 5,990 | 5,762 | 4,230 | 38,000 | 16,730 |
| | | | | FY 3/15 (F) | 76,000 | 5,100 | 4,500 | 3,400 | - | - |
| Nelson Pine Industries Ltd. (Richmond, Nelson, New Zealand) (Overseas Business) *4 | Oct 1984 | 45,500 (Thousand NZ\$) | (100.0%) | FY 3/13 | 14,873 | 1,212 | 1,199 | 865 | 19,016 | 16,737 |
| | | | | FY 3/14 | 15,637 | 256 | 468 | 336 | 20,558 | 18,209 |
| | | | | FY 3/15 (F) | 15,200 | 0 | 0 | 0 | - | - |
| Gehan Homes Group (Addison, Texas, USA) (Overseas Business) *2 *6 | May 1994 | 706 (Thousand US\$) | (51.0%) | FY 3/13 | - | - | - | - | - | - |
| | | | | FY 3/14 | 29,241 | 3,106 | 3,141 | 3,021 | 29,544 | 9,946 |
| | | | | FY 3/15 (F) | 52,000 | 5,300 | 4,700 | 4,600 | - | - |

*1 Figures in parentheses are for indirect investments.

*2, *3, *4 The following exchange rates were used to convert into yen the income statements of overseas group companies.

*5 The Henley Group consists of eight companies, including Henley Arch Unit Trust.

*6 The Gehan Homes Group consists of eight companies, including Gehan Homes, Ltd. The figures from the statements of income for the full year ending 12/14 are for the eight months following the date of acquisition of a stake in the company.

| | *2 US\$ | *3 AUS | *4 NZ\$ |
|---------------------|------------|-----------|------------|
| FY 12/13 | 97.59 | 94.32 | 80.02 |
| FY 12/14 | 105.88 | 95.38 | 87.78 |
| FY 12/15 (Forecast) | 115.00 | 99.00 | 89.00 |