

Managing Business Continuity

System for Managing Business Continuity

Sumitomo Forestry has established the BCM Subcommittee to address risks such as major natural disasters and outbreaks of new strains of influenza, which could interrupt operations, that are extremely difficult for a company to prevent on its own, and can have serious impacts on headquarters functions. The BCM Subcommittee is responsible for spreading awareness of and strengthening the business continuity management (BCM) structure, formulating, revising and improving business continuity plans (BCP), and conducting drills based on BCP. In fiscal 2019, the BCM Subcommittee met four times to address issues related to improving business continuity and enhancing the resilience of the entire Group, including ascertaining important initial actions to be taken in the event of a major earthquake, such as one underneath the Tokyo metropolitan area, and planning and operating various emergency drills.

Ensuring Employee Safety and Continuation of Company Operations

The Sumitomo Forestry Group has distributed a portable risk response card to all Group employees in Japan. The card contains instructions to follow in the event of a major earthquake as well as rules for reporting to supervisors in their divisions. All Group companies in Japan have introduced safety confirmation systems linked to weather information, in addition to the emergency contact networks within the organization in order to obtain as much information as possible about the safety of employees before communication lines become congested and restrictions are placed on outgoing communications. These initiatives allow safety confirmations to be made via multiple routes. Furthermore, safety confirmation drills are conducted at domestic Group companies every year. In fiscal 2019, a total of 14,669 people participated in these drills.

In response to COVID-19, Sumitomo Forestry introduced a flexible work schedule system Companywide, and put employees on staggered shifts to reduce the number of people at work at the same time, while encouraging employees to balance working from home with commuting to work. During the state of emergency, employees in regions subject to lockdown were required in principle to work from home.

Initiatives towards Supply Chain Business Continuity Initiatives

In preparation for the potential disruption of its Housing and Construction Business supply chain following a major disaster, Sumitomo Forestry shares the specifications and processes for

property construction along with site progress statuses and 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.

The COVID-19 outbreak spreading across the world in 2020, however, led to delays in parts and materials procurement and construction projects. In light of these circumstances, in the event of an earthquake or other natural disaster, or a fire accident, we asked our suppliers to examine their methods for reporting disasters to Sumitomo Forestry and developing systems for historical records management.

To deal with delays in parts and materials procurement caused by COVID-19, Sumitomo Forestry asked its suppliers to stockpile inventories of materials that experienced delays, as a short-term preparation for a second wave of coronavirus infections. For medium- to long-term preparations, Sumitomo Forestry plans to work with its suppliers on reducing risk by geographically dispersing their production bases. Regarding suppliers of construction materials and other materials, Sumitomo Forestry added questions related to business continuity, such as whether alternate supply routes can be ensured during an emergency, to the supplier survey it conducts every year to facilitate decisions on whether to continue transactions with each supplier. Through these efforts, the Company strives to further reduce the risk of business disruption.

Maintaining Customer Service

Sumitomo Forestry has set up call centers in Tokyo and Okinawa 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.



BCP simulation training sessions

Financial Section

Eleven-Year Consolidated Financial Summary

	¥ Million										
(Years ended March 31)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Operating Results:											
Net sales	¥1,104,094	¥1,308,893	¥1,221,998	¥1,113,364	¥1,040,524	¥997,256	¥972,968	¥845,184	¥831,870	¥797,493	¥723,923
Gross profit	242,689	232,146	219,315	204,138	183,134	169,492	160,162	141,436	136,873	132,568	124,269
Selling, general and administrative expenses	191,312	182,899	166,294	150,149	153,041	135,498	126,747	116,105	117,682	118,330	114,522
Operating income	51,377	49,247	53,021	53,989	30,093	33,994	33,415	25,330	19,191	14,238	9,747
Recurring income	58,824	51,436	57,865	57,841	30,507	36,424	33,567	26,981	20,714	14,206	9,465
Profit attributable to owners of the parent / Net income	27,853	29,160	30,135	34,532	9,727	18,572	22,531	15,923	9,271	5,175	2,377
Recurring income (excluding actuarial differences)	61,396	54,846	55,574	52,860	42,038	36,681	34,586	26,630	25,631	16,998	7,101
Financial Position:											
Total assets	¥1,004,768	¥ 970,976	¥ 899,120	¥ 794,360	¥ 710,318	¥665,538	¥645,197	¥547,973	¥503,496	¥489,417	¥469,738
Working capital*1	273,167	236,047	209,506	190,386	178,215	158,110	120,725	91,335	94,509	89,665	88,338
Interest-bearing debt	268,491	248,885	200,630	163,817	119,069	103,369	92,975	69,229	67,923	69,229	66,786
Total net assets	357,064	353,489	345,639	295,857	265,257	260,782	226,078	193,250	169,335	163,110	162,930
Cash Flows:											
Cash flows from operating activities	¥ 45,724	¥ 40,689	¥ 13,732	¥ 40,337	¥ 45,705	¥ 14,709	¥ 54,057	¥ 45,910	¥ 26,873	¥ 17,515	¥ 37,239
Cash flows from investment activities	(38,874)	(71,659)	(46,250)	(62,350)	(9,972)	(23,575)	(10,476)	(28,662)	(32,903)	(13,247)	(19,117)
Cash flows from financing activities	1,142	11,523	25,156	14,267	1,813	(17,286)	8,511	(5,305)	(5,622)	372	11,546
Cash and cash equivalents at the end of the year	112,565	105,102	125,555	132,707	141,265	103,296	128,343	75,658	63,839	75,582	71,662
Capital Investment:											
Tangible fixed assets	¥ 32,473	¥ 16,925	¥ 17,079	¥ 50,940	¥ 18,042	¥ 12,617	¥ 14,735	¥ 7,058	¥ 10,970	¥ 11,923	¥ 10,636
Intangible fixed assets	4,028	3,439	2,171	2,839	2,006	2,488	2,417	2,890	2,786	2,434	1,561
Others	1,402	850	1,302	349	400	282	252	343	194	215	395
Total	37,903	21,214	20,552	54,128	20,448	15,388	17,404	10,291	13,950	14,572	12,592
Depreciation and amortization	14,388	13,696	13,727	12,887	11,753	11,453	9,810	8,978	8,469	8,437	8,502
											Yen
Per Share Data:											
Profit attributable to owners of the parent / Net income	¥ 153.54	¥ 160.80	¥ 168.49	¥ 194.95	¥ 54.92	¥ 104.85	¥ 127.20	¥ 89.89	¥ 52.34	¥ 29.21	¥ 13.42
Net assets	1,777.57	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
Cash dividends	40.0	40.0	40.0	35.0	24.0	21.5	19.0	17.0	15.0	15.0	15.0
											%
Financial Ratios:											
Gross profit margin	22.0	17.7	17.9	18.3	17.6	17.0	16.5	16.7	16.5	16.6	17.2
Operating income margin	4.7	3.8	4.3	4.8	2.9	3.4	3.4	3.0	2.3	1.8	1.3
Recurring income margin	5.3	3.9	4.7	5.2	2.9	3.7	3.4	3.2	2.5	1.8	1.3
Return on assets (ROA)*2	6.0	5.5	6.8	7.7	4.4	5.6	5.6	5.1	4.2	3.0	2.1
Return on equity (ROE)*2	8.8	9.3	10.3	13.3	4.0	8.0	11.0	8.8	5.6	3.2	1.5
Equity ratio	32.1	32.8	34.7	34.6	34.3	36.9	33.9	35.1	33.6	33.3	34.6
Interest-bearing debt ratio*3	45.4	43.9	39.2	37.3	32.8	29.6	29.8	26.5	28.7	29.8	29.1
Current ratio	175.3	163.2	158.8	158.8	156.9	154.1	137.0	133.1	137.1	136.8	140.3
Interest coverage ratio (times)*4	16.9	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 (FY Ended March 2020)

Market Overview

During the fiscal year under review, the world economy moderately improved overall, thanks to a stronger economy in the United States amid robust employment conditions, despite a minor deceleration in the Chinese economy due to trade friction with the United States. The Japanese economy gently recovered on improvement in employment and wage conditions, despite signs of weakness in exports and manufacturing. However, the COVID-19 outbreak at the beginning of the year has depressed economic activities both inside and outside Japan, increasing uncertainty about future business conditions.

In the domestic housing market where the Sumitomo Forestry Group has deep ties, the number of new housing starts decreased from the previous fiscal year, owing to a sharp drop in construction of rental housing due to financial institutions taking a stricter stance on lending, in addition to a snapback from the consumption tax hike. In the United States, where the Sumitomo Forestry Group develops business, the housing market was brisk thanks to favorable employment conditions and lower interest rates for home mortgages. In Australia, the housing market slumped due to the ongoing correction in home prices and stricter lending standards for home loans.

In this business environment, the Sumitomo Forestry Group kicked off the 2021 Medium-Term Management Plan, a three-year plan that targets net sales of ¥1,260 billion, recurring income of ¥85 billion (excluding actuarial differences under retirement benefit accounting) and ROE of at least 10% by its final year which will be the Company’s 82nd fiscal year.

The four basic policies of the medium-term management plan are to promote future-oriented business strategies for further growth, strengthen the management base for sustainable growth, accelerate R&D and technological innovation utilizing timber, and promote further integration of business operations and ESG initiatives. Based on this plan, Sumitomo Forestry will strengthen its business foundation and advance its operations into the future.

During the fiscal year under review, the Sumitomo Forestry Group concentrated on advancing operations towards further growth by participating in real estate development projects in Southeast Asia and expanding its business area in Australia, in addition to further developing the real estate development in the United States, which is involved in the detached housing business, and the development of multi-family housing and commercial and mixed-use facilities. In September 2019, the Tsukuba Research Institute, the Sumitomo Forestry Group’s R&D base, constructed a new research building out of wood. As a research base for the W350 Plan*, this new research building utilizes many new technologies that increase the value of trees.

Consolidated Operating Results

Net sales fell 15.6% year on year to ¥1,104,094 million, operating income increased 4.3% to ¥51,377 million, recurring income grew 14.4% to ¥58,824 million and profit attributable to owners of the parent declined 4.5% to ¥27,853 million.

Actuarial differences arising from accounting for retirement benefits had a negative impact of ¥3,410 million in the previous fiscal year and a negative impact of ¥2,572 million in the fiscal year under review. Excluding these actuarial differences, recurring income was ¥54,846 million in the previous fiscal year and ¥61,396 million in the fiscal year under review, an increase of 11.9% year on year.

As a result of the adoption of accounting standards for revenue recognition from the fiscal year under review, net sales decreased by ¥240,302 million, while operating income and recurring income each increased by ¥5,599 million.

Return on equity (ROE) was 8.8%, a decline from 9.3% in the previous fiscal year. The Company still targets ROE of at least 10%.

Impact from COVID-19

The COVID-19 outbreak did not have a significant impact on earnings for the fiscal year under review, despite delays procuring some housing materials in the domestic housing business as a result of restrictions on exports in China.

Change in Accounting Policy

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). From the fiscal year beginning on April 1, 2018, this accounting standard can be adopted, and Sumitomo Forestry decided to apply this accounting standard for revenue recognition from the beginning of the fiscal year under review. Revenue is now recognized in amounts expected to be received for the exchange of deliverables or services at the time when control over promised deliverables or services are transferred to the customer. Below are the main changes that resulted from the adoption of accounting standards for revenue recognition.

- ① Revenue recognition related to agent transactions
- ② Revenue recognition related to construction contracts
- ③ Revenue recognition related to warranty services

In accordance with the transitional treatment set forth

in the proviso of Section 84 of the “Accounting Standard for Revenue Recognition,” the cumulative impact of retroactively applying the new accounting policy to fiscal years prior to the fiscal year under review is reflected in retained earnings at the beginning of the fiscal year under review, and the new accounting policy is applied starting with the balance at the start of the fiscal year.

- ① Separate out fulfilled and unfulfilled performance obligations
- ② Calculate transaction prices
- ③ Allocate transaction prices to fulfilled and unfulfilled performance obligations

The result of these changes was to decrease net sales by ¥240,302 million and the cost of sales by ¥245,901 million in the fiscal year under review, and to increase operating income, recurring income and income before income taxes and minority interests by ¥5,599 million each. Additionally, the balance of retained earnings at the beginning of the fiscal year was reduced by ¥6,437 million.



* Research and technology development concept that aims to realize a timberized eco-city centered on 350-meter ultra-high-rise wooden building structures.

Housing and Construction Business

(Years ended March 31)	2017	2018	2019	2020
Orders				
Custom-Built Detached Housing	(¥ million) ¥288,458	¥290,326	¥343,204	¥289,342
	(Units) 7,427	7,608	8,513	7,726
Apartment	(¥ million) ¥ 22,540	¥ 17,195	¥ 20,872	¥ 18,294
	(Units) 1,519	948	1,071	966
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million) ¥ 63,202	¥ 63,315	¥ 73,661	¥ 60,701
Sales				
Custom-Built Detached Housing	(¥ million) ¥306,307	¥288,582	¥291,921	¥310,999
	(Units) 8,098	7,556	7,628	7,427
Apartment	(¥ million) ¥ 22,125	¥ 20,114	¥ 17,821	¥ 17,957
	(Units) 1,551	1,353	1,074	959
Spec Homes	(¥ million) ¥ 11,206	¥ 12,360	¥ 11,929	¥ 13,979
	(Units) 292	308	272	311
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million) ¥ 61,245	¥ 62,700	¥ 66,720	¥ 66,982

Segment Performance Highlights

(Years ended March 31)	(Millions of yen)			
	2019	2020	Change	Percent of change
Net Sales	¥1,308,893	¥1,104,094	− 204,799	− 15.6%
Timber and Building Materials Business	487,091	223,627	− 263,463	− 54.1%
Housing and Construction Business	452,839	474,003	+ 21,165	+ 4.7%
Overseas Housing and Real Estate Business	364,878	399,360	+ 34,481	+ 9.5%
Environment and Resources Business	19,526	19,263	− 263	− 1.3%
Other Businesses	22,272	23,425	+ 1,153	+ 5.2%
Adjustments	(37,712)	(35,584)	+ 2,127	—
Recurring Income	¥ 51,436	¥ 58,824	+ 7,387	+ 14.4%
Timber and Building Materials Business	7,980	6,095	− 1,885	− 23.6%
Housing and Construction Business	21,598	22,570	+ 972	+ 4.5%
Overseas Housing and Real Estate Business	25,812	34,541	+ 8,729	+ 33.8%
Environment and Resources Business	4,012	3,551	− 461	− 11.5%
Other Businesses	85	1,484	+ 1,400	—
Adjustments	(8,052)	(9,419)	− 1,368	—

*Net sales include intersegment sales and transfers.
Adjustments under net sales and recurring income include net sales and some selling, general and administrative expenses at the General Administration Department that cannot be allocated to specific businesses.

Financial Position and Cash Flow

1 Financial Position

Total assets were ¥1,004,768 million at the end of fiscal 2020, an increase of ¥33,792 million year on year. The increase in total assets was attributable mainly to an increase in receivables for completed construction work, reflecting a change in accounting methods for revenue recognition for construction contracts, as well as an increase in buildings and structures in conjunction with the building of new serviced homes for the elderly. Liabilities increased ¥30,217 million compared to the end of the previous fiscal year to ¥647,704 million due mainly to the new issuance of corporate bonds and an increase in long-term debt. Net assets totaled ¥357,064 million, and the equity ratio was 32.1%.

2 Cash Flow

Cash and cash equivalents as of March 31, 2020 stood at ¥112,565 million, an increase of ¥7,463 million from the end of the previous fiscal year.

A summary of cash flows in fiscal 2019 is presented below.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥45,724 million (compared with ¥40,689 million in the previous fiscal year). This increase reflected the posting of ¥55,118 million in income before income taxes and minority interests, despite a decline in capital resulting from an increase in inventories

associated with expansion of the domestic and overseas house and land package business.

Cash flows from investment activities

Net cash used in investment activities totaled ¥38,874 million (compared with ¥71,659 million in the previous fiscal year). This was due mainly to the use of funds to develop multi-family housing and commercial and mixed-use facilities in the United States, and to acquire stakes in equity-method affiliates.

Cash flows from financing activities

Net cash provided by financing activities totaled ¥1,142 million (compared with ¥11,523 million in the previous fiscal year). This was due to an inflow of funds provided by the issuance of straight corporate bonds, despite outflows for the payment of dividends.

Regarding the capital resources and capital liquidity of the Sumitomo Forestry Group, the Company’s basic policy is to take a flexible approach to optimizing fund-raising methods based on the long/short-term use of funds, while staggering repayment timelines and reducing procurement costs. In response to the COIVD-19 pandemic, Sumitomo Forestry has taken a variety of measures to lessen risks in fund procurement, such as by maintaining business relationships with financial institutions, dispersing fund-raising sources, and setting up commitment lines with a number of financial institutions. As of the end of the fiscal year under review, interest-bearing debt totaled ¥268,491 million, including loans and lease obligations.

Net Sales and Recurring Income of Main Subsidiaries

Timber and Building Materials Business	(Millions of yen)			
	Net Sales		Recurring Income	
(Years ended March 31)	2019	2020	2019	2020
Sumitomo Forestry Crest Co., Ltd.	¥ 33,752	¥ 33,119	¥ 387	¥ 503
(Years ended December 31)	2018	2019	2018	2019
Overseas Subsidiaries*				
PT. Kutai Timber Indonesia (Indonesia)	¥ 13,470	¥ 12,472	¥ 72	¥ 193
Nelson Pine Industries Ltd. (New Zealand)	17,327	14,841	2,039	740

Housing and Construction Business

	Net Sales		Recurring Income	
	2019	2020	2019	2020
(Years ended March 31)				
Sumitomo Forestry Residential Co., Ltd.	¥ 27,748	¥ 29,357	¥ 1,465	¥ 1,702
Sumitomo Forestry Home Service Co., Ltd.	7,579	8,107	536	698
Sumitomo Forestry Landscaping Co., Ltd.	25,565	27,599	1,317	1,168
Sumitomo Forestry Home Tech Co., Ltd.	70,317	70,226	3,229	2,297

Overseas Housing and Real Estate Business

	Net Sales		Recurring Income	
	2018	2019	2018	2019
(Years ended December 31)				
Overseas Subsidiaries*				
Housing Business in the U.S.	¥262,195	¥303,968	¥31,040	¥35,876
Housing Business in Australia	80,377	72,271	4,560	2,944

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

	US\$	AU\$	NZ\$
2018.12:	110.44	82.53	76.43
2019.12:	109.01	75.80	71.86

Consolidated Balance Sheet

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2020 and 2019

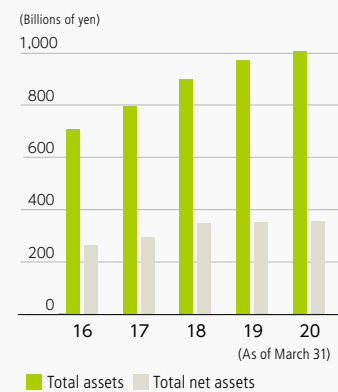
Financial Section

3 Capital Expenditures (Capital Investment)

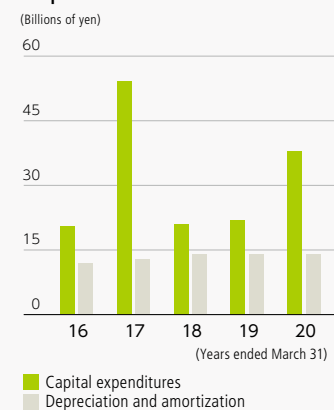
The Sumitomo Forestry Group (Sumitomo Forestry and its consolidated subsidiaries) spent ¥37,903 million on capital expenditures. In the Timber and Building Materials Business, capital expenditures amounted to ¥4,061 million, including for the construction of a construction material manufacturing plant and the purchase of machinery and equipment. In the Housing and Construction Business, capital expenditures totaled ¥3,399 million, for investments to build new model homes and in systems to improve business efficiency. Capital expenditures came to ¥13,962 million in the Overseas Housing and Real

Estate Business, mainly for the building of new model homes and the development of multi-family housing and commercial and mixed-use facilities. In the Environment and Resources Business, capital expenditures of ¥1,677 million were made for afforestation activities. In Other Business, the Company spent ¥10,705 million on capital expenditures to construct serviced homes for the elderly and for investments in systems to increase business efficiency. The amounts shown above include investments in tangible fixed assets, intangible fixed assets, and long-term prepaid expenses. The Company did not dispose or sell any critical equipment during the fiscal year under review.

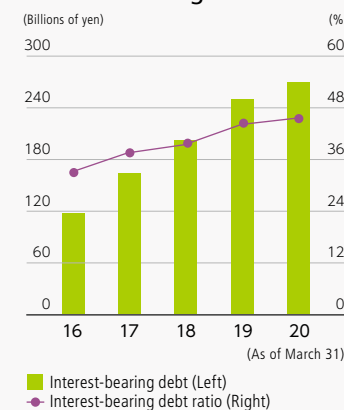
Total Assets and Total Net Assets



Capital Expenditures and Depreciation and Amortization



Interest-Bearing Debt and Interest-Bearing Debt Ratio



Business Risk

The main business and other related risks pertaining to the Sumitomo Forestry Group that may influence the decisions of investors are described below. Aware that these risks may materialize, the Sumitomo Forestry Group makes every effort to avoid these risks and minimize their impact if they materialize.

The risks shown below, which include future risks, are those identified by the Company as of the end of March 2020. This is not an exhaustive list of all business risks.

1 Risks related to trends on domestic and overseas housing markets

2 Risks related to laws and regulations

3 Risks related to foreign exchange rates

4 Risks related to product assurance

5 Risks related to provision of credit to business partners

6 Risks related to business activities overseas

7 Risks related to owning and managing mountain forests and reforestation operations

8 Risks related to information leaks

9 Risks related to retirement benefit accounting

10 Risks related to climate change

11 Risks related to emergency situations, such as natural disasters

12 Risks related to business impact from COVID-19 outbreaks

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2019	2020
ASSETS			
Current assets:			
Cash and time deposit (Notes 7, 11, 15)	¥ 92,774	¥ 82,421	\$ 852,464
Notes and accounts receivable, trade (Notes 7, 15, 16)	123,030	135,636	1,130,477
Accounts receivable from completed construction contracts (Note 7)	34,766	9,601	319,451
Marketable securities (Notes 5, 11, 15, 16)	3,658	5,304	33,612
Finished goods, logs, lumber, boards and others	18,949	20,588	174,115
Work in process	1,254	1,443	11,521
Raw materials and supplies	8,188	8,039	75,240
Costs on uncompleted construction contracts (Note 7)	14,164	26,945	130,146
Real estate for sale (Note 7)	66,734	63,736	613,195
Real estate for sale in process (Note 7)	185,405	173,472	1,703,625
Short-term loans receivable (Note 11)	20,461	20,267	188,004
Accounts receivable, other (Notes 7, 15)	46,377	45,967	426,140
Other (Note 7)	20,845	16,756	191,537
Allowance for doubtful accounts	(545)	(355)	(5,006)
Total current assets	636,059	609,820	5,844,520
Noncurrent assets:			
Property, plant and equipment:			
Buildings and structures (Notes 7, 18):	100,932	87,084	927,427
Accumulated depreciation	(42,496)	(39,850)	(390,484)
Buildings and structures, net	58,436	47,234	536,944
Machinery, equipment and vehicles (Note 7):	76,946	76,357	707,025
Accumulated depreciation	(51,583)	(49,245)	(473,979)
Machinery, equipment and vehicles, net	25,362	27,113	233,046
Land (Notes 7, 18)	39,603	39,513	363,899
Timber	34,243	35,439	314,645
Leased assets:	11,211	8,535	103,017
Accumulated depreciation	(4,138)	(4,115)	(38,025)
Leased assets, net	7,073	4,419	64,992
Construction in progress (Note 7)	9,399	11,770	86,367
Other:	17,537	15,328	161,137
Accumulated depreciation	(12,207)	(10,815)	(112,162)
Other, net	5,330	4,513	48,975
Total property, plant and equipment	179,446	170,000	1,648,867
Intangible assets:			
Goodwill	7,588	12,651	69,724
Other	14,886	13,900	136,780
Total intangible assets	22,474	26,551	206,504
Investments and other assets:			
Investment securities (Notes 5, 7, 15)	137,845	140,968	1,266,608
Long-term loans receivable	4,165	2,501	38,268
Asset for retirement benefits (Note 17)	92	238	846
Deferred tax assets (Notes 7, 8)	5,983	4,945	54,974
Other (Note 7)	19,564	16,991	179,767
Allowance for doubtful accounts	(860)	(1,039)	(7,900)
Total investments and other assets	166,789	164,605	1,532,562
Total noncurrent assets	368,709	361,156	3,387,932
Total assets	¥1,004,768	¥970,976	\$9,232,452

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2019	2020
Current liabilities:			
Notes and accounts payable, trade (Notes 5, 15, 16)	¥ 109,179	¥118,547	\$1,003,210
Accounts payable for construction contracts (Note 15)	83,281	75,595	765,242
Short-term loans payable (Notes 6, 7)	39,403	61,506	362,059
Lease obligations (Note 6)	495	584	4,551
Income taxes payable	4,862	4,902	44,679
Advances received on uncompleted construction contracts	35,224	52,198	323,662
Allowance for employees' bonuses	15,337	14,353	140,931
Allowance for directors' bonuses	143	143	1,314
Allowance for warranties for completed construction	5,388	3,733	49,510
Asset retirement obligation (Note 23)	857	853	7,876
Other	68,721	41,359	631,452
Total current liabilities	362,892	373,772	3,334,487
Long-term liabilities:			
Bonds issued (Notes 6, 15)	90,000	70,000	826,978
Bonds with subscription rights to shares (Note 6)	10,070	10,090	92,528
Long-term loans payable (Notes 6, 7, 15, 16)	120,537	102,269	1,107,570
Lease obligation (Note 6)	7,986	4,436	73,383
Deferred tax liabilities (Note 8)	6,262	11,474	57,539
Allowance for directors' retirement benefits	125	127	1,149
Liabilities for retirement benefits (Note 17)	22,574	19,822	207,424
Asset retirement obligation (Note 23)	1,378	1,157	12,662
Other	25,880	24,339	237,798
Total long-term liabilities	284,811	243,714	2,617,031
Total liabilities	647,704	617,486	5,951,518
Net assets:			
Shareholders' equity (Note 12):			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 182,752,036 shares in 2020 and 182,698,636 shares in 2019	32,786	32,752	301,254
Capital surplus	21,290	22,247	195,626
Retained earnings	255,545	241,427	2,348,114
Treasury stock: 1,326,898 shares in 2020 and 1,325,804 shares in 2019	(2,339)	(2,337)	(21,493)
Total shareholders' equity	307,282	294,088	2,823,502
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	16,842	25,196	154,758
Deferred gains (losses) on hedges	2,531	752	23,253
Translation adjustments	(4,240)	(1,733)	(38,964)
Remeasurements of defined benefit plans	82	17	754
Total accumulated other comprehensive income	15,215	24,232	139,801
Subscription rights to shares	120	135	1,099
Non-controlling interests	34,448	35,034	316,532
Total net assets	357,064	353,489	3,280,934
Total liabilities and net assets	¥1,004,768	¥970,976	\$9,232,452
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets (Note 21)	¥1,777.57	¥1,755.06	\$16.33

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2019	2020
Net sales (Note 19)	¥1,104,094	¥1,308,893	\$10,145,126
Cost of sales (Note 19)	861,405	1,076,747	7,915,144
Gross profit	242,689	232,146	2,229,982
Selling, general and administrative expenses (Note 10)	191,312	182,899	1,757,898
Operating income	51,377	49,247	472,083
Non-operating income:			
Interest income	451	437	4,141
Purchase discounts	365	363	3,353
Dividends income	1,552	1,677	14,265
Equity in earnings of affiliates	8,097	1,715	74,399
Other	3,020	2,382	27,747
Total non-operating income	13,485	6,573	123,905
Non-operating expenses:			
Interest expense	2,706	2,015	24,860
Sales discount	693	710	6,369
Foreign exchange losses	101	190	927
Other	2,538	1,469	23,325
Total non-operating expenses	6,038	4,384	55,480
Recurring income	58,824	51,436	540,508
Extraordinary gains:			
Gain on sales of noncurrent assets (Note 9)	102	86	939
Gain on sales of investment securities (Note 5)	3	4,740	29
Gain on step acquisitions	—	629	—
Gain on change in equity interest	—	16	—
Total extraordinary gains	105	5,471	968
Extraordinary loss:			
Loss on sales of noncurrent assets (Note 9)	35	—	320
Loss on retirement of noncurrent assets (Note 9)	227	162	2,088
Loss on devaluation of investment securities (Note 5)	1,943	—	17,850
Loss on liquidation of subsidiaries and affiliates	265	—	2,439
Loss on change in equity interest	111	—	1,019
Impairment loss	389	126	3,577
Loss on disaster	840	—	7,722
Total extraordinary loss	3,811	289	35,014
Income before income taxes and minority interests	55,118	56,618	506,462
Income taxes, current (Note 8)	16,730	15,468	153,725
Income taxes, deferred (Note 8)	(477)	724	(4,382)
Total income taxes	16,253	16,192	149,343
Net income	38,865	40,426	357,119
Net income attributable to non-controlling interests	11,013	11,266	101,192
Net income attributable to shareholders of parent	¥ 27,853	¥ 29,160	\$ 255,928
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net income attributable to shareholders of parent (Note 21):			
Basic	¥153.54	¥160.80	\$1.41
Diluted	149.68	155.32	1.38
Cash dividends	40.00	40.00	0.37

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2019	2020
Net income	¥38,865	¥ 40,426	\$357,119
Other comprehensive income (Note 22):			
Valuation difference on available-for-sale securities	(8,128)	(8,144)	(74,684)
Deferred gains (losses) on hedges	1,778	974	16,338
Translation adjustments	(2,990)	(8,075)	(27,477)
Share in equity method affiliates	(286)	(282)	(2,625)
Total other comprehensive income	(9,626)	(15,527)	(88,449)
Comprehensive income	¥29,239	¥ 24,899	\$268,671
Comprehensive income attributable to:			
Shareholders of parent	¥18,835	¥ 15,293	\$173,070
Non-controlling interests	10,404	9,606	95,601

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, 2020 and 2019

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2019	¥32,752	¥22,247	¥241,427	¥(2,337)	¥294,088
Cumulative effects of changes in accounting policies			(6,437)		(6,437)
Restated balance	32,752	22,247	234,990	(2,337)	287,651
Changes during the period:					
Issuance of new shares	26	26			52
Issuance of new shares (exercise of subscription rights to shares)	8	8			15
Cash dividends (¥40.00 per share)			(7,297)		(7,297)
Net income attributable to shareholders of parent			27,853		27,853
Purchases of treasury stock				(2)	(2)
Disposal of treasury stock					—
Change in ownership interest of parent due to transactions with non-controlling interests		(991)			(991)
Net changes in items other than shareholders' equity					
Total changes during the period	34	(957)	20,555	(2)	19,630
Balance at March 31, 2020	¥32,786	¥21,290	¥255,545	¥(2,339)	¥307,282

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Translation adjustments	Re-measurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2019	¥25,196	¥ 752	¥(1,733)	¥17	¥24,232	¥135	¥35,034	¥353,489
Cumulative effects of changes in accounting policies								(6,437)
Restated balance	25,196	752	(1,733)	17	24,232	135	35,034	347,052
Changes during the period:								
Issuance of new shares								52
Issuance of new shares (exercise of subscription rights to shares)								15
Cash dividends (¥40.00 per share)								(7,297)
Net income attributable to shareholders of parent								27,853
Purchases of treasury stock								(2)
Disposal of treasury stock								—
Change in ownership interest of parent due to transactions with non-controlling interests								(991)
Net changes in items other than shareholders' equity	(8,354)	1,778	(2,507)	65	(9,017)	(15)	(586)	(9,619)
Total changes during the period	(8,354)	1,778	(2,507)	65	(9,017)	(15)	(586)	10,012
Balance at March 31, 2020	¥16,842	¥2,531	¥(4,240)	¥82	¥15,215	¥120	¥34,448	¥357,064

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	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 subscription rights to shares)	53	53			106
Cash dividends (¥40.00 per share)			(7,295)		(7,295)
Net income attributable to shareholders 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)
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						
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Translation adjustments	Re-measurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets
Balance at April 1, 2018	¥33,258	¥(221)	¥ 5,053	¥ 9	¥ 38,099	¥129	¥345,639
Changes during the period:							
Issuance of new shares							53
Issuance of new shares (exercise of subscription rights to shares)							106
Cash dividends (¥40.00 per share)							(7,295)
Net income attributable to shareholders 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)
Net changes in items other than shareholders' equity	(8,062)	974	(6,786)	8	(13,867)	6	(12,700)
Total changes during the period	(8,062)	974	(6,786)	8	(13,867)	6	7,850
Balance at March 31, 2019	¥25,196	¥ 752	¥(1,733)	¥17	¥ 24,232	¥135	¥353,489

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, 2019	\$300,943	\$204,422	\$2,218,386	\$(21,478)	\$2,702,273
Cumulative effects of changes in accounting policies			(59,147)		(59,147)
Restated balance	300,943	204,422	2,159,239	(21,478)	2,643,126
Changes during the period:					
Issuance of new shares	240	240			481
Issuance of new shares (exercise of subscription rights to shares)	71	71			141
Cash dividends (\$0.37 per share)			(67,053)		(67,053)
Net income attributable to shareholders of parent			255,928		255,928
Purchases of treasury stock				(15)	(15)
Disposal of treasury stock					—
Change in ownership interest of parent due to transactions with non-controlling interests		(9,106)			(9,106)
Net changes in items other than shareholders' equity					
Total changes during the period	311	(8,795)	188,875	(15)	180,376
Balance at March 31, 2020	\$301,254	\$195,626	\$2,348,114	\$(21,493)	\$2,823,502

	Thousands of U.S. dollars (Note 4)						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Translation adjustments	Re-measurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Total net assets
Balance at April 1, 2019	\$231,518	\$ 6,914	\$(15,927)	\$154	\$222,659	\$1,240	\$3,248,088
Cumulative effects of changes in accounting policies							(59,147)
Restated balance	231,518	6,914	(15,927)	154	222,659	1,240	3,188,941
Changes during the period:							
Issuance of new shares							481
Issuance of new shares (exercise of subscription rights to shares)							141
Cash dividends (\$0.37 per share)							(67,053)
Net income attributable to shareholders of parent							255,928
Purchases of treasury stock							(15)
Disposal of treasury stock							—
Change in ownership interest of parent due to transactions with non-controlling interests							(9,106)
Net changes in items other than shareholders' equity	(76,759)	16,338	(23,037)	600	(82,858)	(141)	(88,382)
Total changes during the period	(76,759)	16,338	(23,037)	600	(82,858)	(141)	91,994
Balance at March 31, 2020	\$154,758	\$23,253	\$(38,964)	\$754	\$139,801	\$1,099	\$3,280,934

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, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2019	2020
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 55,118	¥ 56,618	\$ 506,462
Depreciation and amortization	14,388	13,696	132,208
Impairment loss	389	126	3,577
Amortization of goodwill	6,143	6,418	56,447
Allowance for (reversal of) doubtful accounts	35	(1,341)	318
Allowance for (reversal of) employee's bonuses	1,021	1,457	9,385
Allowance for (reversal of) directors' bonuses	—	(3)	—
Allowance for (reversal of) warranties for completed construction	1,681	137	15,448
Allowance for (reversal of) directors' retirement benefits	(2)	15	(19)
Net defined benefit liability	2,814	3,154	25,859
Interest and dividends income	(2,003)	(2,114)	(18,406)
Interest expense	2,706	2,015	24,860
Equity in losses (earnings) of affiliates	(8,097)	(1,715)	(74,399)
Loss (gain) on sales of marketable securities and investment securities	(3)	(4,740)	(29)
Loss on devaluation of marketable securities and investment securities	1,943	—	17,850
Loss on disaster	840	—	7,722
Loss (gain) on liquidation of subsidiaries and affiliates	265	—	2,439
Loss (gain) on step acquisitions	—	(629)	—
Loss (gain) on change in equity interest	111	—	1,019
Loss (gain) on sales/disposal of fixed assets	160	76	1,469
Decrease (increase) in notes and accounts receivable, trade	(1,152)	(8,694)	(10,589)
Inventories	(7,415)	(21,173)	(68,138)
Other current assets	(1,986)	(3,959)	(18,247)
Notes and accounts payable, trade	(10,506)	6,118	(96,537)
Advances received	1,041	1,122	9,567
Advances received on completed construction contracts	(2,789)	2,234	(25,623)
Accrued consumption taxes	(1,142)	212	(10,496)
Other current liabilities	2,274	993	20,892
Other	(847)	1,457	(7,782)
Subtotal	54,987	51,482	505,254
Interest and dividends income received	10,991	6,337	100,991
Interest paid	(2,697)	(2,027)	(24,784)
Income taxes paid	(17,557)	(15,103)	(161,323)
Net cash provided by operating activities	45,724	40,689	420,138
Cash flows from investment activities:			
Payments into time deposits	(7,273)	(5,236)	(66,830)
Proceeds from withdrawal of time deposits	5,298	5,294	48,684
Decrease (increase) in short-term loans receivable	304	138	2,793
Proceeds from sales and redemption of marketable securities	305	10	2,803
Payments for purchases of fixed assets	(21,998)	(20,204)	(202,132)
Proceeds from sales of fixed assets	2,816	1,584	25,873
Payments for purchases of intangible assets	(3,156)	(2,839)	(29,003)
Payments for purchases of investment securities	(15,810)	(13,556)	(145,275)
Proceeds from sales and redemption of investment securities	6	8,901	59
Payments for purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,158)	(46,771)	(10,644)
Payments for long-term loans payable	(1,771)	(1,342)	(16,277)
Repayments of long-term loans receivable	262	1,741	2,407
Other payments	(3,762)	(2,186)	(34,570)
Other proceeds	7,065	2,807	64,915
Net cash used in investment activities	(38,874)	(71,659)	(357,198)
Cash flows from financing activities:			
Net Increase (decrease) in short-term loans payable	(17,153)	8,817	(157,611)
Repayments of finance lease obligations	(1,565)	(1,632)	(14,381)
Proceeds from long-term loans payable	39,782	25,789	365,542
Repayments of long-term loans payable	(22,682)	(10,648)	(208,418)
Proceeds from issuance of bonds	20,000	20,000	183,773
Proceeds from issuance of bonds with subscription rights to shares	—	10,100	—
Payment for redemption of bonds with subscription rights to shares	—	(19,900)	—
Proceeds from share issuance to non-controlling interests	3,576	32	32,859
Cash dividends paid	(7,297)	(7,295)	(67,053)
Cash dividends paid to non-controlling interests	(11,108)	(6,652)	(102,069)
Payment for purchase of shares of subsidiaries not resulting in change in scope of consolidation	(3,449)	(6,715)	(31,693)
Net decrease (increase) in deposits with withdrawal and usage restrictions	1,040	(371)	9,555
Other proceeds	0	0	0
Other payments	(2)	(3)	(15)
Net cash provided by financing activities	1,142	11,523	10,490
Effect of exchange rate changes on cash and cash equivalents	(528)	(1,007)	(4,854)
Net increase (decrease) in cash and cash equivalents	7,463	(20,453)	68,576
Cash and cash equivalents at the beginning of the year	105,102	125,555	965,742
Cash and cash equivalents at the end of the year (Note 12)	¥112,565	¥105,102	\$1,034,317

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2020 and 2019

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 forestry 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, processing 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 housing and commercial complexes; environment and resources-related operations, including biomass power generation business and forestation business; and other businesses, including 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 (“U.S. GAAP”) 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 US GAAP, 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 Notes to Consolidated Financial Statements include information which is not required under Japanese GAAP but is presented herein as additional information.

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.

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. As of March 31, 2020, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 244 and 100 (195 and 79 in 2019), respectively. SFKG Property Asia Pte. Ltd. and 48 other companies, whose shares were newly acquired, have been included in the scope of consolidation from the fiscal year ended March 31, 2020. PT. Kusumasentral Kencana and 21 other companies, whose shares were newly acquired, have been included as equity-method affiliates from the fiscal year ended March 31, 2020. On the other hand, MOS Lumber Products Co., Ltd., which was included in the scope of consolidation in the previous fiscal year, has been excluded from the scope of consolidation due to the transfer of equity in the fiscal year ended March 31, 2020. 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.

(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

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) Allowance for employees’ bonuses

Allowance for employees’ bonuses is stated based on estimated bonuses to be paid to employees, which are to be charged to income in the current year.

(f) Allowance for directors’ bonuses

Allowance for directors’ bonuses is stated based on an estimated amount, which is to be charged to income in the current year.

(g) Allowance for warranties for completed construction

Allowance for warranties for completed construction is stated for repair costs which may be required and is estimated based on past experience and future estimates.

(h) Liability for retirement benefits

Liability or asset for retirement benefits for employees has 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) Allowance for directors' retirement benefits

Allowance for directors' retirement benefits of certain subsidiaries are provided based on the amount required for at year-end in accordance with established internal policies.

(j) Marketable securities and investment securities

Marketable securities and investment securities 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 gains or losses charged or credited to profit or loss, except for those which meet the criteria for hedge accounting.

(l) Inventories

Finished goods, logs, lumber and boards 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 ¥601 million (\$5,523 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2020.

(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.

(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

The Company adopted "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) from the beginning of the fiscal year ended March 31, 2020, as they are applicable from the beginning of fiscal years starting on or after April 1, 2018.

The amount expected to be received in exchange for promised goods or services is recognized as revenue at the time when the control of those goods or services is transferred to the customer.

(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 net income attributable to shareholders 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)

"Revised Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), "Revised Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30) and "Revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19) were issued on March 31, 2020.
i) Overview
Principles for disclosures related to revenue recognition (presentation and notes) were determined.
ii) Scheduled date of adoption
The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending December 31, 2022.

(Accounting Standards for Fair Value Measurement)
The ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), "Revised Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9), "Revised Accounting Standard for Financial Instruments" (ASBJ Statement No. 10), "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31) on July 4, 2019 and "Revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19) on March 31, 2020.
i) Overview

The ASBJ developed the accounting standard and implementation guidance on fair value measurement mainly focusing on the guidance and disclosure on the fair value measurement of financial instruments based in international accounting standards with nearly identical detailed guidance issued by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (IFRS 13 by the IASB and Topic 820 by the FASB) and issued them from a standpoint of enhancing comparability between financial statements of companies in Japan and overseas.

As the basic policy of the ASBJ in developing accounting standards for fair value measurement, the ASBJ accepted the basic principle of IFRS 13 from a standpoint of enhancing comparability between financial statements of companies in Japan and overseas with a unified calculation method. Furthermore, the ASBJ added alternative accounting

treatment without impairing comparability when there are matters to be considered related to common accounting practices in Japan, etc.
ii) Scheduled date of adoption
The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending December 31, 2022.
iii) Impact of the adoption of accounting standard and implementation guidance
The Company is currently evaluating the effect of the adoption of these accounting standards and implementation guidance on its consolidated financial statements.

(Accounting Standard for Disclosure of Accounting Estimates)
On March 31, 2020, the ASBJ issued "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31).

i) Overview
Based on requests for disclosing the assumptions and other sources of estimation uncertainty underlying amounts, which is required in paragraph 125 "Presentation of Financial Statements" (IAS 1) issued by the IASB in 2003, as highly useful information for users of financial statements, the ASBJ developed and issued "Accounting Standard for Disclosure of Accounting Estimates."
As the basic policy of the ASBJ in developing the accounting standard, the ASBJ used paragraph 125 of the IAS 1 as a reference and clarified the principles for the disclosure but did not elaborate on each note, and left for entities to decide the specific details on disclosures in accordance with the underlying principles.
ii) Scheduled date of adoption
The Company expects to adopt the accounting standard and implementation guidance from the end of the fiscal year ending December 31, 2021.

(Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections)
On March 31, 2020, the ASBJ revised "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 24).
i) Overview
The ASBJ issued "Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" in light of proposals to consider the development of notes where accounting principles and procedures based on specific accounting standards are unclear.

In case of developing such notes, the ASBJ decided to apply the policies of note 1-2 on Corporate Accounting Principles in order not to impact treatment where requirements in the appropriate accounting standard are clear.
ii) Scheduled date of adoption
The Company expects to adopt the accounting standard and implementation guidance from the end of the fiscal year ending December 31, 2021.

(y) Changes in accounting policy
(Application of Accounting Standard for Revenue Recognition)

The Company adopted "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) from the beginning of the fiscal year ended March 31, 2020, as they are applicable from the beginning of fiscal years starting on or after April 1, 2018. The amount expected to be received in exchange for promised goods or services is recognized as revenue at the time when the control of those goods or services is transferred to the customer.

The main changes resulting from application of the Accounting Standard for Revenue Recognition are as follows:
(1) Revenue Recognition in Agency Transactions
Previously, in regard to revenue related to the domestic distribution business, primarily in the Timber and Building Materials Business, the total amount of consideration received from the customer was recognized as revenue on a gross basis. However, for transactions where the Company is acting as an agent in providing products to customers, the method has been modified to recognize the net amount as revenue after deducting the amount paid to the supplier.

(2) Revenue Recognition in Construction Contracts
Previously, in regard to construction contracts in the Housing and Construction Business and Overseas Housing and Real Estate Businesses, the Company applied the percentage-of-completion method for the construction contracts of which the outcome could be estimated reliably and the completed contract method for short-term construction contracts. However, revenue for all construction contracts over a specific period is now recognized as the performance obligations are satisfied. In addition, the method of estimating progress on the performance obligations satisfied over time is mainly the input method based on costs incurred. An alternative treatment is applied for the construction contracts for which the period from the commencement date to the date when it is expected that the performance obligations will be fully satisfied is very short. In these cases, revenue is recognized at the time of completion, not as the performance obligation is satisfied.

(3) Revenue Recognition in Warranty Service Contracts
In the Housing and Building Business, the Company provides customers with free-of-charge inspection services after delivery based on construction contracts or sales contracts for detached houses or other products. Previously, revenues from these services were not recognized separately. However the performance obligations related to these services have been identified separately from delivery of the detached houses or other products, and respective revenue is recognized when these performance obligations are satisfied.

The Company applied the Accounting Standard for Revenue Recognition in accordance with transitional measures of the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retroactively applying new accounting policies was reflected in the beginning balance of retained earnings. However, the Company applied the method prescribed in provision (1) of Paragraph 86 of the Accounting Standard for Revenue Recognition. For the contract changes made before the beginning of the fiscal year ended March 31, 2020, the treatment set forth in 1 to 3 below was applied based on the contract conditions after all changes was reflected, and the cumulative effect was reflected in the beginning balance of retained earnings for the fiscal year ended March 31, 2020.

1. Classification of satisfied or unsatisfied performance obligations
2. Determination of the transaction price
3. Allocation of transaction price to satisfied and unsatisfied performance obligations

As a result, net sales and cost of sales for the fiscal year ended March 31, 2020 decreased by ¥240,302 million (\$2,208,046 thousand) and ¥245,901 million (\$2,259,497 thousand), respectively. Operating income, recurring income, and income before income taxes increased by ¥5,599 million (\$51,451 thousand). The balance of retained earnings at the beginning of the year decreased by ¥6,437 million (\$59,147 thousand). The impact on per-share information is provided in the relevant section.

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 ¥108.83 =US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2020. 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.

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.

5. Securities

(a) The carrying amounts and estimated fair values of the securities classified as held-to-maturity at March 31, 2020 and 2019 were as follows:

	Millions of yen		
	2020		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities:			
Debt securities	¥1,458	¥1,481	¥23

	Millions of yen		
	2019		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities:			
Debt securities	¥1,762	¥1,803	¥42

	Thousands of U.S. dollars		
	2020		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities:			
Debt securities	\$13,396	\$13,606	\$210

(b) The carrying amounts and estimated fair values of the securities classified as available-for-sale at March 31, 2020 and 2019 were as follows:

	Millions of yen		
	2020		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	¥46,884	¥21,117	¥25,768
Debt securities	—	—	—
Other	—	—	—
Subtotal	46,884	21,117	25,768
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	2,326	3,484	(1,158)
Debt securities	—	—	—
Other	3,000	3,000	—
Subtotal	5,326	6,484	(1,158)
Total	¥52,211	¥27,600	¥24,610

	Millions of yen		
	2019		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	¥58,090	¥21,152	¥36,938
Debt securities	—	—	—
Other	—	—	—
Subtotal	58,090	21,152	36,938
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	2,957	3,598	(642)
Debt securities	—	—	—
Other	5,000	5,000	—
Subtotal	7,957	8,598	(642)
Total	¥66,047	¥29,750	¥36,296

	Thousands of U.S. dollars		
	2020		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	\$430,805	\$194,033	\$236,771
Debt securities	—	—	—
Other	—	—	—
Subtotal	430,805	194,033	236,771
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	21,373	32,012	(10,638)
Debt securities	—	—	—
Other	27,566	27,566	—
Subtotal	48,939	59,577	(10,638)
Total	\$479,744	\$253,610	\$226,133

	Thousands of U.S. dollars		
	2019		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	21,373	32,012	(10,638)
Debt securities	—	—	—
Other	27,566	27,566	—
Subtotal	48,939	59,577	(10,638)
Total	\$479,744	\$253,610	\$226,133

(c) Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in extraordinary gains (losses) on sales and retirement of noncurrent assets in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	¥ 6	¥8,371	\$59
Proceeds			
Gross gains	3	4,740	29
Gross losses	—	—	—

(d) Impairment of securities
Impairment losses on available-for-sale securities were ¥1,943 million (\$17,850 thousand) for the year ended March 31, 2020.

(e) Investments in affiliates included in “Investment securities” as of March 31, 2020 and 2019 were ¥84,906 million (\$780,170 thousand) and ¥73,845 million, respectively.

6. Short-Term and Long-Term Debt

Short-term and long-term debt at March 31, 2020 and 2019 are represented by short-term loans payable bearing interest of 2.41% and 3.13% per annum, current portion of long-term loans payable of 2.35% and 2.95%, and long-term loans payable of 2.67% and 3.45%, respectively. Long-term debt at March 31, 2020 and 2019 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Long-term loans payable, principally from banks and insurance companies, due 2021 to 2035:			
Secured:			
Long-term loans payable	¥ 22,662	¥ 40,601	\$ 208,237
Unsecured:			
Bonds issued	90,000	70,000	826,978
Bonds with subscription rights to shares	10,070	10,090	92,528
Long-term loans payable	97,874	61,668	899,334
Lease obligations	7,986	4,436	73,383
	228,593	186,795	2,100,459
Portion due within one year:			
Long-term loans payable	11,953	16,255	109,835
Lease obligations	495	584	4,551
	¥ 12,449	¥ 16,839	\$ 114,386

The aggregate annual maturities of bonds issued (including bonds with subscription rights to shares), long-term loans payable and lease obligations, due within 5 years (with exception of portion due within 1 year) from fiscal year end are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Bonds issued	Long-term loans payable	Lease obligations	Bonds issued	Long-term loans payable	Lease obligations
2022	¥ —	¥ 32,478	¥1,120	\$ —	\$298,429	\$10,289
2023	—	49,309	878	—	453,086	8,071
2024	20,000	11,118	667	183,773	102,164	6,128
2025	10,000	8,222	520	91,886	75,548	4,779
	¥30,000	¥101,128	¥3,185	\$275,659	\$929,226	\$29,266

7. Pledged Assets and Secured Liabilities

(a) Pledged assets

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	¥ 314	¥ 1,605	\$ 2,889
Cash and time deposits			
Notes and accounts receivable, trade	36	31	332
Accounts receivable from completed construction on contracts	766	1,800	7,041
Costs on uncompleted construction contracts	258	1,124	2,367
Real estate for sale	3,237	25,123	29,745
Real estate for sale in process	8,048	54,685	73,946
Accounts receivable, other	134	308	1,231
Buildings and structures	8,399	10,784	77,177
Machinery, equipment and vehicles	10,444	11,224	95,966
Land	2,485	6,054	22,832
Construction in progress	2,359	5,676	21,672
Investment securities	12,728	17,835	116,957
Other	1,923	4,673	17,667
	¥51,131	¥140,922	\$469,823

(b) Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Short-term loans payable	¥ 2,813	¥16,602	\$ 25,848
Long-term loans payable	22,662	40,601	208,237
	¥25,475	¥57,203	\$234,085

8. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise corporation tax, enterprise tax, and prefectural and municipal in-habitants taxes. The effective statutory tax rate for the years ended March 31, 2020 and 2019 was 30.6%.

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

	2020	2019
Effective statutory tax rate	—	30.6%
Non-deductible expenses for tax purposes	—	0.4
Non-taxable dividend income	—	(0.9)
Per capita portion of inhabitant tax	—	0.5
Amortization of goodwill	—	3.5
Equity in earnings of affiliates	—	(0.9)
Tax rate differences with oversea subsidiaries	—	(6.5)
Other	—	1.8
Effective income tax rate	—	28.6%

The reconciliation between the effective statutory tax rate and the effective income tax rate for the year ended March 31, 2020 is not disclosed because such difference is less than 5% of the effective statutory tax rate.

The significant components of deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Allowance for doubtful accounts	¥ 445	¥ 435	\$ 4,085
Allowance for employees' bonuses	3,616	3,503	33,230
Accrued legal welfare expense on employees' bonuses	539	529	4,957
Enterprise taxes	443	503	4,069
Devaluation of real estate for sale	358	273	3,292
Liability for retirement benefits	6,650	5,813	61,102
Devaluation of fixed assets	740	751	6,797
Devaluation of financial instruments	2,000	1,576	18,375
Tax loss carryforwards	4,936	5,080	45,359
Impairment loss	1,776	1,034	16,317
Allowance for warranties for completed construction	1,201	585	11,034
Unrealized gain on fixed assets	636	579	5,848
Other	5,155	4,651	47,370
Gross deferred tax assets	28,496	25,312	261,836
Valuation allowance for tax loss carryforwards	(4,596)	(4,911)	(42,232)
Valuation allowance for others	(5,747)	(5,345)	(52,804)
Valuation allowance	(10,343)	(10,255)	(95,036)
Total deferred tax assets	18,153	15,057	166,800
Deferred tax liabilities:			
Deferred gains on sales of fixed assets	(757)	(757)	(6,954)
Gain on securities contributed to employee retirement benefit trusts	(1,168)	(1,217)	(10,729)
Valuation difference on available-for-sale securities	(7,439)	(11,000)	(68,359)
Land revaluation differences	(853)	(853)	(7,842)
Taxes on undistributed earnings of subsidiaries	(2,969)	(2,201)	(27,282)
Other	(5,245)	(5,557)	(48,199)
Gross deferred tax liabilities	(18,432)	(21,586)	(169,364)
Net deferred tax assets (liabilities)	¥ (279)	¥ (6,528)	\$ (2,565)

The breakdowns of amount of tax loss carryforwards and deferred tax assets by expiration period as of March 31, 2020 and 2019 were as follows:

	Millions of yen						
	2020						
	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	Total
Tax loss carryforwards*	¥ 981	¥ 161	¥ 380	¥ 144	¥ 512	¥ 2,758	¥ 4,936
Valuation allowance	(981)	(161)	(380)	(144)	(512)	(2,418)	(4,596)
Deferred tax assets	—	—	—	—	—	340	340

	Millions of yen						
	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	Total
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						
	2020						
	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	Total
Tax loss carryforwards*	\$ 9,014	\$ 1,479	\$ 3,492	\$ 1,323	\$ 4,705	\$ 25,342	\$ 45,355
Valuation allowance	(9,014)	(1,479)	(3,492)	(1,323)	(4,705)	(22,218)	(42,231)
Deferred tax assets	—	—	—	—	—	3,124	3,124

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

9. Extraordinary Gains (Losses) on Sales and Retirement of Noncurrent Assets

Extraordinary gains (losses) on sales and retirement of noncurrent assets for the years ended March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Gain on sales of noncurrent assets:			
Machinery, equipment and vehicles	¥ 18	¥ 13	\$ 164
Land	57	40	520
Others	28	34	255
Total gain on sales of noncurrent assets	¥102	¥ 86	\$ 939
Loss on sales of noncurrent assets:			
Buildings and structures	¥ 25	¥ —	\$ 232
Other	10	—	88
Total loss on sales of noncurrent assets	¥ 35	¥ —	\$ 320
Loss on retirement of noncurrent assets:			
Buildings and structures	¥131	¥ 79	\$1,200
Other	97	83	888
Total loss on retirement of noncurrent assets	¥227	¥162	\$2,088

10. Selling, General and Administrative Expenses

The components of “Selling, General and Administrative Expenses” for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Salaries and allowances	¥61,887	¥60,513	\$568,657
Allowance for employees' bonuses	9,613	9,500	88,335
Allowance for directors' bonuses	143	143	1,314
Allowance for benefit expenses	5,853	6,092	53,778
Allowance for directors' retirement benefits	26	20	237
Allowance for doubtful accounts	106	(47)	973
Allowance for warranties for completed construction	3,104	1,328	28,525

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2020 and 2019 were ¥2,271 million (\$20,865 thousand) and ¥2,112 million, respectively.

11. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and time deposits	¥ 92,774	¥ 82,421	\$ 852,464
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(2,190)	(228)	(20,127)
Short-term investments	3,000	5,000	27,566
Restricted cash	(1,018)	(2,091)	(9,356)
Cash equivalents included in short-term loans receivable	20,000	20,000	183,771
Cash and cash equivalents	¥112,565	¥105,102	\$1,034,317

12. 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, 2020 and 2019, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$26,253 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.

13. 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.

14. Contingent Liabilities

Contingent liabilities as at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Guarantee on loans from financial institutions:			
Guarantees of housing loans to customers	¥29,559	¥30,978	\$271,603
Affiliated companies of Crescent Communities group	27,322	9,835	251,050
Kanda Biomass Energy K.K.	10,578	7,657	97,201
Kawasaki Biomass Electric Power Co., Ltd.	285	436	2,621
MOS Lumber Products Co., Ltd.	—	67	—
Total	¥67,744	¥48,973	\$622,474

15. 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 customers’ 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. Marketable 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		
	2020		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 92,774	¥ 92,774	¥ —
Notes and accounts receivable, trade	123,030	123,030	—
Marketable securities and investment securities:			
Held-to-maturity	1,458	1,481	23
Shares in affiliates	33,815	23,412	(10,403)
Available-for-sale	52,211	52,211	—
Total	¥ 303,287	¥ 292,907	¥(10,380)
Notes and accounts payable, trade	¥(109,179)	¥(109,179)	¥ —
Accounts payable for construction contracts	(83,281)	(83,281)	—
Bonds issued	(90,000)	(89,555)	(445)
Long-term loans payable**	(132,490)	(131,896)	(594)
Total	¥(414,951)	¥(413,912)	¥ (1,039)
Derivatives***:			
Hedge accounting not applied	¥ 29	¥ 29	¥ —
Hedge accounting applied	3,531	3,531	—
Total	¥ 3,560	¥ 3,560	¥ —

	Millions of yen		
	2019		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 82,421	¥ 82,421	¥ —
Notes and accounts receivable, 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)
Notes and accounts payable, trade	¥(118,547)	¥(118,547)	¥ —
Accounts payable for construction contracts	(75,595)	(75,595)	—
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	¥ —

	Thousands of U.S. dollars		
	2020		
	Carrying amount	Fair value	Difference
Cash and time deposits	\$ 852,464	\$ 852,464	\$ —
Notes and accounts receivable, trade	1,130,477	1,130,477	—
Marketable securities and investment securities:			
Held-to-maturity	13,396	13,606	210
Shares in affiliates	310,718	215,128	(95,590)
Available-for-sale	479,744	479,744	—
Total	\$ 2,786,798	\$ 2,691,418	\$(95,381)
Notes and accounts payable, trade	\$(1,003,210)	\$(1,003,210)	\$ —
Accounts payable for construction contracts	(765,242)	(765,242)	—
Bonds issued	(826,978)	(822,893)	(4,084)
Long-term loans payable**	(1,217,406)	(1,211,947)	(5,459)
Total	\$(3,812,836)	\$(3,803,293)	\$ (9,543)
Derivatives***:			
Hedge accounting not applied	\$ 270	\$ 270	\$ —
Hedge accounting applied	32,443	32,443	—
Total	\$ 32,713	\$ 32,713	\$ —

* Liabilities are shown in brackets

** 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, Notes and accounts receivable, 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

(Notes and accounts payable, trade, Accounts payable for construction contracts)

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 16.

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

	Carrying amount		
	Millions of yen	Thousands of U.S. dollars	
	2020	2019	2020
Unlisted equity securities	¥ 2,929	¥ 4,618	\$ 26,910
Investment in affiliates	51,090	40,614	469,452

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

	Millions of yen			
	2020			
	1 year or less	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
Cash and time deposits	¥ 92,093	¥ —	¥—	¥—
Notes and accounts receivable, trade	123,030	—	—	—
Marketable securities and investment securities:				
Government bonds	658	737	62	—
Other	3,000	—	—	—
Total	¥218,781	¥737	¥62	¥—

	Millions of yen			
	2019			
	1 year or less	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
Cash and time deposits	¥ 81,999	¥ —	¥ —	¥—
Notes and accounts receivable, trade	135,636	—	—	—
Marketable securities and investment securities:				
Government bonds	305	1,239	218	—
Other	5,000	—	—	—
Total	¥222,940	¥1,239	¥218	¥—

	Thousands of U.S. dollars			
	2020			
	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	\$ 846,213	\$ —	\$ —	\$—
Notes and accounts receivable, trade	1,130,477	—	—	—
Marketable securities and investment securities:				
Government bonds	6,046	6,772	570	—
Other	27,566	—	—	—
Total	\$2,010,302	\$6,772	\$570	\$—

16. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2020 and 2019 were as follows:

	Millions of yen			
	2020			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,787	¥—	¥36	¥36
Sell (U.S. dollar)	273	—	(7)	(7)
Total	¥2,060	¥—	¥29	¥29
Interest rate swap contracts:				
Pay fixed / receive variable	¥1,578	¥—	¥—	¥—
Total	¥1,578	¥—	¥—	¥—

	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)
Buy (U.S. dollar)	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

	Thousands of U.S. dollars			
	2020			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	\$16,416	\$—	\$334	\$334
Sell (U.S. dollar)	2,510	—	(65)	(65)
Total	\$18,926	\$—	\$270	\$270
Interest rate swap contracts:				
Pay fixed / receive variable	\$14,497	\$—	\$ —	\$ —
Total	\$14,497	\$—	\$ —	\$ —

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, 2020 and 2019 were as follows:

	Millions of yen			
	2020			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounted for by the deferred hedge method:				
Sell (U.S. dollar)	Accounts payable, trade	¥ 3,997	¥ —	¥ (53)
Sell (Euro)		1,574	—	(3)
Sell (Thai baht)		2,958	2,958	(89)
Buy (U.S. dollar)	Accounts payable, trade	26,743	18,587	3,703
Buy (Euro)		4,321	—	(27)
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable, trade	27	—	*
Total		¥39,620	¥21,545	¥3,531
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	¥ 1,810	¥ 1,047	*
Total		¥ 1,810	¥ 1,047	¥ —
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			
	2019			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounted for by the deferred hedge method:				
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			
	2019			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounted for by the deferred hedge method:				
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	¥ —

	Thousands of U.S. dollars			
	2020			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounted for by the deferred hedge method:				
Sell (U.S. dollar)	Accounts payable, trade	\$ 36,724	\$ —	\$ (486)
Sell (Euro)		14,462	—	(31)
Sell (Thai baht)		27,182	27,182	(822)
Buy (U.S. dollar)	Accounts payable, trade	245,736	170,788	34,026
Buy (Euro)		39,702	—	(244)
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable, trade	250	—	*
Total		\$364,056	\$197,970	\$32,443
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	\$ 16,631	\$ 9,618	*
Total		\$ 16,631	\$ 9,618	\$ —
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term loans payable	\$ 26,273	\$ 26,273	*
Total		\$ 26,273	\$ 26,273	\$ —

* 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.

17. 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, 2020 and 2019 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the year	¥76,685	¥72,224	\$704,634
Service cost	3,415	3,216	31,381
Interest cost	388	524	3,564
Actuarial gain and loss	862	2,845	7,922
Retirement benefits paid	(2,257)	(2,075)	(20,734)
Prior service cost	—	8	—
Other	33	(56)	300
Balance at the end of the year	¥79,127	¥76,685	\$727,067

The changes in plan assets for the years ended March 31, 2020 and 2019 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the year	¥58,461	¥56,953	\$537,177
Expected return on plan assets	1,228	1,595	11,281
Actuarial gain and loss	(1,710)	(566)	(15,712)
Contributions	1,779	2,201	16,350
Retirement benefits paid	(1,826)	(1,723)	(16,778)
Balance at the end of the year	¥57,932	¥58,461	\$532,317

The changes in the liability for retirement benefits, which were calculated by the simplified method for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at the beginning of the year	¥1,359	¥1,315	\$12,490
Retirement benefit expense	263	263	2,421
Retirement benefits paid	(104)	(91)	(960)
Contributions	(72)	(93)	(660)
Other	(159)	(35)	(1,463)
Balance at the end of the year	¥1,287	¥1,359	\$11,829

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2020 and 2019 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligation	¥ 74,695	¥ 72,718	\$ 686,347
Plan assets at fair value	(58,701)	(59,192)	(539,385)
	15,994	13,526	146,962
Unfunded retirement benefit obligation	6,488	6,058	59,616
Net liability for retirement benefits in the balance sheet	¥ 22,482	¥ 19,584	\$ 206,578
Liability for retirement benefits	¥ 22,574	¥ 19,822	\$ 207,424
Asset for retirement benefits	(92)	(238)	(846)
Net liability for retirement benefits in the balance sheet	¥ 22,482	¥ 19,584	\$ 206,578

The components of retirement benefit expense for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥ 3,415	¥ 3,216	\$ 31,381
Interest cost	388	524	3,564
Expected return on plan assets	(1,228)	(1,595)	(11,281)
Amortization of actuarial gain and loss	2,572	3,410	23,634
Amortization of prior service cost	—	8	—
Retirement benefit expense under the simplified method	263	263	2,421
Other	0	11	0
Retirement benefit expense	¥ 5,411	¥ 5,837	\$ 49,720

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2020 and 2019 were as follows:

	2020	2019
Bonds	47%	46%
Stocks	23%	25%
General account	13%	13%
Other	17%	16%
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:

	2020	2019
Discount rates	0.000%–0.451%	0.000%–0.622%
Expected rates of return plan assets	2.1%	2.8%
Expected rate of salary increase (point based plan)	5.0%	5.0%

Contributions to defined contribution retirement benefit plans of the Company and its consolidated subsidiaries were ¥1,343 million (\$12,338 thousand) and ¥1,214 million for the years ended March 31, 2020 and 2019, respectively.

18. 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, 2020 and 2019 was ¥714 million (\$6,563 thousand) and ¥373 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	
2020		2019		2020	
Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
¥26,683	¥25,610	¥29,576	¥28,374	\$245,185	\$235,320

The main components of net change in carrying amount above included an increase of ¥4,974 million (\$45,706 thousand) due to acquisitions of real estate and a decrease of ¥7,601 million (\$69,840 thousand) due to change in the holding purpose of properties to real estate for sale, a decrease of ¥40 million (\$368 thousand) due to change in the use of property from rental use to in-house use, a decrease of ¥50 million (\$462 thousand) due to exchange rate fluctuations and a decrease of ¥176 million (\$1,615 thousand) due to depreciation for the year ended March 31, 2020.

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

19. Revenue Recognition

Revenue from contracts with customers is recognized based on the following five-step approach, at the amount of consideration for which the Company expects to be entitled in exchange for goods or services when the control of the promised goods or services is transferred to the customer.

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

(1) Revenue from sales of goods

Revenue from the sales of goods mainly includes the sales of timber and building materials through wholesale, retail, manufacturing and processing, and the sales of real estate for sale. At the time of delivery, the performance obligation is satisfied with the customer having control over the goods, and the Company recognizes revenue at that time.

(2) Revenue from construction contracts

Revenue from construction contracts mainly includes construction of detached houses and development of multi-family homes. Revenue is recognized over a certain period of time as the performance obligation is satisfied. The method of estimating the progress on the performance obligations satisfied over time is mainly the input method based on costs incurred.

However, for construction contracts for which the period from the commencement date of the contract to the date when it is expected that the performance obligation will be fully satisfied is very short, revenue is not recognized over a certain period of time, and the performance obligation is judged to be satisfied at the time of delivery, and revenue is recognized at that time.

(3) Revenue from services and other sales

Revenue from services and other sales mainly includes commissions related to agency transactions for timber and building materials, commissions related to guarantee services for detached houses and multi-family housing, and commissions related to the management and brokerage of real estate. Revenue from these transactions is recognized when the performance obligation is satisfied when the contractual terms of the contracts are fulfilled. For transactions that satisfy the performance obligation over a certain period of time, revenue is recognized based on the degree of progress in satisfying the performance obligation

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 four segments (Timber and Building Materials, Housing and Construction, Overseas Housing and Real Estate, and Environment and Resources) based on division and identified by products, services and geographical areas:

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

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

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

Environment and Resources: biomass power generation business and forestation, etc.

Other: 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 in April 2019, effective from the fiscal year ended March 31, 2020, the reporting segments have been changed from “Timber and Building Materials,” “Housing and Construction,” and “Overseas Housing and Real Estate” to “Timber and Building Materials,” “Housing and Construction,” “Overseas Housing and Real Estate,” and “Environment and Resources.”

The main change is that the biomass power generation business and overseas reforestation business, which had been included in “Other,” are included in the “Environment and Resources” business.

Segment information from the fiscal year ended March 31, 2019 has been prepared based on the new reporting segments.

As of/Year Ended March 31, 2020	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	¥202,525	¥473,151	¥398,780	¥16,248	¥1,090,705	¥12,765	¥1,103,470	¥ 625	¥1,104,094
Inter-segment transfers	21,102	852	579	3,015	25,548	10,661	36,209	(36,209)	—
Total	223,627	474,003	399,360	19,263	1,116,253	23,425	1,139,678	(35,584)	1,104,094
Segment income (loss)	6,095	22,570	34,541	3,551	66,758	1,484	68,243	(9,419)	58,824
Segment assets	195,591	181,789	336,580	75,900	789,860	77,146	867,007	137,761	1,004,768
Other items:									
Depreciation and amortization	2,987	4,632	2,449	2,022	12,090	1,649	13,739	649	14,388
Amortization of goodwill	—	—	5,975	—	5,975	168	6,143	—	6,143
Interest income	73	45	187	123	428	0	428	23	451
Interest expense	777	560	3,098	516	4,951	207	5,158	(2,453)	2,706
Equity in earnings (losses) of affiliates	(559)	7	6,535	391	6,374	1,722	8,096	0	8,097
Investments in affiliates	7,827	1,337	37,928	1,932	49,024	34,132	83,156	8	83,164
Increase in tangible and intangible assets	4,061	3,399	13,962	1,677	23,098	10,705	33,804	4,099	37,903

- Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥625 million (\$5,739 thousand) of administration department profit.
2. Adjustments for segment income and loss include ¥482 million (\$4,431 thousand) of elimination of inter-segment income and loss, ¥2,572 million (\$23,634 thousand) of retirement benefits liability adjustments (loss), and ¥6,365 million (\$58,486 thousand) of corporate general administration expense, which are not allocable to the reportable segments.
3. Adjustments for segment assets include ¥8,314 million (\$76,391 thousand) of inter-segment eliminations, ¥146,075 million (\$1,342,230 thousand) of corporate assets, which are not allocable to the reportable assets.

Millions of yen									
As of/Year Ended March 31, 2019	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
Segment assets	207,408	155,773	321,486	75,873	760,540	66,968	827,508	143,467	970,976
Other items:									
Depreciation and amortization	3,073	4,699	1,760	1,679	11,210	1,688	12,898	798	13,696
Amortization of goodwill	—	—	6,250	—	6,250	168	6,418	—	6,418
Interest income	101	39	127	137	405	0	405	32	437
Interest expense	706	520	2,257	96	3,579	199	3,777	(1,762)	2,015
Equity in earnings (losses) of affiliates	(49)	(1)	923	315	1,188	526	1,714	0	1,715
Investments in affiliates	8,937	—	28,205	1,396	38,538	33,556	72,094	(8)	72,086
Increase in tangible and intangible assets	2,178	6,865	7,984	3,914	20,941	1,287	22,228	(1,014)	21,214

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥598 million of administration department profit.
2. Adjustments for segment income and loss include ¥382 million of elimination of inter-segment income and loss, ¥3,410 million of retirement benefits liability adjustments (loss), and ¥4,260 million of corporate general administration expense, which are not allocable to the reportable segments.
3. Adjustments for segment assets include ¥7,683 million of inter-segment eliminations, ¥151,151 million of corporate assets, which are not allocable to the reportable assets.

Thousands of U.S. dollars									
As of/Year Ended March 31, 2020	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	\$1,860,931	\$4,347,614	\$3,664,251	\$149,300	\$10,022,097	\$117,290	\$10,139,387	\$ 5,739	\$10,145,126
Inter-segment transfers	193,899	7,830	5,321	27,702	234,753	97,957	332,709	(332,709)	—
Total	2,054,830	4,355,444	3,669,572	177,003	10,256,849	215,247	10,472,097	(326,971)	10,145,126
Segment income (loss)	56,007	207,390	317,390	32,633	613,420	13,639	627,059	(86,551)	540,508
Segment assets	1,797,216	1,670,390	3,092,715	697,421	7,257,744	708,871	7,966,614	1,265,838	9,232,452
Other items:									
Depreciation and amortization	27,449	42,564	22,500	18,579	111,092	15,148	126,240	5,968	132,208
Amortization of goodwill	—	—	54,899	—	54,899	1,548	56,447	—	56,447
Interest income	667	417	1,722	1,126	3,933	0	3,933	208	4,141
Interest expense	7,142	5,145	28,470	4,737	45,494	1,904	47,398	(22,538)	24,860
Equity in earnings (losses) of affiliates	(5,138)	64	60,051	3,595	58,573	15,823	74,395	4	74,399
Investments in affiliates	71,920	12,282	348,505	17,755	450,462	313,629	764,091	72	764,163
Increase in tangible and intangible assets	37,319	31,229	128,290	15,405	212,243	98,368	310,610	37,666	348,276

(Related information)

(1) Products and services information

Millions of yen				
Year Ended March 31, 2020	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥205,287	¥871,932	¥26,875	¥1,104,094

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

Thousands of U.S. dollars				
Year Ended March 31, 2020	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$1,886,304	\$8,011,873	\$246,948	\$10,145,126

(2) Geographic area information

Sales information by geographic area was as follows:

Millions of yen				
Year Ended March 31, 2020	Japan	United States	Other Area	Total
	¥675,686	¥331,894	¥96,514	¥1,104,094

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

Thousands of U.S. dollars				
Year Ended March 31, 2020	Japan	United States	Other Area	Total
	\$6,208,638	\$3,049,651	\$886,837	\$10,145,126

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

Millions of yen					
Year Ended March 31, 2020	Japan	New Zealand	United States	Other Area	Total
	¥104,932	¥33,753	¥20,286	¥20,475	¥179,446

Millions of yen					
Year Ended March 31, 2019	Japan	New Zealand	United States	Other Area	Total
	¥95,676	¥35,668	¥23,906	¥14,750	¥170,000

Thousands of U.S. dollars					
Year Ended March 31, 2020	Japan	New Zealand	United States	Other Area	Total
	\$964,180	\$310,144	\$186,400	\$188,141	\$1,648,867

(3) Customer information

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

(Information of loss on impairment of fixed assets)

Millions of yen							
Year Ended March 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥—	¥249	¥—	¥—	¥140	¥—	¥389

Millions of yen							
Year Ended March 31, 2019	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥89	¥—	¥—	¥—	¥38	¥—	¥126

Thousands of U.S. dollars							
Year Ended March 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	\$—	\$2,288	\$—	\$—	\$1,288	\$—	\$3,577

(Amortization and balance of goodwill)

Millions of yen							
As of/Year Ended March 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥—	¥—	¥5,975	¥—	¥ 168	¥—	¥6,143
Balance of goodwill	—	—	5,061	—	2,527	—	7,588

As of/Year Ended March 31, 2019	Millions of yen						Total
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	
Amortization of goodwill	¥—	¥—	¥6,250	¥—	¥ 168	¥—	¥ 6,418
Balance of goodwill	—	—	9,956	—	2,695	—	12,651

As of/Year Ended March 31, 2020	Thousands of U.S. dollars						Total
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	
Amortization of goodwill	\$—	\$—	\$54,899	\$—	\$ 1,548	\$—	\$56,447
Balance of goodwill	—	—	46,505	—	23,219	—	69,724

21. Amounts per Share

(a) Basic and diluted net income attributable to shareholders of parent per share

Details on the computation of net income per share and net income per share fully diluted as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net income attributable to shareholders of parent per share—Basic:			
Net income attributable to shareholders of parent	¥ 27,853	¥ 29,160	\$255,928
Net income not attributable to shares of common stock	—	—	—
Net income attributable to shares of common stock	27,853	29,160	255,928
Weighted average number of shares issued	181,406,905	181,345,520	—
Net income attributable to shareholders of parent per share fully diluted—Diluted:			
Adjusted net income attributable to shareholders of parent	—	—	—
Common shares increase	4,671,111	6,396,884	—
(Bonds with subscription rights to shares)	(4,562,044)	(6,281,036)	—
(Subscription rights to shares)	(109,067)	(115,848)	—

(b) Net assets per share

Details on the computation of net assets per share as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net assets per share:			
Total net assets	¥ 357,064	¥ 353,489	\$3,280,934
Amounts deducted from total net assets:	34,568	35,169	317,631
(Subscription rights to shares)	(120)	(135)	(1,099)
(Non-controlling interests)	(34,448)	(35,034)	(316,532)
Net assets attributable to shares of common stock	322,496	318,320	2,963,303
The number of shares of common stock used for the calculation of net assets per share	181,425,138	181,372,832	—

22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Valuation difference on available-for-sale securities:			
Amount incurred during the year	¥(11,898)	¥ (6,610)	\$(109,325)
Reclassification adjustments for gains and losses included in net income	209	(4,740)	1,925
Amount before tax effect	(11,688)	(11,349)	(107,401)
Tax effect	3,560	3,206	32,716
Valuation difference on available-for-sale securities	(8,128)	(8,144)	(74,684)
Deferred gains (losses) on hedges:			
Amount incurred during the year	2,701	1,386	24,817
Reclassification adjustments for gains and losses included in net income	(108)	15	(994)
Amount before tax effect	2,593	1,400	23,823
Tax effect	(815)	(427)	(7,485)
Deferred gains (losses) on hedges	1,778	974	16,338
Translation adjustments:			
Amount incurred during the year	(2,876)	(8,075)	(26,427)
Reclassification adjustments for gains and losses included in net income	(165)	—	(1,513)
Amount before tax effect	(3,041)	(8,075)	(27,941)
Tax effect	50	—	463
Translation adjustments	(2,990)	(8,075)	(27,477)
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	(249)	(215)	(2,289)
Reclassification adjustments for gains and losses included in net income	(37)	(67)	(337)
Share of other comprehensive income of affiliates accounted for by the equity method	(286)	(282)	(2,625)
Total other comprehensive income	¥ (9,626)	¥(15,527)	\$ (88,449)

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, 2020 and 2019 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of the year	¥2,010	¥1,507	\$18,466
Liability incurred for assets acquired	217	157	1,991
Change in estimates	80	417	731
Accretion expense	10	12	95
Liabilities settled	(81)	(84)	(744)
Balance at end of the year	¥2,235	¥2,010	\$20,539

During the fiscal year ended March 31, 2020, estimates of asset retirement obligations that were recorded as part of 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 related asset obligations have increased by ¥80 million (\$731 thousand) as a result of this change.

25. Stock Option Plan

(a) Stock option expenses per accounts for the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Selling, general and administrative expenses	¥—	¥12	\$—

(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.

24. Related Party Transactions

Principal transactions between the Company, the Company's consolidated subsidiaries and their related parties for the year ended March 31, 2020 and 2019 were summarized as follows:

Name	Title	Transactions	Millions of yen		Thousands of U.S. dollars	
			Amounts	Balance at the end of the year	Amounts	Balance at the end of the year
Relative of Toshiro Mitsuyoshi	Director's relative	Receipt of rent for private-pay elderly care facility	¥18	¥—	\$165	\$—

Notes: 1. The terms and conditions of the transactions were determined using the same methods as third party transactions.
2. The transaction amounts do not include consumption tax.

Name	Title	Transactions	Millions of yen	
			Amounts	Balance at the end of the year
Hitoshi Hayano	Senior statutory auditor	Sales of housing	¥67	¥—
Noriaki Toi	Statutory auditor	Sales of housing	¥31	¥—

Notes: 1. The terms and conditions of the transactions were determined using the same methods as third party transactions.
2. The transaction amounts do not include consumption tax.



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1) Number of stock options

Year Ended March 31, 2020	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, 2019	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested	—	—	—
Vested stock options			
As of March 31, 2019	35,300	40,500	37,600
Vested	—	—	—
Exercised	5,700	3,700	3,400
Forfeited	—	—	—
Unexercised	29,600	36,800	34,200

2) Unit price information

Year Ended March 31, 2020	Yen		
	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	¥1,502	¥1,625	¥1,625
Fair unit value on the grant date	¥1,233	¥1,092	¥1,256

Year Ended March 31, 2020	U.S. dollars		
	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	\$ 0.01	\$ 0.01	\$ 0.01
Average stock price when exercised	\$13.80	\$14.93	\$14.93
Fair unit value on the grant date	\$11.33	\$10.03	\$11.54

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

No stock options were granted in the fiscal year ended March 31, 2020.

(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.

26. Additional Information

(Effect of COVID-19 on accounting estimates)

The COVID-19 pandemic has affected the business activities of the Company and its subsidiaries, however, it is extremely difficult to predict the future spread of the disease and when it will end.

To determine the recoverability of deferred tax assets and the recognition of impairment loss, etc., the Company made best estimates assuming that the impact would continue over the following fiscal year based on the information available at the time of preparation of the consolidated financial statements.

In the event that there are major changes in the assumptions in the next fiscal year upon which the estimates were formed, it is probable the estimates will be revised taking account of such changes.

27. Subsequent Events

(Issuance of commercial paper)

In order to secure sufficient liquidity, the Company has issued the following commercial paper.

- (1) Total face value: ¥40,000 million (\$367,546 thousand)
- (2) Issue price (total): ¥39,958 million (\$367,160 thousand)
- (3) Date of issue: April 1, 2020 – April 8, 2020
- (4) Maturity date: June 30, 2020 – March 31, 2021
- (5) Interest rate: determined by taking into account the short-term financial market interest rate
- (6) Collateral, etc.: unsecured, unguaranteed

(Significant borrowings)

In order to raise long-term working capital, the Company has entered into the following long-term borrowing arrangement.

- (1) Lenders: Sumitomo Mitsui Banking Corporation and 13 other financial institutions
- (2) Borrowing amount (total): ¥20,000 million (\$183,773 thousand)
- (3) Borrowing date: May 29, 2020
- (4) Repayment dates: May 29, 2026; May 31, 2027; and May 31, 2030
- (5) Interest rate: determined by taking into account the long-term interest rate in the financial market
- (6) Collateral, etc.: unsecured, unguaranteed

Independent Auditor’s Report

The Board of Directors
Sumitomo Forestry Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 3(y) to the consolidated financial statements, which describes the Company adopted “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30, Mach 30, 2018) from the beginning of the fiscal year ended March 31, 2020.

Our opinion is not qualified in respect of this matter.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 23, 2020

千葉達也

Tatsuya Chiba
Designated Engagement Partner
Certified Public Accountant

中原義勝

Yoshikatsu Nakahara
Designated Engagement Partner
Certified Public Accountant

清本雅哉

Masaya Kiyomoto
Designated Engagement Partner
Certified Public Accountant

Domestic Group Overview

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