









Risk Topics		
Risks Related to Biodiversity	Tighter Laws and Regulations	As laws and regulations designed to prevent a decline in biodiversity are enacted and tightened, it is assumed that in our businesses, in addition to management of Company-owned forests and the procurement and purchasing of timber, we are required to engage in revegetation efforts within and around building sites. Compliance risks will arise if we fail to appropriately address the requirements of these laws and regulations.
	Reputational Damage	If Sumitomo Forestry neglects to uphold its obligations in an appropriate manner and operates using illegally logged timber, the Company's reputation may be damaged and earnings, such as sales, would be directly affected.
	Changes in Timber Quality or Volume	Trees make up one part of the ecosystem and if changes in biodiversity affect the quality and volume of timber, we may have to switch suppliers. Forest conservation, tree growth, and vegetation may also be affected in areas that are managed and owned by Sumitomo Forestry, and in Group-owned forests.
	Impact on Financing	There is a growing tendency for rating agencies and institutional investors to assess the climate change initiatives of companies in terms of their corporate rating or ESG investments. If a financial institution attaches environment-related conditions to its lending terms, such as the implementation of an environmental assessment or other such climate change initiatives, and if Sumitomo Forestry Group fails to satisfy such conditions on time, its financing may be affected.
Risks Related to Illegal Logging of Forests	Tighter Laws and Regulations	Laws and regulations on illegal logging of forests continue to tighten around the world. Compliance risks and the likelihood of action for damages will arise if the Group fails to appropriately uphold lawful logging and procurement practices.
	Reputational Damage	If Sumitomo Forestry neglects to uphold its obligations in an appropriate manner and operates using illegally logged timber, the Company's reputation may be damaged and earnings, such as sales, would be directly affected.

## Financial Section\*

## External Commendations

 FTSE4Good	<p>The FTSE4Good Global Index is a stock market index of the index provider FTSE, a joint venture between the UK's Financial Times and London Stock Exchange. We have been included in this index since 2004.</p>	 FTSE Blossom Japan	<p>Sumitomo Forestry is a composite stock in all three passively managed ESG indexes (FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index, and MSCI Japan Empowering Women Index), selected by the Government Pension Investment Fund (GPIF).</p>
 MS-SRI	<p>We have been included in the Morningstar Socially Responsible Investment Index (MS-SRI) since September 2008. Morningstar Japan selects for inclusion in the index 150 publicly listed Japanese companies that have been evaluated as possessing outstanding social credentials. The MS-SRI is Japan's first socially responsible investment share index.</p>	 MSCI	<p>*The inclusion of Sumitomo Forestry in any MSCI Index, and the use of MSCI logos, trademarks, service marks or index names on websites do not constitute a sponsorship, endorsement or promotion of Sumitomo Forestry by MSCI or any of its affiliates. The MSCI Indexes are the exclusive property of MSCI. MSCI and the MSCI Index names and logos are trademarks or service marks of MSCI or its affiliates.</p>
 ROBECOSAM Sustainability Award Bronze Class 2018	<p>We were awarded the Bronze Class commendation for the third consecutive year in the Sustainability Yearbook 2018, a CSR rating by RobecoSAM, in addition to being selected as one of the world's most sustainable companies for the 11th straight year in the Home Building Industry Sector.</p>	 2018 健康経営銘柄	<p>We have been selected in the 2018 Health &amp; Productivity Stock Selection by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange in recognition of our strategic initiatives on employee health from a management perspective for the second time and after a two-year absence. We have also been chosen as a Certified Health and Productivity Management Organization (in the large company category) for the second year running.</p>
 CDP A LIST 2017 CLIMATE	<p>CDP is one of the world's leading SRI evaluation bodies, and scores companies on their greenhouse gas emissions and climate change strategies. Sumitomo Forestry was selected for the second year running as a Climate Change A List company by CDP, its highest ranking. Of the companies selected for the A List in 2017, there were 112 global firms and 13 Japanese companies, including Sumitomo Forestry.</p>	 2018 健康経営優良法人 ホワイト500	

\* From the beginning of the fiscal year ending March 31, 2019, the Sumitomo Forestry Group applies the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc., and a portion of figures listed for the fiscal year ended March 31, 2018 have been reclassified.

	Millions of yen										
(Years ended March 31)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
<b>Operating Results:</b>											
Net sales	¥1,221,998	¥1,113,364	¥1,040,524	¥997,256	¥972,968	¥845,184	¥831,870	¥797,493	¥723,923	¥823,810	¥861,357
Gross profit	219,315	204,138	183,134	169,492	160,162	141,436	136,873	132,568	124,269	133,493	135,277
Selling, general and administrative expenses	166,294	150,149	153,041	135,498	126,747	116,105	117,682	118,330	114,522	126,656	128,041
Operating income	53,021	53,989	30,093	33,994	33,415	25,330	19,191	14,238	9,747	6,837	7,235
Recurring income	57,865	57,841	30,507	36,424	33,567	26,981	20,714	14,206	9,465	6,160	7,659
Profit attributable to owners of the parent / Net income	30,135	34,532	9,727	18,572	22,531	15,923	9,271	5,175	2,377	1,028	1,115
Recurring Income (excluding actuarial differences)	55,574	52,860	42,038	36,681	34,586	26,630	25,631	16,998	7,101	11,159	12,192
<b>Financial Position:</b>											
Total assets	¥ 899,120	¥ 794,360	¥ 710,318	¥665,538	¥645,197	¥547,973	¥503,496	¥489,417	¥469,738	¥427,738	¥450,730
Working capital*1	209,506	190,386	178,215	158,110	120,725	91,335	94,509	89,665	88,338	81,700	64,156
Interest-bearing debt	200,630	163,817	119,069	103,369	92,975	69,229	67,923	69,229	66,786	49,127	25,816
Total net assets	345,639	295,857	265,257	260,782	226,078	193,250	169,335	163,110	162,930	156,192	173,089
<b>Cash Flows:</b>											
Cash flows from operating activities	¥ 13,732	¥ 40,337	¥ 45,705	¥ 14,709	¥ 54,057	¥ 45,910	¥ 26,873	¥ 17,515	¥ 37,239	¥ (8,161)	¥ 26,106
Cash flows from investment activities	(46,250)	(62,350)	(9,972)	(23,575)	(10,476)	(28,662)	(32,903)	(13,247)	(19,117)	(29,062)	(17,587)
Cash flows from financing activities	25,156	14,267	1,813	(17,286)	8,511	(5,305)	(5,622)	372	11,546	24,196	(4,262)
Cash and cash equivalents at the end of the year	125,555	132,707	141,265	103,296	128,343	75,658	63,839	75,582	71,662	40,730	54,475
<b>Capital Investment:</b>											
Tangible fixed assets*2	¥ 17,079	¥ 50,940	¥ 18,042	¥ 12,617	¥ 14,735	¥ 7,058	¥ 10,970	¥ 11,923	¥ 10,636	¥ 24,075	¥ 9,578
Intangible fixed assets	2,171	2,839	2,006	2,488	2,417	2,890	2,786	2,434	1,561	2,013	1,694
Others	1,302	349	400	282	252	343	194	215	395	150	222
Total	20,552	54,128	20,448	15,388	17,404	10,291	13,950	14,572	12,592	26,238	11,494
Depreciation and amortization	13,727	12,887	11,753	11,453	9,810	8,978	8,469	8,437	8,502	8,477	7,258
Yen											
<b>Per Share Data:</b>											
Profit attributable to owners of the parent / Net income	¥ 168.49	¥ 194.95	¥ 54.92	¥ 104.85	¥ 127.20	¥ 89.89	¥ 52.34	¥ 29.21	¥ 13.42	¥ 5.80	¥ 6.29
Net assets	1,719.05	1,552.04	1,374.47	1,387.39	1,234.53	1,086.68	954.81	919.54	917.82	880.94	975.99
Cash dividends	40.0	35.0	24.0	21.5	19.0	17.0	15.0	15.0	15.0	15.0	15.0
%											
<b>Financial Ratios:</b>											
Gross profit margin	17.9	18.3	17.6	17.0	16.5	16.7	16.5	16.6	17.2	16.2	15.7
Operating income margin	4.3	4.8	2.9	3.4	3.4	3.0	2.3	1.8	1.3	0.8	0.8
Recurring income margin	4.7	5.2	2.9	3.7	3.4	3.2	2.5	1.8	1.3	0.7	0.9
Return on assets (ROA)*3	6.8	7.7	4.4	5.6	5.6	5.1	4.2	3.0	2.1	1.4	1.6
Return on equity (ROE)*3	10.3	13.3	4.0	8.0	11.0	8.8	5.6	3.2	1.5	0.6	0.6
Equity ratio	34.7	34.6	34.3	36.9	33.9	35.1	33.6	33.3	34.6	36.5	38.4
Interest-bearing debt ratio*4	39.2	37.3	32.8	29.6	29.8	26.5	28.7	29.8	29.1	23.9	13.0
Current ratio	158.8	158.8	156.9	154.1	137.0	133.1	137.1	136.8	140.3	141.6	127.6
Interest coverage ratio (times)*5	9.6	27.1	43.1	12.6	44.2	34.9	20.0	13.7	31.8	-	17.9

\*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 flows from operating activities / Interest payments

### Market Overview

In fiscal 2017, ended March 31, 2018, the global economy continued a mild recovery overall, with the United States economy performing well along with economic recoveries in Asia. The Japanese economy also enjoyed a modest recovery, despite some weakness in personal consumption and the housing market.

In the domestic housing market, despite low interest rates on mortgages, the number of new housing starts decreased 2.8% year on year to 946,000, due to a trend towards protracted negotiations as well as a pause in the rental housing market, which had been performing well against the backdrop of the revision to the inheritance tax system in 2015 and other factors. The number of new housing starts by owner-occupiers fell 3.3% to 282,000.

### Consolidated Operating Results

#### 1 Net Sales and Orders Received

Net sales rose 9.8% year on year to ¥1,221,998 million. The Sumitomo Forestry Group worked to improve the profitability of the custom-built detached housing business and Timber and Building Materials Business, while also proactively investing management resources to expand the Overseas Business, and focusing efforts on the Environment and Resources Business including in the Wood Biomass Power Generation Business to diversify revenue streams. The amount of orders for custom-built detached houses rose 0.6% to ¥290,326 million, reflecting an increase in the number of orders despite the decline in unit prices.

#### 2 Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 10.8% year on year to ¥166,294 million. The main increase in SG&A expenses was due to the consolidation of the Edge Homes Group and Bloomfield Homes Group. Excluding actuarial differences arising from accounting for retirement benefits, SG&A expenses rose 8.7% to ¥168,585 million.

#### 3 Operating Income, Recurring Income

Operating income declined 1.8% year on year to ¥53,021 million, and recurring income was parallel with the previous year at ¥57,865 million. Although the number of custom-built detached houses decreased, overall earnings were on par with the previous fiscal year due to factors including income through the passage of time and the steady growth in the existing Overseas Housing Business and contributions to earnings from the Edge Homes Group and Bloomfield Homes Group. Earnings on a core business basis excluding actuarial differences also increased, rising 3.5% at the operating level to ¥50,730 million, and 5.1% at the recurring level to ¥55,574 million.

#### 4 Profit Attributable to Owners of the Parent

Profit attributable to owners of the parent decreased 12.7% year on year to ¥30,135 million. This mainly reflected factors such as the decline in profits in domestic operations, which more than offset the increases in profits in businesses such as the Overseas Housing Business and the Wood Biomass Power Generation Business.

### Segment Results

Note: Net sales for each segment include intersegment sales and transfers. Segment income refers to recurring income.

#### 1 Timber and Building Materials Business

Net sales in the Timber and Building Materials Business rose 2.6% year on year to ¥435,508 million, while recurring income rose 25.3% to ¥5,583 million.

In the Domestic Timber and Building Materials Distribution Business, results were strong owing to expanded sales of *KIKORIN-PLYWOOD*, an environmentally-friendly plywood made from certified forest timber and plantation timber, and efforts made to strengthen relationships with trading partners, despite an increase in materials costs resulting from higher global timber demand, the depreciation of the yen and other factors. Additionally, to develop diverse revenue streams, we focused on increasing the volume of fuel wood for power generation we handle, expanding sales of Kigurumi FR, a fire-resistant material made of pure laminated lumber, and increasing exports of domestic materials.

In the Domestic Timber and Building Materials Distribution Business, we worked on improving profitability through efforts to expand sales of stairway and floor materials, which are products that set us apart from our competitors.

In the Overseas Distribution Business, we focused on expanding sales primarily in Southeast Asia, centered on our regional headquarters in Singapore. We also concluded a capital and business tie-up agreement with an interior construction materials company in Vietnam, and began efforts aiming to expand our sales channels in Vietnam and other areas where housing demand is expected to grow.

#### 2 Housing Business

Net sales in the Housing Business decreased 3.7% year on year to ¥449,201 million, and recurring income declined 22.9% to ¥24,945 million.

##### Custom-Built Detached Housing Business

In the Custom-Built Detached Housing Business, we worked to promote sales of housing using our original Big-Frame Construction (BF) method, which offers high earthquake resistance and excellent design flexibility, as well as to expand orders and maximize customer satisfaction through efforts such as providing products to meet diverse customer needs with respect to specifications and other requirements. Despite these efforts, however, results were lackluster, mainly as a result of a decrease in the number of completed and delivered units, in conjunction with sluggish orders in the previous fiscal year. On the product side, we launched The Forest BF, which offers various room spaces with customizable ceiling heights and large openings utilizing innovative technology, and Forest Selection BF, exclusive products that can be selected from plans that are more discriminating from the standpoint of comfortable living based on the know-how we cultivated from our roughly 300,000 Sumitomo Forestry custom-built wooden detached homes.

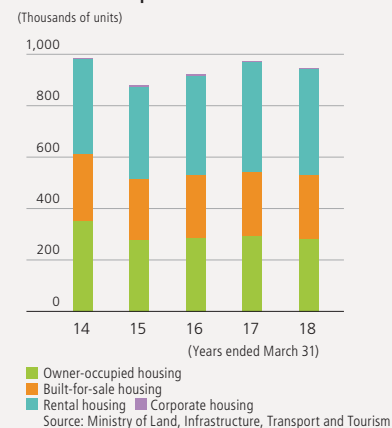
##### Apartment Business

In our Apartment Business, we worked to expand orders for apartments using our original Wall Frame (WF) method, which allows for greater customization of floor plans and more adaptability to tenant needs by supporting the building frame with big columns (large cross-sectional laminated columns). However, results were lackluster due to the slowdown in the rental housing market.

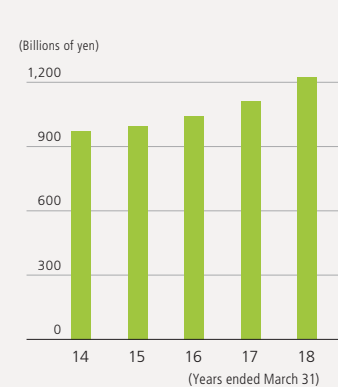
##### Renovation Business

In the Renovation Business, we worked to expand orders of earthquake resistance renovations utilizing advanced

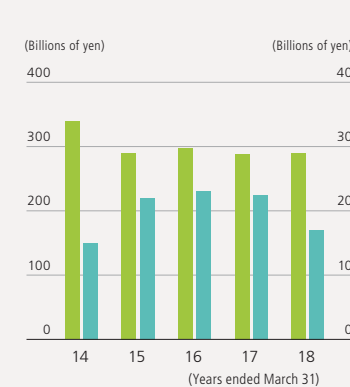
Number of New Housing Starts in Japan



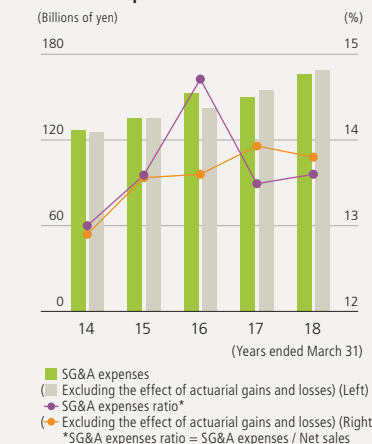
Net Sales



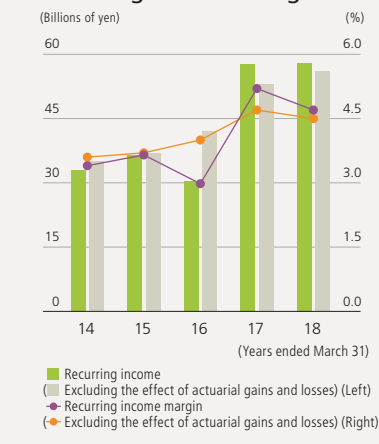
Amount of Orders Received



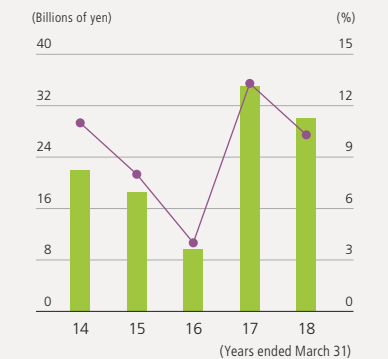
SG&A Expenses and SG&A Expenses Ratio



Recurring Income and Recurring Income Margin



Profit Attributable to Owners of the Parent and ROE



technologies such as our original seismic-resistance, seismic-vibration damper construction methods and also focused on uncovering demand in conjunction with the provision of patrol and inspection services for owners who have lived in Sumitomo Forestry's custom-built wooden detached homes for many years. As a result, business results were strong.

#### MOCCA (timber solutions) Business

In the MOCCA (timber solutions) Business, adoption of wood construction and wood materials in public buildings utilizing domestic materials has increased, and in the year under review we completed construction of a junior high school dormitory and a new wing of a rehabilitation hospital. We also worked to expand the market for wood construction and wood materials, including completing construction of an office building utilizing the cross-laminated timber (CLT), a wood material that offers high performance in terms of earthquake and fire resistance.

#### Other Initiatives

In addition to the above, as the preparation of lodging facilities to meet diversifying lodging needs has become an urgent task with the rapid increase in foreign tourists to Japan, we concluded a business tie-up agreement with another company and began operating existing rental condominiums as lodging facilities, utilizing the special vacation rental zoning system under the National Strategic Special Zone Act.

#### 3 Overseas Business

Net sales in the Overseas Business jumped 42.4% year on year to ¥352,897 million, and recurring income rose 37.2% to ¥26,491 million.

In the Manufacturing Business, results were strong owing to favorable sales in New Zealand of medium-density

#### Housing Business

(Years ended March 31)		2015	2016	2017	2018
<b>Orders</b>					
Custom-Built Detached Housing	(¥ million)	¥290,203	¥297,490	¥288,458	¥290,326
	(Units)	7,804	7,730	7,427	7,608
Apartment	(¥ million)	¥ 21,790	¥ 22,967	¥ 22,540	¥ 17,195
	(Units)	1,486	1,523	1,519	948
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 55,887	¥ 63,604	¥ 63,202	¥ 63,315
<b>Sales</b>					
Custom-Built Detached Housing	(¥ million)	¥313,396	¥299,837	¥306,307	¥288,582
	(Units)	8,743	7,962	8,098	7,556
Apartment	(¥ million)	¥ 13,569	¥ 20,514	¥ 22,125	¥ 20,114
	(Units)	1,014	1,324	1,551	1,353
Detached Spec Homes	(¥ million)	¥ 10,174	¥ 11,606	¥ 11,206	¥ 12,360
	(Units)	272	303	292	308
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 56,656	¥ 61,724	¥ 61,245	¥ 62,700

fiberboard (MDF) to Japan and of laminated veneer lumber (LVL) within New Zealand and to Australia, along with other factors.

In Indonesia, the volume of particle board sales grew, but results were lackluster mainly due to stagnation of plywood profits resulting from higher timber prices and other factors.

In the Housing and Real Estate Business, results improved significantly, due to the year on year increase in the number of units delivered by our existing local affiliates against the backdrop of robust housing markets in the United States and Australia, making Bloomfield Homes Group (which was previously an equity-method affiliate), a consolidated subsidiary in May 2017, and other factors. Additionally, in Southeast Asia, we worked to enhance the earnings base of our overseas business by extending our business domain to expand our Housing and Real Estate Business, including launching the Detached Spec Homes Business in Indonesia and the Condominium business in Thailand.

#### 4 Other Businesses

In addition to these businesses, the Sumitomo Forestry Group engages in the wood biomass power generation business, an overseas forestation business, the management of private-pay elderly care facilities, a wide range of service business for residential customers (including non-life insurance agency services), the manufacture and sale of farming and gardening supplies and contracted civil engineering and construction work.

The wood biomass power generation business, in Mombetsu City, Hokkaido, which was launched in December 2016, posted strong results.

Net sales in the Other Businesses jumped 61.0% year on year to ¥37,007 million, and recurring income rose 122.0% to ¥4,934 million.

#### Segment Performance Highlights

(Years ended March 31)	Millions of yen			
	2017	2018	Change	Percent of change
<b>Net Sales</b>	¥1,113,364	¥1,221,998	+ 108,634	+ 9.8%
Timber and Building Materials Business	424,440	435,508	+ 11,068	+ 2.6%
Housing Business	466,298	449,201	- 17,097	- 3.7%
Overseas Business	247,890	352,897	+ 105,007	+ 42.4%
Other Businesses	22,979	37,007	+ 14,028	+ 61.0%
Adjustments	(48,243)	(52,615)	- 4,372	—
<b>Recurring Income</b>	¥ 57,841	¥ 57,865	+ 24	+ 0.0%
Timber and Building Materials Business	4,456	5,583	+ 1,127	+ 25.3%
Housing Business	32,349	24,945	- 7,404	- 22.9%
Overseas Business	19,310	26,491	+ 7,181	+ 37.2%
Other Businesses	2,223	4,934	+ 2,711	+ 122.0%
Adjustments	(497)	(4,088)	- 3,591	—

\* 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		Recurring Income	
	2017	2018	2017	2018
Sumitomo Forestry Crest Co., Ltd.	¥ 35,911	¥ 34,125	¥ 647	¥ 123

##### Housing Business

(Years ended March 31)	Net Sales		Recurring Income	
	2017	2018	2017	2018
Sumitomo Forestry Residential Co., Ltd.	¥ 24,355	¥ 26,159	¥ 1,097	¥ 1,363
Sumitomo Forestry Home Service Co., Ltd.	6,590	7,108	738	770
Sumitomo Forestry Landscaping Co., Ltd.	28,593	26,904	1,734	1,288
Sumitomo Forestry Home Tech Co., Ltd.	64,680	66,274	2,240	2,913

##### Overseas Business

(Years ended December 31)	Net Sales		Recurring Income	
	2016	2017	2016	2017
Overseas Subsidiaries*1				
PT. Kutai Timber Indonesia (Indonesia)*2	¥ 11,833	¥ 12,735	¥ 219	¥ 143
Nelson Pine Industries Ltd. (New Zealand)*2	16,217	17,539	2,390	3,157
Housing Business in U.S.	122,338	219,421	12,026	25,625
Housing Business in Australia	73,106	86,742	5,913	6,934

\*1 Figures for overseas subsidiaries have been translated into Japanese yen at the following rates:

	US\$	AU\$	NZ\$
2016/12:	108.74	80.83	75.72
2017/12:	112.19	86.01	79.73

\*2 Overseas Manufacturing Business has been transferred to Timber and Building Materials Division at the beginning of December 31, 2018.



## Financial Position and Cash Flow

### 1 Financial Position

Total assets were ¥899,120 million as of March 31, 2018, an increase of ¥104,760 million compared to March 31, 2017. The rise was mainly attributable to an increase in inventories due to expansion of the Overseas Housing and Real Estate Business as well as an increase in investment securities resulting from the acquisition of equity-method affiliate shares. Liabilities increased ¥54,978 million year on year to ¥553,481 million due to such factors as the issuance of corporate bonds to fund capital investment, acquisitions and other such expenditures.

Net assets totaled ¥345,639 million, and the equity ratio was 34.7%.

### 2 Cash Flow

Cash and cash equivalents at March 31, 2018, stood at ¥125,555 million, a decrease of ¥7,152 million from the end of the previous fiscal year.

A summary of cash flows in fiscal 2017 is presented below.

#### Cash flows from operating activities

Net cash provided by operating activities totaled ¥13,732 million. Income before income taxes of ¥58,538 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 investment activities totaled ¥46,250 million. This was primarily due to the acquisition of ownership stakes in equity-method affiliates in Japan and the United States.

#### Cash flows from financing activities

Net cash provided by financing activities totaled ¥25,156 million. Cash outflows due to the dividend payments and repayment of long-term debt were offset by cash inflows due to the issuance of corporate bonds and the issuance of new shares through third-party allotment.

### 3 Capital Expenditures (Capital Investment)

Capital expenditures declined by 62.0% from ¥54,128 million in the previous fiscal year to ¥20,552 million in the fiscal year under review. Investment in tangible fixed assets amounted to ¥17,079 million, while investment in intangible fixed assets amounted to ¥2,171 million. Major investments included ¥6,445 million for model homes inside and outside Japan, ¥4,047 million related to the construction of paid nursing care facilities, and ¥2,470 million related to software.

## 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 and construction 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 and construction. 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

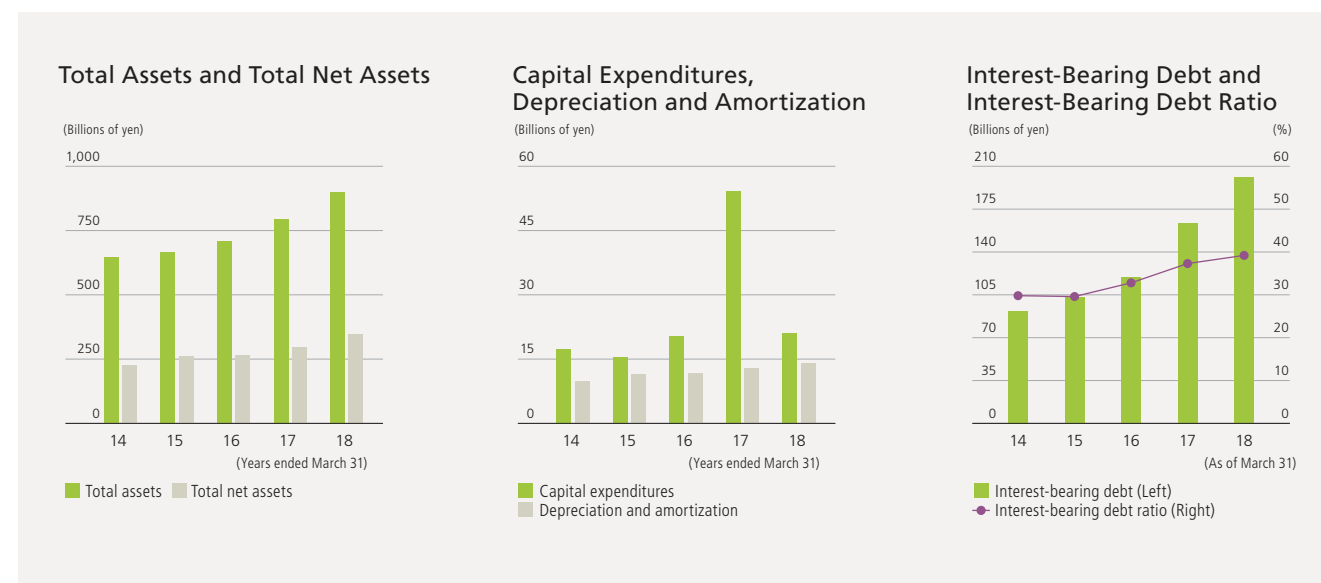
We invest in various businesses, so if profits and return on investment do not go as planned due to factors such as changes in the business environment or a downturn/stagnation in the performance of our investments or business partners, it could result in partial or total loss of our investment or the 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 or 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**

If serious accidents, disasters, or damages occur due to environmental problems such as abnormal weather events due to climate change, changes in water resources, or loss of biodiversity, changes in legal regulations in Japan or overseas to address such events could lead to penalties, compensation payments, or necessary costs associated with resolving environmental problems that could affect 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, 2018 and 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
<b>Current assets:</b>			
Cash and time deposits (Notes 7, 12, 16)	¥ 105,865	¥111,506	\$ 998,724
Marketable securities (Notes 5, 12, 16)	5,010	6,500	47,263
Receivables—			
Notes and accounts, trade (Notes 7, 16, 17)	135,642	123,454	1,279,645
Loans and other (Notes 7, 16)	57,350	76,349	541,037
Inventories—			
Finished goods, logs and lumber	26,474	24,013	249,750
Costs on uncompleted construction contracts (Note 7)	25,322	23,934	238,884
Real estate for sale (Note 7)	55,751	48,291	525,950
Real estate for sale in process (Note 7)	138,457	80,389	1,306,202
Deferred tax assets (Note 9)	6,531	7,001	61,610
Other current assets (Note 7)	16,042	13,391	151,343
Allowance for doubtful accounts	(343)	(438)	(3,234)
Total current assets	572,101	514,390	5,397,175
<b>Property, plant and equipment, at cost less accumulated depreciation:</b>			
Land (Notes 7, 8, 19)	34,216	30,597	322,793
Buildings and structures (Notes 7, 8, 19)	78,307	63,411	738,746
Machinery, equipment and vehicles (Notes 7, 8)	91,215	87,807	860,519
Timber	37,135	37,546	350,330
Construction in progress (Note 7)	2,700	6,013	25,468
Leased assets	10,728	10,724	101,208
	254,301	236,098	2,399,064
Less accumulated depreciation	(101,188)	(90,300)	(954,604)
Net property, plant and equipment	153,113	145,798	1,444,460
<b>Intangible assets, net of amortization:</b>			
Goodwill	15,762	11,065	148,701
Other intangible assets	13,309	12,421	125,552
Total intangible assets	29,071	23,486	274,253
<b>Investments and other assets:</b>			
Investment securities (Notes 5, 7, 16)	131,470	91,806	1,240,284
Long-term loans and receivables	4,809	6,100	45,366
Deferred tax assets (Notes 7, 9)	3,279	3,276	30,936
Asset for retirement benefits (Note 18)	138	142	1,303
Other assets (Note 7)	12,141	11,725	114,542
Allowance for doubtful accounts	(2,440)	(2,362)	(23,019)
Total investments and other assets	149,398	110,686	1,409,412
<b>Total assets</b>	<b>¥ 903,682</b>	<b>¥794,360</b>	<b>\$8,525,300</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2018 and 2017

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
<b>Current liabilities:</b>			
Payables—			
Notes and accounts, trade (Notes 16, 17)	¥181,853	¥182,491	\$1,715,594
Other	19,078	14,787	179,985
Short-term loans payable (Notes 6, 7)	35,664	30,232	336,450
Current portion of convertible bonds (Note 6)	20,000	—	188,679
Current portion of long-term loans payable (Notes 6, 7, 16, 17)	4,827	6,876	45,535
Current portion of lease obligation (Note 6)	1,100	1,628	10,378
Advances received from customers	55,037	52,179	519,220
Accrued income taxes	4,830	5,511	45,564
Accrued employees' bonuses	11,708	11,139	110,448
Accrued directors and corporate auditors' bonuses	146	146	1,377
Other current liabilities (Notes 9, 23)	23,284	19,015	219,665
Total current liabilities	357,527	324,004	3,372,895
<b>Long-term liabilities:</b>			
Bonds issued (Notes 6, 16)	50,000	20,000	471,698
Convertible bonds (Note 6)	—	20,000	—
Long-term loans payable (Notes 6, 7, 16, 17)	84,374	81,818	795,980
Long-term lease obligation (Note 6)	4,666	3,264	44,020
Deferred tax liabilities (Note 9)	17,003	11,695	160,404
Liability for retirement benefits (Note 18)	16,723	18,732	157,766
Other long-term liabilities (Note 23)	27,750	18,990	261,791
Total long-term liabilities	200,516	174,499	1,891,659
<b>Contingent liabilities (Note 15)</b>			
<b>Net assets:</b>			
<b>Shareholders' equity (Note 13):</b>			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 182,607,739 shares in 2018 and 177,410,239 shares in 2017	32,672	27,672	308,227
Capital surplus	23,637	18,637	222,994
Retained earnings	219,562	196,511	2,071,337
Treasury stock: 1,323,737 shares in 2018 and 281,970 shares in 2017	(2,333)	(280)	(22,008)
Total shareholders' equity	273,538	242,541	2,580,550
<b>Accumulated other comprehensive income:</b>			
Unrealized gain on available-for-sale securities	33,258	25,896	313,753
Deferred gain (loss) on hedges	(221)	(80)	(2,085)
Translation adjustments	5,053	6,874	47,670
Retirement benefits liability adjustments	9	(320)	83
Total accumulated other comprehensive income	38,099	32,370	359,421
<b>Subscription rights to shares</b>	129	82	1,220
<b>Non-controlling interests</b>	33,873	20,864	319,555
Total net assets	345,639	295,857	3,260,745
<b>Total liabilities and net assets</b>	¥903,682	¥794,360	\$8,525,300
	Yen		U.S. dollars (Note 4)
<b>Per share of common stock:</b>			
Net assets	¥1,719.05	¥1,552.04	\$16.22

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
<b>Net sales (Note 20)</b>	¥1,221,998	¥1,113,364	\$11,528,280
Cost of sales	1,002,683	909,225	9,459,273
<b>Gross profit</b>	219,315	204,138	2,069,007
Selling, general and administrative expenses (Note 11)	166,294	150,149	1,568,810
<b>Operating income</b>	53,021	53,989	500,197
Other income (expenses):			
Interest and dividends income	1,885	1,896	17,786
Interest expense	(1,387)	(1,560)	(13,087)
Equity in earnings (losses) of affiliates	3,026	3,053	28,549
Gain on sales of investment securities (Note 5)	132	96	1,247
Gain on step acquisition	6,464	—	60,985
Impairment loss (Note 8)	(5,727)	(30)	(54,032)
Gain on liquidation of subsidiaries and affiliates	—	152	—
Gain on sales of shares of subsidiaries and affiliates	—	481	—
Other gains (losses), net (Notes 5, 10)	1,124	446	10,605
Total	5,518	4,534	52,053
<b>Income before income taxes</b>	58,538	58,523	552,250
Income taxes (Note 9):			
Current	16,846	15,652	158,927
Deferred	3,060	2,640	28,866
Total	19,906	18,292	187,793
<b>Profit</b>	38,632	40,230	364,457
Profit attributable to non-controlling interests	8,497	5,699	80,162
<b>Profit attributable to owners of parent</b>	¥ 30,135	¥ 34,532	\$ 284,295
	Yen		U.S. dollars (Note 4)
<b>Per share of common stock:</b>			
Profit attributable to owners of parent (Note 21)			
Basic	¥168.49	¥194.95	\$1.59
Diluted	158.82	183.76	1.50
Cash dividends	40.00	35.00	0.38

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
<b>Profit</b>	¥38,632	¥40,230	\$364,457
<b>Other comprehensive income (Note 22):</b>			
Unrealized gain (loss) on available-for-sale securities	7,694	9,634	72,586
Deferred gain (loss) on hedges	(141)	(22)	(1,327)
Translation adjustments	(756)	350	(7,131)
Share of other comprehensive income of affiliates accounted for by the equity method	(883)	(196)	(8,332)
Total other comprehensive income	5,914	9,766	55,795
<b>Comprehensive income</b>	¥44,547	¥49,997	\$420,253
Total comprehensive income attributable to:			
Owners of the parent	¥35,864	¥44,470	\$338,336
Non-controlling interests	8,683	5,527	81,916

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2018 and 2017

	Millions of yen				
	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	
Balance at April 1, 2017	¥27,672	¥18,637	¥196,511	¥ (280)	¥242,541
Changes during the period:					
Issuance of new shares	5,000	5,000			10,000
Cash dividends (¥40.00 per share)			(7,085)		(7,085)
Profit attributable to owners of parent			30,135		30,135
Purchases of treasury stock				(2,053)	(2,053)
Disposal of treasury stock		0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests		0			0
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	5,000	5,000	23,050	(2,053)	30,998
Balance at March 31, 2018	¥32,672	¥23,637	¥219,562	¥(2,333)	¥273,538

	Millions of yen							
	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income			
Balance at April 1, 2017	¥25,896	¥ (80)	¥ 6,874	¥(320)	¥32,370	¥ 82	¥20,864	¥295,857
Changes during the period:								
Issuance of new shares								10,000
Cash dividends (¥40.00 per share)								(7,085)
Profit attributable to owners of parent								30,135
Purchases of treasury stock								(2,053)
Disposal of treasury stock								0
Change in ownership interest of parent due to transactions with non-controlling interests								0
Change of scope of equity method								—
Net changes in items other than shareholders' equity	7,361	(141)	(1,821)	329	5,728	48	13,009	18,785
Total changes during the period	7,361	(141)	(1,821)	329	5,728	48	13,009	49,782
Balance at March 31, 2018	¥33,258	¥(221)	¥ 5,053	¥ 9	¥38,099	¥129	¥33,873	¥345,639

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	
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					Subscription rights to shares	Non-controlling interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income			
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	(897)	9,087
Total changes during the period	9,627	(22)	377	(44)	9,938	46	(897)	30,600
Balance at March 31, 2017	¥25,896	¥(80)	¥6,874	¥(320)	¥32,370	¥82	¥20,864	¥295,857

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 4)				
	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	
Balance at April 1, 2017	\$261,057	\$175,821	\$1,853,882	\$ (2,641)	\$2,288,119
Changes during the period:					
Issuance of new shares	47,170	47,170			94,340
Cash dividends (\$0.38 per share)			(66,841)		(66,841)
Profit attributable to owners of parent			284,295		284,295
Purchases of treasury stock				(19,367)	(19,367)
Disposal of treasury stock		0		0	1
Change in ownership interest of parent due to transactions with non-controlling interests		3			3
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	47,170	47,173	217,454	(19,367)	292,430
Balance at March 31, 2018	\$308,227	\$222,994	\$2,071,337	\$(22,008)	\$2,580,550

	Thousands of U.S. dollars (Note 4)							
	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income			
Balance at April 1, 2017	\$244,306	\$ (758)	\$ 64,850	\$(3,018)	\$305,380	\$ 771	\$196,830	\$2,791,101
Changes during the period:								
Issuance of new shares								94,340
Cash dividends (\$0.38 per share)								(66,841)
Profit attributable to owners of parent								284,295
Purchases of treasury stock								(19,367)
Disposal of treasury stock								1
Change in ownership interest of parent due to transactions with non-controlling interests								3
Change of scope of equity method								—
Net changes in items other than shareholders' equity	69,447	(1,327)	(17,180)	3,101	54,041	449	122,724	177,214
Total changes during the period	69,447	(1,327)	(17,180)	3,101	54,041	449	122,724	469,645
Balance at March 31, 2018	\$313,753	\$(2,085)	\$ 47,670	\$ 83	\$359,421	\$1,220	\$319,555	\$3,260,745

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, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 58,538	¥ 58,523	\$ 552,250
Adjustments—			
Depreciation and amortization	13,727	12,887	129,497
Impairment loss	5,727	30	54,032
Amortization of goodwill	5,448	2,274	51,400
Net changes in allowance for doubtful accounts	92	48	866
Net changes in liability for retirement benefits	(2,621)	(5,117)	(24,724)
Interest and dividends income	(1,885)	(1,896)	(17,786)
Interest expense	1,387	1,560	13,087
Equity in losses (earnings) of affiliates	(3,026)	(3,053)	(28,549)
Losses (gains) on sales of marketable securities and investment securities, net	(108)	(88)	(1,024)
Losses on devaluation of marketable securities and investment securities	—	1	—
Gain on step acquisition	(6,464)	—	(60,985)
Losses (gains) on disposal and sales of fixed assets, net	172	8	1,625
Change in assets and liabilities:			
Notes and accounts receivable, trade	(12,017)	2,986	(113,368)
Inventories	(38,473)	(16,920)	(362,953)
Other current assets	4,447	307	41,948
Notes and accounts payable, trade	752	5,027	7,092
Advances received from customers	2,779	(1,415)	26,219
Other current liabilities	(62)	862	(586)
Other	2,095	(576)	19,760
Total	30,507	55,449	287,803
Interest and dividends income received	3,948	4,778	37,249
Interest paid	(1,438)	(1,488)	(13,562)
Income taxes paid, net	(19,286)	(18,402)	(181,945)
Net cash provided by operating activities	13,732	40,337	129,545
<b>Cash flows from investment activities:</b>			
Payments into time deposits	(20,526)	(20,830)	(193,642)
Proceeds from withdrawal of time deposits	35,514	11,759	335,034
Decrease (increase) in short-term loans receivable	391	3,408	3,684
Payments for purchases of fixed assets	(14,827)	(48,946)	(139,877)
Proceeds from sales of fixed assets	3,275	4,480	30,894
Payments for purchases of intangible assets	(2,183)	(2,556)	(20,595)
Payments for purchases of investment securities	(42,710)	(3,994)	(402,925)
Proceeds from sales and redemption of investment securities	3,507	386	33,087
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(7,661)	(7,585)	(72,275)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	3,087	—
Payments for long-term loans receivable	(148)	(853)	(1,401)
Repayments of long-term loans receivable	1,070	106	10,097
Other	(1,950)	(813)	(18,400)
Net cash used in investment activities	(46,250)	(62,350)	(436,319)
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term loans payable	3,973	12,774	37,477
Payments of lease obligations	(2,096)	(2,404)	(19,776)
Proceeds from long-term loans payable	13,560	16,490	127,922
Repayments of long-term loans payable	(20,665)	(5,886)	(194,951)
Proceeds from issuance of bonds	30,000	20,000	283,019
Redemption of bonds	—	(5,000)	—
Proceeds from issuance of stock	10,000	—	94,340
Dividends paid	(7,085)	(4,782)	(66,841)
Dividends paid to non-controlling shareholders	(4,838)	(2,550)	(45,645)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(1)	(14,750)	(5)
Other	2,308	375	21,778
Net cash provided by financing activities	25,156	14,267	237,317
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(307)	(811)	(2,900)
<b>Net increase (decrease) in cash and cash equivalents</b>	(7,670)	(8,558)	(72,356)
<b>Cash and cash equivalents at the beginning of the year</b>	132,707	141,265	1,251,949
<b>Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation</b>	518	—	4,886
<b>Cash and cash equivalents at the end of the year (Note 12)</b>	¥125,555	¥132,707	\$1,184,479

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2018 and 2017

Financial Section

## 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, sale of spec homes and construction of detached houses; and other businesses, including biomass power generation, an overseas forestation business, private-pay elderly care facilities, insurance agent business and civil engineering/construction work.

## 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 under the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen are rounded in the consolidated financial statements. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes thereto do not necessarily agree with the sum of the individual amounts.

As of March 31, 2018, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 110 and 29 (103 and

29 in 2017), respectively.

Shinko Care Life Co., Ltd., SFA MF Holdings, LLC, Edge Saddlebrook, LLC and Ridgeview Development LLC, whose shares have been newly acquired, are included in the scope of consolidation from the fiscal year ended March 31, 2018. Additionally, Bloomfield Homes, L.P. and one other company and Creekstone Development LLC, which were equity-method affiliates in the previous fiscal year, because of additional acquisition of shares, are now included in the scope of consolidation, at the same time, no longer included as equity-method affiliates.

CC-SFA MF Atherton, LLC, Kumagai Gumi Co., Ltd. and Grand Star Co., Ltd., whose shares have been newly acquired, are included as equity-method affiliates from the fiscal year ended March 31, 2018.

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. Additionally, necessary adjustments are made to the consolidated financial statements to reflect any significant transactions from the next day of the closing date to March 31 in each subsidiary.

## 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, 2018, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥3,595 million (\$33,919 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, 2018, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥112 million (\$1,060 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 ¥270 million (\$2,546 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2018.

**(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 5 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 Edge Homes Group (Edge Utah HoldCo, LLC and 17 other companies) that was conducted on February 9, 2017 (U.S. date) in the previous fiscal year, but it has been finalized in the fiscal year ended March 31, 2018.

As a result, certain accounts in the consolidated financial statements and figures as of March 31, 2017 in notes 9, 20 and 21 reflect the revision of the initially allocated amounts of the purchase price. See Note 25 for further details.

**(x) Accounting standards issued but not yet effective**

(Implementation Guidance on Tax Effect Accounting and Implementation Guidance on Recoverability of Deferred Tax Assets)

On February 16, 2018, the Accounting Standards Board of Japan (the "ASBJ") issued "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28) and "Implementation Guidance on Recoverability of Deferred Tax Assets" (revised 2018) (ASBJ Guidance No. 26).

i) Overview

The accounting treatment for taxable temporary differences related to investments in subsidiaries when an entity prepares separate financial statements was modified. In addition, the accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1 was clarified.

ii) Scheduled date of adoption

The Company expects to adopt the implementation guidance from the beginning of the fiscal year ending March 31, 2019.

iii) Impact of the adoption of implementation guidance

The Company is currently evaluating the effect of the adoption of this implementation guidance on its consolidated financial statements.

(Accounting Standard and Implementation Guidance on Revenue Recognition)

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

i) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

ii) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

iii) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

**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 ¥106 =US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2018. 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, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated fair value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥28,374	¥47,871	¥(223)	¥76,022
Debt securities	—	—	—	—
Other	5,000	—	—	5,000

	Millions of yen			
	2018			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,768	¥55	¥—	¥1,824

	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

	Thousands of U.S. dollars			
	2018			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated fair value)
Securities classified as:				
Available-for-sale:				
Equity securities	\$267,680	\$451,614	\$(2,103)	\$717,191
Debt securities	—	—	—	—
Other	47,170	—	—	47,170

	Thousands of U.S. dollars			
	2018			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	\$16,682	\$522	\$—	\$17,204

(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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Proceeds	¥2,666	¥190	\$25,149
Gross gains	132	96	1,247
Gross losses	24	8	224

(c) Investments in affiliates included in "Investment securities" as of March 31, 2018 and 2017 were ¥48,638 million (\$458,850 thousand) and ¥19,898 million, respectively.

## 6. Short-Term and Long-Term Debt

Short-term debt at March 31, 2018 and 2017 generally represented short-term loans payable which bore interest of 2.43% and 1.97% per annum, respectively. Long-term debt at March 31, 2018 and 2017 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans, principally from banks and insurance companies, maturing serially until 2035 with average interest of 2.71%:			
Secured:			
Loans from banks or other	¥ 36,482	¥ 35,666	\$ 344,171
Unsecured:			
Bonds issued	50,000	20,000	471,698
Convertible bonds	20,000	20,000	188,679
Loans from banks or other	52,718	53,027	497,343
Lease obligation	5,766	4,891	54,397
	164,967	133,585	1,556,289
Portion due within one year:			
Convertible bonds	20,000	—	188,679
Loans from banks or other	4,827	6,876	45,535
Lease obligation	1,100	1,628	10,378
	25,927	8,503	244,592
	¥139,040	¥125,082	\$1,311,698

The aggregate annual maturities of bonds issued, long-term loans payable and lease obligation at March 31, 2018 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
2018	¥20,000	¥ 4,827	¥1,100	\$188,679	\$ 45,535	\$10,378
2019	—	39,486	1,087	—	372,506	10,258
2020	—	20,611	677	—	194,445	6,390
2021	—	7,612	379	—	71,816	3,573
2022	—	2,236	207	—	21,094	1,954
Thereafter	50,000	14,429	2,316	471,698	136,120	21,844
	¥70,000	¥89,201	¥5,766	\$660,377	\$841,515	\$54,397

## 7. Pledged Assets and Secured Liabilities

(a) Pledged assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and time deposits	¥ 1,787	¥ 2,353	\$ 16,857
Receivables—Notes and accounts, trade	1,734	2,252	16,361
Receivables—Other	90	259	848
Costs on uncompleted construction contracts	1,184	192	11,169
Real estate for sale	22,712	23,065	214,268
Real estate for sale in process	58,247	45,195	549,496
Land	3,364	3,927	31,735
Buildings and structures	5,474	4,056	51,638
Machinery, equipment and vehicles	12,207	860	115,156
Construction in progress	68	860	642
Investment securities	18,280	14,430	172,449
Other	2,168	2,637	20,455
	¥127,314	¥100,085	\$1,201,073

(b) Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Short-term loans payable	¥ 7,309	¥ 2,417	\$ 68,949
Long-term loans payable	35,398	34,906	333,945
Other	—	228	—
	¥42,707	¥37,551	\$402,895

## 8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2018 and 2017 consisted of the following:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars
			2018	2018
Long An Province, Vietnam	Particle board manufacturing equipment	Buildings and structures	¥1,514	\$14,281
		Machinery, equipment and vehicles	3,284	30,982
		Other	929	8,769
		Total	¥5,727	\$54,032

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

For particle board manufacturing equipment with continued negative profitability, the book value of the equipment was reduced to its recoverable amount, and the amount of the reduction was recorded as an impairment loss. The recoverable amount was measured in terms of its value in use, which was calculated by discounting expected future cash flows at a rate of 17.1%.

Location	Major use	Asset category	Millions of yen
			2017
Saijo City, Ehime Prefecture	Idle assets	Buildings and structures	¥ 1
		Land	16
		Total	¥16

## 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 rate for the years ended March 31, 2018 and 2017 was 30.9%.

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

	2018	2017
Statutory tax rate	30.9%	—%
Non-deductible expense for purposes	0.4	—
Non-taxable dividend income	(0.2)	—
Per capita portion of inhabitant tax	0.5	—
Amortization of goodwill	2.9	—
Valuation allowance	0.7	—
Equity in earnings of affiliates	(1.6)	—
Other	0.5	—
Effective tax rate	34.0%	—%

The reconciliation between the effective 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 effective statutory tax rate.

The significant components of deferred tax assets and liabilities at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Allowance for doubtful accounts	¥ 835	¥ 906	\$ 7,881
Accrued employees' bonuses	3,318	3,230	31,303
Accrued legal welfare expense on employees' bonuses	499	475	4,712
Enterprise taxes	353	423	3,328
Devaluation of real estate for sale	361	488	3,404
Liability for retirement benefits	4,817	5,558	45,443
Devaluation of property	762	775	7,184
Devaluation of financial instruments	1,674	1,673	15,793
Tax loss carryforwards	2,527	2,666	23,837
Impairment loss	1,002	1,040	9,450
Warranty reserve for completed construction	712	800	6,714
Unrealized profit on fixed assets	533	464	5,032
Other	4,646	4,228	43,829
Gross deferred tax assets	22,038	22,724	207,910
Valuation allowance	(7,459)	(7,054)	(70,365)
Total deferred tax assets	14,580	15,670	137,545
Deferred tax liabilities:			
Deferred gains on sales of property	(757)	(757)	(7,139)
Gain on securities contributed to employee retirement benefit trusts	(1,217)	(1,217)	(11,485)
Unrealized gain on available-for-sale securities	(14,206)	(10,834)	(134,017)
Land revaluation differences	(850)	(844)	(8,021)
Taxes on undistributed earnings of subsidiaries	(605)	(169)	(5,711)
Other	(5,600)	(3,269)	(52,833)
Gross deferred tax liabilities	(23,236)	(17,090)	(219,206)
Net deferred tax assets (liabilities)	¥ (8,656)	¥ (1,420)	\$ (81,661)

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2018 and 2017 as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current assets—			
Deferred tax assets	¥ 6,531	¥ 7,001	\$ 61,610
Investment and other assets—			
Deferred tax assets	3,279	3,276	30,936
Current liabilities—Other	(1,463)	(1)	(13,803)
Long-term liabilities—			
Deferred tax liabilities	(17,003)	(11,695)	(160,404)
Net deferred tax assets (liabilities)	¥ (8,656)	¥ (1,420)	\$ (81,661)



(Change in deferred tax assets and deferred tax liabilities due to reduction in corporate income tax rate)

On December 22, 2017, the Tax Cuts and Jobs Act was enacted in the United States, effectively lowering the federal corporate income tax rate effective for the periods beginning on or after January 1, 2018.

Consequently, the federal corporate income tax rate applicable to the Company's consolidated subsidiaries in the U.S. was reduced from 35% to 21%.

As a result, as of and for the year ended March 31, 2018, net deferred tax liabilities have decreased by ¥885 million (\$8,349 thousand) and income taxes-deferred have decreased by ¥879 million (\$8,289 thousand).

## 10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loss on foreign exchange	¥ (188)	¥ (47)	\$ (1,773)
Gain on sales of property, plant and equipment	62	193	581
Loss on sales of property, plant and equipment	(82)	(37)	(777)
Loss on disposal of property, plant and equipment	(151)	(164)	(1,429)
Other, net	1,484	501	14,003
	¥1,124	¥ 446	\$10,605

## 11. Selling, General and Administrative Expenses

The components of "Selling, General and Administrative Expenses" for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Salaries and allowances	¥56,357	¥51,274	\$531,666
Provision for employees' bonuses	9,203	9,021	86,817
Provision for directors' and corporate auditors' bonuses	146	146	1,377
Retirement benefit expenses	717	(1,990)	6,768
Provision for directors' and corporate auditors' retirement benefits	25	13	231
Allowance for doubtful accounts	5	69	50
Provision for warranty reserve for completed construction	884	2,178	8,338

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2018 and 2017 were ¥1,977 million (\$18,648 thousand) and ¥1,866 million, respectively.

## 12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and time deposits	¥105,865	¥111,506	\$ 998,724
Short-term investments	5,000	6,500	47,170
Cash equivalents included in short-term loans receivable	15,000	30,000	141,507
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(310)	(15,299)	(2,921)
Cash and cash equivalents	¥125,555	¥132,707	\$1,184,479

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, 2018 were mainly as follows:

Bloomfield Homes, L.P. and one other company

	Millions of yen		Thousands of U.S. dollars
	2018	2018	2018
Current assets	¥29,064		\$274,184
Non-current assets	1,215		11,462
Goodwill	7,223		68,138
Current liabilities	(4,390)		(41,418)
Long-term liabilities	(9,567)		(90,256)
Non-controlling interests	(5,799)		(54,708)
Translation adjustments	646		6,095
Gain on step acquisition	(6,464)		(60,985)
Previously held equity interest before obtaining control	(7,831)		(73,881)
Acquisition cost	4,095		38,631
Cash and cash equivalents	—		—
Net expenditure for acquisition of shares	¥ 4,095		\$ 38,631

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 17 other companies

	Millions of yen
	2017
Current assets	¥14,160
Non-current assets	2,853
Goodwill	3,894
Current liabilities	(7,193)
Long-term liabilities	(4,905)
Non-controlling interests	(1,474)
Acquisition cost	7,334
Accounts payable	(72)
Cash and cash equivalents	(832)
Net expenditure for acquisition of shares	¥ 6,430

## 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, 2018 and 2017, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$26,954 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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Guarantee on loans from financial institutions:			
Guarantees of housing loans to customers	¥28,970	¥33,820	\$273,306
Kawasaki Biomass Electric Power Co., Ltd.	472	656	4,453
MOS Lumber Products Co., Ltd.	41	16	391
Total	¥29,484	¥34,493	\$278,149

## 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 them 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 a 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 mainly 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 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 their contractual obligation in full on maturity dates)

The Finance Department of the Company manages liquidity risk by establishing and revising a 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		
	2018		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥105,865	¥105,865	¥ —
Receivables—Notes and accounts, trade	127,387	127,387	—
Marketable securities and investment securities:			
Held-to-maturity	1,768	1,824	55
Shares in affiliates	33,498	32,015	(1,483)
Available-for-sale	81,022	81,022	—
Total	¥349,540	¥348,113	¥(1,427)
Payables—notes and accounts, trade	¥181,853	¥181,853	¥ —
Bonds issued	50,000	49,907	(93)
Long-term loans payable*	89,201	88,451	(749)
Total	¥321,054	¥320,211	¥ (842)
Derivatives**:			
Hedge accounting not applied	¥ 322	¥ 322	¥ —
Hedge accounting applied	(319)	(319)	—
Total	¥ 3	¥ 3	¥ —

	Millions of yen		
	2017		
	Carrying amount	Fair value	Difference
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—Loans and 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	¥ —

	Thousands of U.S. dollars		
	2018		
	Carrying amount	Fair value	Difference
Cash and time deposits	\$ 998,724	\$ 998,724	\$ —
Receivables—Notes and accounts, trade	1,201,765	1,201,765	—
Marketable securities and investment securities:			
Held-to-maturity	16,682	17,204	522
Shares in affiliates	316,018	302,031	(13,987)
Available-for-sale	764,361	764,361	—
Total	\$3,297,550	\$3,284,085	\$ (13,465)
Payables—Notes and accounts, trade	\$1,715,594	\$1,715,594	\$ —
Bonds issued	471,698	470,822	(876)
Long-term loans payable*	841,515	834,444	(7,070)
Total	\$3,028,807	\$3,020,860	\$ (7,947)
Derivatives**:			
Hedge accounting not applied	\$ 3,034	\$ 3,034	\$ —
Hedge accounting applied	(3,006)	(3,006)	—
Total	\$ 28	\$ 28	\$ —

\* 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)

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, including shares in affiliates, 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.

(Bonds issued)

The fair values of bonds issued are based on market prices.

(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
	2018	2017	2018
Unlisted equity securities	¥ 5,051	¥ 4,932	\$ 47,654
Investment in affiliates	15,140	19,898	142,831

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

	Millions of yen			
	2018			
	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	¥104,907	¥ —	¥ —	¥ —
Receivables—Notes and accounts, trade	127,387	—	—	—
Marketable securities and Investment securities:				
Government bonds	10	1,356	406	—
Other	5,000	—	—	—
Total	¥237,304	¥1,356	¥406	¥—

	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—Loans and other	45,902	—	—	—
Total	¥282,107	¥1,168	¥597	¥—

	Thousands of U.S. dollars			
	2018			
	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	\$ 989,689	\$ —	\$ —	\$ —
Receivables—Notes and accounts, trade	1,201,765	—	—	—
Marketable securities and Investment securities:				
Government bonds	94	12,792	3,830	—
Other	47,170	—	—	—
Total	\$2,238,718	\$12,792	\$3,830	\$—

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,580	¥ —	¥ 37	¥ 37
Sell (U.S. dollar)	5,639	—	280	280
Sell (Euro)	4	—	(0)	(0)
Currency swap contracts:				
Pay U.S. dollar / receive Yen	1,020	—	(5)	(5)
Total	¥8,243	¥ —	¥312	¥312
Interest rate swap contracts:				
Pay fixed / receive variable	¥1,627	¥441	¥ 10	¥ 10
Total	¥1,627	¥441	¥ 10	¥ 10

	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

	Thousands of U.S. dollars			
	2018			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	\$14,910	\$ —	\$ 351	\$ 351
Sell (U.S. dollar)	53,195	—	2,640	2,640
Sell (Euro)	36	—	(0)	(0)
Currency swap contracts:				
Pay U.S. dollar / receive Yen	9,620	—	(47)	(47)
Total	\$77,760	\$ —	\$2,943	\$2,943
Interest rate swap contracts:				
Pay fixed / receive variable	\$15,351	\$4,158	\$ 91	\$ 91
Total	\$15,351	\$4,158	\$ 91	\$ 91

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, 2018 and 2017 were as follows:

Millions of yen				
2018				
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	¥ 4,459	¥ —	¥ (5)
Sell (Euro)	Accounts payable, trade	2,325	—	12
Buy (U.S. dollar)	Accounts payable, trade	13,819	—	(227)
Buy (Euro)	Accounts payable, trade	5,802	—	(99)
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable, trade	31	—	*
Buy (U.S. dollar)	Accounts payable, trade	417	—	*
Buy (Euro)	Accounts payable, trade	257	—	*
Total		¥27,110	¥ —	¥(319)
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	¥ 4,466	¥1,198	*
Total		¥ 4,466	¥1,198	¥ —
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				
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)	Accounts payable, trade	2,133	—	12
Buy (U.S. dollar)	Accounts payable, trade	8,509	—	(80)
Buy (Euro)	Accounts payable, trade	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)	Accounts payable, trade	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	¥ —

Thousands of U.S. dollars				
2018				
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	\$ 42,068	\$ —	\$ (46)
Sell (Euro)	Accounts payable, trade	21,931	—	118
Buy (U.S. dollar)	Accounts payable, trade	130,364	—	(2,141)
Buy (Euro)	Accounts payable, trade	54,737	—	(936)
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable, trade	291	—	*
Buy (U.S. dollar)	Accounts payable, trade	3,933	—	*
Buy (Euro)	Accounts payable, trade	2,426	—	*
Total		\$255,752	\$ —	\$(3,006)
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	\$ 42,132	\$11,303	*
Total		\$ 42,132	\$11,303	\$ —
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	\$ 26,975	\$26,975	*
Total		\$ 26,975	\$26,975	\$ —

\* 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, 2018 and 2017 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥72,478	¥75,916	\$683,753
Service cost	3,324	3,598	31,354
Interest cost	573	416	5,409
Actuarial gain and loss	(2,055)	(5,036)	(19,388)
Retirement benefits paid	(2,075)	(1,915)	(19,573)
Prior service cost	6	(1)	58
Decrease due to transition to defined contribution pension plan	—	(222)	—
Decrease due to change from the principle method to the simplified method	—	(307)	—
Other	(27)	29	(258)
Balance at the end of the year	¥72,224	¥72,478	\$681,355

The changes in plan assets for the years ended March 31, 2018 and 2017 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥54,885	¥53,024	\$517,786
Expected return on plan assets	1,372	1,485	12,945
Actuarial gain and loss	236	(115)	2,227
Contributions	2,186	2,156	20,625
Retirement benefits paid	(1,726)	(1,665)	(16,288)
Balance at the end of the year	¥56,953	¥54,885	\$537,295

The changes in the liability for retirement benefits, which were calculated by the simplified method for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥ 998	¥ 752	\$ 9,416
Retirement benefit expense	245	189	2,310
Retirement benefits paid	(113)	(137)	(1,066)
Contributions	(73)	(73)	(685)
Increase due to newly consolidated subsidiary	258	—	2,437
Increase due to change from the principle method to the simplified method	—	269	—
Other	(1)	(2)	(7)
Balance at the end of the year	¥1,315	¥ 998	\$12,404

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2018 and 2017 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligation	¥ 68,314	¥ 69,186	\$ 644,469
Plan assets at fair value	(57,615)	(55,495)	(543,539)
	10,699	13,691	100,930
Unfunded retirement benefit obligation	5,887	4,900	55,533
Net liability for retirement benefits in the balance sheet	¥ 16,585	¥ 18,591	\$ 156,464
Liability for retirement benefits	¥ 16,723	¥ 18,732	\$ 157,766
Asset for retirement benefits	(138)	(142)	(1,303)
Net liability for retirement benefits in the balance sheet	¥ 16,585	¥ 18,591	\$ 156,464

The components of retirement benefit expense for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 3,324	¥ 3,598	\$ 31,354
Interest cost	573	416	5,409
Expected return on plan assets	(1,372)	(1,485)	(12,945)
Amortization of actuarial gain and loss	(2,291)	(4,922)	(21,614)
Amortization of prior service cost	6	(1)	58
Retirement benefit expense under the simplified method	245	189	2,310
Other	0	0	3
Retirement benefit expense	¥ 485	¥(2,203)	\$ 4,575
Gain on transition to defined contribution pension plan	¥ —	¥ (38)	\$ —

The fair value of plan assets, by major category, as percentages of total plan assets as of March 31, 2018 and 2017 were as follows:

	2018	2017
	Bonds	46%
Stocks	25%	23%
General account	13%	14%
Other	15%	11%
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:

	2018	2017
Discount rates	0.000%–0.961%	0.000%–1.044%
Expected rates of return plan assets	2.5%	2.8%
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 ¥1,089 million (\$10,276 thousand) and ¥1,010 million for the years ended March 31, 2018 and 2017, 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, 2018 and 2017 was ¥532 million (\$5,019 thousand) and ¥513 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	
2017	Increase/ (Decrease)	2018	2018	2018	2018
¥11,816	¥1,454	¥13,270	¥12,517	\$125,185	\$118,086

The main components of net change in carrying amount above included an increase of ¥1,554 million (\$14,660 thousand) due to acquisitions of real estate, an increase of ¥61 million (\$574 thousand) due to change in the use of property from in-house use to rental use and a decrease of ¥156 million (\$1,469 thousand) due to depreciation for the year ended March 31, 2018.

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, sale of interior goods, sale of spec homes, 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, sale of spec homes, and construction of detached houses, etc., in overseas markets

Other: biomass power generation business, overseas forestation business, private-pay elderly care facilities business, insurance agency business, farming and gardening material manufacturing and sales business, and contracted civil engineering/construction work, etc.

Millions of yen								
As of/Year Ended March 31, 2018	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥413,224	¥448,623	¥335,390	¥1,197,237	¥ 23,663	¥1,220,899	¥ 1,098	¥1,221,998
Inter-segment transfers	22,284	578	17,507	40,369	13,345	53,713	(53,713)	—
Total	435,508	449,201	352,897	1,237,605	37,007	1,274,613	(52,615)	1,221,998
Segment income (loss)	5,583	24,945	26,491	57,019	4,934	61,953	(4,088)	57,865
Segment assets	157,448	144,066	277,903	579,417	132,064	711,481	192,201	903,682
Other items:								
Depreciation and amortization	962	4,611	4,531	10,105	2,771	12,876	851	13,727
Amortization of goodwill	—	—	5,280	5,280	168	5,448	—	5,448
Interest income	37	42	189	268	150	418	27	445
Interest expense	320	427	1,741	2,488	252	2,740	(1,353)	1,387
Equity in earnings (losses) of affiliates	(49)	(1)	1,843	1,793	1,233	3,026	0	3,026
Investments in affiliates	797	2	11,656	12,455	34,133	46,588	(9)	46,580
Increase in tangible and intangible fixed assets	707	7,085	6,409	14,202	3,746	17,947	2,605	20,552

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,098 million (\$10,362 thousand) of administration department profit.  
2. Adjustments for segment income and loss include ¥706 million (\$6,656 thousand) of elimination of inter-segment income and loss, ¥2,291 million (\$21,614 thousand) of retirement benefits liability adjustments (gain), and ¥5,673 million (\$53,522 thousand) of corporate general administration expense, which are not allocable to the reportable segments.  
3. Adjustments for segment assets include ¥10,549 million (\$99,521 thousand) of inter-segment eliminations, and ¥202,750 million (\$1,912,738 thousand) of corporate assets, which are not allocable to the reportable assets.

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	228,409	516,899	79,977	596,876	197,483	794,360
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 of administration department profit.  
2. Adjustments for segment income and loss include ¥453 million of elimination of inter-segment income and loss, ¥4,981 million of retirement benefits liability adjustments (gain), and ¥5,025 million of corporate general administration expense, which are not allocable to the reportable segments.  
3. Adjustments for segment assets include ¥11,290 million of inter-segment eliminations, and ¥208,773 million of corporate assets, which are not allocable to the reportable assets.

Thousands of U.S. dollars								
As of/Year Ended March 31, 2018	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	\$3,898,343	\$4,232,290	\$3,164,052	\$11,294,686	\$ 223,232	\$11,517,918	\$ 10,362	\$11,528,280
Inter-segment transfers	210,222	5,453	165,162	380,837	125,892	506,729	(506,729)	—
Total	4,108,565	4,237,743	3,329,214	11,675,522	349,124	12,024,646	(496,367)	11,528,280
Segment income (loss)	52,674	235,330	249,914	537,919	46,543	584,462	(38,564)	545,898
Segment assets	1,485,356	1,359,118	2,621,724	5,466,198	1,245,884	6,712,083	1,813,217	8,525,300
Other items:								
Depreciation and amortization	9,079	43,502	42,745	95,326	26,142	121,468	8,029	129,497
Amortization of goodwill	—	—	49,810	49,810	1,589	51,400	—	51,400
Interest income	349	401	1,780	2,530	1,418	3,948	251	4,199
Interest expense	3,022	4,026	16,426	23,474	2,377	25,851	(12,764)	13,087
Equity in earnings (losses) of affiliates	(464)	(13)	17,389	16,912	11,633	28,545	4	28,549
Investments in affiliates	7,517	15	109,966	117,498	322,012	439,510	(80)	439,429
Increase in tangible and intangible fixed assets	6,674	66,840	60,463	133,978	35,337	169,314	24,576	193,890

(Related information)

(1) Products and services information

Millions of yen				
Year Ended March 31, 2018	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥443,793	¥757,360	¥20,845	¥1,221,998

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

Thousands of U.S. dollars				
Year Ended March 31, 2018	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$4,186,724	\$7,144,908	\$196,648	\$11,528,280

(2) Geographic area information

Sales information by geographic area was as follows:

Millions of yen				
Year Ended March 31, 2018	Japan	North America	Other Area	Total
	¥870,641	¥227,017	¥124,340	¥1,221,998

Note: ¥226,671 million of North America total due to the United States



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

Note: ¥130,214 million of North America total due to the United States

Year Ended March 31, 2018	Thousands of U.S. dollars			
	Japan	North America	Other Area	Total
	\$8,213,590	\$2,141,668	\$1,173,022	\$11,528,280

Note: \$2,138,408 thousand of North America total due to the United States

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

As of March 31, 2018	Millions of yen			
	Japan	Oceania	Other Area	Total
	¥94,382	¥47,684	¥11,047	¥153,113

Note: ¥39,215 million of Oceania total due to New Zealand

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

Note: ¥40,617 million of Oceania total due to New Zealand

As of March 31, 2018	Thousands of U.S. dollars			
	Japan	Oceania	Other Area	Total
	\$890,392	\$449,847	\$104,220	\$1,444,460

Note: \$369,956 thousand of Oceania total due to New Zealand

### (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)

Year Ended March 31, 2018	Millions of yen					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Loss on impairment of fixed assets	¥—	¥—	¥5,727	¥—	¥—	¥5,727

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

Year Ended March 31, 2018	Thousands of U.S. dollars					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Loss on impairment of fixed assets	\$—	\$—	\$54,032	\$—	\$—	\$54,032

(Amortization and balance of goodwill)

As of/Year Ended March 31, 2018	Millions of yen					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Amortization of goodwill	¥—	¥—	¥ 5,280	¥ 168	¥—	¥ 5,448
Balance of goodwill	—	—	12,898	2,864	—	15,762

As of/Year Ended March 31, 2017	Millions of yen					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Amortization of goodwill	¥—	¥—	¥ 2,274	¥—	¥—	¥ 2,274
Balance of goodwill	—	—	11,065	—	—	11,065

As of/Year Ended March 31, 2018	Thousands of U.S. dollars					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Amortization of goodwill	\$—	\$—	\$ 49,810	\$ 1,589	\$—	\$ 51,400
Balance of goodwill	—	—	121,684	27,018	—	148,701

## 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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Profit attributable to owners of parent per share—Basic:			
Profit attributable to owners of parent	¥ 30,135	¥ 34,532	\$284,295
Income not available to common stockholders	—	—	—
Profit attributable to owners of parent available to common stockholders	30,135	34,532	284,295
Weighted average number of shares issued	178,859,807	177,129,048	—
Profit attributable to owners of parent per share fully diluted—Diluted:			
Adjusted profit attributable to owners of parent	—	—	—
Common shares increase	10,889,784	10,784,027	—
(Convertible bonds with stock acquisition rights)	(10,785,741)	(10,719,837)	—
(Subscription rights to shares)	(104,043)	(64,190)	—

(b) Net assets per share

Details on the computation of net assets per share as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net assets per share:			
Total net assets	¥ 345,639	¥ 295,857	\$3,260,745
Amounts deducted from total net assets:	34,002	20,946	320,775
(Subscription rights to shares)	(129)	(82)	(1,220)
(Non-controlling interests)	(33,873)	(20,864)	(319,555)
Net assets attributable to shares of common stock	311,637	274,911	2,939,970
The number of shares of common stock used for the calculation of net assets per share	181,284,002	177,128,269	—

## 22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized gain (loss) on available-for-sale securities:			
Amount incurred during the year	¥11,260	¥13,804	\$106,230
Reclassification adjustments for gains and losses included in net income	(110)	(87)	(1,038)
Amount before tax effect	11,150	13,717	105,192
Tax effect	(3,456)	(4,083)	(32,607)
Unrealized gain (loss) on available-for-sale securities	7,694	9,634	72,586
Deferred gain (loss) on hedges:			
Amount incurred during the year	(203)	(34)	(1,913)
Reclassification adjustments for gains and losses included in net income	—	3	—
Amount before tax effect	(203)	(32)	(1,913)
Tax effect	62	10	586
Deferred gain (loss) on hedges	(141)	(22)	(1,327)
Translation adjustments:			
Amount incurred during the year	(756)	748	(7,131)
Reclassification adjustments for gains and losses included in net income	—	(398)	—
Amount before tax effect	(756)	350	(7,131)
Tax effect	—	—	—
Translation adjustments	(756)	350	(7,131)
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	(186)	(162)	(1,751)
Reclassification adjustments for gains and losses included in net income	(698)	(34)	(6,581)
Share of other comprehensive income of affiliates accounted for by the equity method	(883)	(196)	(8,332)
Total other comprehensive income	¥ 5,914	¥ 9,766	\$ 55,795

## 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, 2018 and 2017 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of the year	¥1,488	¥1,406	\$14,039
Liability incurred for assets acquired	104	116	985
Accretion expense	10	10	96
Liabilities settled	(96)	(44)	(906)
Balance at end of the year	¥1,507	¥1,488	\$14,214



## 24. Related Party Transactions

Principal transactions between the Company, the Company's consolidated subsidiaries and their related parties for the year ended March 31, 2018 were summarized as follows:

2018			Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Name	Title	Transactions	Amounts	Amounts	Balance at the end of the year	Balance at the end of the year
Noriaki Toi	Corporate auditor of the Company	Sales of housing	¥20	\$186	¥21	\$201

Notes: 1. The price 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 Edge Homes Group)

Provisional accounting treatment had been applied to the business combination involving the Edge Homes Group (Edge Utah HoldCo, LLC and 17 other companies) that was conducted on February 9, 2017 (U.S. date) in the previous fiscal year, but it has been finalized in the fiscal year ended March 31, 2018. 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 ¥5,018 million (\$47,337 thousand) decreased by ¥1,124 million (\$10,604 thousand) to ¥3,894 million (\$36,733 thousand) with the finalization of the accounting treatment, and it will be amortized by the straight-line method over three years. The decrease in goodwill is due to a ¥72 million (\$678 thousand) adjustment of the purchase price as well as a ¥42 million (\$401 thousand) increase in real estate for sale, a ¥633 million (\$5,971 thousand) increase in real estate for sale in process, a ¥1,192 million (\$11,242 thousand) increase in other intangible assets, a ¥159 million (\$1,497 thousand) increase in deferred tax liabilities and a ¥513 million (\$4,835 thousand) increase in non-controlling interests.

### (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 determining the acquirer  
The Company's consolidated subsidiary, Sumitomo Forestry America, Inc., has 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

From April 1, 2017 to December 31, 2017  
Operational results of the acquiree from January 1, 2017 to March 31, 2017 were recorded as equity in earnings (losses) of affiliates as the transaction was deemed to have been completed on April 1, 2017.

### 3. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisitions: ¥13,650 million (\$128,772 thousand)  
Costs incurred additionally for acquisition ¥ 4,095 million (\$ 38,631 thousand)  
Acquisition cost: ¥17,745 million (\$167,403 thousand)

### 4. Description and amount of primary acquisition-related costs

Advisory fee: ¥3 million (\$31 thousand)

### 5. Difference of total cost of acquisition and individual acquisition costs

Gain on step acquisition: ¥6,464 million (\$60,985 thousand)

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

(1) Amount of goodwill  
¥7,223 million (\$68,138 thousand)

(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 3 years

### 7. Assets acquired and liabilities assumed at the date of business combination

See Note 12.

### 8. Estimated impact on the consolidated statement of income in the year ended March 31, 2018, assuming that the business combination was concluded on April 1, 2017, and the method of calculation

	Millions of yen	Thousands of U.S. dollars
Sales	¥10,168	\$95,926
Recurring income	958	9,034
Net income	322	3,034

### (Method by which estimated amounts were calculated)

The estimated amounts were calculated based on the difference between financial information on sales and income calculated on the assumption that the business combination was concluded at the beginning of the year ended March 31, 2018 and financial information on sales and income contained in the consolidated statement of income of the acquiring company.

The estimated amounts of the impact have not been audited.

## 26. Stock Option Plan

### 1. Stock option expenses per accounts for the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Selling, general and administrative expenses	¥48	¥46	\$449

### 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)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Individuals covered by the plan	Directors of the Company: 8 Executive officers of the Company: 11 Total: 19	Directors of the Company: 8 Executive officers of the Company: 13 Total: 21	Directors of the Company: 8 Executive officers of the Company: 12 Total: 20
Number of stock options granted by class of share (Note)	Common stock: 38,800 shares	Common stock: 41,400 shares	Common stock: 38,500 shares
Grant date	August 20, 2015	August 19, 2016	August 18, 2017
Vesting conditions	No provisions	No provisions	No provisions
Eligible service period	No provisions	No provisions	No provisions
Exercise period	From August 21, 2015 to August 20, 2035	From August 20, 2016 to August 19, 2036	From August 19, 2017 to August 18, 2037

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, 2018	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Unvested stock options			
As of March 31, 2017	—	—	—
Granted	—	—	38,500
Forfeited	—	—	—
Vested	—	—	38,500
Unvested	—	—	—
Vested stock options			
As of March 31, 2017	38,800	41,400	—
Vested	—	—	38,500
Exercised	—	—	—
Forfeited	—	—	—
Unexercised	38,800	41,400	38,500

## 2) Unit price information

Year Ended March 31, 2018	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price when exercised	—	—	—
Fair unit value on the grant date	¥1,233	¥1,092	¥1,256

## 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. 2017 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, 2018	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Stock price volatility (Note 1)	33.18%
Expected remaining period (Note 2)	11.5 years
Expected dividends per share (Note 3)	¥35 (\$0.33)
Risk-free rate (Note 4)	0.114%

Notes: 1. Stock price volatility was computed by the actual stock prices of the Company during the period from February 17, 2006 to August 18, 2017.  
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, 2017.  
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. Subsequent Events

*(Business combination through acquisition)*

At the board meeting of the Company held on April 27, 2018, a resolution was passed to acquire all interests in the new company taking over the business of US-based Crescent Communities, LLC through the consolidated subsidiary Sumitomo Forestry America, Inc. The Company intends to make it a consolidated subsidiary.

## 1. Summary of the business combination

(1) Name of the acquiree and business description

Name of the acquiree: TBD

Description of business: Apartment development business, commercial complex development business and spec homes business

(2) Main reason for implementing the business combination

In July 2017, the Group began developing apartments in North Carolina in the United States of America as a joint venture with Crescent Communities, LLC. Given the existing good partnership with Crescent Communities, LLC, the Group has decided to acquire all interests in the new company for the purpose of business diversification and stabilization of earnings.

(3) Date of the business combination

June 30, 2018 (as planned)

(4) Legal form of the business combination

Acquisition of shares for a cash consideration

(5) Ratio of voting rights acquired

100%

(6) Main reasons for determining the acquirer

Sumitomo Forestry America, Inc., the Company's consolidated subsidiary, is going to acquire the shares for a cash consideration.

## 2. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisition	Cash	¥39,300 million (\$371,000 thousand)
Acquisition cost		¥39,300 million (\$371,000 thousand)

Note: The amount above is provisional as of the date the agreement was signed. The actual amount may vary depending on any value adjustment.

## 3. Amount of goodwill, reason for its recognition, and amortization method and period

Not yet determined.

*(Introduction of a remuneration plan through shares with restriction on transfer)*

At the board meeting held on May 11, 2018, the Company revised its executive remuneration plans and resolved to introduce a remuneration plan (the "Plan") through shares with restriction on transfer. The Plan was approved at the 78th Annual General Meeting of Shareholders held on June 22, 2018.

## 1. Purpose of the Plan implementation

As part of the revision of its executive remuneration plans, the Company proposed to introduce a remuneration plan through which shares

with restriction on transfer will be allotted to Directors (excluding Outside Directors), in order to give them incentives to strive to increase the medium- and long-term corporate value of the Company, at the same time as realizing a prompt sharing of value with the Company's shareholders by having such Directors hold shares from the time of an allotment, as compared to the stock acquisition rights designed as stock-based compensation stock options.

## 2. Outline of the Plan

(1) Allotment of and payment for the shares with restriction on transfer  
The Company will, pursuant to the resolution of the board meeting, provide to Directors (excluding Outside Directors) monetary compensation receivables within ¥100,000,000 per year, as remuneration in order to conduct an allotment of shares with restriction on transfer. Each Director will accept an allotment of shares with restriction on transfer by providing all of such monetary compensation receivables as a contribution in kind.

The amount to be paid in for shares with restriction on transfer will be determined by the board of directors, based on the closing price of the common shares of the Company quoted on the Tokyo Stock Exchange as of the business day immediately preceding the date of resolution of the board meeting concerning issuance or disposition of such shares (if no transaction is executed on such date, then the closing price quoted as of the immediately preceding trading day), of which the amount shall be within the scope that will not be particularly beneficial to Directors who will accept such shares with restriction on transfer.

With respect to provision of the monetary compensation receivables, such shall be made on condition that Directors of the Company have agreed to the contribution in kind stated above and that Directors have concluded an agreement on an allotment of shares with restriction on transfer containing the contents set forth in (3) below.

(2) Total number of the shares with restriction on transfer

The maximum number of shares with restriction on transfer to be allotted to Directors (excluding Outside Directors) during the period of one year commencing on the date of the relevant annual general meeting of shareholders pertaining to each fiscal year shall be 350,000 shares.

Notwithstanding the foregoing, if a share split (including an allotment of the common shares of the Company without contribution) or a reverse share split of the common shares of the Company is conducted, or in the event of arising of any other equivalent case which requires an adjustment of the total number of shares with restriction on transfer to be allotted, the Company may make an appropriate adjustment to such total number of shares with restriction on transfer within the reasonable scope.

(3) Outline of the agreement on allotment of shares with restriction on transfer

Upon an allotment of shares with restriction on transfer, the Company and Directors who will receive the allotment of shares with restriction on transfer shall conclude an agreement on the allotment of shares with restriction on transfer (the "Allotment Agreement") containing the following provisions, pursuant to the resolution of the board meeting.

- Details of restriction on transfer

Directors who have received an allotment of shares with restriction on transfer may not assign, provide as collateral or otherwise dispose of such shares with restriction on transfer to a third party for a period of 30 years ("Restriction Period").

- Treatment upon retirement

If any Director who has received an allotment of shares with restriction on transfer retires from the post of both Director and Executive Officer of the Company on or prior to the day immediately preceding the date of the first annual general meeting of shareholders of the Company arriving on or after the commencement date of the Restriction Period, the Company shall automatically acquire shares with restriction on transfer allotted to such Director ("Allotted Shares") without consideration, except for the case of expiry of term of office, death or where there is any other reason deemed justifiable by the board of directors.

- Removal of restriction on transfer

On condition that Directors who has received an allotment of shares with restriction on transfer continues to be in the office of either Director or Executive Officer of the Company during the period commencing on the date of commencement of the Restriction Period until the date of the first annual general meeting of shareholders of the Company arriving on or after the date of commencement of the Restriction Period, the Company shall remove the restriction on transfer in respect of all of the Allotted Shares as at the time of expiry of the Restriction Period. Notwithstanding the foregoing, if the relevant Director retires from the post of both Director and Executive Officer of the Company prior to the expiry of the Restriction Period due to expiry of term of office, death or any other reason deemed justifiable by the board of directors, the number of the Allotted Shares subject to removal of restriction on transfer and the timing of removal of restriction on transfer shall be adjusted in a reasonable manner and as required.

From among the Allotted Shares, should there be any of them with respect to which removal of restriction on transfer under the provisions of this item has not been made at the time of expiry of the Restriction Period, the Company shall automatically acquire them without consideration.

- Treatment at the time of entity conversion or the like

If a proposal concerning a merger agreement where the Company becomes the disappearing company, share exchange agreement or share transfer plan where the Company becomes the wholly-owned subsidiary, or any other proposal regarding entity conversion or the like is passed at the Company's general meeting of shareholders (or at the board of directors, where such entity conversion or the like does not require approval of the Company's general meeting of shareholders) during the Restriction Period, the Company shall, prior to the date of effectuation of such entity conversion or the like, remove the restriction on transfer for the number of the Allotted Shares reasonably determined considering the period from date of commencement of the Restriction Period until the date of approval of such entity conversion or the like, pursuant to the resolution of the board meeting.

In this case, the Company shall automatically acquire without consideration the Allotted Shares with respect to which the restriction on transfer still is not removed as at the time immediately after the removal of the restriction on transfer pursuant to the foregoing provision.

- Others provisions

In addition to the above, the method of manifestation of intention and notice under the Allotment Agreement, method of amendment of the Allotment Agreement and other matters determined by the board of directors shall be included in the Allotment Agreement.

<Reference Information>

The Company also plans to introduce a plan which shall be equivalent to the Plan, for the Company's Executive Officers (excluding Executive Officers who concurrently serve as Directors).



## 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, 2018, 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, 2018, 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 22, 2018  
Tokyo, Japan

## Sumitomo Forestry Group Overview

(As of July 31, 2018)

### Domestic Group Overview

■ Sumitomo Forestry Crest Co., Ltd.	Manufacture and sale of various types of plywood, building components for housing, and adhesives, etc.
■ Sumitomo Forestry Wood Products Co., Ltd.	Procurement and sale of Japanese timber, management of forest, and forestry-related businesses
■ Sumirin Sash Co., Ltd.	Secondary processing and sale of aluminum sashes, exterior finishing
■ Sumikyo Wintec Co., Ltd.	Sale of door and window sashes for housing and low- and mid-rise buildings, and exterior finishing materials
■ Sumikyo Co., Ltd.	Secondary processing and sale of aluminum sashes, exterior finishing
■ Igeto Co., Ltd.	Sale of housing materials and equipment
■ Daiichisansho Co., Ltd.	Sale of housing materials and equipment, interior and exterior finishing
■ Nihei Co., Ltd.	Sale of housing materials and equipment, ancillary work
■ Home Eco Logistics Co., Ltd.	Distribution services for home building materials
■ Nichiha Fuji Tech Co., Ltd.	Manufacture and sale of ceramics and construction materials
■ Sumitomo Forestry Home Service Co., Ltd.	Sales agent for land and housing
■ Sumitomo Forestry Residential Co., Ltd.	Management of condominiums and apartments
■ Sumitomo Forestry Home Tech Co., Ltd.	Renovation and maintenance of Sumitomo Forestry's custom-built wooden detached homes and renovation of regular detached houses, stores and offices, as well as condominiums
■ Sumitomo Forestry Landscaping Co., Ltd.	Urban greening, landscaping for private residences, plant management, procurement and sale of trees and landscape materials, plant rental, production and sale of nursery compost, culture soil for gardening, etc.
■ Sumitomo Forestry Home Engineering Co., Ltd.	Construction and construction supervision of Sumitomo Forestry's custom-built wooden detached homes
■ Sumitomo Forestry Archi Techno Co., Ltd.	Design, production support, site and foundation surveys, analysis of foundation and application for housing performance evaluation for Sumitomo Forestry's custom-built wooden detached homes
■ Meikan Honchoshia PFI Co., Ltd.	Redevelopment of headquarters, etc., of Nagoya Port Authority
■ Japan Bio Energy Co., Ltd.	Intermediate processing of industrial waste products, and supply and sale of wood chips
■ Kawasaki Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Okhotsk Bio Energy Co., Ltd.	Supply and sale of wood chips
■ Mombetsu Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Michinoku Bio Energy Co., Ltd.	Supply and sale of wood chips
■ Hachinohe Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Tomakomai Biomass Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Sumitomo Forestry Information Systems Co., Ltd.	Development of computer systems, etc.
■ Sumirin Wood Peace Co., Ltd.	Bed log shiitake mushroom cultivation and sale, production and processing of timber and interior products, printing
■ Sumirin Enterprises Co., Ltd.	Various services for insurance agency, equipment leasing, office services, etc.
■ Sumirin Business Service Co., Ltd.	Staffing business, training, business contracting
■ Kawanokita Development Co., Ltd.	Management of the Takinomiya Country Club golf course
■ Sumirin Fill Care Co., Ltd.	Management of private-pay elderly care facilities, etc.
■ Sumirin Care Life Co., Ltd.	Management of private-pay elderly care facilities, home nursing care service
■ Kumagai Gumi Co., Ltd.	Construction and peripheral businesses