Financial Section

Contents

Eleven-Year Consolidated Financial Summary

(Years ended March 31)	2017	2016	2015	2014
	Millions of yen			
Operating Results:				
Net sales	¥1,113,364	¥1,040,524	¥997,256	¥972,968
Gross profit	204,138	183,134	169,492	160,162
Selling, general and administrative expenses	150,149	153,041	135,498	126,747
Operating income	53,989	30,093	33,994	33,415
Recurring income	57,841	30,507	36,424	33,567
Profit attributable to owners of parent / Net income	34,532	9,727	18,572	22,531
Financial Position:				
Total assets	¥793,617	¥710,318	¥665,538	¥645,197
Working capital*1	189,783	178,215	158,110	120,725
Interest-bearing debt	163,817	119,069	103,369	92,975
Total net assets	295,344	265,257	260,782	226,078
Cash Flows:				
Cash flows from operating activities	¥ 40,337	¥ 45,705	¥ 14,709	¥ 54,057
Cash flows from investment activities	(62,350)	(9,972)	(23,575)	(10,476)
Cash flows from financing activities	14,267	1,813	(17,286)	8,511
Cash and cash equivalents at the end of the year	132,707	141,265	103,296	128,343
Capital Investment:				
Tangible fixed assets*2	¥ 50,940	¥ 18,042	¥ 12,617	¥ 14,735
Intangible fixed assets	2,839	2,006	2,488	2,417
Others	349	400	282	252
Total	54,128	20,448	15,388	17,404
Depreciation and amortization	12,887	11,753	11,453	9,810
	Yen			
Per Share Data:				
Profit attributable to owners of parent / Net income	¥ 194.95	¥ 54.92	¥ 104.85	¥ 127.20
Net assets	1,552.04	1,374.47	1,387.39	1,234.53
Cash dividends	35.0	24.0	21.5	19.0
	%			
Financial Ratios:				
Gross profit margin	18.3	17.6	17.0	16.5
Operating income margin	4.8	2.9	3.4	3.4
Recurring income margin	5.2	2.9	3.7	3.4
Return on assets (ROA)*3	7.7	4.4	5.6	5.6
Return on equity (ROE)*3	13.3	4.0	8.0	11.0
Equity ratio	34.6	34.3	36.9	33.9
Interest-bearing debt ratio*4	37.3	32.8	29.6	29.8
Current ratio	158.6	156.9	154.1	137.0
Interest coverage ratio (times)*5	27.1	43.1	12.6	44.2

*1. Working capital = Current assets – Current liabilities
*2. From the fiscal year ended March 31, 2009, accounting standards for lease transactions were changed and, accordingly, leased assets are included in property, plant and equipment.
*3. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.
*4. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)
*5. Interest coverage ratio (times) = cash flow from operating activities / interest payments

			Millions of yen			
2013	2012	2011	2010	2009	2008	2007
¥845,184	¥831,870	¥797,493	¥723,923	¥823,810	¥861,357	¥911,674
141,436	136,873	132,568	124,269	133,493	135,277	141,117
116,105	117,682	118,330	114,522	126,656	128,041	120,711
25,330	19,191	14,238	9,747	6,837	7,235	20,405
26,981	20,714	14,206	9,465	6,160	7,659	21,259
15,923	9,271	5,175	2,377	1,028	1,115	11,954
¥547,973	¥503,496	¥489,417	¥469,738	¥427,738	¥450,730	¥500,136
91,335	94,509	89,665	88,338	81,700	64,156	76,453
69,229	67,923	69,229	66,786	49,127	25,816	25,739
193,250	169,335	163,110	162,930	156,192	173,089	188,855
¥ 45,910	¥ 26,873	¥ 17,515	¥ 37,239	¥ (8,161)	¥ 26,106	¥ 7,084
(28,662)	(32,903)	(13,247)	(19,117)	(29,062)	(17,587)	(7,102)
(5,305)	(5,622)	372	11,546	24,196	(4,262)	665
75,658	63,839	75,582	71,662	40,730	54,475	50,311
¥ 7,058	¥ 10,970	¥ 11,923	¥ 10,636	¥ 24,075	¥ 9,578	¥ 7,020
2,890	2,786	2,434	1,561	2,013	1,694	1,586
343	194	215	395	150	222	420
10,291	13,950	14,572	12,592	26,238	11,494	9,026
8,978	8,469	8,437	8,502	8,477	7,258	6,476
			Yen			
¥ 89.89	¥ 52.34	¥ 29.21	¥ 13.42	¥ 5.80	¥ 6.29	¥ 67.43
1,086.68	954.81	919.54	917.82	880.94	975.99	1,059.20
17.0	15.0	15.0	15.0	15.0	15.0	15.0
			%			
16.7	16.5	16.6	17.2	16.2	15.7	15.5
3.0	2.3	1.8	1.3	0.8	0.8	2.2
3.2	2.5	1.8	1.3	0.7	0.9	2.3
5.1	4.2	3.0	2.1	1.4	1.6	4.4
8.8	5.6	3.2	1.5	0.6	0.6	6.6
35.1	33.6	33.3	34.6	36.5	38.4	37.5
26.5	28.7	29.8	29.1	23.9	13.0	12.1
133.1	137.1	136.8	140.3	141.6	127.6	129.3
34.9	20.0	13.7	31.8	–	17.9	5.6

Market Overview

In fiscal 2016, ended March 31, 2017, a mild global economic recovery was sustained by the continued recovery in the United States and a revival in China, despite weaker signs in some emerging markets. The Japanese economy continued to recover modestly, with increases in capital investment by firms offsetting persistently lackluster consumer spending.

With housing loan interest rates at historical lows and the rental sector the leading contributor to strength in housing starts, the domestic housing market performed well. The number of new housing starts rose 5.8% year on year to 974,000, with housing starts by owner-occupiers among these increasing 2.6% to 292,000.

Consolidated Operating Results

1 Net Sales and Orders Received

Net sales rose 7.0% year on year to ¥1,113,364 million. The Sumitomo Forestry Group worked to improve the profitability of the Timber and Building Materials and Custom-Built Detached Housing businesses in Japan, while also working to diversify revenue streams by expanding our business domains, including aggressive investment of management resources in the Apartment business, the Renovation business, the MOCCA (Timber Solutions) Business, which promotes the adoption of timber construction in non-residential buildings and of wood-based interior finishings, Overseas businesses, the Biomass Power Generation business and management of private-pay elderly care facilities. The amount of orders for custom-built detached houses fell 3.0% to ¥288,458 million, reflecting a lower volume of orders partially offset by higher unit prices.

2 Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses fell 1.9% year on year to ¥150,149 million. Excluding actuarial differences arising from accounting for retirement benefits, SG&A expenses rose 9.6% to ¥155,131 million. The increase in SG&A expenses on this basis was mainly due to an increase in expenses due to the consolidation of DRB Group and Wisdom Group as subsidiaries in fiscal 2015.

3 Operating Income, Recurring Income

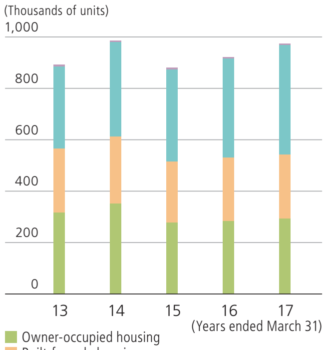
Operating income rose 79.4% year on year to ¥53,989 million and recurring income rose 89.6% to ¥57,841 million. Earnings on a core business basis excluding actuarial differences also increased, rising 17.7% at the operating level to ¥49,008 million and 25.7% at the recurring level to ¥52,860 million. The latter figure marked a new record high, surpassing ¥50 billion for the first time. This result reflected the fresh earnings contributions from the DRB Group and the Wisdom Group, in addition to growth in sales of custom-built detached houses and rental housing and another strong performance by the Overseas business. Profits rose across all business segments.

4 Profit Attributable to Owners of Parent

Profit attributable to owners of parent increased 255.0% year on year to ¥34,532 million. This mainly reflected the impact of the Gehan Homes Group becoming a wholly owned subsidiary, as well as special factors such as changes in actuarial differences and the recording of impairment losses in the previous fiscal year.

Profit attributable to owners of the parent per share rose ¥140.03 year on year to ¥194.95.

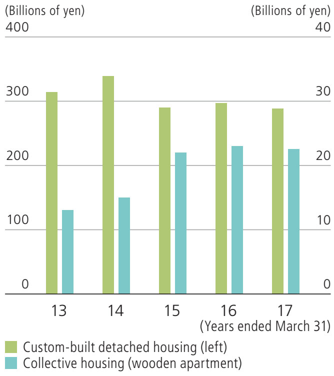
Number of New Housing Starts in Japan



Source: Ministry of Land, Infrastructure, Transport and Tourism

Net Sales

Amount of Orders Received



Segment Results

Note: Net sales for each segment include intersegment sales and transfers. Segment income represents figures for recurring income.

1 Timber and Building Materials Business

Net sales in the Timber and Building Materials Business declined 0.6% year on year to ¥424,440 million, while recurring income rose 32.9% to ¥4,456 million.

In the domestic timber and building materials business, sales were on par with fiscal 2015 as a stronger yen reduced the prices for imported products. We maintained profits by squeezing inventories and working to reduce costs. As part of diversifying earnings sources, we also focused on expanding our presence in the market for wood chips for biomass power generation, and developed and marketed Kigurumi CT, a highly cost competitive, original fire-resistant structural material finished in wood that is used in medium to large wooden structures. Profitability improved in the domestic building materials manufacturing business, with sales in line with targets.

In the overseas distribution business, our focus was on selling timber and building materials to countries in Southeast Asia, mainly Singapore (where our regional headquarters is based).

2 Housing Business

Net sales in the Housing Business increased 2.6% year on year to ¥466,298 million, and recurring income rose 2.7% to ¥32,349 million.

Custom-Built Detached Housing Business

The Custom-Built Detached Housing Business posted higher sales than in the previous year, in part due to more completions of homes built using our original Big-Frame (BF) construction method, which has superior earthquake resistance and offers greater design flexibility that enables provision of dwellings with a sense of spaciousness. We also focused on growing sales of homes specified as Zero Energy House (ZEH), which consumes net zero energy. In products, we introduced the "BF-Si Resilience Plus" homes, which offer plenty of storage space and survival features for the contingency of a short-term lifeline interruption. We also introduced a virtual reality system that allows customers to experience design plans in 3D in the aim of fun, easy-to-understand hands-on home development.

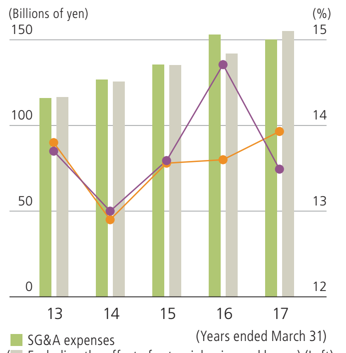
Apartment Business

The Apartment Business posted another rise in net sales. We focused on marketing rental housing that can cater flexibly to the changing needs of residents using highly versatile spaces based on our original "Wall Frame (WF)" method. The number of units delivered was higher than in the previous year, reflecting greater interest in asset utilization after revisions to Japan's inheritance tax in 2015. Upgrading our customer support service infrastructure, we also opened the Shinjuku Forest Maison Plaza to offer specialized consulting services aimed at giving practical support for stable long-term management of rental housing.

Renovation Business

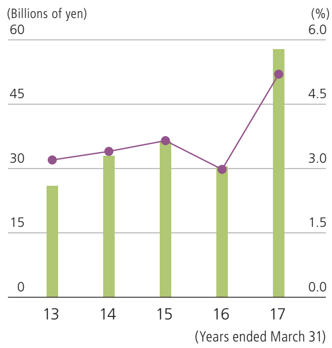
In the Renovation Business, to help promote higher asset values by promoting seismic reinforcement of established housing, we pioneered a system in the renovation industry that enables homeowners looking to rent out their houses to gain rent guarantees of up to 35 years from the Japan Trans-housing Institute by undertaking earthquake-proofing renovations meeting certain standards through Sumitomo Forestry Home Tech Co., Ltd. Segment profits declined due to lack of growth in sales from large-scale renovation projects.

SG&A Expenses and SG&A Expenses Ratio



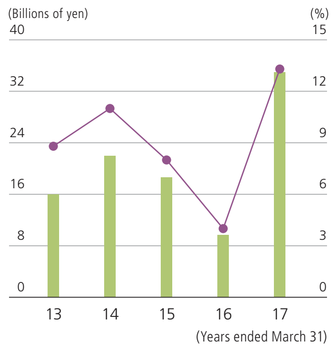
SG&A expenses
(Excluding the effect of actuarial gains and losses) (Left)
SG&A expenses ratio*
(Excluding the effect of actuarial gains and losses) (Right)
*SG&A expenses ratio = SG&A expenses / Net sales

Recurring Income and Recurring Income Margin



Recurring income (Left)
Recurring income margin (Right)

Profit Attributable to Owners of the Parent and ROE



Profit Attributable to Owners of the Parent (Left)
ROE (Right)

MOCCA (timber solutions) Business

In our MOCCA (Timber Solutions) Business, we endeavored to expand the market for medium to high-rise wooden buildings amid increasing interest in constructing and finishing public buildings from timber harvested in Japan, including in urban areas where fire-resistant structures are required, such as the order we received for a seven-story office building with a steel frame coated in fire-proofed timber. A project to rebuild an elementary school in an area affected by the Great East Japan Earthquake on higher ground with locally sourced timber was also completed.

3 Overseas Business

Net sales in the Overseas Business jumped 31.9% year on year to ¥247,890 million, and recurring income rose 47.5% to ¥19,310 million.

Profits increased substantially in our Overseas Manufacturing Business due to higher sales of medium density fiberboard (MDF) from New Zealand to Japan and North America, coupled with lower manufacturing costs due to declines in the purchase prices of raw materials. Meanwhile, profits were lower in Indonesia, reflecting a decline in unit selling prices for our main product, plywood, driven by fierce price competition in the market. In Australia, the Group sold its entire equity stake in local MDF manufacturer Alpine MDF Industries Pty Ltd. in March 2017 after a review of how best to optimize resources and streamline management.

Profits continued to increase in the Overseas Housing and Real Estate Business, reflecting stable housing markets in the United States and Australia. With every Group company recording higher sales, the business gained an extra boost from the contribution of the DRB Group, a housing firm based in the eastern United States in which we acquired an equity stake in January 2016. We also bought the rest of the equity in U.S. consolidated subsidiary Gehan Homes Group in April 2016 and acquired a 51% stake in the Wisdom Group, a housing company based in Sydney, Australia, in July 2016, making them consolidated subsidiaries. As a result of these M&As, we achieved our goal of annual sales of over 8,000 detached homes from overseas operations.

4 Other Businesses

In addition to these businesses, the Sumitomo Forestry Group engages in the biomass power generation business, an overseas forestation business, the management of private-pay elderly care facilities, the lease business, and the manufacture and sale of farming and gardening supplies. We also provide a wide range of service businesses for residential customers, including non-life insurance agency service, and develop IT systems for Group companies.

In the biomass power generation business, we commenced operations at a facility in the city of Monbetsu in Hokkaido in December 2016. In addition, our Indonesian forestation business performed better than planned in fiscal 2016, after booking impairment losses in the previous year.

Net sales in Other Businesses increased 36.2% year on year to ¥22,979 million, and recurring income totaled ¥2,223 million, compared with a recurring loss of ¥1,022 million in the previous year.

Housing Business

(Years ended March 31)		2014	2015	2016	**2017**
Orders					
Custom-Built Detached Housing	(¥ million)	¥339,909	¥290,203	¥297,490	**¥288,458**
	(Units)	9,364	7,804	7,730	**7,427**
Apartment	(¥ million)	¥ 15,502	¥ 21,790	¥ 22,967	**¥ 22,540**
	(Units)	1,140	1,486	1,523	**1,519**
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 61,004	¥ 55,887	¥ 63,604	**¥ 63,202**
Sales					
Custom-Built Detached Housing	(¥ million)	¥320,260	¥313,396	¥299,837	**¥306,307**
	(Units)	9,243	8,743	7,962	**8,098**
Apartment	(¥ million)	¥ 13,130	¥ 13,569	¥ 20,514	**¥ 22,125**
	(Units)	1,124	1,014	1,324	**1,551**
Detached Spec Homes	(¥ million)	¥ 9,723	¥ 10,174	¥ 11,606	**¥ 11,206**
	(Units)	242	272	303	**292**
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 59,336	¥ 56,656	¥ 61,724	**¥ 61,245**

Segment Performance Highlights

(Years ended March 31)	2016 (Millions of yen)	2017 (Millions of yen)	Change (Millions of yen)	Percent of change
Net Sales	¥1,040,524	¥1,113,364	+ 72,839	+ 7.0%
Timber and Building Materials Business	426,965	424,440	– 2,525	– 0.6%
Housing Business	454,604	466,298	+ 11,695	+ 2.6%
Overseas Business	187,926	247,890	+ 59,964	+ 31.9%
Other Businesses	16,874	22,979	+ 6,105	+ 36.2%
Adjustments	(45,844)	(48,243)	– 2,399	—
Recurring Income	¥ 30,507	¥ 57,841	+ 27,335	+ 89.6%
Timber and Building Materials Business	3,352	4,456	+ 1,104	+ 32.9%
Housing Business	31,512	32,349	+ 838	+ 2.7%
Overseas Business	13,091	19,310	+ 6,219	+ 47.5%
Other Businesses	(1,022)	2,223	+ 3,245	—
Adjustments	(16,427)	(497)	+ 15,930	—

* Net sales include intersegment sales and transfers.
Net sales and recurring income adjustments include net sales and selling, general and administrative expenses at the Administrative Division that cannot be allocated to specific businesses.

Net Sales and Recurring Income of Main Subsidiaries

(Millions of yen)

Timber and Building Materials Business

(Years ended March 31)	Net Sales 2016	Net Sales 2017	Recurring Income 2016	Recurring Income 2017
Sumitomo Forestry Crest Co., Ltd.	¥ 36,545	¥ 35,911	¥ (616)	¥ 647

Housing Business

(Years ended March 31)	Net Sales 2016	Net Sales 2017	Recurring Income 2016	Recurring Income 2017
Sumitomo Forestry Residential Co., Ltd.	¥22,661	¥24,355	¥ 818	¥ 1,097
Sumitomo Forestry Home Engineering Co., Ltd.	77,454	82,524	739	1,045
Sumitomo Forestry Home Service Co., Ltd.	5,945	6,590	289	738
Sumitomo Forestry Landscaping Co., Ltd.	28,996	28,593	1,024	1,734
Sumitomo Forestry Home Tech Co., Ltd.	64,854	64,680	2,673	2,240

Overseas Business

(Years ended December 31)	Net Sales 2015	Net Sales 2016	Recurring Income 2015	Recurring Income 2016
Overseas Subsidiaries*[1]				
PT. Kutai Timber Indonesia (Indonesia)	¥13,583	¥11,833	¥ 838	¥ 219
Henley Group (Australia)	73,281	65,716	6,346	5,144
Nelson Pine Industries Ltd. (New Zealand)	17,281	16,217	1,018	2,390
DRB Group (U.S.A.)	—	46,376	—	2,723
MainVue Homes Group (U.S.A.)	814	16,943	58	2,584
Gehan Homes Group (U.S.A.)	59,061	59,018	6,952	6,719

* Figures for overseas subsidiaries have been translated into Japanese yen at the following rates:

	US$	AU$	NZ$
2015/12:	121.05	91.06	84.71
2016/12:	108.74	80.83	75.72

Financial Position and Cash Flow

1 Financial Position

At the end of March 2017, total assets totaled ¥793,617 million, an increase of ¥83,299 million year on year. The increase was attributable mainly to an increase of timber in conjunction with the acquisition of a forest asset in New Zealand and an increase in inventories accompanying expansion of the Overseas Housing and Real Estate Business.

Liabilities increased by ¥53,212 million compared to the end of the previous consolidated fiscal year to ¥498,273 million. This reflected the issuance of corporate bonds to fund the aforementioned acquisition of a forest asset in New Zealand and an increase in long-term loans payable.

Net assets totaled ¥295,344 million, and the equity ratio was 34.6%.

2 Cash Flow

Cash flows from operating activities

Net cash provided by operating activities totaled ¥40,337 million. Income before income taxes of ¥58,523 million was offset by cash outflows due to an increase in inventories associated with the expansion of the Overseas Housing and Real Estate Business.

Cash flows from investment activities

Net cash used in investing activities amounted to ¥62,350 million. This reflected the acquisition of forest assets in New Zealand, capital expenditures at domestic biomass power generation plants, and the purchase of equity interests in housing companies in the United States and Australia, among other factors.

Cash flows from financing activities

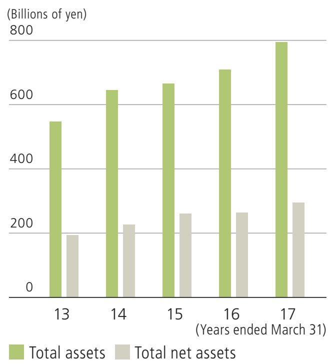
Net cash provided by financing activities totaled ¥14,267 million. Cash outflows associated with the purchase of an additional stake in a U.S.-based consolidated subsidiary and dividend payments were offset by cash inflows due to increases in interest-bearing debt, including the issuance of corporate bonds.

As a result of the above, cash and cash equivalents at March 31, 2017, stood at ¥132,707 million, a decrease of ¥8,558 million from the end of the previous fiscal year.

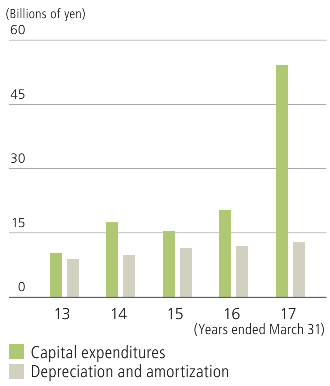
3 Capital Expenditures (Capital Investment)

Capital expenditures increased by 164.7% from ¥20,448 million in the previous fiscal year to ¥54,128 million in the fiscal year under review. Investment in tangible fixed assets amounted to ¥50,940 million, while investment in intangible fixed assets came to ¥2,839 million. Major investments included ¥30,263 million for the acquisition of a forest asset in New Zealand, ¥8,576 million for expenditures at biomass power plants, ¥7,412 million for model homes inside and outside Japan, and ¥2,501 million for plant facilities in an outside of Japan.

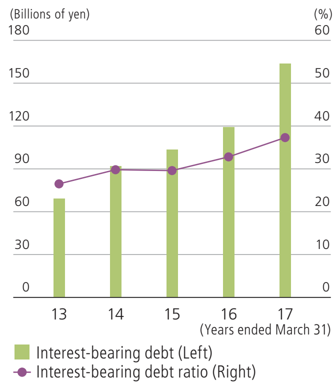
Total Assets and Total Net Assets



Capital Expenditures, Depreciation and Amortization



Interest-Bearing Debt and Interest-Bearing Debt Ratio



Business Risk

1 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, which could impact the Group's business 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 demand for housing purchases.

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 falls in land prices may 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 increase 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.

2 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 cleanup). 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.

3 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.

4 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.

5 Timber and Building Materials Market Conditions

A decline in prices for timber and building materials reduces the sales of the timber and building materials distribution 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. Fluctuations in the prices for other raw materials, such as oil, can directly or indirectly affect raw materials prices and influence the Group's operating results and financial position.

6 Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks attendant on foreign currency-denominated imports through foreign exchange contracts and other means. However, greater than expected exchange rate fluctuations 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, impacting the Group's operating results and financial position.

7 Product Quality Assurance

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

8 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.

9 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.

10 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.

11 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 by a natural disaster could influence the Group's operating results and financial position.

12 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 executives and 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 executive or 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.

13 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.

14 Decline in the Value of Assets under Management

In the event that a marked deterioration in market conditions leads 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.

15 Provision of Credit to Business Partners

The Group extends credit to business partners in the form of trade receivables, etc., and meticulously manages the credit it extends, including by setting appropriate limits for credit losses to avoid credit risk exposure. Nevertheless, it is still possible the Group will be exposed to credit risk. The Group also sets reserves for credit losses based on rational estimates, but it is possible that the actual losses incurred will surpass the allocated reserves. As these measures do not ensure complete avoidance of exposure to credit risk, credit risk could still potentially influence the Group's operating results and financial position.

16 Litigation Risk

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

17 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.

Note: 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.

Consolidated Balance Sheet

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2017	2016	2017
Current assets:			
Cash and time deposits (Notes 7, 12, 16)	¥111,506	¥ 83,499	$ 995,585
Marketable securities (Notes 5, 12, 16)	6,500	34,000	58,036
Receivables—			
Notes and accounts, trade (Notes 7, 16, 17)	123,454	127,138	1,102,272
Loans and other (Notes 7, 16)	76,349	78,795	681,684
Inventories—			
Finished goods, logs and lumber	24,013	26,105	214,405
Construction projects in progress (Note 7)	23,934	23,906	213,699
Real estate for sale (Note 7)	48,249	43,239	430,794
Real estate for sale in process (Note 7)	79,756	56,371	712,106
Deferred tax assets (Note 9)	7,001	7,377	62,506
Other current assets	13,391	11,881	119,560
Allowance for doubtful accounts	(438)	(842)	(3,908)
Total current assets	513,715	491,469	4,586,739
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 7, 8, 19)	30,597	26,817	273,183
Buildings and structures (Notes 7, 8, 19)	63,411	62,685	566,167
Machinery, equipment and vehicles (Notes 7, 8)	87,807	81,197	783,994
Timber (Note 8)	37,546	10,450	335,231
Construction in progress (Note 7)	6,013	13,572	53,688
Leased assets	10,724	9,632	95,755
	236,098	204,353	2,108,018
Less accumulated depreciation	(90,300)	(95,654)	(806,251)
Net property, plant and equipment	145,798	108,700	1,301,767
Intangible assets, net of amortization:			
Goodwill	12,189	6,563	108,833
Other intangible assets	11,229	11,882	100,258
Total intangible assets	23,418	18,445	209,091
Investments and other assets:			
Investment securities (Notes 5, 7, 16)	91,806	74,875	819,697
Long-term loans and receivables	6,100	5,595	54,460
Deferred tax assets (Notes 7, 9)	3,276	3,336	29,249
Asset for retirement benefits (Note 18)	142	74	1,264
Other assets	11,725	9,928	104,687
Allowance for doubtful accounts	(2,362)	(2,104)	(21,091)
Total investments and other assets	110,686	91,704	988,266
Total assets	¥793,617	¥710,318	$7,085,863

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2017	2016	Thousands of U.S. dollars (Note 4) 2017
Current liabilities:			
Payables—			
Notes and accounts, trade (Notes 16, 17)	**¥182,491**	¥176,444	**$1,629,387**
Other	**14,715**	13,165	**131,387**
Short-term loans payable (Notes 6, 7)	**30,232**	21,592	**269,931**
Current portion of long-term loans payable (Notes 6, 7, 16, 17)	**6,876**	10,995	**61,389**
Current portion of lease obligation (Note 6)	**1,628**	1,691	**14,533**
Advances received from customers	**52,179**	51,922	**465,881**
Accrued income taxes	**5,511**	7,572	**49,204**
Accrued employees' bonuses	**11,139**	10,873	**99,456**
Accrued directors and corporate auditors' bonuses	**146**	130	**1,304**
Other current liabilities (Note 23)	**19,015**	18,869	**169,777**
Total current liabilities	**323,932**	313,254	**2,892,249**
Long-term liabilities:			
Bonds issued (Note 6)	**20,000**	—	**178,571**
Bonds with subscription rights to shares (Note 6)	**20,000**	20,000	**178,571**
Long-term loans payable (Notes 6, 7, 16, 17)	**81,818**	62,115	**730,518**
Long-term lease obligation (Note 6)	**3,264**	2,676	**29,139**
Deferred tax liabilities (Note 9)	**11,537**	5,022	**103,006**
Liability for retirement benefits (Note 18)	**18,732**	23,718	**167,251**
Other long-term liabilities (Note 23)	**18,990**	18,275	**169,557**
Total long-term liabilities	**174,341**	131,807	**1,556,613**
Contingent liabilities (Note 15)			
Net assets:			
Shareholders' equity (Note 13):			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 177,410,239 shares in 2017 and 177,410,239 shares in 2016	**27,672**	27,672	**247,072**
Capital surplus	**18,637**	26,872	**166,402**
Retained earnings	**196,511**	166,762	**1,754,567**
Treasury stock: 281,970 shares in 2017 and 280,362 shares in 2016	**(280)**	(278)	**(2,500)**
Total shareholders' equity	**242,541**	221,028	**2,165,541**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	**25,896**	16,270	**231,218**
Deferred gain (loss) on hedges	**(80)**	(58)	**(718)**
Translation adjustments	**6,874**	6,497	**61,376**
Retirement benefits liability adjustments	**(320)**	(276)	**(2,856)**
Total accumulated other comprehensive income	**32,370**	22,432	**289,020**
Subscription rights to shares	**82**	36	**730**
Non-controlling interests	**20,352**	21,761	**181,710**
Total net assets	**295,344**	265,257	**2,637,001**
Total liabilities and net assets	**¥793,617**	¥710,318	**$7,085,863**

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets	**¥1,552.04**	¥1,374.47	**$13.86**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Net sales	¥1,113,364	¥1,040,524	$9,940,747
Cost of sales (Note 3)	909,225	857,390	8,118,084
Gross profit	204,138	183,134	1,822,663
Selling, general and administrative expenses (Note 11)	150,149	153,041	1,340,620
Operating income	53,989	30,093	482,043
Other income (expenses):			
Interest and dividends income	1,896	1,824	16,929
Interest expense	(1,560)	(1,236)	(13,928)
Equity in earnings (losses) of affiliates	3,053	761	27,258
Gain on sales of investment securities (Note 5)	96	33	853
Gain on liquidation of subsidiaries and affiliates	152	—	1,362
Gain on sales of shares of subsidiaries and affiliates	481	—	4,292
Impairment loss (Note 8)	(30)	(4,692)	(268)
Subsidy income	—	705	—
Gain on abolishment of retirement benefit plan	—	144	—
Loss of reduction of non-current assets	—	(705)	—
Special retirement payment	—	(71)	—
Other gains (losses), net (Notes 5, 10)	446	(613)	3,985
Total	4,534	(3,850)	40,483
Income before income taxes	58,523	26,243	522,526
Income taxes (Note 9):			
Current	15,652	15,808	139,754
Deferred	2,640	(4,919)	23,572
Total	18,292	10,889	163,326
Profit	40,230	15,354	359,200
Profit attributable to non-controlling interests	5,699	5,627	50,881
Profit attributable to owners of parent	¥ 34,532	¥ 9,727	$ 308,319

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Basic profit attributable to owners of parent (Note 21)	¥194.95	¥54.92	$1.74
Cash dividends	35.00	24.00	0.31

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Profit	¥40,230	¥15,354	$359,200
Other comprehensive income (Note 22):			
Unrealized gain (loss) on available-for-sale securities	9,634	(6,072)	86,019
Deferred gain (loss) on hedges	(22)	65	(197)
Translation adjustments	350	(2,300)	3,128
Retirement benefits liability adjustments	—	173	—
Share of other comprehensive income of affiliates accounted for by the equity method	(196)	(411)	(1,750)
Total other comprehensive income	9,766	(8,545)	87,200
Comprehensive income	¥49,997	¥ 6,809	$446,400
Total comprehensive income attributable to:			
Owners of the parent	¥44,470	¥ 1,964	$397,054
Non-controlling interests	5,527	4,845	49,346

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2017 and 2016

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2016	¥27,672	¥26,872	¥166,762	¥(278)	¥221,028
Changes during the period:					
Cash dividends (¥35.00 per share)			(4,782)		(4,782)
Profit attributable to owners of parent			34,532		34,532
Purchases of treasury stock				(2)	(2)
Change in ownership interest of parent due to transactions with non-controlling interests		(8,234)			(8,234)
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	—	(8,234)	29,749	(2)	21,512
Balance at March 31, 2017	¥27,672	¥18,637	¥196,511	¥(280)	¥242,541

	Millions of yen							
	Accumulated other comprehensive income							
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥16,270	¥(58)	¥6,497	¥(276)	¥22,432	¥36	¥21,761	¥265,257
Changes during the period:								
Cash dividends (¥35.00 per share)								(4,782)
Profit attributable to owners of parent								34,532
Purchases of treasury stock								(2)
Change in ownership interest of parent due to transactions with non-controlling interests								(8,234)
Change of scope of equity method								—
Net changes in items other than shareholders' equity	9,627	(22)	377	(44)	9,938	46	(1,410)	8,575
Total changes during the period	9,627	(22)	377	(44)	9,938	46	(1,410)	30,087
Balance at March 31, 2017	¥25,896	¥(80)	¥6,874	¥(320)	¥32,370	¥82	¥20,352	¥295,344

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2015	¥27,672	¥26,872	¥161,286	¥(275)	¥215,555
Changes during the period:					
Cash dividends (¥24.00 per share)			(4,251)		(4,251)
Profit attributable to owners of parent			9,727		9,727
Purchases of treasury stock				(3)	(3)
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	—	—	5,476	(3)	5,473
Balance at March 31, 2016	¥27,672	¥26,872	¥166,762	¥(278)	¥221,028

	Millions of yen							
	Accumulated other comprehensive income							
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥22,342	¥(124)	¥ 8,101	¥(124)	¥30,195	¥—	¥15,032	¥260,782
Changes during the period:								
Cash dividends (¥24.00 per share)								(4,251)
Profit attributable to owners of parent								9,727
Purchases of treasury stock								(3)
Change of scope of equity method								—
Net changes in items other than shareholders' equity	(6,072)	65	(1,604)	(153)	(7,763)	36	6,730	(998)
Total changes during the period	(6,072)	65	(1,604)	(153)	(7,763)	36	6,730	4,475
Balance at March 31, 2016	¥16,270	¥ (58)	¥ 6,497	¥(276)	¥22,432	¥36	¥21,761	¥265,257

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 4)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2016	$247,072	$239,923	$1,488,949	$(2,478)	$1,973,466
Changes during the period:					
Cash dividends ($0.31 per share)			(42,701)		(42,701)
Profit attributable to owners of parent			308,319		308,319
Purchases of treasury stock				(22)	(22)
Change in ownership interest of parent due to transactions with non-controlling interests		(73,521)			(73,521)
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	—	(73,521)	265,618	(22)	192,075
Balance at March 31, 2017	$247,072	$166,402	$1,754,567	$(2,500)	$2,165,541

	Thousands of U.S. dollars (Note 4)							
	Accumulated other comprehensive income							
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2016	$145,264	$(521)	$58,009	$(2,467)	$200,285	$320	$194,295	$2,368,367
Changes during the period:								
Cash dividends ($0.31 per share)								(42,701)
Profit attributable to owners of parent								308,319
Purchases of treasury stock								(22)
Change in ownership interest of parent due to transactions with non-controlling interests								(73,521)
Change of scope of equity method								—
Net changes in items other than shareholders' equity	85,954	(197)	3,367	(389)	88,735	410	(12,585)	76,559
Total changes during the period	85,954	(197)	3,367	(389)	88,735	410	(12,585)	268,634
Balance at March 31, 2017	$231,218	$(718)	$61,376	$(2,856)	$289,020	$730	$181,710	$2,637,001

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥ 58,523	¥ 26,243	$ 522,526
Adjustments—			
Depreciation and amortization	12,887	11,753	115,062
Impairment loss	30	4,692	268
Amortization of goodwill	2,274	2,190	20,302
Provision for (reversal of) doubtful accounts	48	(492)	431
Net changes in defined benefit liability	(5,117)	10,887	(45,684)
Interest and dividends income	(1,896)	(1,824)	(16,929)
Interest expense	1,560	1,236	13,928
Equity in losses (earnings) of affiliates	(3,053)	(761)	(27,258)
Losses (gains) on sales of marketable securities and investment securities, net	(88)	(33)	(782)
Losses on devaluation of marketable securities and investment securities	1	—	12
Losses (gains) on disposal of fixed assets, net	8	(326)	70
Change in assets and liabilities:			
Notes and accounts receivable, trade	2,986	(3,045)	26,662
Inventories	(16,920)	(13,249)	(151,072)
Other current assets	307	(3,739)	2,745
Notes and accounts payable, trade	5,027	10,258	44,883
Advances received from customers	(1,415)	1,903	(12,632)
Other current liabilities	862	6,432	7,696
Other	(576)	3,751	(5,143)
Total	55,449	55,877	495,085
Interest and dividends income received	4,778	3,776	42,660
Interest paid	(1,488)	(1,061)	(13,289)
Income taxes paid, net	(18,402)	(12,888)	(164,306)
Net cash provided by operating activities	40,337	45,705	360,150
Cash flows from investment activities:			
Payments into time deposits	(20,830)	(30,237)	(185,985)
Proceeds from withdrawal of time deposits	11,759	58,436	104,995
Decrease (increase) in short-term loans receivable	3,408	(1,667)	30,432
Proceeds from sales of marketable securities	—	115	—
Payments for purchases of fixed assets	(48,946)	(19,526)	(437,020)
Proceeds from sales of fixed assets	4,480	3,291	40,001
Payments for purchases of intangible assets	(2,556)	(1,997)	(22,824)
Payments for purchases of investment securities	(3,994)	(9,632)	(35,661)
Proceeds from sales of investment securities	386	75	3,446
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(7,585)	(7,867)	(67,720)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	3,087	8	27,559
Payments for long-term loans receivable	(853)	(803)	(7,614)
Repayments of long-term loans receivable	106	20	949
Other	(813)	(188)	(7,258)
Net cash used in investment activities	(62,350)	(9,972)	(556,700)
Cash flows from financing activities:			
Increase (decrease) in short-term loans payable	12,774	5,893	114,058
Payments of lease obligations	(2,404)	(2,532)	(21,463)
Proceeds from long-term loans payable	16,490	13,076	147,235
Repayments of long-term loans payable	(5,886)	(8,326)	(52,557)
Proceeds from issuance of bonds	20,000	—	178,571
Redemption of bonds	(5,000)	—	(44,643)
Dividends paid	(4,782)	(4,251)	(42,701)
Dividends paid to non-controlling shareholders	(2,550)	(2,044)	(22,772)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(14,750)	—	(131,695)
Other	375	(2)	3,350
Net cash provided by (used in) financing activities	14,267	1,813	127,383
Effect of exchange rate changes on cash and cash equivalents	(811)	423	(7,243)
Net increase (decrease) in cash and cash equivalents	(8,558)	37,969	(76,410)
Cash and cash equivalents at the beginning of the year	141,265	103,296	1,261,291
Cash and cash equivalents at the end of the year (Note 12)	¥132,707	¥141,265	$1,184,881

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2017 and 2016

1. Nature of Operations

Sumitomo Forestry Co., Ltd. (the "Company") and its affiliated companies (together, the "Group") are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Group's operations encompass forest management as well as timber and building materials-related operations, including procurement, manufacture and sale of timber and building materials; housing-related operations, including construction, maintenance, renovation and landscaping of custom-built and other homes and sale and brokerage of real estate; operations in overseas countries, including manufacture and sale of timber and building materials and construction and sale of detached houses; and other businesses, including biomass power generation, an overseas forestation business, private-pay elderly care facilities, leasing, and insurance agent business.

2. Basis of Presenting Consolidated Financial Statements

The Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No. 18)."

In accordance with PITF No. 18, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries (together, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the Notes to Consolidated Financial Statements include information which is not required under Japanese GAAP but is presented herein as additional information.

As permitted, amounts of less than one million yen are rounded in this annual report.

As of March 31, 2017, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 103 and 29 (84 and 26 in 2016), respectively.

The Wisdom Group and the Edge Homes Group, whose shares were newly acquired, and the newly established Tasman Pine Forests Ltd. have been included in the scope of consolidation from the fiscal year ended March 31, 2017.

Kowa Lumber Co., Ltd., Cascadia Resort Communities LLC and Sumitomo Forestry (Shanghai) Ltd., which were consolidated subsidiaries in the previous fiscal year, have been liquidated, and all shares of Alpine MDF Industries Pty Ltd. have been sold, so they have been removed from the scope of consolidation.

Phu Hung Thai Development Joint Stock Company, Justin Timberbrook, LLC and DRSFA, LLC, whose shares were newly acquired, have been included as equity-method affiliates from the fiscal year ended March 31, 2017.

Additionally, the account closing date of the Company's domestic consolidated subsidiaries is mainly March 31, and the account closing date of the Company's consolidated foreign subsidiaries is mainly December 31.

3. Summary of Significant Accounting Policies

(a) Basis of consolidation and investments in affiliates

The consolidated financial statements include the accounts of the Company and those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

The material difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized within twenty years. Immaterial differences are expensed when incurred.

Investments in affiliates (15 to 50 percent-owned companies except subsidiaries) in which the ability to exercise significant influence exists are stated at cost plus equity in undistributed earnings (losses). Net consolidated income includes the Company's share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits.

(b) Translation of foreign currency transactions and accounts

Current and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

The Company translates the revenue and expense accounts of the foreign consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of net assets, are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets are translated at their historical rates.

(c) Statement of cash flows

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are near enough to maturity that they present only an insignificant risk of changes in value.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts is stated based on the default ratio sustained over a specific period in the past and the estimated uncollectible amount based on the analysis of certain individual accounts, including probable bad debts and claims in bankruptcy.

This amount is considered sufficient to cover possible losses on collection.

(e) Accrued employees' bonuses
Accrued employees' bonuses are provided based on estimated bonuses to be paid to employees, which are to be charged to income in the current year.

(f) Accrued directors' and corporate auditors' bonuses
Accrued directors' and corporate auditors' bonuses are provided for payments of bonuses to directors and corporate auditors based on an estimated amount.

(g) Warranty reserve for completed construction
A warranty reserve is provided for repair costs which may be required for completed construction. The reserve is estimated based on past experience and future estimates.

The balance of the reserves at March 31, 2017, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥3,849 million ($34,363 thousand).

(h) Accrued employees' retirement benefits
Accrued retirement benefits and prepaid pension costs for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Unrecognized actuarial gains (losses) and unrecognized prior service cost are charged to income, with minor exceptions, in the fiscal year in which they arise.

(i) Accrued retirement benefits to directors and corporate auditors
Accrued retirement benefits to directors and corporate auditors of certain subsidiaries are provided based on the amount required for at year-end in accordance with established internal policies.

The balance of these reserves at March 31, 2017, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥80 million ($712 thousand).

(j) Marketable securities and investments
Marketable securities and investments are classified and accounted for, depending on management's intent, as follows:
i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and ii) marketable available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets.

Non-marketable available-for-sale securities are carried at cost.

The Company determines cost of securities sold by the moving average method.

(k) Derivatives
Derivatives are carried at fair value with changes in unrealized gain or loss charged or credited to profit or loss, except for those which meet the criteria for hedge accounting.

(l) Inventories
Finished goods, logs and lumber are stated at moving average cost.

Real estate for sale, construction projects in progress and real estate for sale in process are stated at cost, which is determined by the specific identification method.

The amount on the balance sheet is calculated using a write-down method based on the decrease in profitability.

The Company recognized ¥867 million ($7,738 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2017.

(m) Property, plant and equipment
Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance, repairs, minor renewals and improvements are charged to income. In the Company and its domestic consolidated subsidiaries, depreciation is computed, with minor exceptions, by the declining balance method at rates based on the estimated useful lives of the assets according to general class, type of construction and use. In its foreign consolidated subsidiaries, depreciation is computed by the straight-line method, with minor exceptions. In the case of retirement or disposal, the difference between the net book value and salvage or sales proceeds is charged or credited to income.

"Timber" consists of mature timber and growing timber in natural forests, purchased forests and planted forests.

(n) Intangible assets
Amortization of intangible assets is computed by the straight-line method. Internal use software costs are amortized by the straight-line method over the estimated useful life of five years.

(o) Impairment of fixed assets
Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, the amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in the consolidated statements of income. The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets.

(p) Hedge accounting
i) Hedge accounting method
The deferred hedge accounting method is applied.

The allocation method is applied to foreign exchange hedging transactions. The exceptional method is used for interest rate swaps in case they satisfy the requirements for the exceptional method.
ii) Hedging method
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 transactions, including planned transactions and borrowings exposed to interest rate fluctuation risk, etc., in accordance with policies laid out in management regulations.
iv) Hedge effectiveness evaluation method
The Companies believe foreign exchange forward contracts and foreign currency swaps to be highly effective as hedging instruments and the exceptional method is used for interest rate swaps; therefore, effectiveness evaluation is not carried out.

(q) Amortization method and period of goodwill
Goodwill is amortized using the straight-line method over its estimated useful life, up to a maximum of 20 years. Insignificant amounts are charged to income when incurred.

(r) Revenue recognition

Sales are generally recognized at the time the goods are delivered to the customers.

Contract revenues, representing revenues from custom-built houses, are recorded by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. The Companies account for short-term construction contracts, etc. by the completed-contract-method.

(s) Income taxes

The Companies accrue income taxes based on taxable income. The Companies include many items for financial reporting purposes which, in the case of expenses, are not currently deductible and, in the case of income, are not currently taxable.

Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(t) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(u) Appropriations of retained earnings

Appropriations of retained earnings reflected in the accompanying consolidated financial statements are recorded upon approval by shareholders as required under Japanese law.

(v) Earnings per share of common stock

The computation of profit attributable to owners of parent per share and cash dividends per share is based on the average number of shares outstanding during each period.

(w) Finalization of provisional accounting treatment of business combinations

The revised purchase price allocation arising from the finalization of provisional accounting treatment is reflected on the consolidated financial statements for the period in which the business combination occurs.

Provisional accounting treatment had been applied to the business combination involving the DRB Group (DRB Enterprises, LLC and seven other companies) that was conducted on January 1, 2016 (U.S. date) in the previous fiscal year, but it has been finalized in the fiscal year ended March 31, 2017.

As a result, certain accounts in the consolidated financial statements and figures as of March 31, 2016 in notes 9, 12, 20 and 21 reflect the revision of the initially allocated amounts of the purchase price. See Note 25 for further details.

(x) Accounting change

The Company and its domestic consolidated subsidiaries adopted "Practical Solution on a change in depreciation method due to Tax Reform 2016" (ASBJ PITF No.32, June 17, 2016) as a result of revisions to the Corporate Tax Act of Japan. Accordingly, the depreciation method for both facilities attached to buildings and other non-building structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The impact on profit and loss due to the change for the year ended March 31, 2017 above was immaterial.

4. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥112 =US $1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2017. This translation should not be construed as a representation that the yen amounts actually represent, have been or could be converted into, U.S. dollars.

5. Securities

(a) The carrying amounts and estimated fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2017 and 2016 were as follows:

	Millions of yen			
	2017			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated fair value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥28,437	¥36,951	¥(177)	¥65,211
Debt securities	—	—	—	—
Other	6,500	—	—	6,500

	Millions of yen			
	2017			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,765	¥74	¥—	¥1,838

	Millions of yen			
	2016			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥27,192	¥23,436	¥(368)	¥50,260
Debt securities	—	—	—	—
Other	34,000	—	—	34,000

	Millions of yen			
	2016			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,761	¥99	¥—	¥1,860

	Thousands of U.S. dollars			
	2017			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated fair value)
Securities classified as:				
Available-for-sale:				
Equity securities	$253,905	$329,916	$(1,580)	$582,241
Debt securities	—	—	—	—
Other	58,036	—	—	58,036

	Thousands of U.S. dollars			
	2017			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	$15,756	$659	$—	$16,415

(b) Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in other gains (losses), net in the accompanying consolidated statements of income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Proceeds	¥190	¥75	$1,692
Gross gains	96	33	853
Gross losses	8	—	71

(c) Investments in affiliates included in "Investment securities" as of March 31, 2017 and 2016 were ¥19,898 million ($177,662 thousand) and ¥18,176 million, respectively.

6. Short-Term and Long-Term Debt

Short-term debt at March 31, 2017 and 2016 generally represented short-term loans payable which bore interest of 1.97% and 1.59% per annum, respectively. Long-term debt at March 31, 2017 and 2016 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loans, principally from banks and insurance companies, due 2017 to 2035 with interest of 2.33%:			
Secured:			
Loans from banks or other	¥ 35,666	¥30,623	$ 318,449
Unsecured:			
Bonds issued	20,000	5,000	178,571
Bonds with subscription rights to shares	20,000	20,000	178,571
Loans from banks or other	53,027	37,487	473,460
Lease obligation	4,891	4,368	43,672
	133,585	97,478	1,192,723
Portion due within one year:			
Bonds issued	—	5,000	—
Loans from banks or other	6,876	5,995	61,389
Lease obligation	1,628	1,691	14,533
	8,503	12,686	75,923
	¥125,082	¥84,792	$1,116,800

The aggregate annual maturities of bonds issued, long-term loans payable and lease obligation at March 31, 2017 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Bonds issued	Long-term loans payable	Lease obligation	Bonds issued	Long-term loans payable	Lease obligation
2017	¥ —	¥ 6,876	¥1,628	$ —	$ 61,389	$14,533
2018	20,000	29,553	1,393	178,571	263,862	12,441
2019	—	21,659	797	—	193,383	7,115
2020	—	7,188	305	—	64,179	2,720
2021	—	7,875	116	—	70,310	1,039
Thereafter	20,000	15,544	652	178,572	138,785	5,824
	¥40,000	¥88,694	¥4,891	$357,143	$791,908	$43,672

7. Pledged Assets and Secured Liabilities

(a) Pledged assets

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and time deposits	¥ 2,353	¥ 3,458	$ 21,007
Receivables—Notes and accounts, trade	2,252	1,375	20,104
Receivables—Other	259	476	2,309
Construction projects in progress	192	572	1,714
Real estate for sale	23,065	20,145	205,939
Real estate for sale in process	45,195	38,055	403,526
Land	3,927	3,080	35,060
Buildings and structures	4,056	4,163	36,216
Machinery, equipment and vehicles	860	984	7,677
Construction in progress	860	243	7,674
Investment securities	14,430	12,275	128,840
Other	2,637	1,674	23,547
	¥100,085	¥86,499	$893,613

(b) Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Short-term loans payable	¥ 2,417	¥ 4,447	$ 21,583
Long-term loans payable	34,906	30,473	311,663
Other	228	478	2,034
	¥37,551	¥35,398	$335,280

8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2017 and 2016 consisted of the following:

			Millions of yen	Thousands of U.S. dollars
Location	Major use	Asset category	2017	2017
Saijo City, Ehime Prefecture	Idle assets	Buildings and structures	¥ 1	$6
		Land	16	141
		Total	¥16	$147

The Group classifies assets based on the categories used for management accounting. Rental assets and idle assets are assessed individually from this classification.

For the idle assets, the book values of the assets were reduced to their recoverable amounts, and the amount of the reduction was recorded as an impairment loss. The recoverable amount was a reasonable estimate based on the sales agreement and published real estate values of nearby land.

			Millions of yen
Location	Major use	Asset category	2016
Osaka City, Osaka Prefecture	2 buildings for rental condominiums	Buildings and structures	¥ 405
		Land	718
		Total	1,123
Kokopo, East New Britain, Papua New Guinea	Afforestation business assets	Buildings and structures	662
		Machinery, equipment and vehicles	414
		Land	4
		Timber	2,002
		Other	427
		Total	3,509
Komatsushima City, Tokushima Prefecture	Idle assets	Land	32
		Total	32
Saijo City, Ehime Prefecture	Idle assets	Land	28
		Total	28
			¥4,692

9. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise corporation tax, enterprise tax, and prefectural and municipal inhabitants taxes. The effective statutory tax rates for the years ended March 31, 2017 and 2016 were 30.9% and 33.1%, respectively.

The table below shows the differences in the statutory tax rate and effective income tax rate.

	2017	2016
Statutory tax rate	—%	33.1%
Non-deductible expense for purposes	—	1.1
Non-taxable dividend income	—	(0.5)
Per capita portion of inhabitant tax	—	1.1
Amortization of goodwill	—	2.8
Valuation allowance	—	(2.9)
Equity in earnings of affiliates	—	(1.0)
Effect of changes in corporate tax rates	—	2.8
Other	—	5.2
Effective tax rate	—%	41.5%

The reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2017 is not disclosed because such difference is less than 5% of the statutory tax rate.

The significant components of deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Allowance for doubtful accounts	¥ 906	¥ 826	$ 8,086
Accrued employees' bonuses	3,230	3,194	28,842
Accrued legal welfare expense on employees' bonuses	475	446	4,237
Enterprise taxes	423	557	3,772
Devaluation of real estate for sale	488	423	4,360
Liability for retirement benefits	5,558	7,061	49,623
Devaluation of property	775	789	6,923
Devaluation of financial instruments	1,673	1,794	14,934
Tax loss carryforwards	2,666	2,638	23,802
Impairment loss	1,040	1,239	9,287
Warranty reserve for completed construction	800	530	7,142
Unrealized profit on fixed assets	464	401	4,141
Other	4,228	4,082	37,748
Gross deferred tax assets	22,724	23,980	202,897
Valuation allowance	(7,054)	(7,335)	(62,984)
Total deferred tax assets	15,670	16,645	139,913
Deferred tax liabilities:			
Deferred gains on sales of property	(757)	(757)	(6,757)
Gain on securities contributed to employee retirement benefit trusts	(1,217)	(1,217)	(10,870)
Unrealized gain on available-for-sale securities	(10,834)	(6,752)	(96,733)
Land revaluation differences	(844)	(964)	(7,537)
Taxes on undistributed earnings of subsidiaries	(169)	(54)	(1,507)
Other	(3,110)	(1,211)	(27,771)
Gross deferred tax liabilities	(16,932)	(10,955)	(151,175)
Net deferred tax assets (liabilities)	¥ (1,261)	¥ 5,690	$ (11,262)

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2017 and 2016 as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current assets—Deferred tax assets	¥ 7,001	¥ 7,377	$ 62,506
Investment and other assets—Deferred tax assets	3,276	3,336	29,249
Current liabilities—Other	(1)	(0)	(10)
Long-term liabilities—Deferred tax liabilities	(11,537)	(5,022)	(103,006)
Net deferred tax assets (liabilities)	¥ (1,261)	¥ 5,690	$ (11,261)

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Gain on foreign exchange	¥ —	¥ —	$ —
Loss on foreign exchange	(47)	(1,473)	(420)
Gain on sales of property, plant and equipment	193	559	1,726
Loss on sales of property, plant and equipment	(37)	(51)	(330)
Loss on disposal of property, plant and equipment	(164)	(182)	(1,466)
Other, net	501	534	4,475
	¥ 446	¥ (613)	$ 3,985

11. Selling, General and Administrative Expenses

The components of "Selling, General and Administrative Expenses" for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Salaries and allowances	¥51,274	¥46,459	$457,800
Provision for employees' bonuses	9,021	8,930	80,545
Provision for directors' and corporate auditors' bonuses	146	130	1,304
Retirement benefit expenses	(1,990)	14,218	(17,765)
Provision for directors' and corporate auditors' retirement benefits	13	14	117
Allowance for doubtful accounts	69	(263)	615
Provision for warranty reserve for completed construction	2,178	1,452	19,450

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2017 and 2016 were ¥1,866 million ($16,664 thousand) and ¥1,503 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and time deposits	¥111,506	¥ 83,499	$ 995,585
Short-term investments	6,500	34,000	58,036
Cash equivalents included in short-term loans receivable	30,000	29,999	267,856
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(15,299)	(6,233)	(136,596)
Cash and cash equivalents	¥132,707	¥141,265	$1,184,881

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net expenditure for acquisition of shares for the year ended March 31, 2017 were mainly as follows:

Edge Utah HoldCo, LLC and seventeen other companies

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Current assets	¥13,484	$120,395
Non-current assets	1,661	14,832
Goodwill	5,018	44,802
Current liabilities	(7,193)	(64,222)
Long-term liabilities	(4,746)	(42,376)
Non-controlling interests	(962)	(8,589)
Acquisition cost	7,262	64,842
Cash and cash equivalents	(832)	(7,432)
Net expenditure for acquisition of shares	¥ 6,430	$ 57,410

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net expenditure for acquisition of shares for the year ended March 31, 2016 were mainly as follows:

DRB Enterprises, LLC and seven other companies

	Millions of yen
	2016
Current assets	¥17,421
Non-current assets	3,145
Goodwill	2,898
Current liabilities	(2,071)
Long-term liabilities	(8,677)
Non-controlling interests	(3,927)
Acquisition cost	8,789
Cash and cash equivalents	(922)
Net expenditure for acquisition of shares	¥ 7,867

13. Shareholders' Equity

The Japanese Corporate Law ("the Law") enforced on May 1, 2006 provides that an amount equivalent to 10% of cash dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends. Legal reserve and additional paid-in capital may be reversed without limitation and no further appropriation is required when the sum of legal reserve and additional paid-in capital equals 25% of the common stock.

The Law also provides that the common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of shareholders.

The balances of the legal reserve of the Company at March 31, 2017 and 2016, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million ($25,510 thousand) and ¥2,857 million, respectively.

Year-end dividends are approved by shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Law.

14. Finance Leases

(Lessee)

Depreciation costs of finance lease transactions that do not transfer ownership are calculated based on the straight-line method over the lease periods of the leased assets, with no residual value of the assets at the end of the lease periods.

Disclosure of information concerning lease transaction as lessor has been omitted, due to insignificance of disclosure of such information in the consolidated financial statements.

15. Contingent Liabilities

Contingent liabilities as at March 31, 2017 and 2016, for loans guaranteed amounted to ¥34,493 million ($307,971 thousand) and ¥28,418 million.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Guarantee on loans from financial institutions:			
Guarantees of housing loans to customers	¥33,820	¥27,479	$301,968
Kawasaki Biomass Electric Power Co., Ltd.	656	939	5,857
MOS Lumber Products Co., Ltd.	16	—	146
Total	¥34,493	¥28,418	$307,971

16. Financial Instruments

(a) Policy for financial instruments

The Companies invest temporary cash surplus in financial assets with high degrees of safety and mainly use bank loans and bonds in order to raise funds. Furthermore, the Companies use derivative transactions to mitigate the risk of currency exchange rates related to normal foreign currency-denominated transactions and the risk of interest rate fluctuation related to interest payment for loans, and do not conduct for speculative purposes.

(b) Details of financial instruments and related risk

Trade receivables are exposed to customer's credit risk. Short-term loans receivable are mainly used for repurchase agreement that has a contract with a financial institution with a rating of more than a certain level, and therefore credit risk is insignificant. Short-term investment securities are negotiable deposit certificates subject to settlement in the short term. Investment securities are mainly bonds for held-to-maturity and equities of customers and suppliers of the Companies and those are exposed to market price fluctuation risk. Almost all of trade payables have payment due dates within one year. Loans payable and bonds are mainly used for operating capital expenses and capital investment. Although loans with floating rate interest are exposed to market risk of interest rate fluctuation, the Companies use derivative transactions (interest rate swaps) for hedging a part of such loans. Derivative transactions include forward foreign currency exchange contracts and currency swaps to mitigate market risk of fluctuation in foreign currency exchange rates related to foreign currency-denominated transactions and interest rate swaps to mitigate market risk of interest rate fluctuation related to interest payments for loans.

(c) Risk management for financial instruments

(Credit risk management)

The Companies review due date and receivable balance of each customer in accordance with the Credit Management Guideline. In addition, the Companies monitor credit standing of principal customers at least once a year.

(Risk management of foreign currency exchange rate fluctuation and interest rate fluctuation)

With respect to investment securities, the Companies regularly monitor prices and the issuer's financial status. Except for held-to-maturity bonds, the Companies constantly review investment strategy by taking the market situation and relationship with issuers into consideration. Derivative transactions are executed and managed in accordance with internal rules and policies by the responsible section of each Group Company, and the status of derivative positions is reported regularly to the Board of Directors.

The Companies believe that market risk relating to derivative instruments is very low since the contracts entered into are spread among highly creditworthy financial institutions both in Japan and abroad.

(Risk management of liquidity risk that the Companies cannot meet its contractual obligation in full on maturity dates)

The Finance Department of Company manages liquidity risk by establishing and revising cash flow plan based on reports from each section.

(d) Supplementary explanation of items relating to the fair values of financial instruments

The fair values of financial instruments include market prices or reasonably estimated values if there are no market prices. Because estimation of fair values incorporates variable factors, adopting different assumptions can change the values.

(e) Fair value of financial instruments

Fair values of financial instruments were as follows. Items for which fair values are extremely difficult to establish are not included in the following table.

	Millions of yen		
	2017		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and time deposits	¥111,506	¥111,506	¥ —
Receivables—Notes and accounts, trade	119,274	119,274	—
Marketable securities and investment securities:			
Held-to-maturity	1,765	1,838	74
Available-for-sale	71,711	71,711	—
Receivables—Other	45,902	45,902	—
Total	¥350,157	¥350,231	¥74
Payables—Notes and accounts, trade	¥182,491	¥182,491	¥ —
Long-term loans payable*	88,694	88,135	558
Total	¥271,185	¥270,627	¥558
Derivatives**:			
Hedge accounting not applied	¥ 127	¥ 127	¥ —
Hedge accounting applied	(116)	(116)	—
Total	¥ 11	¥ 11	¥ —

	Millions of yen		
	2016		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and time deposits	¥ 83,499	¥ 83,499	¥ —
Receivables—Notes and accounts, trade	121,415	121,415	—
Marketable securities and investment securities:			
Held-to-maturity	1,761	1,860	99
Available-for-sale	84,260	84,260	—
Receivables—Other	46,963	46,963	—
Total	¥337,897	¥337,996	¥ 99
Payables—Notes and accounts, trade	¥176,444	¥176,444	¥ —
Long-term loans payable*	68,110	68,358	(247)
Total	¥244,554	¥244,801	¥(247)
Derivatives**:			
Hedge accounting not applied	¥ 1,569	¥ 1,569	¥ —
Hedge accounting applied	(84)	(84)	—
Total	¥ 1,485	¥ 1,485	¥ —

	Thousands of U.S. dollars		
	2017		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and time deposits	$ 995,585	$ 995,585	$ —
Receivables—Notes and accounts, trade	1,064,951	1,064,951	—
Marketable securities and investment securities:			
Held-to-maturity	15,756	16,415	659
Available-for-sale	640,276	640,276	—
Receivables—Other	409,836	409,836	—
Total	$3,126,404	$3,127,063	$ 659
Payables—Notes and accounts, trade	$1,629,387	$1,629,387	$ —
Long-term loans payable*	791,908	786,924	4,984
Total	$2,421,295	$2,416,311	$4,984
Derivatives**:			
Hedge accounting not applied	$ 1,135	$ 1,135	$ —
Hedge accounting applied	(1,035)	(1,035)	—
Total	$ 100	$ 100	$ —

* Long-term loans payable include the current portion.
** Assets and liabilities from derivatives transactions are shown in the net amount. If the total is negative, the amount is shown in brackets.

Notes:

1. Method of estimating the fair values of financial instruments and items relating to securities and derivative transactions

(1) Assets

(Cash and time deposits, Receivables—Notes and accounts, trade, Receivables—Other)

Because these are settled in the short term, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(Marketable securities and Investment securities)

The fair values of equity securities are based on market prices. The fair values of debt securities are based on market prices or quoted prices obtained from financial institutions. For negotiable deposit certificates, the book value is almost the same as the market value because of their short maturities.

(2) Liabilities

(Payables—Notes and accounts, trade)

Because these are settled in the short term, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(Long-term loans payable)

The fair values of long-term loans payable with floating interest rates approximate book values because the interest rate of long-term loans payable reflects market interest rate quickly and the Company's credit standing has not changed significantly since implementing the loans. Therefore, relevant book values are used. The fair values of long-term loans payable with fixed interest rates are principally estimated by discounting based on estimated interest rates if similar new loans were implemented.

(3) Derivative transactions

See Note 17.

2. Financial instruments whose fair values are extremely difficult to determine

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted equity securities	¥ 4,932	¥ 4,678	$ 44,038
Investment in affiliates	19,898	18,176	177,662

3. The redemption schedule for monetary claims and held-to-maturity debt securities after the consolidated balance sheet date

	Millions of yen			
	2017			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	¥110,431	¥ —	¥ —	¥—
Receivables—Notes and accounts, trade	119,274	—	—	—
Marketable securities and Investment securities:				
Government bonds	—	1,168	597	—
Other	6,500	—	—	—
Receivables—Other	45,902	—	—	—
Total	¥282,107	¥1,168	¥597	¥—

	Millions of yen			
	2016			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	¥ 83,208	¥ —	¥ —	¥—
Receivables—Notes and accounts, trade	121,415	—	—	—
Marketable securities and Investment securities:				
Government bonds	—	960	801	—
Other	34,000	—	—	—
Receivables—Other	46,963	—	—	—
Total	¥285,585	¥960	¥801	¥—

	Thousands of U.S. dollars			
	2017			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	$ 985,987	$ —	$ —	$—
Receivables—Notes and accounts, trade	1,064,951	—	—	—
Marketable securities and Investment securities:				
Government bonds	—	10,426	5,330	—
Other	58,036	—	—	—
Receivables—Other	409,836	—	—	—
Total	$2,518,810	$10,426	$5,330	$—

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2017 and 2016 were as follows:

	Millions of yen			
	2017			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥ 1,703	¥137	¥ 95	¥ 95
Sell (U.S. dollar)	5,588	—	26	26
Sell (Euro)	5	—	(0)	(0)
Sell (Australian dollar)	2,116	—	32	32
Buy (U.S. dollar)	29	—	1	1
Currency swap contracts:				
Pay U.S. dollar / receive Yen	1,020	127	(36)	(36)
Total	¥10,460	¥264	¥117	¥117
Interest rate swap contracts:				
Pay fixed / receive variable	¥ 1,677	¥699	¥ 10	¥ 10
Total	¥ 1,677	¥699	¥ 10	¥ 10

	Millions of yen			
	2016			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥ 3,740	¥ 863	¥ 11	¥ 11
Sell (U.S. dollar)	18,225	—	1,506	1,506
Sell (Australian dollar)	7,057	—	108	108
Buy (U.S. dollar)	3	—	0	0
Currency swap contracts:				
Pay U.S. dollar / receive Yen	1,020	510	(66)	(66)
Total	¥30,045	¥1,373	¥1,560	¥1,560
Interest rate swap contracts:				
Pay fixed / receive variable	¥ 1,737	¥ 977	¥ 9	¥ 9
Total	¥ 1,737	¥ 977	¥ 9	¥ 9

	Thousands of U.S. dollars			
	2017			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	$15,207	$1,223	$ 848	$ 848
Sell (U.S. dollar)	49,894	—	228	228
Sell (Euro)	42	—	(1)	(1)
Sell (Australian dollar)	18,891	—	286	286
Buy (U.S. dollar)	256	—	6	6
Currency swap contracts:				
Pay U.S. dollar / receive Yen	9,104	1,138	(325)	(325)
Total	$93,394	$2,361	$1,042	$1,042
Interest rate swap contracts:				
Pay fixed / receive variable	$14,977	$6,241	$ 92	$ 92
Total	$14,977	$6,241	$ 92	$ 92

Note: The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

Derivative transactions to which hedge accounting is applied at March 31, 2017 and 2016 were as follows:

	Millions of yen			
	2017			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)	Accounts payable, trade	¥ 3,260	¥ —	¥ 16
Sell (Euro)		2,133	—	12
Buy (U.S. dollar)	Accounts payable, trade	8,509	—	(80)
Buy (Euro)		5,368	—	(64)
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable, trade	9	—	*
Buy (U.S. dollar)	Accounts payable, trade	320	—	*
Buy (Euro)		18	—	*
Total		¥19,616	¥ —	¥(116)
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	¥ 4,615	¥1,558	*
Total		¥ 4,615	¥1,558	¥ —
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term loans payable	¥ 2,859	¥2,859	*
Total		¥ 2,859	¥2,859	¥ —

	Millions of yen			
	2016			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)	Accounts payable, trade	¥ 2,673	¥ —	¥ (3)
Sell (Euro)		2,233	—	(40)
Buy (U.S. dollar)	Accounts payable, trade	8,016	—	(213)
Buy (Euro)		5,846	—	(41)
Buy (NZ dollar)	Investments denominated in foreign currencies	21,623	—	212
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable, trade	49	—	*
Buy (U.S. dollar)	Accounts payable, trade	809	—	*
Buy (Euro)		135	—	*
Total		¥41,384	¥ —	¥ (84)
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	¥ 4,627	¥2,713	*
Total		¥ 4,627	¥2,713	¥ —

	Thousands of U.S. dollars			
	2017			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)	Accounts payable, trade	$ 29,105	$ —	$ 145
Sell (Euro)		19,044	—	109
Buy (U.S. dollar)	Accounts payable, trade	75,970	—	(718)
Buy (Euro)		47,929	—	(571)
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable, trade	82	—	*
Buy (U.S. dollar)	Accounts payable, trade	2,854	—	*
Buy (Euro)		163	—	*
Total		$175,147	$ —	$(1,035)
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	$ 41,203	$13,910	*
Total		$ 41,203	$13,910	$ —
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term loans payable	$ 25,529	$25,529	*
Total		$ 25,529	$25,529	$ —

* Derivative transactions that meet certain hedging criteria, regarding forward foreign currency exchange contracts, or interest rate swap contracts, are treated in combination with the hedged items; trade accounts receivable, trade accounts payable or long-term loans payable, the fair values of these derivatives are included in those of the hedged items.

Note: The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

18. Employees' Retirement Benefits and Pension Plans

The Company and most of its consolidated subsidiaries have either funded or unfunded defined benefit plans and/or defined contribution plans. Certain domestic consolidated subsidiaries have a Smaller Enterprise Retirement Allowance Mutual Aid Plan.

The Company and its consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans, annuity payment plans, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities.

In certain cases, special retirement benefits may be paid to employees.

The changes in the retirement benefit obligation for the years ended March 31, 2017 and 2016 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the year	¥75,916	¥63,879	$677,819
Service cost	3,598	2,963	32,125
Interest cost	416	811	3,714
Actuarial gain and loss	(5,036)	10,436	(44,966)
Retirement benefits paid	(1,915)	(1,830)	(17,101)
Prior service cost	(1)	—	(8)
Decrease due to transition to defined contribution pension plan	(222)	—	(1,983)
Decrease due to change from the principle method to the simplified method	(307)	—	(2,737)
Increase due to change from the simplified method to the principle method	—	379	—
Payments due to mass retirement	—	(571)	—
Decrease due to employment transfer	—	(112)	—
Other	29	(39)	260
Balance at the end of the year	¥72,478	¥75,916	$647,123

The changes in plan assets for the years ended March 31, 2017 and 2016 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the year	¥53,024	¥51,918	$473,430
Expected return on plan assets	1,485	1,758	13,256
Actuarial gain and loss	(115)	(1,095)	(1,023)
Contributions	2,156	2,168	19,252
Retirement benefits paid	(1,665)	(1,452)	(14,867)
Payments due to mass retirement	—	(273)	—
Balance at the end of the year	¥54,885	¥53,024	$490,048

The changes in the liability for retirement benefits, which were calculated by the simplified method for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the year	¥ 752	¥ 802	$ 6,715
Retirement benefit expense	189	287	1,692
Retirement benefits paid	(137)	(57)	(1,225)
Contributions	(73)	(68)	(654)
Increase due to change from the principle method to the simplified method	269	—	2,400
Decrease due to change from the simplified method to the principle method	—	(310)	—
Increase due to employment transfer	—	112	—
Other	(2)	(13)	(16)
Balance at the end of the year	¥ 998	¥ 752	$ 8,912

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2017 and 2016 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligation	¥ 69,186	¥ 72,459	$ 617,730
Plan assets at fair value	(55,495)	(53,565)	(495,492)
	13,691	18,894	122,238
Unfunded retirement benefit obligation	4,900	4,749	43,749
Net liability for retirement benefits in the balance sheet	¥ 18,591	¥ 23,644	$ 165,987
Liability for retirement benefits	¥ 18,732	¥ 23,718	$ 167,251
Asset for retirement benefits	(142)	(74)	(1,264)
Net liability for retirement benefits in the balance sheet	¥ 18,591	¥ 23,644	$ 165,987

The components of retirement benefit expense for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 3,598	¥ 2,963	$ 32,125
Interest cost	416	811	3,714
Expected return on plan assets	(1,485)	(1,758)	(13,256)
Amortization of actuarial gain and loss	(4,922)	11,774	(43,943)
Amortization of prior service cost	(1)	—	(8)
Retirement benefit expense under the simplified method	189	287	1,692
Amortization due to change from the simplified method to the principle method	—	69	—
Other	0	(2)	3
Retirement benefit expense	¥(2,203)	¥14,144	$(19,673)
Gain on transition to defined contribution pension plan	¥ (38)	¥ —	$ (337)

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial gain and loss	¥—	¥(226)	$—
Prior service cost	—	(4)	—
Total	¥—	¥(231)	$—

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 were as follows:

	2017	2016
Bonds	52%	56%
Stocks	23%	20%
General account	14%	14%
Other	11%	10%
Total	100%	100%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	2017	2016
Discount rates	0.000%–1.044%	0.000%–0.678%
Expected rates of return plan assets	2.8%	3.4%
Expected rate of salary increase (point based plan)	5.5%	5.5%

Contributions to defined contribution retirement benefit plans of the Company and its consolidated subsidiaries were ¥1,010 million ($9,022 thousand) and ¥863 million for the years ended March 31, 2017 and 2016, respectively.

19. Investment Property

The Company and some of its consolidated subsidiaries hold some rental properties such as rental condominiums in Tokyo and other areas. The net income for the investment properties for the years ended March 31, 2017 and 2016 were ¥513 million ($4,583 thousand) and ¥456 million, respectively. The income is recognized in net sales and the expense is principally charged to cost of sales. The amounts recognized in the consolidated balance sheets and fair values related to investment properties were as follows:

Millions of yen				Thousands of U.S. dollars	
		Carrying amount	Fair value	Carrying amount	Fair value
2016	Increase/ (Decrease)	2017	2017	2017	2017
¥12,498	¥ (683)	¥11,816	¥11,715	$105,496	$104,596

The main components of net change in carrying amount above included an increase of ¥21 million ($191 thousand) due to acquisitions of real estate, a decrease of ¥534 million ($4,767 thousand) due to sales of real estate and a decrease of ¥16 million ($147 thousand) due to impairment loss for the year ended March 31, 2017.

Additionally, fair value is evaluated mainly by third-party appraisers.

20. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance. The Group's operations are based on the comprehensive strategies for products and services planned by each division. Accordingly, the Company is classified into three segments (Timber and Building Materials, Housing, and Overseas) based on division and identified by products, services and geographical areas:

Timber and Building Materials: purchase, manufacture, processing and sale etc. of timber and building materials

Housing: construction, maintenance and renovation of detached houses and apartment buildings, the sale of interior goods, the sale of spec homes, the leasing, management, purchase and sale and brokerage of real estate, house exterior fixtures, landscaping works contracting, urban greening works, CAD, site surveys, etc.

Overseas: manufacture and sale of timber and building materials, construction and sale of detached houses, etc. in overseas markets

Other: biomass power generation business, overseas forestation business, private-pay elderly care facilities business, leasing business, insurance agency business and farming and gardening material manufacturing and sales business, etc.

	Millions of yen							
As of/Year Ended March 31, 2017	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥402,605	¥464,720	¥232,017	¥1,099,342	¥12,728	¥1,112,070	¥ 1,294	¥1,113,364
Inter-segment transfers	21,835	1,578	15,873	39,286	10,251	49,537	(49,537)	—
Total	424,440	466,298	247,890	1,138,628	22,979	1,161,607	(48,243)	1,113,364
Segment income (loss)	4,456	32,349	19,310	56,116	2,223	58,338	(497)	57,841
Segment assets	144,382	144,108	227,666	516,156	79,977	596,133	197,483	793,617
Other items:								
Depreciation and amortization	906	5,136	4,370	10,412	1,630	12,042	845	12,887
Amortization of goodwill	—	—	2,274	2,274	—	2,274	—	2,274
Interest income	26	45	268	339	139	479	54	533
Interest expense	378	543	1,817	2,738	190	2,928	(1,368)	1,560
Equity in earnings (losses) of affiliates	(1,142)	(1)	3,657	2,514	539	3,053	0	3,053
Investments in affiliates	579	3	15,862	16,444	625	17,069	(9)	17,060
Increase in tangible and intangible fixed assets	947	4,482	7,261	12,690	39,455	52,145	1,983	54,128

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,294 million ($11,552 thousand) of administration department profit.

2. Adjustments for segment income and loss include ¥ 453 million ($4,046 thousand) of elimination of inter-segment income and loss, ¥4,981 million ($44,475 thousand) of retirement benefits liability adjustments (gain), and ¥5,025 million ($44,866 thousand) of corporate general administration expense, which are not allocable to the reportable segments.

3. Adjustments for segment assets include ¥11,290 million ($100,800 thousand) of inter-segment eliminations, ¥208,773 million ($1,864,045 thousand) of corporate asset, which are not allocable to the reportable assets.

As of/Year Ended March 31, 2016	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
	Millions of yen							
Sales and contract revenues:								
Unaffiliated customers	¥405,165	¥454,096	¥172,716	¥1,031,977	¥ 7,313	¥1,039,290	¥ 1,235	¥1,040,524
Inter-segment transfers	21,800	508	15,210	37,518	9,561	47,079	(47,079)	—
Total	426,965	454,604	187,926	1,069,494	16,874	1,086,369	(45,844)	1,040,524
Segment income (loss)	3,352	31,512	13,091	47,955	(1,022)	46,933	(16,427)	30,507
Segment assets	151,057	143,372	179,707	474,136	36,548	510,684	199,634	710,318
Other items:								
Depreciation and amortization	695	5,039	3,919	9,653	1,372	11,024	729	11,753
Amortization of goodwill	—	6	2,185	2,190	—	2,190	—	2,190
Interest income	21	48	153	223	114	337	137	474
Interest expense	450	586	1,336	2,372	185	2,557	(1,320)	1,236
Equity in earnings (losses) of affiliates	(752)	(1)	2,762	2,009	(1,249)	761	0	761
Investments in affiliates	1,843	4	12,949	14,797	643	15,440	(9)	15,431
Increase in tangible and intangible fixed assets	1,158	6,251	4,969	12,379	7,348	19,727	721	20,448

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,235 million of administration department profit.
2. Adjustments for segment income and loss include ¥354 million of elimination of inter-segment income and loss, ¥11,774 million of retirement benefits liability adjustments (loss), and ¥4,299 million of corporate general administration expense, which are not allocable to the reportable segments.
3. Adjustments for segment assets include ¥12,995 million of inter-segment eliminations, ¥212,629 million of corporate asset, which are not allocable to the reportable assets.

As of/Year Ended March 31, 2017	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
	Thousands of U.S. dollars							
Sales and contract revenues:								
Unaffiliated customers	$3,594,687	$4,149,284	$2,071,579	$9,815,550	$113,645	$ 9,929,195	$ 11,552	$9,940,747
Inter-segment transfers	194,958	14,093	141,721	350,772	91,523	442,295	(442,295)	—
Total	3,789,645	4,163,377	2,213,300	10,166,322	205,168	10,371,490	(430,743)	9,940,747
Segment income (loss)	39,790	288,835	172,410	501,035	19,844	520,879	(4,438)	516,441
Segment assets	1,289,128	1,286,678	2,032,729	4,608,535	714,083	5,322,618	1,763,245	7,085,863
Other items:								
Depreciation and amortization	8,090	45,853	39,019	92,962	14,555	107,517	7,545	115,062
Amortization of goodwill	—	—	20,301	20,301	—	20,301	—	20,301
Interest income	229	405	2,397	3,031	1,243	4,274	486	4,760
Interest expense	3,371	4,849	16,225	24,445	1,695	26,140	(12,212)	13,928
Equity in earnings (losses) of affiliates	(10,196)	(11)	32,653	22,446	4,809	27,255	3	27,258
Investments in affiliates	5,171	25	141,626	146,822	5,579	152,401	(82)	152,319
Increase in tangible and intangible fixed assets	8,457	40,021	64,826	113,304	352,277	465,581	17,708	483,289

(Related information)

(1) Products and services information

Year Ended March 31, 2017	Timber and Building Materials	Housing	Other	Total
	Millions of yen			
Sales and contract revenues to unaffiliated customers	¥438,995	¥663,630	¥10,739	¥1,113,364

Year Ended March 31, 2016	Timber and Building Materials	Housing	Other	Total
	Millions of yen			
Sales and contract revenues to unaffiliated customers	¥444,946	¥590,105	¥5,473	¥1,040,524

Year Ended March 31, 2017	Timber and Building Materials	Housing	Other	Total
	Thousands of U.S. dollars			
Sales and contract revenues to unaffiliated customers	$3,919,600	$5,925,263	$95,884	$9,940,747

(2) Geographic area information

Sales information by geographic area was as follows:

	Millions of yen			
Year Ended March 31, 2017	Japan	North America	Other Area	Total
	¥871,458	**¥130,750**	**¥111,157**	**¥1,113,364**

	Millions of yen		
Year Ended March 31, 2016	Japan	Other Area	Total
	¥856,716	¥183,809	¥1,040,524

	Thousands of U.S. dollars			
Year Ended March 31, 2017	Japan	North America	Other Area	Total
	$7,780,871	**$1,167,407**	**$992,469**	**$9,940,747**

Information of property, plant and equipment by geographical areas was as follows:

	Millions of yen			
As of March 31, 2017	Japan	Oceania	Other Area	Total
	¥78,195	**¥48,846**	**¥18,757**	**¥145,798**

	Millions of yen				
As of March 31, 2016	Japan	Oceania	Asia	Other Area	Total
	¥69,451	¥21,215	¥13,494	¥4,540	¥108,700

	Thousands of U.S. dollars			
As of March 31, 2017	Japan	Oceania	Other Area	Total
	$698,171	**$436,125**	**$167,471**	**$1,301,767**

(3) Customer information

Customer information has been omitted since sales and contract revenues from no single customer exceeded 10% of consolidated net sales.

(Information of loss on impairment of fixed assets)

	Millions of yen					
Year Ended March 31, 2017	Timber and Building Materials	Housing	Overseas	Other	Elimination and/ or Corporate	Total
Loss on impairment of fixed assets	**¥30**	**¥—**	**¥—**	**¥—**	**¥—**	**¥30**

	Millions of yen					
Year Ended March 31, 2016	Timber and Building Materials	Housing	Overseas	Other	Elimination and/ or Corporate	Total
Loss on impairment of fixed assets	¥60	¥1,123	¥—	¥3,509	¥—	¥4,692

	Thousands of U.S. dollars					
Year Ended March 31, 2017	Timber and Building Materials	Housing	Overseas	Other	Elimination and/ or Corporate	Total
Loss on impairment of fixed assets	**$268**	**$—**	**$—**	**$—**	**$—**	**$268**

(Amortization and balance of goodwill)

	Millions of yen					
As of/Year Ended March 31, 2017	Timber and Building Materials	Housing	Overseas	Other	Elimination and/ or Corporate	Total
Amortization of goodwill	**¥—**	**¥—**	**¥ 2,274**	**¥—**	**¥—**	**¥2,274**
Balance of goodwill	**—**	**—**	**12,189**	**—**	**—**	**12,189**

	Millions of yen					
As of/Year Ended March 31, 2016	Timber and Building Materials	Housing	Overseas	Other	Elimination and/ or Corporate	Total
Amortization of goodwill	¥—	¥ 6	¥2,185	¥—	¥—	¥2,190
Balance of goodwill	—	—	6,563	—	—	6,563

	Thousands of U.S. dollars					
As of/Year Ended March 31, 2017	Timber and Building Materials	Housing	Overseas	Other	Elimination and/ or Corporate	Total
Amortization of goodwill	**$—**	**$—**	**$ 20,301**	**$—**	**$—**	**$20,301**
Balance of goodwill	**—**	**—**	**108,833**	**—**	**—**	**108,833**

21. Amounts per Share

(a) Basic and diluted profit attributable to owners of parent per share
Details on the computation of net income per share and net income per share fully diluted as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Profit attributable to owners of parent per share—Basic:			
Profit attributable to owners of parent	¥ 34,532	¥ 9,727	$308,319
Income not available to common stockholders	—	—	—
Profit attributable to owners of parent available to common stockholders	34,532	9,727	308,319
Weighted average number of shares issued	177,129,048	177,130,772	—
Profit attributable to owners of parent per share fully diluted—Diluted:			
Adjusted profit attributable to owners of parent	—	—	—
Common shares increase	10,784,027	10,729,522	—
(Convertible bonds with stock acquisition rights)	(10,719,837)	(10,706,638)	(—)
(Subscription rights to shares)	(64,190)	(22,884)	(—)

(b) Net assets per share
Details on the computation of net assets per share as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net assets per share:			
Total net assets	¥ 295,344	¥ 265,257	$2,637,001
Amounts deducted from total net assets:	20,433	21,797	182,440
(Subscription rights to shares)	(82)	(36)	(730)
(Non-controlling interests)	(20,352)	(21,761)	(181,710)
Net assets attributable to shares of common stock	274,911	243,460	2,454,561
The number of shares of common stock used for the calculation of net assets per share	177,128,269	177,129,877	—

22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Amount incurred during the year	¥13,804	¥(8,808)	$123,253
Reclassification adjustments for gains and losses included in net income	(87)	129	(779)
Amount before tax effect	13,717	(8,679)	122,474
Tax effect	(4,083)	2,607	(36,455)
Unrealized gain (loss) on available-for-sale securities	9,634	(6,072)	86,019
Deferred gain (loss) on hedges:			
Amount incurred during the year	(34)	111	(306)
Reclassification adjustments for gains and losses included in net income	3	10	23
Amount before tax effect	(32)	121	(283)
Tax effect	10	(56)	86
Deferred gain (loss) on hedges	(22)	65	(197)
Translation adjustments:			
Amount incurred during the year	748	(2,264)	6,679
Reclassification adjustments for gains and losses included in net income	(398)	(36)	(3,551)
Amount before tax effect	350	(2,300)	3,128
Tax effect	—	—	—
Translation adjustments	350	(2,300)	3,128
Retirement benefits liability adjustments:			
Amount incurred during the year	—	—	—
Reclassification adjustments for gains and losses included in net income	—	231	—
Amount before tax effect	—	231	—
Tax effect	—	(58)	—
Retirement benefits liability adjustments	—	173	—
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	(162)	(414)	(1,450)
Reclassification adjustments for gains and losses included in net income	(34)	3	(300)
Share of other comprehensive income of affiliates accounted for by the equity method	(196)	(411)	(1,750)
Total other comprehensive income	¥ 9,766	¥(8,545)	$ 87,200

23. Asset Retirement Obligations

In accordance with exhibition contracts at housing exhibition sites and tenancy contracts for offices, the Company and certain subsidiaries are obligated to remove leasehold improvements attached to these housing exhibitions and offices and return the property to its original state after vacating the premises.

The asset retirement obligations are determined and discounted to their present value using the discount rates ranging from 0.00% to 2.15% and the anticipated future useful lives ranging from 5 years to 49 years.

The changes in the asset retirement obligations for the years ended March 31, 2017 and 2016 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of the year	**¥1,406**	¥1,443	**$12,550**
Liability incurred for assets acquired	**116**	69	**1,040**
Accretion expense	**10**	11	**91**
Liabilities settled	**(44)**	(116)	**(395)**
Balance at end of the year	**¥1,488**	¥1,406	**$13,286**

24. Related Party Transactions

Principal transactions between the Company, the Company's consolidated subsidiaries and their related parties for the years ended March 31, 2016 were summarized as follows:

2016

Name	Title	Transactions	Amounts (Millions of yen)
Akira Ichikawa	Director of the Company	Sales of housing	¥51

Notes: 1. Prices for sales of housing was determined based on the same terms as third party transactions.
2. The transaction amounts do not include consumption tax while balance at the end of the year includes consumption tax.

There are no items to be disclosed for the year ended March 31, 2017.

25. Business Combination

Acquisition of shares of subsidiaries
(Finalization of provisional accounting treatment of business combination involving DRB Group)

Provisional accounting treatment had been applied to the business combination involving the DRB Group (DRB Enterprises, LLC and seven other companies) that was conducted on January 1, 2016 (U.S. date) in the previous fiscal year, but it has been finalized in the fiscal year ended March 31, 2017. In conjunction with the finalization of this provisional accounting treatment, an important adjustment has been made to the initial purchase price allocation. As a result, the provisionally calculated goodwill in the amount of ¥4,593 million yen ($41,008 thousand) decreased by ¥1,695 million ($15,132 thousand) to ¥2,898 million ($25,875 thousand) with the finalization of the accounting treatment, and it will be amortized by the straight-line method over four years. The decrease in goodwill is due to a ¥2,062 million ($18,415 thousand) increase in other intangible assets, a ¥762 million ($6,806 thousand) increase in deferred tax assets and a ¥1,130 million ($10,088 thousand) increase in non-controlling interests.

(Acquisition of shares of Edge Homes Group)

The Company acquired shares of Edge Utah HoldCo, LLC and seventeen companies through Sumitomo Forestry America, Inc., its U.S. subsidiary, making them its subsidiaries.

1. Summary of the business combination

(1) Name of the acquiree and business description
Name of the acquiree: Edge Utah HoldCo, LLC and seventeen companies
Description of business: Building and sales of homes

(2) Main reason for implementing the business combination
The Company acquired Edge Utah HoldCo, LLC and seventeen companies to advance into a new area of the U.S. and to ensure its achievement of the annual sales target of 5,000 units in the U.S.

(3) Date of the business combination
February 9, 2017 (U.S. date)

(4) Legal form of the business combination
Acquisition of shares for a cash consideration

(5) Name of the merged entity
No change in name

(6) Ratio of voting rights acquired
70%

(7) Main reasons for determining the acquirer
Sumitomo Forestry America, Inc., the Company's consolidated subsidiary, acquired the shares for a cash consideration.

2. Period for which the business results of the acquiree are included in the consolidated financial statements of the Company

The accompanying consolidated statement of income does not include the statement of income of the acquiree as the Company consolidated only the balance sheet of the acquiree as of March 31, 2017.

3. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisition:	Cash	¥7,262 million ($64,841 thousand)
Acquisition cost:		¥7,262 million ($64,841 thousand)

Note: The amount above is provisional at the time of acquisition. The actual amount may vary depending on future value adjustment.

4. Description and amount of primary acquisition-related costs
Advisory fee: ¥183 million ($1,631 thousand)

5. Amount of goodwill, reason for recognition, and amortization method and period
(1) Amount of goodwill
¥5,018 million ($44,801 thousand)
The amount above is provisional since the purchase price allocation has not been finalized and fair value measurement of identifiable assets and liabilities at the acquisition date has not been finalized.

(2) Reason for recognition
The acquisition cost exceeded the fair value of net assets acquired at the date of business combination.

(3) Amortization method and period
Straight-line amortization over the period in which the effect of the acquisition continues. Additionally, the amortization period is to be determined based on the result of purchase price allocation.

6. Assets acquired and liabilities assumed at the date of business combination
See Note 12.

Transactions under common control
(Acquisition of additional shares of Gehan Homes Group)
1. Summary of the business combination
(1) Name of the acquiree and business description
Name of the acquiree: Gehan Homes, Ltd. and six other companies
Description of business: Building and sales of homes

(2) Date of the business combination
April 29, 2016 (U.S. date)

(3) Legal form of the business combination
Acquisition of shares for a cash consideration

(4) Name of the merged entity
No change in name

(5) Other matters
Interests held by non-controlling shareholders were acquired to accelerate efforts to create synergies among the Group companies. As a result, the Company's ratio of voting rights increased from 51% to 100%.

2. Summary of accounting treatment
The Company accounted for the acquisition as a transaction with non-controlling shareholders based on the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of September 13, 2013).

3. Matters pertaining to acquisition of additional shares
Breakdown of consideration for acquisition and type of consideration

Consideration for acquisition:	Cash	¥14,750 million ($131,695 thousand)
Acquisition cost:		¥14,750 million ($131,695 thousand)

4. Matters pertaining to change in equity of parent company related to transaction with non-controlling shareholders
(1) Key factors behind change in capital surplus
Acquisition of additional shares in subsidiary

(2) Amount of reduction in capital surplus resulting from transaction with non-controlling shareholders
¥8,234 million ($73,522 thousand)

26. Stock Option Plan

1. Stock option expenses per accounts for the years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Selling, general and administrative expenses	¥46	¥36	$410

2. Description of stock options
(1) Description of stock options

	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)
Individuals covered by the plan	Directors of the Company: 8	Directors of the Company: 8
	Executive officers of the Company: 11	Executive officers of the Company: 13
	Total: 19	Total: 21
Number of stock options granted by class of share (Note)	Common stock: 38,800 shares	Common stock: 41,400 shares
Grant date	August 20, 2015	August 19, 2016
Vesting conditions	No provisions	No provisions
Eligible service period	No provisions	No provisions
Exercise period	From August 21, 2015 to August 20, 2035	From August 20, 2016 to August 19, 2036

Note: Converted into the number of equivalent shares.

(2) Volume and changes in stock options

The number of stock options is converted into the number of equivalent shares.

1) Number of stock options

Year Ended March 31, 2017	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)
Unvested stock options		
As of March 31, 2016	—	—
Granted	—	41,400
Forfeited	—	—
Vested	—	41,400
Unvested	—	—
Vested stock options		
As of March 31, 2016	38,800	—
Vested	—	41,400
Exercised	—	—
Forfeited	—	—
Unexercised	38,800	41,400

2) Unit price information

Year Ended March 31, 2017	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)
Exercise price	¥ 1	¥ 1 ($0.01)
Average stock price when exercised	—	—
Fair unit value on the grant date	¥1,233	¥1,092 ($9.75)

3. Method for estimating a fair unit price for stock options

The method used to estimate a fair unit price for the Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type) as of the end of the current fiscal year is described below.

(1) Valuation technique used: Black-Scholes model

(2) Principal parameters and estimation method used

Year Ended March 31, 2017	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)
Stock price volatility (Note 1)	33.99%
Expected remaining period (Note 2)	11.5 years
Expected dividends per share (Note 3)	¥24 ($0.21)
Risk-free rate (Note 4)	–0.045%

Notes: 1. Stock price volatility was computed by the actual stock prices of the Company during the period from February 19, 2005 to August 19, 2016.
2. Expected remaining period was estimated based on the assumption that the options are exercised in the middle of the exercise period.
3. The expected dividends per share was calculated at the actual amount for the year ended March 31, 2016.
4. The risk-free rate was the yield on Japanese government bonds for the period that corresponds to the expected remaining period.

4. Method for estimating the number of vested stock options

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been forfeited is reflected.

27. Additional Information

The Company and its domestic subsidiaries adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26, March 28, 2016) effective from April 1, 2016.

28. Subsequent Events

(Acquisition of additional shares of Bloomfield Homes, L.P. and one other company)

The Company acquired additional shares of Bloomfield Homes, L.P. and one other company, which were equity-method affiliates, through its U.S. subsidiary, Sumitomo Forestry America, Inc., to make them its subsidiaries.

1. Summary of the business combination

(1) Name of the acquiree and business description
Name of the acquiree: Bloomfield Homes, L.P. and one other company
Description of business: Building and sales of homes

(2) Main reason for implementing the business combination
Since its acquisition of an equity interest in the acquiree in June 2013, the Company has developed a good partnership with Bloomfield Homes, L.P. and one other company and has successfully expanded the scale of its businesses. The Company has made them subsidiaries in order to deepen its involvement in their businesses, and to achieve long-term profit expansion.

(3) Date of the business combination
May 2, 2017 (U.S. date)

(4) Legal form of the business combination
Acquisition of shares for a cash consideration

(5) Name of the merged entity
No change in name

(6) Ratio of voting rights acquired

Equity interest held by the Company before acquisition	50%
Equity interest to be acquired	15%
Equity interest to be held by the Company after acquisition	65%

(7) Main reasons for determination of the acquirer
The Company's consolidated subsidiary, Sumitomo Forestry America, Inc., has acquired the shares for a cash consideration.

2. Breakdown of consideration for acquisition of additional shares and type of consideration

Consideration for acquisition:	Cash	¥4,095 million ($36,500 thousand)
Acquisition cost:		¥4,095 million ($36,500 thousand)

3. Difference of total cost of acquisition and individual acquisition costs

Not yet determined

4. Amount of goodwill, reason for recognition, and amortization method and period

Not yet determined

Building a better working world

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Independent Auditor's Report

The Board of Directors
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young Shinnihon LLC

June 23, 2017
Tokyo, Japan