

other information with business partners, including component makers and building contractors. By enabling advanced procurement of materials and production, the Company is striving to reduce the risk of a disruption to operations.

We also review suppliers for building and construction materials and others with regard to business continuity issues, including whether they have planned alternative supply routes in the event of a disaster.

Going forward, in the event of an earthquake or other natural disaster, or an accident such as a fire occurring at a supplier, we plan to further reduce the risk of business interruption by examining the creation of a system for suppliers

to give a damage report to Sumitomo Forestry and a system to manage damage histories.

Maintaining Customer Service

Sumitomo Forestry has set up call centers in Tokyo and Fukuoka that are able to provide 24-hour after-sales services, developing a mechanism whereby either call center can back up the functions of the other call center in the event of a disaster.

By managing information for each base through a unified emergency system, the Company can share disaster information pertaining to owners nationwide, enabling a quick response to requests for repairs.

External Recognitions (As of August 2019)



The FTSE4Good Global Index is a stock market index of the index provider FSTE, a joint venture between of the UK's Financial Times and London Stock Exchange. We have been consecutively included in this index every year since 2004.



Sumitomo Forestry was awarded the Gold Class commendation for the fourth time in the Sustainability Yearbook 2019, a CSR rating by RobecoSAM. At the same time, we are also recognized as an "Industry Mover" as the company with the largest improvement in scores compared to the previous year in the Homebuilding Industry. In addition to being selected as one of the world's most sustainable companies for the 12th straight year in the Home Building Industry Sector.



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 third year running as a Climate Change A List company by CDP, its highest ranking. Of the companies selected for the A List in 2018, there were 126 global firms and 20 Japanese companies, including Sumitomo Forestry.



Sumitomo Forestry was selected as a constituent of the "Dow Jones Sustainability Asia Pacific Index," a global ESG investment stock index, and "Industry Leader" the Homebuilding Industry, the highest level of recognition.



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).

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Sumitomo Forestry has been selected for inclusion in the "S&P/JPX Carbon Efficient Index," an environmental index jointly developed by the Tokyo Stock Exchange and S&P Dow Jones Indices and that has been adopted as an index for the Government Pension Investment Fund (GPIF).



Sumitomo Forestry was selected as one of the "New Diversity Management Selection 100 in FY2018" (commendation by the Minister of Economy, Trade and Industry) sponsored by the Ministry of Economy, Trade and Industry, which recognizing companies that use diverse human resources to create value.



Sumitomo Forestry has been selected as a Certified Health and Productivity Management Organization (in the large company category) for three consecutive years as a company that strives to strategically consider employee health management from a management perspective.



The convertible bonds with stock acquisition rights issued in September 2018, the world's first Green Convertible Bond that complies with the Green Bond Principles and has obtained a second-party opinion from a major evaluation organization. Sumitomo Forestry was the first Japanese company to receive an award in the "New Products" category of the "4th Green Bond Pioneer Awards" sponsored by the Climate Bonds Initiative.



Financial Section

Eleven-Year Consolidated Financial Summary

	Millions of yen										
(Years ended March 31)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Operating Results:											
Net sales	¥1,308,893	¥1,221,998	¥1,113,364	¥1,040,524	¥997,256	¥972,968	¥845,184	¥831,870	¥797,493	¥723,923	¥823,810
Gross profit	232,146	219,315	204,138	183,134	169,492	160,162	141,436	136,873	132,568	124,269	133,493
Selling, general and administrative expenses	182,899	166,294	150,149	153,041	135,498	126,747	116,105	117,682	118,330	114,522	126,656
Operating income	49,247	53,021	53,989	30,093	33,994	33,415	25,330	19,191	14,238	9,747	6,837
Recurring income	51,436	57,865	57,841	30,507	36,424	33,567	26,981	20,714	14,206	9,465	6,160
Profit attributable to owners of the parent / Net income	29,160	30,135	34,532	9,727	18,572	22,531	15,923	9,271	5,175	2,377	1,028
Recurring income (excluding actuarial differences)	54,846	55,574	52,860	42,038	36,681	34,586	26,630	25,631	16,998	7,101	11,159
Financial Position:											
Total assets	¥ 970,976	¥ 899,120	¥ 794,360	¥ 710,318	¥665,538	¥645,197	¥547,973	¥503,496	¥489,417	¥469,738	¥427,738
Working capital*1	236,047	209,506	190,386	178,215	158,110	120,725	91,335	94,509	89,665	88,338	81,700
Interest-bearing debt	248,885	200,630	163,817	119,069	103,369	92,975	69,229	67,923	69,229	66,786	49,127
Total net assets	353,489	345,639	295,857	265,257	260,782	226,078	193,250	169,335	163,110	162,930	156,192
Cash Flows:											
Cash flows from operating activities	¥ 40,689	¥ 13,732	¥ 40,337	¥ 45,705	¥ 14,709	¥ 54,057	¥ 45,910	¥ 26,873	¥ 17,515	¥ 37,239	¥ (8,161)
Cash flows from investment activities	(71,659)	(46,250)	(62,350)	(9,972)	(23,575)	(10,476)	(28,662)	(32,903)	(13,247)	(19,117)	(29,062)
Cash flows from financing activities	11,523	25,156	14,267	1,813	(17,286)	8,511	(5,305)	(5,622)	372	11,546	24,196
Cash and cash equivalents at the end of the year	105,102	125,555	132,707	141,265	103,296	128,343	75,658	63,839	75,582	71,662	40,730
Capital Investment:											
Tangible fixed assets	¥ 18,320	¥ 17,079	¥ 50,940	¥ 18,042	¥ 12,617	¥ 14,735	¥ 7,058	¥ 10,970	¥ 11,923	¥ 10,636	¥ 24,075
Intangible fixed assets	3,173	2,171	2,839	2,006	2,488	2,417	2,890	2,786	2,434	1,561	2,013
Others	838	1,302	349	400	282	252	343	194	215	395	150
Total	22,331	20,552	54,128	20,448	15,388	17,404	10,291	13,950	14,572	12,592	26,238
Depreciation and amortization	13,696	13,727	12,887	11,753	11,453	9,810	8,978	8,469	8,437	8,502	8,477
Yen											
Per Share Data:											
Profit attributable to owners of the parent / Net income	¥ 160.80	¥ 168.49	¥ 194.95	¥ 54.92	¥ 104.85	¥ 127.20	¥ 89.89	¥ 52.34	¥ 29.21	¥ 13.42	¥ 5.80
Net assets	1,755.06	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
Cash dividends	40.0	40.0	35.0	24.0	21.5	19.0	17.0	15.0	15.0	15.0	15.0
%											
Financial Ratios:											
Gross profit margin	17.7	17.9	18.3	17.6	17.0	16.5	16.7	16.5	16.6	17.2	16.2
Operating income margin	3.8	4.3	4.8	2.9	3.4	3.4	3.0	2.3	1.8	1.3	0.8
Recurring income margin	3.9	4.7	5.2	2.9	3.7	3.4	3.2	2.5	1.8	1.3	0.7
Return on assets (ROA)*2	5.5	6.8	7.7	4.4	5.6	5.6	5.1	4.2	3.0	2.1	1.4
Return on equity (ROE)*2	9.3	10.3	13.3	4.0	8.0	11.0	8.8	5.6	3.2	1.5	0.6
Equity ratio	32.8	34.7	34.6	34.3	36.9	33.9	35.1	33.6	33.3	34.6	36.5
Interest-bearing debt ratio*3	43.9	39.2	37.3	32.8	29.6	29.8	26.5	28.7	29.8	29.1	23.9
Current ratio	163.2	158.8	158.8	156.9	154.1	137.0	133.1	137.1	136.8	140.3	141.6
Interest coverage ratio (times)*4	20.1	9.6	27.1	43.1	12.6	44.2	34.9	20.0	13.7	31.8	-

*1. Working capital = Current assets – Current liabilities

*2. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

*3. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

*4. Interest coverage ratio (times) = Cash flows from operating activities / Interest payments

Management's Discussion and Analysis

Market Overview

In fiscal 2018 (the fiscal year ended March 31, 2019), the global economy continued a mild recovery overall with steady economic recovery in the United States despite some signs of weakness in China and Europe resulting primarily from trade problems sparked by changes in American policies. In Japan, there has also been a mild recovery owing mainly to improved employment conditions and increased capital expenditures, but there were some signs of weakness in exports and production, and the outlook for consumer spending remained uncertain. In the domestic housing market, there appeared to be a decline in a portion of the rental housing due to financial institutions taking a careful approach toward financing, but the number of new housing starts increased from the previous year as interest rates on housing loans remained low.

Consolidated Operating Results

1 Net Sales and Orders Received

Net sales rose 7.1% year on year to ¥1,308,893 million. The Sumitomo Forestry Group worked to improve profitability in the main businesses of custom-built detached housing and timber and building materials, while also diversifying our revenue streams, including aggressively investing management resources into expanding the domain of our overseas business and pouring effort into the wood biomass power generation business and other resource and environment-related businesses.

The amount of orders for custom-built detached houses rose 18.2% to ¥343,204 million, reflecting an increase in the number of orders as well as a rise in unit price.

2 Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 10.0% year on year to ¥182,899 million. Excluding actuarial differences arising from accounting for retirement benefits, SG&A expenses rose 6.5% to ¥179,489 million. The main reason for the increase in SG&A expenses excluding the impact of actuarial differences was the conversion of the Crescent Communities Group and Mark III Properties, LLC into consolidated subsidiaries.

3 Operating Income, Recurring Income

Operating income declined 7.1% year on year to ¥49,247 million, and recurring income declined 11.1% to ¥51,436 million. Earnings on a core business basis excluding actuarial differences rose 3.8% at the operating level from ¥50,730 million in the previous fiscal year to ¥52,658 million and decreased 1.3% at the recurring level to ¥54,846 million. Although operating income increased due to the growth of the housing business overseas, recurring income declined due to a reduction in equity-method investment gains.

4 Profit Attributable to Owners of Parent

Profit attributable to owners of the parent decreased 3.2% year on year from ¥30,135 million in the previous fiscal year to ¥29,160 million. Although the Company recorded a gain on sales of investment securities as extraordinary gains, this decrease mainly reflected the impact of actuarial differences.

Segment Results

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

Note: Two of the segments have been renamed starting from the fiscal year ended March 31, 2019, with the "Housing Business" changing to the "Housing and Construction Business," and the "Overseas Business" changing to the "Overseas Housing and Real Estate Business." Furthermore, the overseas manufacturing business within the Overseas Business was reclassified within the Timber and Building Materials Business.

1 Timber and Building Materials Business

Net sales in the Timber and Building Materials Business rose 4.7% year on year to ¥487,091 million, while recurring income decreased 7.0% to ¥7,980 million. In the domestic distribution business, results were strong, including an increase in the sales volume, owing to a recovery of timber prices in the market and strengthening of partnerships with trading partners. Moreover, to promote further diversification of revenue streams, we worked to expand exports of domestic timber, poured effort into expanding the volume of fuel wood for power generation handled, and endeavored to provide high-value-added services, including supplying construction materials for commercial facilities. As restrictions grow stronger on logging in natural forests in each country, we also made efforts to expand our sustainable products, including expanding sales of environmentally friendly products made with timber from certified forests and plantation timber. Overseas, we worked out of our regional headquarters in Singapore to expand sales of timber and building materials primarily in Vietnam and China. In the domestic manufacturing business, we continued to work on improving profitability through such means as focusing on expanding sales of high-value-added stairway material and other products that are easy to assemble at the construction site and shorten the time required for construction. In New Zealand, domestic sales and sales to Japan were strong, but results were sluggish due to a rise in manufacturing costs.

2 Housing and Construction Business

Net sales in the Housing and Construction Business increased

0.8% year on year to ¥452,839 million, and recurring income declined 13.4% to ¥21,598 million.

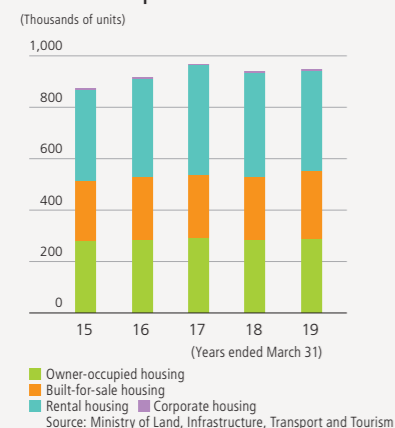
Custom-Built Detached Housing Business

In the custom-built detached housing business, we worked to offer highly customized proposals to first-time buyers looking for land and enhance our proposal capabilities with respect to products that take advantage of our original technology and design capabilities. We also poured effort into expanding orders for ZEH (net zero-energy house). As a result, the number of completed and delivered units increased compared to the previous year, but results were sluggish due primarily to rising prices of construction materials. On the product side, we added domestic oak to our lineup of interior materials for flooring and other uses made with precious wood such as oak, teak, pine, maple, and walnut procured from overseas via our own network. Additionally, we further expanded the diversity of room spaces available with "The Forest BF," which offers various room spaces with customizable ceiling heights to meet the demands of various customers. This included new proposals incorporating positive elements of exterior design from traditional Japanese architecture such as deep eaves and a bigger selection of types and designs of flooring and fittings to go along with the customized ceiling heights.

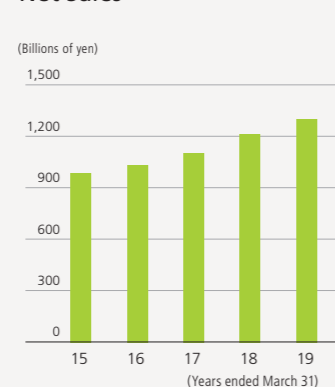
Apartment Business

In our apartment business, we worked to expand orders for apartments using our Wall Frame (WF) method, which allows for greater customization of floor plans and more adaptability to tenant needs while also attempting to improve our sales capabilities in cities with large markets by opening branches in Tokyo, Osaka, and Nagoya. Furthermore, as tenant lifestyles become more diverse and greater performance is required of apartments, we worked to provide more comfortable living environments. These efforts included joint development of sound insulating flooring and use of that flooring in our Forest Maison apartments.

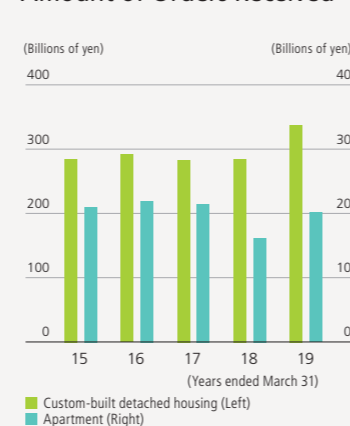
Number of New Housing Starts in Japan



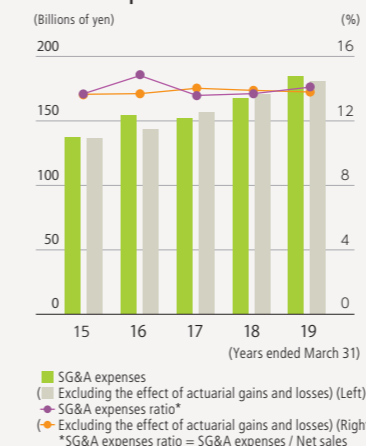
Net Sales



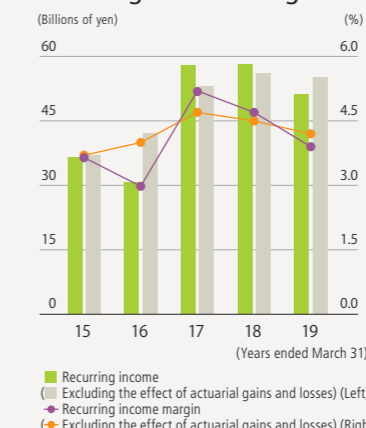
Amount of Orders Received



SG&A Expenses and SG&A Expenses Ratio



Recurring Income and Recurring Income Margin



Profit Attributable to Owners of the Parent and ROE



Renovation Business

In the renovation business, we worked to strengthen our sales capabilities, including by increasing the number of interior coordinators and designers. We also poured effort into expanding orders for earthquake resistance renovations utilizing our high level of technical capabilities based on proprietary seismic-resistance and seismic-vibration damper construction methods and renovation of traditional Japanese-style houses. As a result, business results were strong.

MOCCA (Timber Solutions) Business

In our MOCCA (Timber Solutions) business, we steadily built upon our track record of construction, including completing a wooden day-care center and guest house, to promote adoption of wood construction and material in buildings. Additionally, in our collaboration with strategic partner and equity-method affiliate Kumagai Gumi Co., Ltd., we performed design testing on wood construction and material with properties they constructed and worked on identifying issues such as cost. This was just one of the ways we worked on strengthening our partnership in relation to medium- and large-scale wooden architectural structures.

3 Overseas Housing and Real Estate Business

Net sales in the Overseas Housing and Real Estate Business increased 19.3% year on year to ¥364,878 million, and recurring income rose 9.9% to ¥25,812 million.

In the overseas spec homes business, the overall number of units delivered in the United States increased compared to the previous year as a result of strong housing markets in states such as Washington, Utah, Texas, Maryland, and North Carolina

Housing and Construction Business

(Years ended March 31)		2016	2017	2018	2019
Orders					
Custom-Built Detached Housing	(¥ million)	¥297,490	¥288,458	¥290,326	¥343,204
	(Units)	7,730	7,427	7,608	8,513
Apartment	(¥ million)	¥ 22,967	¥ 22,540	¥ 17,195	¥ 20,872
	(Units)	1,523	1,519	948	1,071
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 63,604	¥ 63,202	¥ 63,315	¥ 73,661
Sales					
Custom-Built Detached Housing	(¥ million)	¥299,837	¥306,307	¥288,582	¥291,921
	(Units)	7,962	8,098	7,556	7,628
Apartment	(¥ million)	¥ 20,514	¥ 22,125	¥ 20,114	¥ 17,821
	(Units)	1,324	1,551	1,353	1,074
Spec Homes	(¥ million)	¥ 11,606	¥ 11,206	¥ 12,360	¥ 11,929
	(Units)	303	292	308	272
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 61,724	¥ 61,245	¥ 62,700	¥ 66,720

where the Group is engaged in business activities. In Australia, where the Group primarily operates in Melbourne and Sydney, the housing market is in an adjustment phase, so the number of units delivered decreased. In Vietnam, Indonesia, and Thailand, we made steady progress on spec homes and condominium projects to enhance our revenue base in Southeast Asia. We made Mark III Properties, LLC which is engaged in the land development business, a consolidated subsidiary in May 2018. We did the same with Crescent Communities, LLC which is engaged in the real estate development business related to multi-family housing and commercial and mixed-use complexes, in July of the same year. This was part of our efforts to make a full-fledged entry into the overseas real estate development business and further diversify our revenue base and business.

4 Other Businesses

Besides the aforementioned businesses, the Sumitomo Forestry Group operates a biomass power generation business, an overseas forestation business, private-pay elderly care facilities and a wide range of service businesses for residential customers (including non-life insurance agency services). This also includes the business of equity-method affiliate Kumagai Gumi Co., Ltd. Results were strong in the biomass power generation business in both Mombetsu City, Hokkaido, and in Hachinohe City, Aomori, where operations were launched in April 2018.

Net sales in Other Businesses increased 9.2% year on year to ¥40,416 million, and recurring income rose 5.5% to ¥5,203 million.

Segment Performance Highlights

(Years ended March 31)	Millions of yen			
	2018	2019	Change	Percent of change
Net Sales	¥1,221,998	¥1,308,893	+ 86,896	+ 7.1%
Timber and Building Materials Business	465,240	487,091	+ 21,851	+ 4.7%
Housing and Construction Business	449,201	452,839	+ 3,638	+ 0.8%
Overseas Housing and Real Estate Business	305,954	364,878	+ 58,925	+ 19.3%
Other Businesses	37,007	40,416	+ 3,409	+ 9.2%
Adjustments	(35,404)	(36,330)	- 926	-
Recurring Income	¥ 57,865	¥ 51,436	- 6,429	- 11.1%
Timber and Building Materials Business	8,582	7,980	- 602	- 7.0%
Housing and Construction Business	24,945	21,598	- 3,347	- 13.4%
Overseas Housing and Real Estate Business	23,486	25,812	+ 2,327	+ 9.9%
Other Businesses	4,934	5,203	+ 269	+ 5.5%
Adjustments	(4,081)	(9,158)	- 5,076	-

* Net sales include intersegment sales and transfers.

Net sales and recurring income adjustments include net sales and selling, general and administrative expenses at the General Administration Department that cannot be allocated to specific businesses. Business segments were renamed in the fiscal year ended March 31, 2019 as follows: (1) from "Housing" to "Housing and Construction" and (2) from "Overseas" to "Overseas Housing and Real Estate." The Overseas Manufacturing Business (previously included in the Overseas Business) was also reclassified as part of the Timber and Building Materials Business. In addition, segment information for the fiscal year ended March 31, 2018 reflects the new reportable segment classification.

Net Sales and Recurring Income of Main Subsidiaries

(Millions of yen)

Timber and Building Materials Business

(Years ended March 31)	Net Sales		Recurring Income	
	2018	2019	2018	2019
Sumitomo Forestry Crest Co., Ltd.	¥34,125	¥33,752	¥ 123	¥ 387
(Years ended December 31)	2017	2018	2017	2018
Overseas Subsidiaries*1				
PT. Kutai Timber Indonesia (Indonesia)*2	¥12,735	¥13,470	¥ 143	¥ 72
Nelson Pine Industries Ltd. (New Zealand)*2	17,539	17,327	3,157	2,039

Housing and Construction Business

(Years ended March 31)	Net Sales		Recurring Income	
	2018	2019	2018	2019
Sumitomo Forestry Residential Co., Ltd.	¥26,159	¥27,748	¥1,363	¥1,465
Sumitomo Forestry Home Service Co., Ltd.	7,108	7,579	770	536
Sumitomo Forestry Landscaping Co., Ltd.	26,904	25,565	1,288	1,317
Sumitomo Forestry Home Tech Co., Ltd.	66,274	70,317	2,913	3,229

Overseas Housing and Real Estate Business

(Years ended December 31)	Net Sales		Recurring Income	
	2017	2018	2017	2018
Overseas Subsidiaries*1				
Housing Business in U.S.	¥219,421	¥262,195	¥25,625	¥31,040
Housing Business in Australia	86,742	80,377	6,934	4,560

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

	US\$	AU\$	NZ\$
2017.12:	112.19	86.01	79.73
2018.12:	110.44	82.53	76.43

*2 The Overseas Manufacturing Business was transferred to the Timber & Building Materials Business on December 31, 2018.

Financial Position and Cash Flow

1 Financial Position

Total assets totaled ¥970,976 million at the end of fiscal 2019, an increase of ¥71,856 million year on year. The increase in total assets was attributable mainly to the increase in inventories, non-current assets, and investment securities associated with expansion of the Overseas Housing and Real Estate Business, including making the Crescent Communities Group a consolidated subsidiary. Liabilities increased ¥64,005 million compared to the end of the previous fiscal year to ¥617,486 million due mainly to an increase in borrowings associated with making the Crescent Communities Group a consolidated subsidiary. Net assets totaled ¥353,489 million, and the equity ratio was 32.8%.

2 Cash Flow

Cash and cash equivalents as of March 31, 2019 stood at ¥105,102 million, a decrease of ¥20,453 million from the end of the previous fiscal year.

A summary of cash flows in fiscal 2018 is presented below.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥40,689 million. This was due mainly to an increase in capital resulting from posting of ¥56,618 million in income before income taxes and minority interests, despite a decrease in capital resulting from an increase in inventories associated with expansion of the Overseas Housing and Real Estate Business.

Cash flows from investment activities

Net cash used in investment activities totaled ¥71,659 million. This was due mainly to use of funds in the acquisition of ownership stakes in the Crescent Communities Group.

Cash flows from financing activities

Net cash provided by financing activities totaled ¥11,523 million. This was due to an increase in funds from an increase in interest-bearing debt despite the decrease in funds resulting from payment of dividends and acquisition of additional stake in a consolidated subsidiary.

3 Capital Expenditures (Capital Investment)

Capital expenditures increased 8.7% from ¥20,552 million in the previous fiscal year to ¥22,331 million in the fiscal year under review. Investment in tangible fixed assets amounted to ¥18,320 million, while investment in intangible fixed assets amounted to ¥3,173 million. Major investments included around ¥4,600 million for model homes within and outside Japan, around ¥4,100 million in real estate for use by businesses in the United States, and around ¥3,200 million related to software.

1 Housing Market Trends

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

i. 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 potentially affect the Group's operating results and financial position by weakening demand for housing purchases.

ii. 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.

iii. 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.

iv. 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 within Japan. 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 Sumitomo Forestry Group's business, such as the Housing and Construction Business, include Act on the Protection of Personal Information, Building Standards Act, Construction Business Act, Act on Architects and Building Engineers, Real Estate Brokerage Act, City Planning Act, National Land Use Planning Act, Housing Quality Assurance Act, Long-Term Care Insurance Act, Waste Management and Public Cleansing Act, Labor Standards Act, and Industrial Safety and Health Act. The Sumitomo Business Risk 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 related to people's livelihoods, 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

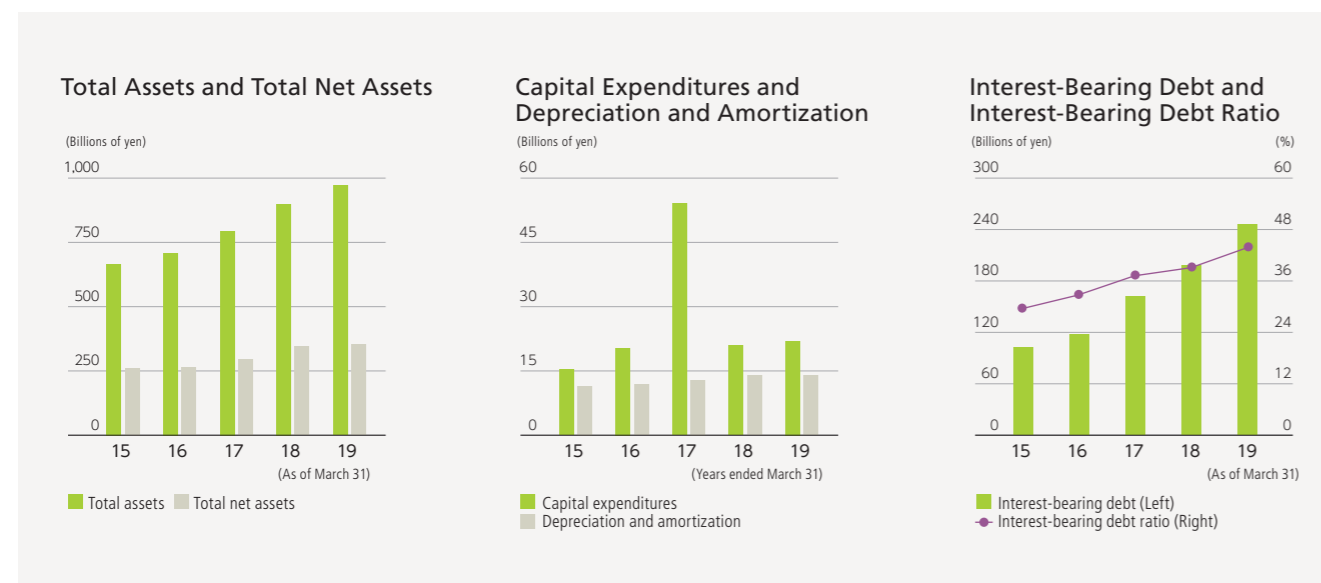
We invest in various businesses, so if profits and return on investment do not go as planned due to factors such as changes in the business environment or a downturn/stagnation in the performance of our investments or business partners, it could result in partial or total loss of our investment or the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



Consolidated Balance Sheet

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2019 and 2018

7 Product Quality Assurance

The Group endeavors to ensure complete quality control with respect to its products and services, housing, and all aspects of its operation. However, serious quality issues that affect our customers such as defects in housing, etc. that arise due to unforeseen circumstances or human error, or life-threatening accidents (and including accidents unique to the elderly care business with private elderly care facilities, etc.), or serious issues with product quality may impact the Group's operating results and financial position due to claims for compensatory damages or loss of trust from customers or the market.

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 affecting 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 potentially affect the Group's operating results and financial position.

13 Environmental Risks from Climate Change and Other Phenomena

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 March 31, 2019.

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Current assets:			
Cash and time deposits (Notes 7, 12, 16)	¥ 82,421	¥ 105,865	\$ 742,599
Marketable securities (Notes 5, 12, 16)	5,304	5,010	47,789
Receivables—			
Notes and accounts, trade (Notes 7, 16, 17)	145,237	135,642	1,308,559
Loans and other (Notes 7, 16)	66,396	57,350	598,214
Inventories—			
Finished goods, logs and lumber	30,070	26,474	270,924
Costs on uncompleted construction contracts (Note 7)	26,945	25,322	242,767
Real estate for sale (Note 7)	63,736	55,751	574,247
Real estate for sale in process (Note 7)	173,472	138,457	1,562,952
Other current assets (Note 7)	16,595	16,042	149,516
Allowance for doubtful accounts	(355)	(343)	(3,202)
Total current assets	609,820	565,570	5,494,366
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 7, 8, 19)	39,513	34,216	356,002
Buildings and structures (Notes 7, 8, 19)	87,084	78,307	784,609
Machinery, equipment and vehicles (Notes 7, 8)	91,685	91,215	826,067
Timber	35,439	37,135	319,301
Construction in progress (Note 7)	11,770	2,700	106,043
Leased assets	8,535	10,728	76,895
	274,025	254,301	2,468,917
Less accumulated depreciation	(104,025)	(101,188)	(937,247)
Net property, plant and equipment	170,000	153,113	1,531,670
Intangible assets, net of amortization:			
Goodwill	12,651	15,762	113,987
Other intangible assets	13,900	13,309	125,234
Total intangible assets	26,551	29,071	239,221
Investments and other assets:			
Investment securities (Notes 5, 7, 16)	140,968	131,470	1,270,097
Long-term loans and receivables	3,628	4,809	32,688
Deferred tax assets (Notes 7, 9)	4,945	5,248	44,557
Asset for retirement benefits (Note 18)	238	138	2,149
Other assets (Note 7)	15,864	12,141	142,931
Allowance for doubtful accounts	(1,039)	(2,440)	(9,361)
Total investments and other assets	164,605	151,366	1,483,060
Total assets	¥ 970,976	¥ 899,120	\$8,748,316

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2019 and 2018

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Current liabilities:			
Payables—			
Notes and accounts, trade (Notes 16, 17)	¥194,142	¥181,853	\$1,749,183
Other	14,385	19,078	129,608
Short-term loans payable (Notes 6, 7)	45,251	35,664	407,705
Current portion of convertible bonds (Note 6)	—	20,000	—
Current portion of long-term loans payable (Notes 6, 7, 16, 17)	16,255	4,827	146,452
Current portion of lease obligation (Note 6)	584	1,100	5,261
Advances received from customers	60,418	55,037	544,356
Accrued income taxes	4,902	4,830	44,168
Accrued employees' bonuses	14,353	11,708	129,320
Accrued directors and corporate auditors' bonuses	143	146	1,288
Other current liabilities (Notes 9, 23)	23,339	21,821	210,283
Total current liabilities	373,772	356,064	3,367,623
Long-term liabilities:			
Bonds issued (Notes 6, 16)	70,000	50,000	630,687
Convertible bonds (Note 6)	10,090	—	90,908
Long-term loans payable (Notes 6, 7, 16, 17)	102,269	84,374	921,426
Long-term lease obligation (Note 6)	4,436	4,666	39,970
Deferred tax liabilities (Note 9)	11,474	13,904	103,375
Liability for retirement benefits (Note 18)	19,822	16,723	178,594
Other long-term liabilities (Note 23)	25,623	27,750	230,856
Total long-term liabilities	243,714	197,417	2,195,817
Contingent liabilities (Note 15)			
Net assets:			
Shareholders' equity (Note 13):			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 182,698,636 shares in 2019 and 182,607,739 shares in 2018	32,752	32,672	295,087
Capital surplus	22,247	23,637	200,443
Retained earnings	241,427	219,562	2,175,214
Treasury stock: 1,325,804 shares in 2019 and 1,323,737 shares in 2018	(2,337)	(2,333)	(21,060)
Total shareholders' equity	294,088	273,538	2,649,683
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	25,196	33,258	227,012
Deferred gain (loss) on hedges	752	(221)	6,780
Translation adjustments	(1,733)	5,053	(15,617)
Retirement benefits liability adjustments	17	9	151
Total accumulated other comprehensive income	24,232	38,099	218,326
Subscription rights to shares	135	129	1,216
Non-controlling interests	35,034	33,873	315,651
Total net assets	353,489	345,639	3,184,876
Total liabilities and net assets	¥970,976	¥899,120	\$8,748,316
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets (Note 21)	¥1,755.06	¥1,719.05	\$15.81

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Net sales (Note 20)	¥1,308,893	¥1,221,998	\$11,792,894
Cost of sales	1,076,747	1,002,683	9,701,296
Gross profit	232,146	219,315	2,091,598
Selling, general and administrative expenses (Note 11)	182,899	166,294	1,647,888
Operating income	49,247	53,021	443,709
Other income (expenses):			
Interest and dividends income	2,114	1,885	19,047
Interest expense	(2,015)	(1,387)	(18,159)
Equity in earnings (losses) of affiliates	1,715	3,026	15,450
Gain on sales of investment securities (Note 5)	4,740	132	42,704
Gain on step acquisition	629	6,464	5,669
Impairment loss (Note 8)	(126)	(5,727)	(1,138)
Other gains (losses), net (Notes 5, 10)	315	1,124	2,838
Total	7,371	5,518	66,411
Income before income taxes	56,618	58,538	510,120
Income taxes (Note 9):			
Current	15,468	16,846	139,360
Deferred	724	3,060	6,525
Total	16,192	19,906	145,885
Profit	40,426	38,632	364,235
Profit attributable to non-controlling interests	11,266	8,497	101,508
Profit attributable to owners of parent	¥ 29,160	¥ 30,135	\$ 262,727
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Profit attributable to owners of parent (Note 21):			
Basic	¥160.80	¥168.49	\$1.45
Diluted	155.32	158.82	1.40
Cash dividends	40.00	40.00	0.36

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Profit	¥ 40,426	¥38,632	\$ 364,235
Other comprehensive income (Note 22):			
Unrealized gain (loss) on available-for-sale securities	(8,144)	7,694	(73,373)
Deferred gain (loss) on hedges	974	(141)	8,771
Translation adjustments	(8,075)	(756)	(72,755)
Share of other comprehensive income of affiliates accounted for by the equity method	(282)	(883)	(2,539)
Total other comprehensive income	(15,527)	5,914	(139,896)
Comprehensive income	¥ 24,899	¥44,547	\$ 224,339
Total comprehensive income attributable to:			
Owners of the parent	¥ 15,293	¥35,864	\$ 137,791
Non-controlling interests	9,606	8,683	86,548

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, 2019 and 2018

Financial Section

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2018	¥32,672	¥23,637	¥219,562	¥(2,333)	¥273,538
Changes during the period:					
Issuance of new shares	26	26			53
Issuance of new shares (exercise of share acquisition rights)	53	53			106
Cash dividends (¥40.00 per share)			(7,295)		(7,295)
Profit attributable to owners of parent			29,160		29,160
Purchases of treasury stock				(5)	(5)
Disposal of treasury stock		0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests		(1,470)			(1,470)
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	80	(1,390)	21,865	(5)	20,550
Balance at March 31, 2019	¥32,752	¥22,247	¥241,427	¥(2,337)	¥294,088

	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, 2018	¥33,258	¥(221)	¥ 5,053	¥ 9	¥ 38,099	¥129	¥33,873	¥345,639
Changes during the period:								
Issuance of new shares								53
Issuance of new shares (exercise of share acquisition rights)								106
Cash dividends (¥40.00 per share)								(7,295)
Profit attributable to owners of parent								29,160
Purchases of treasury stock								(5)
Disposal of treasury stock								0
Change in ownership interest of parent due to transactions with non-controlling interests								(1,470)
Change of scope of equity method								—
Net changes in items other than shareholders' equity	(8,062)	974	(6,786)	8	(13,867)	6	1,161	(12,700)
Total changes during the period	(8,062)	974	(6,786)	8	(13,867)	6	1,161	7,850
Balance at March 31, 2019	¥25,196	¥ 752	¥(1,733)	¥17	¥ 24,232	¥135	¥35,034	¥353,489

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2017	¥27,672	¥18,637	¥196,511	¥ (280)	¥242,541
Changes during the period:					
Issuance of new shares	5,000	5,000			10,000
Issuance of new shares (exercise of share acquisition rights)					—
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
Issuance of new shares (exercise of share acquisition rights)								—
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.

	Thousands of U.S. dollars (Note 4)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2018	\$294,369	\$212,969	\$1,978,211	\$(21,019)	\$2,464,531
Changes during the period:					
Issuance of new shares	238	238			476
Issuance of new shares (exercise of share acquisition rights)	479	479			959
Cash dividends (\$0.36 per share)			(65,724)		(65,724)
Profit attributable to owners of parent			262,727		262,727
Purchases of treasury stock				(42)	(42)
Disposal of treasury stock		0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests		(13,243)			(13,243)
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	717	(12,526)	197,003	(42)	185,153
Balance at March 31, 2019	\$295,087	\$200,443	\$2,175,214	\$(21,060)	\$2,649,683

	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, 2018	\$299,647	\$(1,992)	\$ 45,526	\$ 79	\$ 343,261	\$ 1,165	\$305,188	\$3,114,145
Changes during the period:								
Issuance of new shares								476
Issuance of new shares (exercise of share acquisition rights)								959
Cash dividends (\$0.36 per share)								(65,724)
Profit attributable to owners of parent								262,727
Purchases of treasury stock								(42)
Disposal of treasury stock								0
Change in ownership interest of parent due to transactions with non-controlling interests								(13,243)
Change of scope of equity method								—
Net changes in items other than shareholders' equity	(72,635)	8,771	(61,144)	72	(124,936)	51	10,463	(114,422)
Total changes during the period	(72,635)	8,771	(61,144)	72	(124,936)	51	10,463	70,731
Balance at March 31, 2019	\$227,012	\$ 6,780	\$(15,617)	\$151	\$ 218,326	\$1,216	\$315,651	\$3,184,876

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes	¥ 56,618	¥ 58,538	\$ 510,120
Adjustments—			
Depreciation and amortization	13,696	13,727	123,396
Impairment loss	126	5,727	1,138
Amortization of goodwill	6,418	5,448	57,824
Provision for (reversal of) doubtful accounts	(1,341)	92	(12,079)
Net changes in defined benefit liability	3,154	(2,621)	28,419
Interest and dividends income	(2,114)	(1,885)	(19,047)
Interest expense	2,015	1,387	18,159
Equity in losses (earnings) of affiliates	(1,715)	(3,026)	(15,450)
Losses (gains) on sales of marketable securities and investment securities, net	(4,740)	(108)	(42,704)
Gain on step acquisition	(629)	(6,464)	(5,669)
Losses (gains) on disposal of fixed assets, net	76	172	686
Change in assets and liabilities:			
Notes and accounts receivable, trade	(8,694)	(12,017)	(78,335)
Inventories	(21,173)	(38,473)	(190,765)
Other current assets	(3,959)	4,447	(35,672)
Notes and accounts payable, trade	6,118	752	55,126
Advances received from customers	3,355	2,779	30,230
Other current liabilities	2,797	(62)	25,203
Other	1,472	2,095	13,264
Total	51,482	30,507	463,845
Interest and dividends income received	6,337	3,948	57,097
Interest paid	(2,027)	(1,438)	(18,262)
Income taxes paid, net	(15,103)	(19,286)	(136,076)
Net cash provided by operating activities	40,689	13,732	366,605
Cash flows from investment activities:			
Payments into time deposits	(5,236)	(20,526)	(47,172)
Proceeds from withdrawal of time deposits	5,294	35,514	47,702
Decrease (increase) in short-term loans receivable	138	391	1,240
Proceeds from sales and redemption of securities	10	—	89
Payments for purchases of fixed assets	(20,204)	(14,827)	(182,036)
Proceeds from sales of fixed assets	1,584	3,275	14,273
Payments for purchases of intangible assets	(2,839)	(2,183)	(25,580)
Payments for purchases of investment securities	(13,556)	(42,710)	(122,135)
Proceeds from sales and redemption of investment securities	8,901	3,507	80,195
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(46,771)	(7,661)	(421,403)
Payments for long-term loans receivable	(1,342)	(148)	(12,092)
Repayments of long-term loans receivable	1,741	1,070	15,690
Other	621	(1,950)	5,597
Net cash used in investment activities	(71,659)	(46,250)	(645,631)
Cash flows from financing activities:			
Increase (decrease) in short-term loans payable	8,817	3,973	79,440
Payments of lease obligations	(1,632)	(2,096)	(14,707)
Proceeds from long-term loans payable	25,789	13,560	232,358
Repayments of long-term loans payable	(10,648)	(20,665)	(95,941)
Proceeds from issuance of bonds	20,000	30,000	180,196
Proceeds from issuance of convertible bonds	10,100	—	90,999
Payment for redemption of convertible bonds	(19,900)	—	(179,295)
Proceeds from issuance of stock	—	10,000	—
Dividends paid	(7,295)	(7,085)	(65,724)
Dividends paid to non-controlling shareholders	(6,652)	(4,838)	(59,934)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(6,715)	(1)	(60,500)
Net decrease (increase) in deposits with withdrawal and usage restrictions	(371)	—	(3,341)
Other	30	2,308	265
Net cash provided by financing activities	11,523	25,156	103,818
Effect of exchange rate changes on cash and cash equivalents	(1,007)	(307)	(9,071)
Net increase (decrease) in cash and cash equivalents	(20,453)	(7,670)	(184,279)
Cash and cash equivalents at the beginning of the year	125,555	132,707	1,131,226
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	518	—
Cash and cash equivalents at the end of the year (Note 12)	¥105,102	¥125,555	\$ 946,947

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2019 and 2018

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 and construction-related operations, including construction, maintenance, renovation and landscaping of custom-built and other homes and sale and brokerage of real estate; overseas housing and real estate-related operations, including sale of spec homes, construction of detached houses and development of multi-family homes and commercial complexes; and other businesses, including biomass power generation business, overseas forestation business, private-pay elderly care facilities 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, 2019, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 195 and 79 (110 and

29 in 2018), respectively.

Crescent Communities II, LLC and 84 other companies, whose shares were newly acquired, have been included in the scope of consolidation from the fiscal year ended March 31, 2019. Additionally, CC-SFA MF Atherton, LLC and one other company, which were included as equity-method affiliates in the previous fiscal year, have been no longer included in the scope of equity-method application. CC-SFA MF Atherton, LLC has been newly included in the scope of consolidation because of the additional acquisition of shares.

On the other hand, Sumirin Agro-Products Co., Ltd., which was included in the scope of consolidation in the previous fiscal year, has been excluded from the scope of consolidation in the fiscal year ended March 31, 2019 due to the merger by another consolidated subsidiary, Sumitomo Forestry Landscaping Co., Ltd.

Kanda Biomass Energy K.K. and 51 other companies, whose shares were newly acquired, have been included as equity-method affiliates from the fiscal year ended March 31, 2019.

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, 2019, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥3,733 million (\$33,634 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, 2019, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥127 million (\$1,145 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 ¥453 million (\$4,082 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2019.

(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.

(x) Accounting standards issued but not yet effective

(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, 2020.

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.

(y) Changes in presentation

(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting)

The Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (the "Partial Amendments") (ASBJ Statement No. 28 of February 16, 2018) from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets and deferred tax liabilities are included within investments and other assets, and long-term liabilities, respectively.

As a result, ¥6,531 million of deferred tax assets in current assets and ¥1,463 million of deferred tax liabilities in current liabilities previously presented in the consolidated balance sheet as of March 31, 2018, have been reclassified as deferred tax assets in investments and other assets and deferred tax liabilities in long-term liabilities and ¥4,562 million of deferred tax assets and liabilities levied by the same taxation authority are offset. Therefore, deferred tax assets in investments and other assets and deferred tax liabilities in long-term liabilities are presented as ¥5,248 million and ¥13,904 million, respectively.

Also, Note 9 "Income Taxes" in the Notes to the consolidated financial statements has been expanded in accordance with Note 8 and Note 9 of Interpretive Notes to Accounting Standard for Tax Effect Accounting. However, comparative information for the year ended March 31, 2018 has not been disclosed in Note 9 in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments.

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 ¥110.99 =US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2019. 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, 2019 and 2018 were as follows:

	Millions of yen			
	2019			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated fair value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥24,750	¥36,938	¥(642)	¥61,047
Debt securities	—	—	—	—
Other	5,000	—	—	5,000

	Millions of yen			
	2019			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,762	¥42	¥—	¥1,803

	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

	Thousands of U.S. dollars			
	2019			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated fair value)
Securities classified as:				
Available-for-sale:				
Equity securities	\$222,995	\$332,805	\$(5,783)	\$550,018
Debt securities	—	—	—	—
Other	45,049	—	—	45,049

	Thousands of U.S. dollars			
	2019			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	\$15,875	\$374	\$—	\$16,249

(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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
	Proceeds	¥8,371	¥2,666
Gross gains	4,740	132	42,704
Gross losses	—	24	—

(c) Investments in affiliates included in "Investment securities" as of March 31, 2019 and 2018 were ¥73,845 million (\$665,331) and ¥48,638 million, respectively.

6. Short-Term and Long-Term Debt

Short-term debt at March 31, 2019 and 2018 generally represented short-term loans payable which bore interest of 3.13% and 2.43% per annum, respectively. Long-term debt at March 31, 2019 and 2018 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans, principally from banks and insurance companies, due 2019 to 2035 with interest of 3.45%:			
Secured:			
Loans from banks or other	¥ 40,629	¥ 36,482	\$ 366,059
Unsecured:			
Bonds issued	70,000	50,000	630,687
Bonds with subscription rights to shares	10,090	20,000	90,909
Loans from banks or other	77,895	52,718	701,818
Lease obligation	5,020	5,766	45,231
	203,634	164,967	1,834,705
Portion due within one year:			
Bonds with subscription rights to shares	—	20,000	—
Loans from banks or other	16,255	4,827	146,452
Lease obligation	584	1,100	5,261
	16,839	25,927	151,712
	¥186,795	¥139,040	\$1,682,992

The aggregate annual maturities of bonds issued, long-term loans payable and lease obligation at March 31, 2019 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Bonds issued	Long-term debt	Lease obligation	Bonds issued	Long-term debt	Lease obligation
2020	¥ —	¥ 16,255	¥ 584	\$ —	\$ 146,452	\$ 5,261
2021	—	34,497	770	—	310,816	6,940
2022	—	35,769	554	—	322,276	4,991
2023	—	8,458	359	—	76,202	3,231
2024	20,090	5,396	188	181,007	48,621	1,691
Thereafter	60,000	18,148	2,566	540,589	163,511	23,116
	¥80,090	¥118,524	¥5,020	\$721,597	\$1,067,877	\$45,231

7. Pledged Assets and Secured Liabilities

(a) Pledged assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and time deposits	¥ 1,605	¥ 1,787	\$ 14,462
Receivables—Notes and accounts, trade	1,831	1,734	16,500
Receivables—Other	308	90	2,777
Costs on uncompleted construction contracts	1,124	1,184	10,129
Real estate for sale	25,123	22,712	226,352
Real estate for sale in process	54,685	58,247	492,700
Land	6,054	3,364	54,544
Buildings and structures	10,784	5,474	97,159
Machinery, equipment and vehicles	11,224	12,207	101,126
Construction in progress	5,676	68	51,139
Investment securities	17,835	18,280	160,694
Other	4,673	2,168	42,104
	¥140,922	¥127,314	\$1,269,685

(b) Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Short-term loans payable	¥16,602	¥ 7,309	\$149,583
Long-term loans payable	40,601	35,398	365,806
Other	—	—	—
	¥57,203	¥42,707	\$515,389

8. Loss on Impairment of Fixed Assets

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

Location	Major use	Asset category	Millions of yen
			2018
Long An Province, Vietnam	Particle board manufacturing equipment	Buildings and structures	¥1,514
		Machinery, equipment and vehicles	3,284
		Other	929
		Total	¥5,727

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%.

Loss on impairment of fixed assets for the year ended March 31, 2019 was immaterial.

9. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise corporation tax, enterprise tax, and prefectural and municipal inhabitant taxes. The effective statutory tax rates for the years ended March 31, 2019 and 2018 were 30.6% and 30.9%, respectively.

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

	2019	2018
Effective statutory tax rate	30.6%	30.9%
Non-deductible expenses for tax purposes	0.4	0.4
Non-taxable dividend income	(0.9)	(0.2)
Per capita portion of inhabitant tax	0.5	0.5
Amortization of goodwill	3.5	2.9
Equity in earnings of affiliates	(0.9)	(1.6)
Tax rate differences with oversea subsidiaries	(6.5)	—
Other	1.8	1.2
Effective tax rate	28.6%	34.0%

The significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Allowance for doubtful accounts	¥ 435	¥ 835	\$ 3,922
Accrued employees' bonuses	3,503	3,318	31,561
Accrued legal welfare expense on employees' bonuses	529	499	4,768
Enterprise taxes	503	353	4,528
Devaluation of real estate for sale	273	361	2,459
Liability for retirement benefits	5,813	4,817	52,371
Devaluation of property	751	762	6,767
Devaluation of financial instruments	1,576	1,674	14,201
Tax loss carryforwards	5,080	2,527	45,773
Impairment loss	1,034	1,002	9,313
Warranty reserve for completed construction	585	712	5,275
Unrealized profit on fixed assets	579	533	5,215
Other	4,651	4,646	41,907
Gross deferred tax assets	25,312	22,038	228,057
Valuation allowance for tax loss carryforwards	(4,911)	—	(44,243)
Valuation allowance for total deductible temporary differences	(5,345)	—	(48,154)
Valuation allowance	(10,255)	(7,459)	(92,397)
Total deferred tax assets	15,057	14,580	135,663
Deferred tax liabilities:			
Deferred gains on sales of property	(757)	(757)	(6,818)
Gain on securities contributed to employee retirement benefit trusts	(1,217)	(1,217)	(10,969)
Unrealized gain on available-for-sale securities	(11,000)	(14,206)	(99,108)
Land revaluation differences	(853)	(850)	(7,689)
Taxes on undistributed earnings of subsidiaries	(2,201)	(605)	(19,835)
Other	(5,557)	(5,600)	(50,064)
Gross deferred tax liabilities	(21,586)	(23,236)	(194,482)
Net deferred tax assets (liabilities)	¥ (6,528)	¥ (8,656)	\$ (58,819)

A breakdown of amount of tax loss carryforwards and deferred tax assets by carryforwards expiration period as of March 31, 2019 is as follows:

	Millions of yen						Total
	2019						
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	
Tax loss carryforwards*	¥ 520	¥ 994	¥ 164	¥ 382	¥ 146	¥ 2,874	¥ 5,080
Valuation allowance	(520)	(994)	(164)	(382)	(146)	(2,704)	(4,911)
Deferred tax assets	—	—	—	—	—	170	170

	Thousands of U.S. dollars						Total
	2019						
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	
Tax loss carryforwards*	\$ 4,685	\$ 8,956	\$ 1,478	\$ 3,442	\$ 1,315	\$ 25,894	\$ 45,770
Valuation allowance	(4,685)	(8,956)	(1,478)	(3,442)	(1,315)	(24,363)	(44,247)
Deferred tax assets	—	—	—	—	—	1,532	1,532

* Tax loss carryforwards are measured using the effective statutory tax rates.

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loss on foreign exchange	¥(190)	¥ (188)	\$(1,716)
Gain on sales of property, plant and equipment	86	62	777
Loss on sales of property, plant and equipment	—	(82)	—
Loss on disposal of property, plant and equipment	(162)	(151)	(1,463)
Other, net	582	1,484	5,240
	¥ 315	¥1,124	\$ 2,838

11. Selling, General and Administrative Expenses

The components of "Selling, General and Administrative Expenses" for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Salaries and allowances	¥60,513	¥56,357	\$545,208
Provision for employees' bonuses	9,500	9,203	85,592
Provision for directors' and corporate auditors' bonuses	143	146	1,288
Retirement benefit expenses	6,092	717	54,884
Provision for directors' and corporate auditors' retirement benefits	20	25	185
Allowance for doubtful accounts	(47)	5	(419)
Provision for warranty reserve for completed construction	1,328	884	11,964

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2019 and 2018 were ¥2,112 million (\$19,027 thousand) and ¥1,977 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and time deposits	¥ 82,421	¥105,865	\$742,599
Short-term investments	5,000	5,000	45,049
Cash equivalents included in short-term loans receivable	20,000	15,000	180,193
Restricted cash	(2,091)	—	(18,836)
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(228)	(310)	(2,058)
Cash and cash equivalents	¥105,102	¥125,555	\$946,947

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, 2019 were mainly as follows:

Crescent Communities II, LLC and other companies

	Millions of yen	Thousands of U.S. dollars
	2019	2019
Current assets	¥ 15,284	\$137,706
Non-current assets	43,155	388,815
Goodwill	2,552	22,992
Current liabilities	(11,008)	(99,184)
Long-term liabilities	(5,762)	(51,913)
Non-controlling interests	(816)	(7,351)
Acquisition cost	43,404	391,065
Cash and cash equivalents	(1,233)	(11,107)
Net expenditure for acquisition of shares	¥ 42,172	\$379,958

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
	2018
Current assets	¥29,064
Non-current assets	1,215
Goodwill	7,223
Current liabilities	(4,390)
Long-term liabilities	(9,567)
Non-controlling interests	(5,799)
Translation adjustments	646
Gain on step acquisition	(6,464)
Previously held equity interest before obtaining control	(7,831)
Acquisition cost	4,095
Cash and cash equivalents	—
Net expenditure for acquisition of shares	¥ 4,095

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, 2019 and 2018, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$25,742 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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Guarantee on loans from financial institutions:			
Guarantees of housing loans to customers	¥30,978	¥28,970	\$279,105
Affiliated companies of Crescent Communities group	9,835	—	88,612
Kanda Biomass Energy K.K.	7,657	—	68,990
Kawasaki Biomass Electric Power Co., Ltd.	436	472	3,930
MOS Lumber Products Co., Ltd.	67	41	601
Total	¥48,973	¥29,484	\$441,238

16. Financial Instruments

(a) Policy for financial instruments

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

(b) Details of financial instruments and related risk

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

(c) Risk management for financial instruments

(Credit risk management)

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

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

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

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

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

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

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

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

(e) Fair value of financial instruments

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

	Millions of yen		
	2019		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 82,421	¥ 82,421	¥ —
Receivables—notes and accounts, trade	135,636	135,636	—
Marketable securities and investment securities:			
Held-to-maturity	1,762	1,803	42
Shares in affiliates	33,231	32,390	(841)
Available-for-sale	66,047	66,047	—
Total	¥319,096	¥318,297	¥(800)
Payables—notes and accounts, trade	¥194,142	¥194,142	¥ —
Bonds issued	70,000	70,638	638
Long-term loans payable*	118,524	117,900	(624)
Total	¥382,666	¥382,680	¥ 15
Derivatives**:			
Hedge accounting not applied	¥ (30)	¥ (30)	¥ —
Hedge accounting applied	1,081	1,081	—
Total	¥ 1,052	¥ 1,052	¥ —

	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	¥ —

	Thousands of U.S. dollars		
	2019		
	Carrying amount	Fair value	Difference
Cash and time deposits	\$ 742,599	\$ 742,599	\$ —
Receivables—notes and accounts, trade	1,222,054	1,222,054	—
Marketable securities and investment securities:			
Held-to-maturity	15,875	16,249	374
Shares in affiliates	299,406	291,826	(7,580)
Available-for-sale	595,067	595,067	—
Total	\$2,875,001	\$2,867,795	\$(7,206)
Payables—notes and accounts, trade	\$1,749,183	\$1,749,183	\$ —
Bonds issued	630,687	636,437	5,749
Long-term loans payable*	1,067,877	1,062,259	(5,618)
Total	\$3,447,748	\$3,447,879	\$ 131
Derivatives**:			
Hedge accounting not applied	\$ (267)	\$ (267)	\$ —
Hedge accounting applied	9,744	9,744	—
Total	\$ 9,477	\$ 9,477	\$ —

* 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
	2019	2018	2019
Unlisted equity securities	¥ 4,618	¥ 5,051	\$ 41,612
Investment in affiliates	40,614	15,140	365,925

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

	Millions of yen			
	2019			
	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	¥ 81,999	¥ —	¥ —	¥—
Receivables—notes and accounts, trade	135,636	—	—	—
Marketable securities and Investment securities:				
Government bonds	305	1,239	218	—
Other	5,000	—	—	—
Total	¥ 222,940	¥1,239	¥218	¥—

	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	¥—

	Thousands of U.S. dollars			
	2019			
	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	\$ 738,800	\$ —	\$ —	\$—
Receivables—notes and accounts, trade	1,222,054	—	—	—
Marketable securities and Investment securities:				
Government bonds	2,748	11,163	1,964	—
Other	45,049	—	—	—
Total	\$2,008,651	\$11,163	\$1,964	\$—

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2019 and 2018 were as follows:

	Millions of yen			
	2019			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,679	¥ —	¥(20)	¥(20)
Sell (U.S. dollar)	128	—	(3)	(3)
Sell (Thai baht)	917	917	(15)	(15)
Currency swap contracts:				
Pay U.S. dollar / receive Yen	3	—	(0)	(0)
Total	¥2,727	¥917	¥(37)	¥(37)
Interest rate swap contracts:				
Pay fixed / receive variable	¥1,598	¥200	¥ 8	¥ 8
Total	¥1,598	¥200	¥ 8	¥ 8

	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

	Thousands of U.S. dollars			
	2019			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	\$15,128	\$ —	\$(180)	\$(180)
Sell (U.S. dollar)	1,152	—	(24)	(24)
Sell (Thai baht)	8,259	8,259	(132)	(132)
Currency swap contracts:				
Pay U.S. dollar / receive Yen	27	—	(1)	(1)
Total	\$24,566	\$8,259	\$(337)	\$(337)
Interest rate swap contracts:				
Pay fixed / receive variable	\$14,401	\$1,800	\$ 70	\$ 70
Total	\$14,401	\$1,800	\$ 70	\$ 70

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, 2019 and 2018 were as follows:

	Millions of yen			
	2019			
	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	¥ 5,721	¥ —	¥ 6
Sell (Euro)		1,861	—	16
Sell (Thai baht)		346	346	6
Buy (U.S. dollar)	Accounts payable, trade	29,294	19,290	1,105
Buy (Euro)		5,196	—	(51)
Accounted for by the allocation method:				
Buy (U.S. dollar)	Accounts payable, trade	262	—	*
Buy (Euro)		146	—	*
Total		¥42,824	¥19,636	¥1,081
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	¥ 1,810	¥ 1,117	*
Total		¥ 1,810	¥ 1,117	¥ —
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			
	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)		2,325	—	12
Buy (U.S. dollar)	Accounts payable, trade	13,819	—	(227)
Buy (Euro)		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)		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	¥ —

	Thousands of U.S. dollars			
	2019			
	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	\$ 51,542	\$ —	\$ 53
Sell (Euro)		16,764	—	141
Sell (Thai baht)		3,113	3,113	50
Buy (U.S. dollar)	Accounts payable, trade	263,929	173,801	9,955
Buy (Euro)		46,811	—	(456)
Accounted for by the allocation method:				
Buy (U.S. dollar)	Accounts payable, trade	2,359	—	*
Buy (Euro)		1,314	—	*
Total		\$385,833	\$176,915	\$9,744
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	\$ 16,308	\$ 10,068	*
Total		\$ 16,308	\$ 10,068	\$ —
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term loans payable	\$ 25,762	\$ 25,762	*
Total		\$ 25,762	\$ 25,762	\$ —

* 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, and 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, 2019 and 2018 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the year	¥72,224	¥72,478	\$650,725
Service cost	3,216	3,324	28,977
Interest cost	524	573	4,721
Actuarial gain and loss	2,845	(2,055)	25,629
Retirement benefits paid	(2,075)	(2,075)	(18,695)
Prior service cost	8	6	69
Other	(56)	(27)	(505)
Balance at the end of the year	¥76,685	¥72,224	\$690,922

The changes in plan assets for the years ended March 31, 2019 and 2018 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the year	¥56,953	¥54,885	\$513,139
Expected return on plan assets	1,595	1,372	14,368
Actuarial gain and loss	(566)	236	(5,096)
Contributions	2,201	2,186	19,834
Retirement benefits paid	(1,723)	(1,726)	(15,522)
Balance at the end of the year	¥58,461	¥56,953	\$526,723

The changes in the liability for retirement benefits, which were calculated by the simplified method for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the year	¥1,315	¥ 998	\$11,848
Retirement benefit expense	263	245	2,366
Retirement benefits paid	(91)	(113)	(817)
Contributions	(93)	(73)	(834)
Increase due to newly consolidated subsidiary	—	258	—
Other	(35)	(1)	(315)
Balance at the end of the year	¥1,359	¥1,315	\$12,248

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2019 and 2018 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligation	¥ 72,718	¥ 68,314	\$ 655,180
Plan assets at fair value	(59,192)	(57,615)	(533,313)
	13,526	10,699	121,868
Unfunded retirement benefit obligation	6,058	5,887	54,578
Net liability for retirement benefits in the balance sheet	¥ 19,584	¥ 16,585	\$ 176,446
Liability for retirement benefits	¥ 19,822	¥ 16,723	\$ 178,594
Asset for retirement benefits	(238)	(138)	(2,149)
Net liability for retirement benefits in the balance sheet	¥ 19,584	¥ 16,585	\$ 176,446

The components of retirement benefit expense for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 3,216	¥ 3,324	\$ 28,977
Interest cost	524	573	4,721
Expected return on plan assets	(1,595)	(1,372)	(14,368)
Amortization of actuarial gain and loss	3,410	(2,291)	30,726
Amortization of prior service cost	8	6	69
Retirement benefit expense under the simplified method	263	245	2,370
Other	11	0	95
Retirement benefit expense	¥ 5,837	¥ 485	\$ 52,590

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 and 2018 were as follows:

	2019	2018
Bonds	46%	46%
Stocks	25%	25%
General account	13%	13%
Other	16%	15%
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:

	2019	2018
Discount rates	0.000%–0.622%	0.000%–0.961%
Expected rates of return plan assets	2.8%	2.5%
Expected rate of salary increase (point based plan)	5.0%	5.5%

Contributions to defined contribution retirement benefit plans of the Company and its consolidated subsidiaries were ¥1,214 million (\$10,938 thousand) and ¥1,089 million for the years ended March 31, 2019 and 2018, 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 and overseas (mainly in the United States). The net income from the investment properties for the years ended March 31, 2019 and 2018 was ¥371 million (\$3,343 thousand) and ¥532 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	
2018	Increase/ (Decrease)	2019	2019	2019	2019
¥13,270	¥16,307	¥29,576	¥28,374	\$266,476	\$255,644

The main components of net change in carrying amount above included an increase of ¥20,756 million (\$187,011 thousand) due to business combinations, an increase of ¥2,954 million (\$26,618 thousand) due to acquisitions of real estate, an increase of ¥81 million (\$732 thousand) due to exchange rate, a decrease of ¥7,208 million (\$64,942 thousand) due to change in the holding purpose of properties to real estate for sale and a decrease of ¥277 million (\$2,499 thousand) due to depreciation for the year ended March 31, 2019.

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 Construction, and Overseas Housing and Real Estate) based on division and identified by products, services and geographical areas:

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

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

Overseas Housing and Real Estate: sale of spec homes, and construction of detached houses, development of multi-family housing and commercial complexes, etc. in overseas markets

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

(Changes in reportable segments)

In conjunction with the reorganization that took place in April 2018, the previous three reportable segments of "Timber and Building Materials," "Housing," and "Overseas" have changed to "Timber and Building Materials," "Housing and Construction," and "Overseas Housing and Real Estate" effective from the fiscal year ended March 31, 2019.

The main change is the inclusion of overseas timber and building material manufacturing and sales business, which were previously included in the "Overseas" segment, in "Timber and Building Materials."

Segment information for the fiscal year ended March 31, 2018 reflects the new reportable segment classification.

Millions of yen								
As of/Year Ended March 31, 2019	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥464,091	¥452,234	¥364,365	¥1,280,691	¥ 26,882	¥1,307,572	¥ 1,321	¥1,308,893
Inter-segment transfers	22,999	604	513	24,117	13,534	37,651	(37,651)	—
Total	487,091	452,839	364,878	1,304,807	40,416	1,345,223	(36,330)	1,308,893
Segment income (loss)	7,980	21,598	25,812	55,391	5,203	60,594	(9,158)	51,436
Segment assets	207,408	155,773	321,486	684,667	128,308	812,975	158,001	970,976
Other items:								
Depreciation and amortization	3,073	4,699	1,760	9,532	3,367	12,898	798	13,696
Amortization of goodwill	—	—	6,250	6,250	168	6,418	—	6,418
Interest income	101	39	127	268	142	409	27	437
Interest expense	706	520	2,257	3,482	299	3,781	(1,766)	2,015
Equity in earnings (losses) of affiliates	(49)	(1)	923	873	841	1,714	0	1,715
Investments in affiliates	8,937	—	28,205	37,142	34,952	72,094	(8)	72,086
Increase in tangible and intangible fixed assets	2,178	6,865	7,984	17,027	5,201	22,228	(1,014)	21,214

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,321 million (\$11,902 thousand) of administration department profit.
2. Adjustments for segment income and loss include ¥1,255 million (\$11,307 thousand) of elimination of inter-segment income and loss, ¥3,410 million (\$30,723 thousand) of retirement benefits liability adjustments (gain), and ¥4,492 million (\$40,472 thousand) of corporate general administration expense, which are not allocable to the reportable segments.
3. Adjustments for segment assets include ¥8,955 million (\$80,683 thousand) of inter-segment eliminations, ¥166,955 million (\$1,504,235 thousand) of corporate assets, which are not allocable to the reportable assets.

Millions of yen								
As of/Year Ended March 31, 2018	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥443,123	¥448,623	¥305,491	¥1,197,237	¥ 23,663	¥1,220,899	¥ 1,098	¥1,221,998
Inter-segment transfers	22,117	578	463	23,157	13,345	36,502	(36,502)	—
Total	465,240	449,201	305,954	1,220,394	37,007	1,257,401	(35,404)	1,221,998
Segment income (loss)	8,582	24,945	23,486	57,013	4,934	61,947	(4,081)	57,865
Segment assets	201,471	144,022	233,191	578,684	131,999	710,683	188,437	899,120
Other items:								
Depreciation and amortization	3,254	4,611	2,240	10,105	2,771	12,876	851	13,727
Amortization of goodwill	3	—	5,277	5,280	168	5,448	—	5,448
Interest income	137	42	89	268	150	418	27	445
Interest expense	514	427	1,547	2,488	252	2,740	(1,353)	1,387
Equity in earnings (losses) of affiliates	(114)	(1)	1,908	1,793	1,233	3,026	0	3,026
Investments in affiliates	1,810	2	10,643	12,455	34,133	46,588	(9)	46,580
Increase in tangible and intangible fixed assets	2,428	7,085	4,689	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 of administration department profit.

2. Adjustments for segment income and loss include ¥699 million of elimination of inter-segment income and loss, ¥2,291 million of retirement benefits liability adjustments (gain), and ¥5,673 million of corporate general administration expense, which are not allocable to the reportable segments.

3. Adjustments for segment assets include ¥10,079 million of inter-segment eliminations, ¥198,516 million of corporate assets, which are not allocable to the reportable assets.

Thousands of U.S. dollars								
As of/Year Ended March 31, 2019	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	\$4,181,379	\$4,074,552	\$3,282,862	\$11,538,792	\$ 242,198	\$11,780,991	\$ 11,903	\$11,792,894
Inter-segment transfers	207,220	5,442	4,625	217,287	121,942	339,229	(339,229)	—
Total	4,388,599	4,079,994	3,287,487	11,756,079	364,140	12,120,220	(327,326)	11,792,894
Segment income (loss)	71,902	194,596	232,562	499,060	46,878	545,939	(82,509)	463,430
Segment assets	1,868,709	1,403,489	2,896,528	6,168,726	1,156,033	7,324,759	1,423,557	8,748,316
Other items:								
Depreciation and amortization	27,686	42,337	15,854	85,878	30,332	116,210	7,186	123,396
Amortization of goodwill	—	—	56,308	56,308	1,518	57,825	—	57,825
Interest income	912	356	1,142	2,410	1,277	3,687	247	3,934
Interest expense	6,357	4,684	20,334	31,375	2,695	34,070	(15,912)	18,159
Equity in earnings (losses) of affiliates	(437)	(7)	8,312	7,868	7,578	15,447	3	15,450
Investments in affiliates	80,524	—	254,120	334,645	314,909	649,553	(73)	649,480
Increase in tangible and intangible fixed assets	19,623	61,851	71,936	153,410	46,859	200,269	(9,136)	191,133

(Related information)

(1) Products and services information

Millions of yen				
Year Ended March 31, 2019	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥464,874	¥816,749	¥27,270	¥1,308,893

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

Thousands of U.S. dollars				
Year Ended March 31, 2019	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$4,188,433	\$7,358,761	\$245,699	\$11,792,894

(2) Geographic area information

Sales information by geographic area was as follows:

Millions of yen				
Year Ended March 31, 2019	Japan	United States	Other Area	Total
	¥894,910	¥292,151	¥121,832	¥1,308,893

Year Ended March 31, 2018	Millions of yen			
	Japan	United States	Other Area	Total
	¥870,641	¥226,671	¥124,686	¥1,221,998
Year Ended March 31, 2019	Thousands of U.S. dollars			
	Japan	United States	Other Area	Total
	\$8,062,979	\$2,632,229	\$1,097,686	\$11,792,894

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

Year Ended March 31, 2019	Millions of yen				
	Japan	New Zealand	United States	Other Area	Total
	¥95,676	¥35,668	¥23,906	¥14,750	¥170,000
Year Ended March 31, 2018	Millions of yen				
	Japan	New Zealand	United States	Other Area	Total
	¥94,382	¥39,215	¥3,913	¥15,603	¥153,113
Year Ended March 31, 2019	Thousands of U.S. dollars				
	Japan	New Zealand	United States	Other Area	Total
	\$862,025	\$321,360	\$215,387	\$132,898	\$1,531,670

(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, 2019	Millions of yen					
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥89	¥—	¥—	¥38	¥—	¥126
Year Ended March 31, 2018	Millions of yen					
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥5,727	¥—	¥—	¥—	¥—	¥5,727
Year Ended March 31, 2019	Thousands of U.S. dollars					
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	\$799	\$—	\$—	\$339	\$—	\$1,138

(Amortization and balance of goodwill)

As of/Year Ended March 31, 2019	Millions of yen					
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥—	¥—	¥6,250	¥ 168	¥—	¥ 6,418
Balance of goodwill	—	—	9,956	2,695	—	12,651
As of/Year Ended March 31, 2018	Millions of yen					
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥—	¥—	¥ 5,280	¥ 168	¥—	¥ 5,448
Balance of goodwill	—	—	12,898	2,864	—	15,762
As of/Year Ended March 31, 2019	Thousands of U.S. dollars					
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Other	Elimination and/or Corporate	Total
Amortization of goodwill	\$—	\$—	\$56,308	\$ 1,518	\$—	\$ 57,825
Balance of goodwill	—	—	89,702	24,285	—	113,987

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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Profit attributable to owners of parent per share—Basic:			
Profit attributable to owners of parent	¥ 29,160	¥ 30,135	\$262,727
Income not available to common stockholders	—	—	—
Profit attributable to owners of parent available to common stockholders	29,160	30,135	262,727
Weighted average number of shares issued	181,345,520	178,859,807	—
Profit attributable to owners of parent per share fully diluted—Diluted:			
Adjusted profit attributable to owners of parent	—	—	—
Common shares increase	6,396,884	10,889,784	—
(Convertible bonds with stock acquisition rights)	(6,281,036)	(10,785,741)	—
(Subscription rights to shares)	(115,848)	(104,043)	—

(b) Net assets per share

Details on the computation of net assets per share as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net assets per share:			
Total net assets	¥ 353,489	¥ 345,639	\$3,184,876
Amounts deducted from total net assets:	35,169	34,002	316,867
(Subscription rights to shares)	(135)	(129)	(1,216)
(Non-controlling interests)	(35,034)	(33,873)	(315,651)
Net assets attributable to shares of common stock	318,320	311,637	2,868,009
The number of shares of common stock used for the calculation of net assets per share	181,372,832	181,284,002	—

22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrealized gain (loss) on available-for-sale securities:			
Amount incurred during the year	¥ (6,610)	¥11,260	\$ (59,553)
Reclassification adjustments for gains and losses included in net income	(4,740)	(110)	(42,704)
Amount before tax effect	(11,349)	11,150	(102,257)
Tax effect	3,206	(3,456)	28,884
Unrealized gain (loss) on available-for-sale securities	(8,144)	7,694	(73,373)
Deferred gain (loss) on hedges:			
Amount incurred during the year	1,386	(203)	12,483
Reclassification adjustments for gains and losses included in net income	15	—	131
Amount before tax effect	1,400	(203)	12,615
Tax effect	(427)	62	(3,843)
Deferred gain (loss) on hedges	974	(141)	8,771
Translation adjustments:			
Amount incurred during the year	(8,075)	(756)	(72,755)
Reclassification adjustments for gains and losses included in net income	—	—	—
Amount before tax effect	(8,075)	(756)	(72,755)
Tax effect	—	—	—
Translation adjustments	(8,075)	(756)	(72,755)
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	(215)	(186)	(1,934)
Reclassification adjustments for gains and losses included in net income	(67)	(698)	(605)
Share of other comprehensive income of affiliates accounted for by the equity method	(282)	(883)	(2,539)
Total other comprehensive income	¥(15,527)	¥ 5,914	\$ (139,896)

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, 2019 and 2018 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of the year	¥1,507	¥1,488	\$13,575
Liability incurred for assets acquired	157	104	1,416
Change in estimates	417	—	3,761
Accretion expense	12	10	111
Liabilities settled	(84)	(96)	(757)
Balance at end of the year	¥2,010	¥1,507	\$18,106

During the fiscal year ended March 31, 2019, estimates of asset retirement obligations that were recorded as an obligation to restore a site to its original condition associated with the real estate rental agreement for the head office have changed due to obtaining new information regarding site restoration expenses. The asset obligations have increased by ¥417 million (\$3,761 thousand) as a result of this change.

24. Related Party Transactions

Principal transactions between the Company, the Company's consolidated subsidiaries and their related parties for the year ended March 31, 2019 and 2018 were summarized as follows:

2019	Name	Title	Transactions	Millions of yen		Thousands of U.S. dollars	
				Amounts	Amounts	Balance at the end of the year	Balance at the end of the year
	Hitoshi Hayano	Standing Corporate auditor of the Company	Sales of housing	¥67	\$604	¥—	\$—
	Noriaki Toi	Corporate auditor of the Company	Sales of housing	¥31	\$279	¥—	\$—

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.

2018	Name	Title	Transactions	Millions of yen	
				Amounts	Balance at the end of the year
	Noriaki Toi	Corporate auditor of the Company	Sales of housing	¥20	¥21

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.

25. Business Combination

(Acquisition of shares of Crescent Communities II, LLC and 65 other companies)

The Company acquired shares of Crescent Communities II, LLC and 65 other companies through Sumitomo Forestry America, Inc., its U.S. subsidiary, making them its subsidiaries.

(a) Summary of the business combination

(1) Name of the acquiree and business description

Name of the acquiree: Crescent Communities II, LLC and 65 other companies

Description of business: Multi-family housing development business, commercial complex development business and housing sales business

(2) Main reason for implementing the business combination

The Company has been pursuing diversification in business and stabilization of its earnings structure through obtaining a high-quality platform for its multi-family housing business and commercial complex development business in the U.S.

(3) Date of the business combination

July 2, 2018 (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 the name of the acquiree

(6) Ratio of voting rights acquired: 100%

(7) Main reasons for determining the acquirer

The Company's consolidated subsidiary, Sumitomo Forestry America, Inc., has acquired the shares for a cash consideration.

(b) Period for which the business results of the acquiree are included in the consolidated financial statements of the Company

The period is from July 1, 2018 to December 31, 2018 as the deemed acquisition date was July 1, 2018.

(c) Breakdown of consideration for acquisition and type of consideration

Consideration for acquisitions: ¥43,404 million (\$391,065 thousand)
Acquisition cost: ¥43,404 million (\$391,065 thousand)

(d) Description and amount of primary acquisition-related costs

Advisory fee: ¥515 million (\$4,642 thousand)

(e) Amount of goodwill, reason for recognition, and amortization method and period

(1) Amount of goodwill

¥2,552 million (\$22,992 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 5 years

(f) Assets acquired and liabilities assumed at the acquisition date

See Note 12.

26. Stock Option Plan

(a) Stock option expenses per accounts for the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Selling, general and administrative expenses	¥12	¥48	\$108

(b) 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, 2019	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, 2018	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested	—	—	—
Vested stock options			
As of March 31, 2018	38,800	41,400	38,500
Vested	—	—	—
Exercised	3,500	900	900
Forfeited	—	—	—
Unexercised	35,300	40,500	37,600

2) Unit price information

Year Ended March 31, 2019	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	¥1,795	¥1,634	¥1,456
Fair unit value on the grant date	¥1,233	¥1,092	¥1,256

(c) Method for estimating a fair unit price for stock options

No stock options were granted in the fiscal year ended March 31, 2019.

(d) 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

(Forest fire damage on plantation owned by consolidated subsidiary)

On February 5, 2019, there was a forest fire on a forestation area owned by consolidated subsidiary, Tasman Pine Forests Ltd. (fiscal year end of December 31) in Nelson, New Zealand. The damage is estimated to be approximately ¥1,600 million (\$1,416 thousand), which is expected to be recorded in the fiscal year ending March 31, 2020. Replanting of trees in the affected area will be completed by 2021, so the impact on sales and other activities will be not significant.

(Changes in reportable segments)

Previously, the reportable segments were classified as "Timber and Building Materials," "Housing and Construction," and "Overseas Housing and Real Estate," but beginning the fiscal year ending March 31, 2020, the reportable segments will be changed to "Timber and Building Materials," "Housing and Construction," "Overseas Housing and Real Estate," and "Environment and Resources."

This is due to the increasing importance of environment and resources-related businesses to the Group.

The main change is that the biomass power generation business and the overseas forestation business, which were included in "Other," will be included in "Environment and Resources."

The information on amounts of sales, and income or loss by the reportable segments for the fiscal year ended March 31, 2019 based on the new segment classification is as follows:

As of/Year Ended March 31, 2019	Millions of yen								
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥464,091	¥452,234	¥364,365	¥15,138	¥1,295,829	¥12,466	¥1,308,295	¥ 598	¥1,308,893
Inter-segment transfers	22,999	604	513	4,388	28,505	9,805	38,310	(38,310)	—
Total	487,091	452,839	364,878	19,526	1,324,333	22,272	1,346,605	(37,712)	1,308,893
Segment income (loss)	7,980	21,598	25,812	4,012	59,403	85	59,488	(8,052)	51,436

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥598 million (\$5,388 thousand) of administration department profit.

2. Adjustments for segment income and loss include ¥382 million (\$3,442 thousand) of elimination of inter-segment income and loss, ¥3,410 million (\$30,723 thousand) of retirement benefits liability adjustments (loss), and ¥4,260 million (\$38,382 thousand) of corporate general administration expense, which are not allocable to the reportable segments.

As of/Year Ended March 31, 2019	Thousands of U.S. dollars								
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	\$4,181,379	\$4,074,552	\$3,282,862	\$136,390	\$11,675,183	\$112,320	\$11,787,503	\$ 5,391	\$11,792,894
Inter-segment transfers	207,220	5,442	4,625	39,534	256,821	88,345	345,166	(345,166)	—
Total	4,388,599	4,079,994	3,287,487	175,924	11,932,003	200,665	12,132,669	(339,775)	11,792,894
Segment income (loss)	71,902	194,596	232,562	36,150	535,210	763	535,973	(72,544)	463,430

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, 2019, 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, 2019, 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 21, 2019
Tokyo, Japan