Financial Section

Contents

* In this section, segment information is reported according to the new segment classification from fiscal 2010.

Eleven-Year Summary

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen			
	2011	2010	2009	2008
Operating Results:				
Net sales	**¥797,493**	¥723,923	¥823,810	¥861,357
Gross profit	**132,568**	124,269	133,493	135,277
Selling, general and administrative expenses	**118,330**	114,522	126,656	128,041
Operating income	**14,238**	9,747	6,837	7,235
Recurring income*1	**14,206**	9,465	6,160	7,659
Net income (loss)	**5,175**	2,377	1,028	1,115
Financial Position:				
Total assets	**¥489,417**	¥469,738	¥427,738	¥450,730
Working capital*2	**89,665**	88,338	81,700	64,156
Interest-bearing debt	**69,229**	66,786	49,127	25,816
Total net assets	**163,110**	162,930	156,192	173,089
Cash Flows:				
Cash flows from operating activities	**¥ 17,515**	¥ 37,239	¥ (8,161)	¥ 26,106
Cash flows from investment activities	**(13,247)**	(19,117)	(29,062)	(17,587)
Cash flows from financing activities	**372**	11,546	24,196	(4,262)
Cash and cash equivalents at the end of the year	**75,582**	71,662	40,730	54,475
Capital Investment:				
Tangible fixed assets*3	**¥ 11,923**	¥ 10,636	¥ 24,075	¥ 9,578
Intangible fixed assets	**2,434**	1,561	2,013	1,694
Others	**215**	395	150	222
Total	**14,572**	12,592	26,238	11,494
Depreciation and amortization	**8,437**	8,502	8,477	7,258

	Yen			
Per Share Data:				
Net income (loss)	**¥ 29.2**	¥ 13.4	¥ 5.8	¥ 6.3
Net assets	**919.5**	917.8	880.9	976.0
Cash dividends	**15.0**	15.0	15.0	15.0

	%			
Financial Ratios:				
Gross profit margin	**16.6**	17.2	16.2	15.7
Operating income margin	**1.8**	1.3	0.8	0.8
Recurring income margin	**1.8**	1.3	0.7	0.9
Return on assets (ROA)*4	**3.0**	2.1	1.4	1.6
Return on equity (ROE)*4	**3.2**	1.5	0.6	0.6
Equity ratio	**33.3**	34.6	36.5	38.4
Interest-bearing debt ratio*5	**29.8**	29.1	23.9	13.0
Current ratio	**136.8**	140.3	141.6	127.6
Interest coverage ratio [times]	**8.2**	6.8	4.5	4.5

*1. Recurring income = Operating income + Non-operating income – Non-operating expenses
Non-operating income includes interest income, purchase discounts, dividends income, foreign exchange gains, miscellaneous gains, and other income generated from normal business activities. Non-operating expenses include interest expense, sales discounts, foreign exchange losses, miscellaneous expenses, and other expenses from normal business activities.
*2. Working capital = Current assets – Current liabilities

Millions of yen

2007	2006	2005	2004	2003	2002	2001
¥911,674	¥791,128	¥723,193	¥673,779	¥645,100	¥644,731	¥682,375
141,117	127,853	125,582	120,778	109,632	109,438	118,064
120,711	112,407	107,116	103,201	100,859	106,398	102,065
20,405	15,446	18,466	17,577	8,773	3,040	15,999
21,259	16,800	18,692	17,074	9,721	3,731	16,909
11,954	10,842	8,014	9,870	(15,440)	466	6,994
¥500,136	¥464,193	¥370,684	¥369,755	¥357,322	¥365,531	¥371,102
76,453	68,037	67,579	66,377	60,260	60,477	61,319
25,739	22,067	15,580	19,929	16,497	18,124	24,517
188,855	175,206	152,500	146,269	129,727	147,440	150,979
¥ 7,084	¥ 16,626	¥ 6,685	¥ 25,962	¥ 19,734	¥ 17,332	¥ 3,468
(7,102)	(8,998)	(12,895)	(7,646)	2,026	(16,439)	(1,960)
665	(14,039)	(7,087)	(735)	(8,171)	(9,716)	(13,873)
50,311	49,628	55,928	69,312	52,029	38,873	47,476
¥ 7,020	¥ 8,132	¥ 7,016	¥ 4,040	¥ 2,761	¥ 7,705	¥ 4,448
1,586	1,857	1,673	1,468	2,077	2,194	1,889
420	454	549	883	283	225	252
9,026	10,443	9,237	6,392	5,123	10,124	6,590
6,476	6,403	6,452	6,447	5,985	5,289	4,551

Yen

¥ 67.4	¥ 61.3	¥ 45.3	¥ 55.8	¥ (87.5)	¥ 2.6	¥ 39.6
1,059.2	996.0	866.5	830.5	736.4	835.1	854.9
15.0	13.0	13.0	13.0	10.0	10.0	10.0

%

15.5	16.2	17.4	17.9	17.0	17.0	17.3
2.2	2.0	2.6	2.6	1.4	0.5	2.3
2.3	2.1	2.6	2.5	1.5	0.6	2.5
4.4	4.0	5.0	4.7	2.7	1.0	4.6
6.6	6.6	5.4	7.2	(11.1)	0.3	4.7
37.5	37.7	41.1	39.6	36.3	40.3	40.7
12.1	11.2	9.3	12.0	11.3	10.9	14.0
129.3	129.3	137.4	135.7	132.6	131.8	131.1
11.2	10.8	18.6	21.9	18.3	7.8	22.6

*3. As of March 2009, accounting standards for lease transactions were changed and, accordingly, leased assets are included in property, plant, and equipment.
*4. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.
ROA = Recurring income / Total assets
ROE = Net income (loss) / Shareholders' equity
*5. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

Management Discussion and Analysis

Market Overview

In fiscal 2010, ended March 31, 2011, an improvement in corporate earnings owing to rising demand in emerging countries and stimulus measures, and a pickup in consumer spending supported a moderate recovery in the Japanese economy. However, the economic outlook remained uncertain due to downward pressures on the economy such as yen appreciation, stock market weakness, and continued deflation, while the economic impact of the Great East Japan Earthquake on March 11, 2011 was also a concern.

In the housing industry, there were signs of a pickup in new housing starts, which rose 5.6% year on year to 819,000 units, partly due to support from government incentives to promote house purchases. Owner-occupied housing starts, which are closely correlated with the performance of the Group's housing business, rose 7.5% year on year to 309,000 units. Market conditions were also firm in the timber and building materials industry, with the increase in new housing starts supporting a recovery in demand for building materials.

Consolidated Operating Results

❶ Net Sales and Orders Received

Net sales increased 10.2% year on year to ¥797,493 million. This mainly reflected higher unit sales of custom-built detached housing and generally solid sales in the timber and building materials distribution business and the building materials manufacturing business.

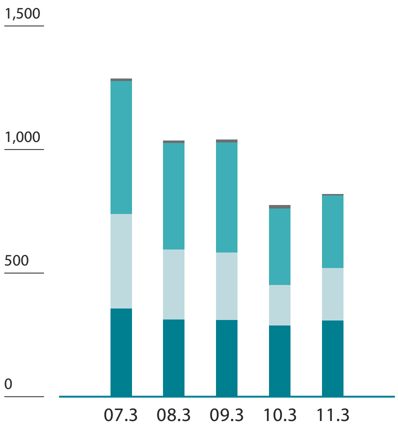
The value of orders received for custom-built detached housing totaled ¥284,420 million, up 7.2% year on year, while the number of orders received came to 8,926 units, up 3.9%. Sales of custom-built detached housing totaled ¥270,903 million, up 2.5% year on year, while unit sales came in at 8,721 units, an increase of 1.6%.

❷ Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled ¥118,330 million, an increase of 3.3% compared with the previous fiscal year. Although the Company continued its comprehensive Group-wide expense reduction efforts, selling, general and administrative expenses rose by ¥3,807 million. This was due to factors such as an increase in personnel expenses, which resulted from an actuarial difference in accounting for retirement benefit obligations owing to deterioration in the operating environment for the Group's pension assets amid weakness in the stock market.

Number of New Housing Starts in Japan

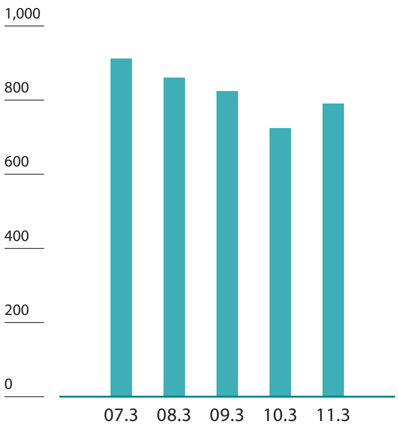
(Thousands of units)



Owner-occupied housing Built-for-sale housing Rental housing Corporate housing

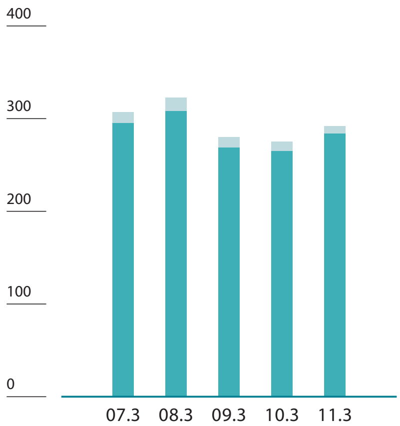
Net Sales

(Billions of yen)



Amount of Orders Received

(Billions of yen)



Custom-built detached housing Collective housing

❸ Operating Income

Although personnel expenses rose due to the actuarial difference in accounting for retirement benefit obligations, operating income increased by ¥4,492 million to ¥14,238 million, an improvement of 46.1% from the previous fiscal year. This improvement was attributable to an increase in sales and gross profit, which reflected higher sales volume for timber and building materials, an increase in unit sales of custom-built detached housing, and streamlined production. Excluding the impact of the abovementioned actuarial difference, operating income would have increased 139.4% year on year to ¥17,030 million.

❹ Net Income

Net income increased by ¥2,798 million to ¥5,175 million, an improvement of 117.7% compared with the previous fiscal year, despite the booking of extraordinary losses such as losses related to the sale of a domestic subsidiary's business, loss on devaluation of investment securities, and disaster-related losses.

Net income per share came to ¥29.21, an increase of ¥15.79 from the previous fiscal year.

Segment Results

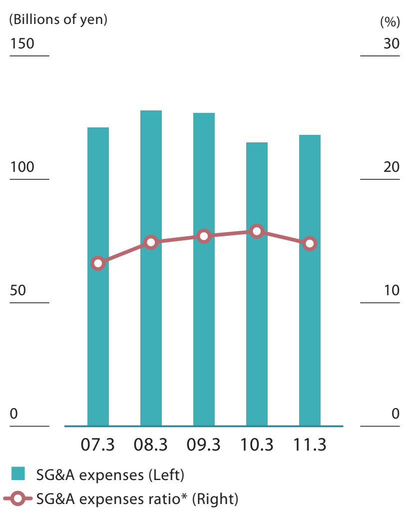
*Sales and recurring income figures given below include intersegment sales and transfers. Recurring income figures have been used for the segment results section.

❶ Timber and Building Materials Business

Net sales in the timber and building materials business rose 14.3% year on year to ¥390,231 million, and recurring income increased 141.7% to ¥4,848 million.

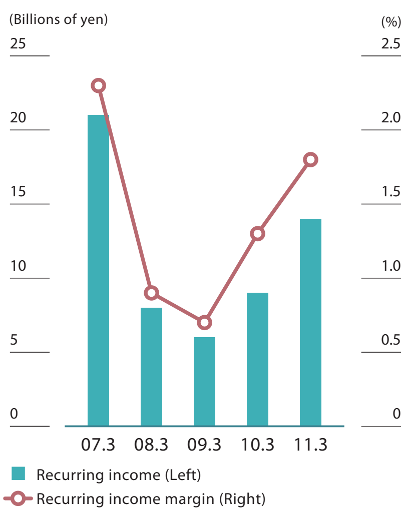
In Japan, the timber and building materials distribution business and the building materials manufacturing business were generally strong on the back of a recovery in demand. In the timber and building materials distribution business, almost all divisions saw an increase in the volume of materials handled and average unit prices also rose, driving an increase in sales. Sales of imported products such as European timber were particularly strong. The building materials manufacturing business also registered strong sales of building materials for new-build homes. Amid prospects for increased demand for domestic timber, Sumitomo Forestry Wood Products Co., Ltd., which is responsible for handling all the Group's domestic timber, focused on creating a stable supply system for high-quality domestically produced timber, which contributed to profits in the business. In addition, Home Eco Logistics Co., Ltd., which was established in April 2010, worked to build a new business model aimed at helping materials manufacturers and other companies reduce costs and CO_2 emissions during distribution by rationalizing distribution activities. This business model is based on the provision of our proprietary home building materials distribution system, which was developed in the housing business.

SG&A Expenses and SG&A Expenses Ratio

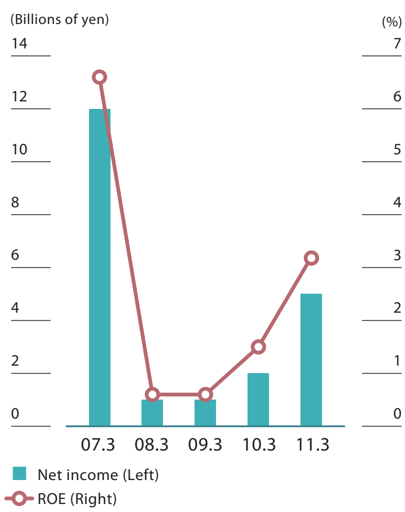


*SG&A expenses ratio = SG&A expenses / Net sales

Recurring Income and Recurring Income Margin



Net Income and ROE



❷ Overseas Business

Net sales in the overseas business rose 30.5% year on year to ¥33,234 million. The business reported a recurring loss of ¥1,829 million, compared with a recurring loss of ¥2,582 million in the previous fiscal year.

In the overseas distribution of timber and building materials, we worked to expand sales channels by leveraging our material procurement capabilities in products handled by the Group and from other sources. In the overseas building materials manufacturing business, the recovery trend continued on the back of year-on-year increases in production and sales volume at manufacturing companies in New Zealand and Indonesia. However, the Group's manufacturing company in China will need more time to get up to speed. In the overseas housing business, the US market remained sluggish and this resulted in the booking of loss on devaluation of land earmarked for development as housing lots. In Australia, the business established a joint venture to carry out housing land development as part of efforts to build an operating base to support business expansion in the market. In the plantation forest businesses in Papua New Guinea, New Zealand and Indonesia, the focus was on building systems to ensure access to stable supplies of plantation timber to drive profit growth. At the same time, steps were taken to help energize local economies through the creation of jobs and other measures.

❸ Housing Business

Net sales in the housing business rose 2.4% year on year to ¥346,279 million, and recurring income increased 43.3% to ¥18,988 million.

The custom-built detached housing business reinforced its sales organization in areas other than model homes to prepare for an expected contraction in the domestic housing market due to the aging of Japanese society over the medium-to long-term. The business also reinforced its earnings base through further streamlining of production activities and cost reduction, with orders received, sales and profits all rising year on year.

Sales promotion initiatives included holding *Sumai Haku* housing fairs in Japan's three major urban centers for the first time in two years, as well as promotional events nationwide that showcased the appeal of our environmentally friendly housing fitted with solar power generation systems and other features. We also used the internet to upgrade sales promotion tools with the launch of two new websites linked to our homepage: *BF Floor Plan Designer*, which allows users to see interior floor plans they have designed in a 3D virtual environment, while *Home Building Master* uses gameplay to promote deeper understanding of what is involved in the house building process. We also worked to increase customer satisfaction by changing the contract for outside work on

Housing Business / Real Estate Business

(Years ended March 31)		2008	2009	2010	**2011**	2012 (forecast)
Orders						
Custom-Built Detached Housing	(¥million)	¥295,413	¥268,889	¥265,203	**¥284,420**	¥289,000
	(Units)	9,301	8,703	8,593	**8,926**	9,000
Sales						
Custom-Built Detached Housing	(¥million)	¥296,861	¥294,551	¥264,215	**¥270,903**	¥285,400
	(Units)	9,408	9,297	8,580	**8,721**	8,900
Detached Spec Homes*2	(¥million)	¥ 2,718	¥ 3,253	¥ 7,851	**¥ 9,567**	¥ 10,000
	(Units)	118	144	183	**226**	230
Total Detached Homes	(¥million)	¥299,579	¥297,805	¥272,066	**¥280,470**	¥295,400

*1. Percentage-of-completion method applied to figures from the fiscal year ended March 31, 2010.
*2. Combined figures for land and buildings shown from the fiscal year ended March 31, 2010.

houses, such as gardens, gates and carports, previously handled by Sumitomo Forestry Landscaping Co., Ltd., to our Housing Division branches in order to integrate this exterior work into contracts for house construction.

In terms of product strategy, we actively worked to boost sales of homes that employ our proprietary Big-Frame construction method* and sought to differentiate our products from those of our rivals to enhance product competitiveness.

In the apartment business, unit sales increased year on year, driven by efforts to secure sales introductions from existing owners of our homes and from business partners.

Earnings in the renovation business are growing steadily. In marketing, leveraging our strong technical capabilities and extensive experience, we focused on expanding orders for relatively large home construction projects. We also actively promoted fixed-price services for complete renovations of detached housing. In addition, we boosted the appeal of our renovation products by integrating them under a single brand called Reforest. The creation of this new brand along with moves to upgrade our sales organization and increase headcount was aimed at tapping renovation demand for homes not originally built by Sumitomo Forestry, with the goal of creating a business base to support expansion in the renovation business. We also worked to increase our competitiveness in technology. In fiscal 2010, we developed a proprietary system for the restoration and earthquake retrofitting of traditional Japanese-style homes. Underpinned by our track record in home renovation and inspection, the system allows us to propose optimum reinforcing work for earthquake retrofitting tailored to the conditions of each building and in accordance with legal and regulatory requirements.

*Big-Frame construction method
The Big-Frame construction method was developed by Sumitomo Forestry and has been improved on since it was first used in our three-story housing product *Proudio-BF*, launched in February 2005. It was the first wooden beam Rahmen structure to be patented in Japan. Requiring no through pillars, the Big-Frame construction method provides a high degree of planning freedom, accommodates plans with pillar positions that differ by floor, and makes it easy to design large spaces with few intervening walls.

Segment Performance Highlights

	Millions of yen				
(Years ended March 31)	2010	**2011**	2010/2011 (change)	(% of change)	2012 (forecast)
Net sales	¥723,923	**¥797,493**	+73,570	+ 10.2%	¥815,000
Timber and Building Materials Business	341,432	**390,231**	+48,799	+ 14.3%	388,000
Overseas Business	25,472	**33,234**	+ 7,762	+ 30.5%	38,000
Housing Business	338,295	**346,279**	+ 7,984	+ 2.4%	367,000
Real Estate Business	38,169	**50,881**	+12,712	+ 33.3%	48,000
Other Businesses	15,171	**13,529**	(1,642)	(10.8%)	11,000
Adjustments	(34,617)	**(36,662)**	(2,045)	—	(37,000)
Recurring Income	¥ 9,465	**¥ 14,206**	+ 4,741	+ 50.1%	¥ 18,500
Timber and Building Materials Business	2,006	**4,848**	+ 2,843	+141.7%	4,300
Overseas Business	(2,582)	**(1,829)**	+ 753	—	0
Housing Business	13,250	**18,988**	+ 5,738	+ 43.3%	18,500
Real Estate Business	(1,042)	**903**	+ 1,945	—	500
Other Businesses	583	**502**	(81)	(14.0%)	300
Adjustments	(2,750)	**(9,206)**	(6,456)	—	(5,100)

*1. Net sales and recurring income include intersegment sales and transfers.
*2. Net sales and recurring income adjustments show total sales at the Administrative Division that cannot be allocated to specific businesses.

❹ Real Estate Business

Net sales in the real estate business rose 33.3% year on year to ¥50,881 million. The business reported recurring income of ¥903 million, compared with a recurring loss of ¥1,042 million in the previous fiscal year.

In the detached spec homes business, the recovery in market conditions supported a year-on-year increase in unit sales, leading to steady business expansion. We conducted project development based on the concept of linking our homes with local communities, which helped to support healthy sales. One of these projects was *Forest Garden Keio Horinouchi* in Hachioji City, Tokyo. At this large-scale development, where a total of 106 residential lots are planned, we used Japanese cypress from the local Tama area for some principal structural members in the homes. In the real estate leasing business, we continued to sell and acquire rental properties and worked to raise occupancy rates to generate stable income. In both real estate sales and management and the management of private-pay elderly care facilities, we worked to build an operating structure resilient to changes in the operating environment, in order to support business expansion. We also took steps to boost service provision.

❺ Other Businesses

In addition to the above businesses, we provide a range of services for companies in the Sumitomo Forestry Group, such as IT system development and leasing operations, and for our housing customers, such as property insurance agency services. We also manufacture and sell farming and gardening materials. In fiscal 2010, net sales totaled ¥13,529 million, a decline of 10.8% year on year, and recurring income came to ¥502 million, down 14.0%.

Recurring Income of Main Subsidiaries

Timber and Building Materials Business

(Years ended March 31)	Millions of yen 2010	2011	2012 (forecast)
Sumitomo Forestry Crest Co., Ltd.*1	¥ 11	**¥ 462**	¥ 670

Overseas Business

(Years ended December 31)	Millions of yen 2009	2010	2011 (forecast)
Overseas Subsidiaries*2			
PT. Kutai Timber Indonesia (Indonesia)	¥ (507)	**¥ 90**	¥ 220
Alpine MDF Industries Pty Ltd. (Australia)	(77)	**(100)**	120
Nelson Pine Industries Ltd. (New Zealand)	1,499	**1,378**	810

Housing Business / Real Estate Business

(Years ended March 31)	Millions of yen 2010	2011	2012 (forecast)
Sumitomo Forestry Residential Co., Ltd.	¥ 205	**¥ 321**	¥ 340
Sumitomo Forestry Engineering Co., Ltd.	948	**1,240**	1,050
Sumitomo Forestry Home Service Co., Ltd.	(12)	**134**	200
Sumitomo Forestry Landscaping Co., Ltd.	447	**(127)**	200
Sumitomo Forestry Home Tech Co., Ltd.	1,556	**2,060**	2,500

*1. Absorbed Toyo Plywood Co., Ltd. through a merger in April 2010.
*2. Figures for overseas subsidiaries have been translated into Japanese yen at the following rates:

	US$	AU$	NZ$
FY 2009:	93.57	74.01	59.35
FY 2010:	87.76	80.64	63.26
FY 2011:	82.30	82.70	62.20

Financial Position and Cash Flow

❶ Financial Position

At the end of March 2011, total assets stood at ¥489,417 million, an increase of ¥19,678 million from the end of the previous fiscal year, owing mainly to an increase in trade receivables in the timber and building materials business.

Liabilities increased by ¥19,499 million to ¥326,307 million, reflecting an increase in trade payables in the timber and building materials business and an increase in advances received on uncompleted construction contracts due to an increase in the number of houses under construction in the housing business.

Interest-bearing debt rose by ¥2,443 million from the end of the previous fiscal year to ¥69,229 million, while the interest-bearing debt ratio increased from 29.1% to 29.8%.

Despite a steeper decline in foreign currency translation adjustments owing to yen appreciation and a decrease in unrealized gain on available-for-sale securities resulting from weakness in the stock market, net assets increased by ¥180 million to ¥163,110 million, owing to an increase in net income. The equity ratio declined by 1.3 percentage points from the end of the previous fiscal year to 33.3%.

❷ Cash Flow

Net cash provided by operating activities was ¥17,515 million. This mainly reflected income before income taxes and minority interests of ¥11,010 million, as well as an increase in advances received on uncompleted construction contracts due to an increase in the number of houses under construction in the detached housing business as of the end of the fiscal year.

Net cash used in investing activities was ¥13,247 million. This primarily reflected cash used for the acquisition of assets for property leasing in the real estate business and for the construction of a new particle board plant at an overseas subsidiary.

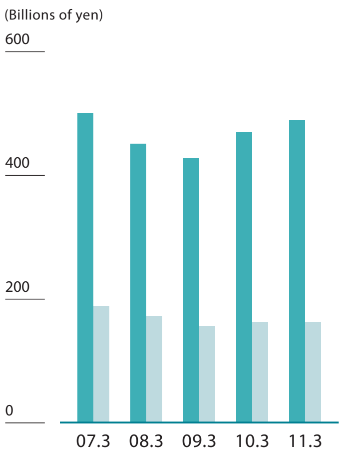
Net cash provided by financing activities was ¥372 million. This mainly reflected dividends paid, outweighed by proceeds from long-term debt at a domestic subsidiary.

As a result of the above, cash and cash equivalents at the end of the fiscal year stood at ¥75,582 million, an increase of ¥3,919 million from the end of the previous fiscal year.

❸ Capital Expenditures

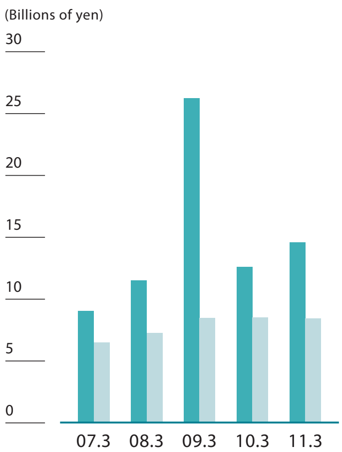
Capital expenditures increased by 15.7%, from ¥12,592 million in the previous fiscal year to ¥14,572 million in the fiscal year under review. Investment in tangible fixed assets rose 12.1% year on year to ¥11,923 million, while investment in intangible assets increased 55.9% to ¥2,434 million. Major investments included ¥3.9 billion for the purchase of rental real estate, ¥2.2 billion for the construction of a particle board plant in Vietnam, ¥1.7 billion for investment in facilities at overseas manufacturing operations, and ¥1.8 billion for IT system investment.

Total Assets and Total Net Assets



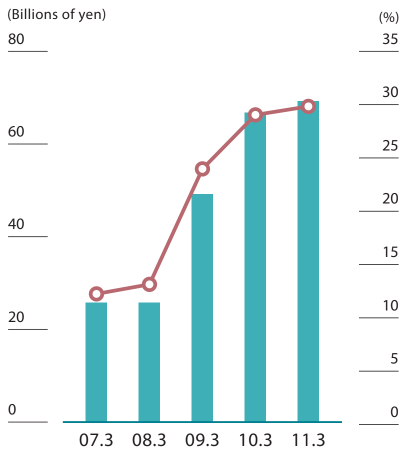
Total assets
Total net assets

Capital Expenditures, Depreciation and Amortization



Capital expenditures
Depreciation and amortization

Interest-Bearing Debt and Interest-Bearing Debt Ratio



Interest-bearing debt (Left)
Interest-bearing debt ratio (Right)

Business Risk

❶ Housing Market Trends

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

1) Economic Cyclical Changes

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

2) Interest Rate Fluctuations

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

3) Land Price Fluctuations

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

4) Tax System Changes

An increase in the consumption tax rate directly applicable to housing purchases would potentially reduce housing demand significantly, and could impact the Group's business results.

❷ Statutory Changes

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

❸ Timber and Building Materials Market Conditions

A decline in prices for timber and building materials reduces the profitability of the timber and building materials business. On the other hand, a steep increase in prices for timber and building materials or higher prices for other building materials can lead to higher materials costs for the housing business, which could impact Group results. Fluctuations in the price for other raw materials, such as oil, can directly or indirectly affect raw materials prices and influence the Group's business results.

❹ Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks attendant on foreign currency-denominated imports through foreign exchange forward contracts and other means. However, foreign exchange rate fluctuations could temporarily drive the Group's costs higher or lower. Meanwhile, a Group company that manufactures and sells wooden building materials abroad, for example, could be impacted if the host country currency appreciates against the currency used for settlement.

❺ Product Quality Assurance

The Group endeavors to implement complete quality control of its key product, housing, and all aspects of its operations. However, unforeseen circumstances can potentially lead to significant quality issues that could influence the Group's business results.

❻ Overseas Business Activities

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

❼ Retirement Benefit Obligations

A significant deterioration in the operating environment for the Group's pension assets, such as substantial fluctuations in the domestic stock market or the necessity to revise the assumptions for pension actuarial calculations, can entail an increase in pension assets or increase the costs associated with the pension accounts, and could influence the Group's business results and financial position.

⑧ Stock Market
Volatile stock price fluctuations could cause the Group to book valuation losses on its securities holdings, thereby negatively impacting its business results and financial position.

⑨ Natural Disasters
Damage from a major earthquake, wind, flood, or other destructive natural element could result in cost increases arising from interrupted operations at facilities, verification of safety in our housing products, delays in the completion of construction contracts, or other events. A significant increase in costs caused by a natural disaster could influence Group business results.

⑩ Information Security
The Group makes every possible effort to ensure the proper and secure management of the large volume of customer information it holds, through establishing necessary rules and systems and conducting extensive education and training of executives and employees. Despite such precautions, customer information could leak out due to a computer system breach by a malicious third party, the theft of recording media holding such information, a human error by an employee or contracted worker, an accident, or other causes. In such cases, the Group could face customer claims for compensatory damages and lose the trust of customers and the market, which could affect its business results.

⑪ Environmental Risk
"Symbiosis with the Environment" is a top priority for the Group and is one of the four action guidelines of the Group's corporate philosophy. Changes to environmental regulations in Japan or overseas or major environmental issues could lead to fines, compensation payments, costs associated with resolving environmental problems, or other expenses that could influence the Group's business results.

⑫ Decline in the Value of Assets under Management
In the event that a marked deterioration in market conditions led to a decline in the value of Group assets under management such as real estate holdings and products, valuation losses could be incurred and assets could be written down due to impairment, which could influence the Group's business results and financial position.

⑬ Provision of Credit to Business Partners
The Group extends credit to business partners in the form of trade receivables etc., and sets appropriate limits and reserves for credit losses to avoid exposure to credit risk. As these measures do not ensure complete avoidance of exposure to credit risk, credit risk could still potentially influence the Group's business results and financial position.

⑭ Litigation Risk
As the Group is engaged in a range of business activities in Japan and overseas, it is possible that the said activities could be subject to litigation and/or a dispute. In the event that these activities became subject to litigation, the Group's business results and financial position could be influenced adversely.

⑮ Fundraising Risk
The Group conducts fundraising, such as borrowing from financial institutions, and as such there is the possibility that fundraising costs may increase or fundraising itself could be restricted due to changes in the economic environment or lower credit ratings. In this event, the Group's business results and financial position could be impacted.

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

Consolidated Balance Sheets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2011	2010	2011
Current assets:			
Cash and time deposits (Notes 12, 16)	¥ 55,618	¥ 52,714	$ 670,090
Marketable securities (Notes 5, 12, 16)	20,000	19,000	240,964
Receivables —			
Notes and accounts, trade (Notes 7, 16)	118,451	107,427	1,427,123
Loans and other (Note 16)	46,736	43,478	563,080
Inventories —			
Finished goods, logs and lumber (Note 7)	19,015	17,230	229,096
Developed land and housing for sale	31,492	26,333	379,425
Land and housing projects in progress	31,242	32,420	376,411
Deferred tax assets (Note 9)	7,915	6,308	95,366
Other current assets	4,241	3,700	51,101
Allowance for doubtful accounts	(1,272)	(836)	(15,324)
Total current assets	333,439	307,772	4,017,332
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 6, 7, 8)	26,048	26,692	313,837
Buildings and structures (Notes 7, 8)	51,244	50,928	617,398
Machinery and equipment (Notes 7, 8)	61,360	64,032	739,281
Timberland (Note 6)	10,972	11,063	132,191
Construction in progress	3,062	439	36,888
Leased assets	6,615	4,541	79,704
	159,302	157,696	1,919,299
Less accumulated depreciation	(71,700)	(68,826)	(863,858)
Net property, plant and equipment	87,602	88,870	1,055,441
Intangible assets, net of amortization:			
Goodwill	201	309	2,422
Other intangible assets	6,867	6,328	82,736
Total intangible assets	7,068	6,637	85,158
Investments and other assets:			
Investment securities (Notes 5, 7, 16)	48,458	51,094	583,831
Long-term loans and receivables	5,739	5,187	69,143
Deferred tax assets (Note 9)	1,354	1,138	16,317
Prepaid pension cost (Note 18)	—	1,595	—
Other assets	8,903	9,481	107,269
Allowance for doubtful accounts	(3,146)	(2,037)	(37,901)
Total investments and other assets	61,309	66,459	738,659
Total assets	¥489,417	¥469,738	$5,896,590

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2011	2010	Thousands of U.S. dollars (Note 4) 2011
Current liabilities:			
Payables —			
Notes and accounts, trade (Notes 16, 17)	**¥150,161**	¥147,582	**$1,809,173**
Other	**7,743**	7,098	**93,295**
Short-term debt (Note 7)	**11,620**	12,207	**139,998**
Current portion of long-term debt (Note 7)	**6,968**	116	**83,954**
Current portion of lease obligation (Note 7)	**1,095**	815	**13,192**
Advances received from customers	**38,622**	31,901	**465,320**
Accrued income taxes	**6,909**	2,205	**83,242**
Accrued employees' bonuses	**8,256**	7,337	**99,467**
Accrued directors and corporate auditors' bonuses	**60**	35	**723**
Other current liabilities	**12,340**	10,138	**148,677**
Total current liabilities	**243,774**	219,434	**2,937,041**
Long-term liabilities:			
Bonds issued (Note 7)	**15,000**	15,000	**180,723**
Long-term debt (Notes 7, 16, 17)	**32,101**	36,008	**386,760**
Long-term lease obligation (Note 7)	**2,445**	2,640	**29,459**
Deferred tax liabilities (Note 9)	**8,782**	9,358	**105,803**
Accrued employees' retirement benefits (Note 18)	**6,152**	5,390	**74,126**
Other long-term liabilities	**18,052**	18,979	**217,495**
Total long-term liabilities	**82,532**	87,374	**994,366**
Contingent liabilities (Note 15)			
Net assets:			
Shareholders' equity (Note 13)			
Common stock —			
Authorized: 400,000,000 shares			
Issued and outstanding: 177,410,239 shares in 2011 and 177,410,239 shares in 2010	**27,672**	27,672	**333,398**
Capital surplus	**26,872**	26,872	**323,753**
Retained earnings	**107,584**	105,066	**1,296,197**
Treasury stock: 270,845 shares in 2011 and 263,750 shares in 2010	**(267)**	(262)	**(3,216)**
Total shareholders' equity	**161,861**	159,348	**1,950,132**
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	**4,876**	5,594	**58,750**
Deferred gain on hedges	**154**	24	**1,856**
Translation adjustments	**(4,005)**	(2,378)	**(48,255)**
Total accumulated other comprehensive income	**1,025**	3,241	**12,351**
Minority interests	**224**	342	**2,699**
Total net assets	**163,110**	162,930	**1,965,182**
Total liabilities and net assets	**¥489,417**	¥469,738	**$5,896,590**

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets	**¥ 919.54**	¥ 917.82	**$ 11.08**

Consolidated Statements of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	**2011**
Net sales:			
Sales	**¥461,593**	¥395,923	**$5,561,361**
Contract revenues	**335,900**	328,000	**4,046,989**
Total	**797,493**	723,923	**9,608,350**
Cost of sales:			
Cost of sales	**422,885**	361,405	**5,094,998**
Cost of contracts completed	**242,040**	238,249	**2,916,147**
Total	**664,925**	599,654	**8,011,145**
Gross profit	**132,568**	124,269	**1,597,205**
Selling, general and administrative expenses (Note 11)	**118,330**	114,522	**1,425,657**
Operating income	**14,238**	9,747	**171,548**
Other income (expenses):			
Interest and dividends income	**967**	1,049	**11,656**
Interest expense	**(1,318)**	(1,162)	**(15,874)**
Equity in losses of affiliates	**(778)**	(2,244)	**(9,370)**
Loss on devaluation of investment securities	**(1,024)**	(179)	**(12,339)**
Gain on applying Accounting Standard for Construction Contracts	**—**	321	**—**
Gain on transition of defined contribution pension	**—**	1,714	**—**
Amortization of prior service cost	**—**	2,068	**—**
Impairment loss	**(695)**	(2,049)	**(8,370)**
Gain on sales of investment securities	**12**	173	**147**
Head office transfer cost	**—**	(255)	**—**
Litigation settlement	**—**	(462)	**—**
Gain on sales of subsidiary's stock	**273**	—	**3,289**
Gain on abolishment of retirement benefit plan	**53**	—	**635**
Loss on natural disaster	**(780)**	—	**(9,400)**
Effect of adoption of accounting standard for asset retirement obligations	**(706)**	—	**(8,506)**
Special retirement payment	**(378)**	—	**(4,553)**
Other gains (losses), net (Note 10)	**1,144**	1,862	**13,783**
Total	**(3,229)**	836	**(38,902)**
Income before income taxes and minority interests	**11,010**	10,583	**132,646**
Income taxes (Note 9):			
Current	**7,926**	3,001	**95,490**
Deferred	**(1,998)**	5,228	**(24,073)**
Total	**5,928**	8,229	**71,417**
Income before minority interests	**5,082**	—	**61,229**
Minority interests	**(93)**	(24)	**(1,123)**
Net income	**¥ 5,175**	¥ 2,377	**$ 62,352**

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net income (Note 21)	**¥ 29.21**	¥ 13.42	**$ 0.35**
Cash dividends	**15.00**	15.00	**0.18**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 4)
	2011	**2011**
Income before minority interests	**¥5,082**	**$61,228**
Other comprehensive income		
Unrealized loss on available-for-sale securities	**(718)**	**(8,651)**
Deferred gain on hedges	**130**	**1,565**
Translation adjustments	**(1,614)**	**(19,442)**
Share of other comprehensive income of companies accounted for by the equity method	**(36)**	**(436)**
Total other comprehensive income (loss)	**(2,238)**	**(26,964)**
Comprehensive income	**2,844**	**34,264**
Total comprehensive income (loss) attributable to:		
Shareholders of the parent company	**2,960**	**35,658**
Minority interests	**(116)**	**(1,394)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
SHAREHOLDERS' EQUITY			
Common stock			
Balance at the end of previous period	¥ 27,672	¥ 27,672	$ 333,398
Changes during the period			
Total changes during the period	—	—	—
Balance at the end of current period	¥ 27,672	¥ 27,672	$ 333,398
Capital surplus			
Balance at the end of previous period	¥ 26,872	¥ 26,872	$ 323,755
Changes during the period			
Disposal of treasury stock	(0)	(0)	(2)
Total changes during the period	(0)	(0)	(2)
Balance at the end of current period	¥ 26,872	¥ 26,872	$ 323,753
Retained earnings			
Balance at the end of previous period	¥105,066	¥105,346	$1,265,859
Changes in accounting policy change at foreign subsidiaries	—	—	—
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,014)
Net income	5,175	2,377	62,352
Total changes during the period	2,518	(280)	30,338
Balance at the end of current period	¥107,584	¥105,066	$1,296,197
Treasury stock at cost			
Balance at the end of previous period	¥ (262)	¥ (260)	$ (3,161)
Changes during the period			
Purchases of treasury stock	(5)	(2)	(60)
Disposal of treasury stock	0	0	5
Total changes during the period	(5)	(2)	(55)
Balance at the end of current period	¥ (267)	¥ (262)	$ (3,216)
Total shareholders' equity			
Balance at the end of previous period	¥159,348	¥159,630	$1,919,851
Changes in accounting policy change at foreign subsidiaries	—	—	—
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,014)
Net income	5,175	2,377	62,352
Purchases of treasury stock	(5)	(2)	(60)
Disposal of treasury stock	0	0	3
Total changes during the period	2,513	(282)	30,281
Balance at the end of current period	¥161,861	¥159,348	$1,950,132

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	2011
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Unrealized gain on available-for-sale securities			
Balance at the end of previous period	¥ 5,594	¥ 2,359	$ 67,403
Changes during the period			
Net changes in items other than shareholders' equity	(718)	3,235	(8,653)
Total changes during the period	(718)	3,235	(8,653)
Balance at the end of current period	¥ 4,876	¥ 5,594	$ 58,750
Deferred gain on hedges			
Balance at the end of previous period	¥ 24	¥ 29	$ 291
Changes during the period			
Net changes in items other than shareholders' equity	130	(5)	1,565
Total changes during the period	130	(5)	1,565
Balance at the end of current period	¥ 154	¥ 24	$ 1,856
Translation adjustments			
Balance at the end of previous period	¥ (2,378)	¥ (5,961)	$ (28,649)
Changes during the period			
Net changes in items other than shareholders' equity	(1,627)	3,583	(19,606)
Total changes during the period	(1,627)	3,583	(19,606)
Balance at the end of current period	¥ (4,005)	¥ (2,378)	$ (48,255)
Minority interests			
Balance at the end of previous period	¥ 342	¥ 135	$ 4,119
Changes during the period			
Net changes in items other than shareholders' equity	(118)	207	(1,420)
Total changes during the period	(118)	207	(1,420)
Balance at the end of current period	¥ 224	¥ 342	$ 2,699
Total net assets			
Balance at the end of previous period	¥162,930	¥156,192	$1,963,016
Changes in accounting policy change at foreign subsidiaries	—	—	—
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,014)
Net income	5,175	2,377	62,352
Purchases of treasury stock	(5)	(2)	(60)
Disposal of treasury stock	0	0	3
Net changes in items other than shareholders' equity	(2,334)	7,020	(28,115)
Total changes during the period	180	6,738	2,166
Balance at the end of current period	¥163,110	¥162,930	$1,965,182

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2011	2010	**2011**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥11,010**	¥10,583	**$132,646**
Adjustments —			
Depreciation and amortization	**8,437**	8,502	**101,647**
Impairment loss	**695**	2,049	**8,369**
Amortization of goodwill	**110**	213	**1,326**
Provision for (reversal of) doubtful accounts	**1,548**	382	**18,650**
Provision for (reversal of) employees' retirement benefits, less payments	**2,428**	(14,672)	**29,256**
Interest and dividends income	**(967)**	(1,049)	**(11,656)**
Interest expense	**1,318**	1,162	**15,874**
Equity in losses of affiliates	**778**	2,244	**9,370**
Losses on devaluation of marketable securities and investment securities	**1,024**	179	**12,339**
Losses (gains) on sales of marketable securities and investment securities, net	**(285)**	(173)	**(3,437)**
Losses (gains) on disposal of fixed assets, net	**(197)**	214	**(2,375)**
Loss on natural disaster	**545**	—	**6,570**
Effect of adoption of accounting standard for asset retirement obligations	**706**	—	**8,506**
Change in assets and liabilities:			
Notes and accounts receivable, trade	**(12,340)**	3,657	**(148,680)**
Inventories	**(1,720)**	5,842	**(20,719)**
Other current assets	**(3,415)**	(2,947)	**(41,150)**
Notes and accounts payable, trade	**2,026**	24,987	**24,407**
Advances received from customers	**7,331**	(3,010)	**88,329**
Other current liabilities	**1,391**	(49)	**16,764**
Other	**50**	153	**605**
Total	**20,471**	38,265	**246,641**
Interest and dividends income received	**1,374**	965	**16,558**
Interest paid	**(1,276)**	(1,170)	**(15,379)**
Income taxes paid, net	**(3,054)**	(821)	**(36,790)**
Net cash provided by operating activities	**17,515**	37,239	**211,030**
Cash flows from investment activities:			
Proceeds from sales of marketable securities	**—**	295	**—**
Decrease (increase) in short-term loans receivable	**(165)**	934	**(1,984)**
Payments for purchases of fixed assets	**(11,662)**	(10,400)	**(140,502)**
Proceeds from sales of fixed assets	**1,743**	2,046	**21,006**
Payments for purchases of intangible assets	**(2,473)**	(1,604)	**(29,791)**
Payments for purchases of investment securities	**(1,466)**	(11,104)	**(17,664)**
Proceeds from sales of investment securities	**480**	317	**5,781**
Payments for additional acquisition of stock of consolidated subsidiaries	**(2)**	—	**(22)**
Proceeds from purchase of stock of subsidiary newly consolidated	**—**	26	**—**
Proceeds from sales of subsidiary's stock resulting in change of scope of consolidation	**313**	—	**3,771**
Payments for long-term loans receivable	**(386)**	(1,017)	**(4,651)**
Repayments of long-term loans receivable	**264**	1,149	**3,184**
Other	**105**	242	**1,269**
Net cash used in investment activities	**(13,247)**	(19,117)	**(159,603)**
Cash flows from financing activities:			
Increase (decrease) in short-term debt	**1,094**	880	**13,178**
Payment of lease obligation	**(1,264)**	(923)	**(15,226)**
Proceeds from long-term debt	**3,342**	1,911	**40,265**
Repayments of long-term debt	**(138)**	(2,898)	**(1,666)**
Proceeds from issuance of bonds	**—**	15,000	**—**
Dividends paid	**(2,657)**	(2,657)	**(32,014)**
Other	**(5)**	232	**(57)**
Net cash provided by financing activities	**372**	11,546	**4,480**
Effect of exchange rate changes on cash and cash equivalents	**(721)**	1,205	**(8,687)**
Net increase (decrease) in cash and cash equivalents	**3,919**	30,873	**47,220**
Cash and cash equivalents at the beginning of the year	**71,662**	40,730	**863,402**
Increase (decrease) in cash and cash equivalents due to change of scope of consolidation	**—**	60	**—**
Cash and cash equivalents at the end of the year (Note 12)	**¥75,582**	¥71,662	**$910,622**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2011 and 2010

1. Nature of Operations

Sumitomo Forestry Co., Ltd. (the "Company") and its Group companies are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Company's operations encompass forest management as well as timber and building materials-related operations, including the procurement, manufacture and sale of timber and building materials; housing-related operations, including the construction, sale, after-sales maintenance and landscaping of custom-built and other homes and sale and brokerage of real estate; and other lifestyle-related businesses, including the leasing and insurance agent business.

2. Basis of Presenting Consolidated Financial Statements

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

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

In accordance with PITF No.18, the accompanying consolidated financial statements for the year ended March 31, 2009 have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

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

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

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

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

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, with exceptions that are not material, those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

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

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

(b) Translation of foreign currency transactions and accounts

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

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

(c) Statements of cash flows

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

(d) Allowance for doubtful accounts

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

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

(e) Provision for loss on natural disaster

A provision for loss on natural disaster is provided for possible expenses to be incurred for the restoration of assets damaged by the Great East Japan Earthquake.

(f) Accrued employees' bonuses

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

(g) Warranty reserve for completed construction

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

The balance of the reserves at March 31, 2011, which was included in other current liabilities in the accompanying consolidated balance sheets, was ¥2,007 million (US$24,180 thousand).

(h) Accrued employees' retirement benefits

Accrued employees' retirement benefits are provided based on the projected retirement benefit obligation and the plan assets at year-end.

Unrecognized actuarial gains (losses) and unrecognized prior service cost are amortized in the fiscal year in which they arise.

(i) Accrued retirement benefits to directors and corporate auditors

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

The balance of these reserves at March 31, 2011, which was included in other long-term liabilities in the accompanying consolidated balance sheets, was ¥61 million (US$735 thousand).

(j) Reserve for restructuring costs

The allowance for restructuring costs is stated at the estimated losses on restructuring of discontinued operation and on readjustment of town lots of land at the end of the fiscal year.

The balance of these reserves at March 31, 2011, which was included in other long-term liabilities in the accompanying consolidated balance sheets, was ¥1,435 million (US$17,289 thousand).

(k) Marketable securities and investments

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

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

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

(l) Derivatives

Derivatives are stated at fair value.

(m) Inventories

Finished goods, logs and lumber are stated at moving average cost.

Developed land and housing for sale and land and housing projects in progress are stated at cost, which is determined by the specific identification method.

The amount on the balance sheets is calculated by write-down method based on the decrease in profitability.

(n) 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. 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 the case of retirement or disposal, the difference between the net book value and salvage or sales proceeds is charged or credited to income.

(o) Intangible assets

Depreciation for intangible assets is computed by the straight-line method. Internal use software costs are depreciated by the straight-line method over the estimated useful life of five years.

(p) 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 earnings. 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.

(q) Hedge accounting

i) Hedge accounting method:
The deferred method is applied as hedge accounting method.

Appropriated accounting for foreign currency transactions is applied to foreign exchange hedging transactions. A special accounting procedure is used for interest rate swaps as they satisfy the requirements for a special accounting procedure.

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, 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 a special accounting procedure is used for interest rate swaps; therefore, effectiveness evaluation is not carried out.

(r) 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.

(s) Application of accounting standard for asset retirement obligations
Effective from April 1, 2010, the Company applied "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, issued on March 31, 2008) and "Implementation Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, issued on March 31, 2008).
As a result, operating income and ordinary income decreased by ¥67 million (US $810 thousand), and income before income taxes and minority interests decreased by ¥782 million (US $9,418 thousand).

(t) Application of accounting standard for business combinations
Effective from April 1, 2010, the Company applied "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, Revised December 26, 2008).

(u) Application of accounting standard for presentation of comprehensive income
Effective the year ended March 31, 2011, the Company applied "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, issued on June 30, 2010). The amounts of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" for the year ended March 31, 2011 had been presented as "Valuation and translation adjustments" and "Total valuation and translation adjustments," respectively, in prior years.

(v) Timberland
Timberland consists of standing timber and related land. Standing timber, consisting of timber stock in natural forests, purchased forests and planted forests, is classified either as mature timber or growing timber. Mature timber represents costs related to trees that are 21 or more years old, of which costs have been transferred from growing timber. Growing timber represents costs of trees less than 21 years old (see Note 6).

The timber stock from both natural forests and purchased forests is carried at the specific acquisition cost.

The timber stock from planted forests is stated at cost, which consists of sowing, seeding and planting.

Intensive forest management generally practiced in Japan results in high yields of quality logs. Such management, implemented by the Company, includes the following procedures:

Age in Years	Procedures
0	Sowing, seeding at nursery
1	Planting after land preparation
1–6	Weeding
8	Vine cutting
10–14	Salvage cutting
14	Pruning
16–25	Thinning and debranching
Over 50	Final cutting

The charges for weeding, vine cutting, salvage cutting, pruning and thinning and debranching are charged to selling, general and administrative expenses as incurred.

When finally harvested from timberland for sale, the harvested timber has its cost calculated based on the proportion of metric volume of the timber harvested to that of the particular area, applied to the book value of the area. The calculated cost is the cost of sales.

(w) Revenue recognition
Sales are generally recognized at the time the goods are delivered to the customers.

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

(x) 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.

(y) Consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(z) 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.

(aa) Earnings per share of common stock
The computation of net income and cash dividends per share is based on the average number of shares outstanding during each period.

(bb) Reclassifications
Certain accounts in the consolidated financial statements for the year ended March 31, 2010 have been reclassified to conform to presentation in 2011.

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 ¥83 = US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2011. This translation should not be construed as a representation that the yen amounts actually represent, or have been or could be converted into, U.S. dollars.

5. Securities

The carrying amounts and estimated fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2011 and 2010 were as follows:

	Millions of yen			
	2011			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥25,850	¥9,579	¥ (1,700)	¥33,729
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	1,047	10	(7)	1,051
Other	¥20,000	¥ —	¥ —	¥20,000

	Millions of yen			
	2010			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥26,864	¥10,819	¥(1,674)	¥36,009
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	792	4	(6)	790
Other	¥19,000	¥ —	¥ —	¥19,000

	Thousands of U.S. dollars			
	2011			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$311,443	$115,414	$ (20,478)	$406,379
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	12,618	121	(81)	12,658
Other	$240,964	$ —	$ —	$240,964

Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in other gains (losses), net in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Proceeds	¥21	¥312	$256
Gross gains	0	173	2
Gross losses	5	—	60

The difference between the above carrying amounts and the amounts shown in the accompanying consolidated balance sheets principally consisted of non-marketable securities and equity securities of unconsolidated subsidiaries and affiliates.

6. Timberland

The investment in timberland at March 31, 2011 and 2010 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Standing timber:			
Mature timber	¥10,786	¥10,850	$129,955
Growing timber	186	213	2,236
	10,972	11,063	132,191
Land	727	785	8,765
	¥11,699	¥11,848	$140,956

The timberland accounts at March 31, 2011 and 2010 were reduced by ¥242 million (US$2,918 thousand) and ¥242 million in aggregate, representing the accumulated deferred gains from disposals of timberland.

7. Short-Term and Long-Term Debt

Short-term debt at March 31, 2011 and 2010 generally represented short-term borrowings which bore interest of 2.76% and 2.56% per annum, respectively. Long-term debt at March 31, 2011 and 2010 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Loans, principally from banks and insurance companies, due 2011 to 2036 with interest of 1.46%:			
Secured			
Loans from banks or other	¥ 600	¥ 22	$ 7,229
Unsecured			
Bonds issued	15,000	15,000	180,723
Loans from banks or other	38,469	36,101	463,485
Lease obligation	3,540	3,455	42,650
	57,609	54,579	694,087
Portion due within one year			
Loans from banks or other	6,968	116	83,953
Lease obligation	1,095	815	13,192
	8,063	931	97,145
	¥49,546	¥53,648	$596,942

The following assets were pledged to secure bank loans and long-term debt at March 31, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Receivables— Notes and accounts, trade	¥ 326	¥ 285	$ 3,922
Finished goods, logs and lumber	1,285	1,467	15,485
Land	15	247	176
Buildings and structures	539	16	6,492
Machinery and equipment	845	1,148	10,177
	¥3,009	¥3,163	$36,252

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements at March 31, 2011 and 2010 were ¥8 million (US$100 thousand) and ¥12 million, respectively, and investment securities as security for deferred payment of customs duties at March 31, 2011 were ¥9,589 million (US$115,529 thousand).

The aggregate annual maturities of long-term debt and lease obligation at March 31, 2011 were as follows:

	Bonds issued		Long-term debt		Lease obligation	
Years ending March 31	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2011	¥ —	$ —	¥ 6,968	$ 83,954	¥1,095	$13,192
2012	—	—	6,668	80,342	1,240	14,945
2013	—	—	10,493	126,420	699	8,417
2014	10,000	120,482	5,495	66,205	309	3,727
2015	—	—	6,397	77,068	81	980
Thereafter	5,000	60,241	3,048	36,725	115	1,389
	¥15,000	$180,723	¥39,069	$470,714	¥3,540	$42,650

8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the year ended March 31, 2011 consisted of the following:

			Millions of yen	Thousands of U.S. dollars
Location	Major use	Asset category	2011	2011
Komatsushima City, Tokushima Prefecture	Factory	Land	¥695	$8,370

9. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise Corporation Tax, Enterprise Tax and Prefectural and Municipal Inhabitants Taxes. The effective statutory tax rate for fiscal 2011 was 40.0%.

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

	2011	2010
Statutory tax rate	40.0%	40.0%
Non-deductible expense for purposes	2.7	2.4
Per capita portion of Inhabitant Tax	2.9	3.0
Amortization of goodwill	0.3	2.0
Valuation allowance	5.2	12.2
Equity in losses of affiliates	2.8	8.5
Taxes on undistributed earnings of overseas subsidiaries	0.9	5.1
Other	(0.9)	4.5
Effective tax rate	53.8%	77.8%

The significant components of deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Accrued employees' bonuses	¥ 3,583	¥ 3,170	$ 43,173
Devaluation of real estate for sale and other assets	4,439	4,744	53,481
Pension and severance costs	3,406	3,864	41,030
Tax loss carryforwards	2,265	2,573	27,284
Impairment loss	2,230	1,989	26,870
Other	8,191	5,592	98,684
Gross deferred tax assets	24,113	21,933	290,522
Valuation allowance	(11,802)	(11,234)	(142,196)
Total deferred tax assets	12,311	10,700	148,326
Deferred tax liabilities:			
Deferred gains on sales of property	(897)	(897)	(10,810)
Gain on securities contributed to employee retirement benefit trusts	(1,590)	(1,590)	(19,161)
Unrealized gain on available-for-sale securities	(2,813)	(3,344)	(33,896)
Land revaluation differences	(1,309)	(1,309)	(15,773)
Taxes on undistributed earnings of overseas subsidiaries	(1,898)	(1,803)	(22,870)
Other	(3,324)	(3,676)	(40,052)
Gross deferred tax liabilities	(11,833)	(12,620)	(142,562)
Net deferred tax assets (liabilities)	¥ 478	¥ (1,921)	$ 5,764

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2011 and 2010 as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Current assets — Deferred tax assets	¥7,915	¥ 6,308	$ 95,366
Investment and other assets — Deferred tax assets	1,354	1,138	16,317
Current liabilities — Other	(10)	(10)	(117)
Long-term liabilities — Deferred tax liabilities	(8,782)	(9,358)	(105,802)
Net deferred tax assets (liabilities)	¥ 478	¥(1,921)	$ 5,764

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Gain on foreign exchange	¥ —	¥1,194	$ —
Loss on foreign exchange	(207)	—	(2,499)
Gain on sales of property, plant and equipment	424	69	5,110
Loss on disposal of property, plant and equipment	(227)	(283)	(2,736)
Other, net	1,154	881	13,908
	¥1,144	¥1,862	$13,783

11. Research and Development Expenses

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2011 and 2010 were ¥1,294 million (US$15,595 thousand) and ¥1,476 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and time deposits	¥55,618	¥52,714	$670,091
Short-term investments	20,000	19,000	240,964
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(36)	(51)	(433)
Cash and cash equivalents	¥75,582	¥71,662	$910,622

13. Shareholders' Equity

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Commercial Code. The Law 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, 2011 and 2010, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (US$34,423 thousand) and ¥2,857 million, respectively.

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

14. Finance Leases

(Lessee)

Finance lease transactions that do not transfer ownership and that commenced on or before March 31, 2008, are accounted for in a similar manner to the accounting treatment for ordinary operating lease transactions. If capitalized, the following amounts would be recorded in the financial statements (in equivalent amounts):

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Buildings and structures	¥3,472	¥7,133	$41,835
Machinery and equipment	1,747	3,599	21,051
Other	21	84	251
Accumulated depreciation	(4,481)	(8,430)	(53,984)
	¥ 760	¥2,385	$ 9,153

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Depreciation	¥1,623	¥2,729	$19,555
Interest expenses	26	60	318

Finance leased charges in earnings to the Companies for the years ended March 31, 2011 and 2010 were ¥1,649 million (US$19,873 thousand) and ¥2,789 million, respectively.

Depreciation costs 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.

Interest expenses are calculated by subtracting the amount equivalent to the acquisition cost from the total lease fee. The resulting differences, which are of an amount equivalent to the total interest payments over the lease periods, are allocated to each period by the interest method. The present values of future lease payments of the Companies as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Current obligation	¥539	¥1,596	$6,489
Long-term obligation	242	840	2,916
Present value of lease payments	781	2,436	9,405

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

15. Contingent Liabilities

Contingent liabilities as of March 31, 2011 and 2010, for loans guaranteed amounted to ¥25,908 million (US$312,147 thousand) and ¥22,389 million.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Guarantee on loans from financial institutions			
Dongwha SFC Housing Co., Ltd.	¥ 53	¥ 62	$ 643
Kawasaki Biomass Electric Power Co., Ltd.	2,730	1,394	32,894
Cascadia Resort Communities LLC	42	46	501
Purchasers with housing loans applied	22,907	20,701	275,985
Other	1	0	16
Guarantee on rent payment			
Sumikyo Co., Ltd.	¥ 175	¥ 187	$ 2,108
Total	¥25,908	¥22,389	$312,147

16. Financial Instruments

(a) Policy for financial instruments

The Companies invest temporary cash surplus in financial assets with high degrees of safety and mainly use bank loans in order to raise funds. Further the Companies enter into derivative contracts as needed in relation to normal foreign currency-denominated transactions, and to manage funds within a limited scope, and do not conduct for speculative purposes.

(b) Details of financial instruments and related risk

Trade receivables are exposed to customer's credit risk. 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. Uses of loans are mainly 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 transaction (interest rate swap) for hedging. Derivative transactions include forward foreign currency exchange contracts and currency swaps to mitigate market risk of fluctuation in foreign currency exchange rate related to foreign currency-denominated transactions and interest rate swaps to mitigate market risk of interest rate fluctuation related to interest payment 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 customer at least once a year.

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

With respect to short-term investments and investment securities, the Companies regularly monitor prices and issuer's financial status. Except for held-to-maturity bonds, the Companies constantly review investment strategy by taking 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 report 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 instrument

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

	Millions of yen		
	2011		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	¥ 55,618	¥ 55,618	¥ —
Receivables-notes and accounts, trade	112,427	112,427	—
Marketable securities and investment securities			
Held-to-maturity	1,047	1,051	3
Available-for-sale	53,729	53,729	—
Receivables-loans and other	45,513	45,513	—
Total	¥ 268,335	¥ 268,338	¥ 3
Payables-notes and accounts, trade	¥(150,161)	¥(150,161)	¥ —
Long-term debt	(39,069)	(39,464)	(395)
Total	¥(189,231)	¥(189,626)	¥(395)
Derivatives*			
Hedge accounting not applied	¥ 25	¥ 25	¥ —
Hedge accounting applied	291	291	—
Total	¥ 315	¥ 315	¥ —

	Thousands of U.S. dollars		
	2011		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	$ 670,091	$ 670,091	$ —
Receivables-notes and accounts, trade	1,354,548	1,354,548	—
Marketable securities and investment securities			
Held-to-maturity	12,618	12,657	39
Available-for-sale	647,342	647,342	—
Receivables-loans and other	548,350	548,350	—
Total	$ 3,232,949	$ 3,232,988	$ 39
Payables-notes and accounts, trade	$(1,809,173)	$(1,809,173)	$ —
Long-term debt	(470,714)	(475,474)	(4,760)
Total	$(2,279,887)	$(2,284,647)	$(4,760)
Derivatives*			
Hedge accounting not applied	$ 298	$ 298	$ —
Hedge accounting applied	3,502	3,502	—
Total	$ 3,800	$ 3,800	$ —

* Net receivables / payables arising from derivatives are shown. Items that are net payables are shown in parentheses.

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, Receivable-notes and accounts, trade, Receivable-loans and other)

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

(Marketable securities and Investment securities)

The fair values of equity securities are based on market prices. The fair values of debt securities are based on market prices or quoted prices obtained from the financial institution.

(2) Liabilities

(Payables-notes and accounts, trade)

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

(Long-term debt)

The fair values of long-term debt with floating rate interest approximate book values because the interest rate of long-term debt reflects market interest rate shortly and the change of credit standing of the Company is not occurred significantly after implementing loan. Therefore, relevant book values are used. The fair values of long-term debt with fixed rate interest are principally estimated by discounting based on estimated interest rates if similar new loans were implemented.

(3) Derivative transactions

See note 17.

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

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Unlisted equity securities	¥1,355	¥1,392	$ 16,325
Preferred stock	3,000	3,000	36,145
Investment in affiliates	9,326	9,901	112,363

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

	Millions of yen			
	2011			
	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	¥ 55,272	¥ —	¥ —	¥—
Receivables-notes and accounts, trade	112,427	—	—	—
Marketable securities and investment securities				
Government bonds	—	108	940	—
Other	20,000	—	—	—
Receivables-loans and other	45,513	—	—	—
Total	¥233,213	¥108	¥940	¥—

	Thousands of U.S. dollars			
	2011			
	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	$ 665,929	$ —	$ —	$—
Receivables-notes and accounts, trade	1,354,548	—	—	—
Marketable securities and investment securities				
Government bonds	—	1,295	11,323	—
Other	240,964	—	—	—
Receivables-loans and other	548,350	—	—	—
Total	$2,809,791	$1,295	$11,323	$—

(Additional information)

Effective from the year ended March 31, 2010, the Company has applied the “Accounting Standard for Financial Instruments” (ASBJ Statement No.10, March 10, 2008) and the “Guidance on Disclosure about Fair Value of Financial Instruments” (ASBJ Guidance No.19, March 10, 2008).

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2011

	Millions of yen 2011 Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,858	¥—	¥53	¥53
Sell (U.S. dollar)	311	—	(18)	(18)
Sell (Other)	268	—	(2)	(2)
Buy (U.S. dollar)	31	—	(6)	(6)
Buy (Euro)	11	—	(2)	(2)
Buy (Other)	12	—	(0)	(0)
Total	¥2,491	¥—	¥25	¥25

	Thousands of U.S. dollars 2011 Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	$22,382	$—	$637	$637
Sell (U.S. dollar)	3,749	—	(222)	(222)
Sell (Other)	3,228	—	(24)	(24)
Buy (U.S. dollar)	369	—	(72)	(72)
Buy (Euro)	135	—	(19)	(19)
Buy (Other)	144	—	(2)	(2)
Total	$30,007	$—	$298	$298

Derivative transactions to which hedge accounting is applied at March 31, 2011

	Hedged item	Millions of yen 2011 Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	¥ 4,750	¥ 265	¥ (94)
Sell (Euro)		2,035	—	(57)
Buy (U.S. dollar)	Accounts amount payable	8,607	—	161
Buy (Euro)		5,159	—	280
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	350	—	*
Buy (Euro)	Accounts amount payable	57	—	
Total		¥20,956	¥ 265	¥291
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	11,000	8,800	*
Total		¥11,000	¥8,800	

	Hedged item	Thousands of U.S. dollars 2011 Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	$ 57,225	$ 3,189	$(1,129)
Sell (Euro)		24,517	—	(686)
Buy (U.S. dollar)	Accounts amount payable	103,698	—	1,946
Buy (Euro)		62,152	—	3,371
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	4,212	—	*
Buy (Euro)	Accounts amount payable	684	—	
Total		$252,488	$ 3,189	$ 3,502
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	132,530	106,024	*
Total		$132,530	$106,024	

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

Derivative transactions to which hedge accounting is not applied at March 31, 2010

	Millions of yen 2010 Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Forward foreign currency exchange contracts:				
Sell (Yen)	¥ 909	¥—	¥79	¥79
Sell (U.S. dollar)	359	—	5	5
Total	¥1,268	¥—	¥84	¥84

The market price at the end of the fiscal year is based on the forward foreign exchange rate then prevailing in the market. Items for which hedge accounting is applied are excluded from the above table disclosure.

18. Employees' Retirement Benefits and Pension Plans

The Company and some of its consolidated subsidiaries offer their employees both a lump-sum benefit at retirement and a non-contributory funded defined-benefit pension plan. A certain domestic subsidiary uses Smaller Enterprise Retirement Allowance Mutual Aid Plan. Others offer a lump-sum benefit at retirement only.

These plans are open to employees who meet set conditions, but substantially all employees are eligible.

Retirement benefits are calculated based on the employee's basic rate of pay, length of service, termination circumstance and other factors. The employees of the companies that adopt a defined-benefit pension plan may opt for either a lump-sum payment or annuity payments.

In February 2010, the Company revised its post-employment benefit plan.

The Company has transferred about 25% of the defined-benefit pension plan to the defined-contribution pension plan. In parallel, the Company has decreased the proportion of life time annuity (with increasing the proportion of fixed-term annuity) in the defined-benefit pension plan.

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥(47,385)	¥(45,759)	$(570,906)
Fair value of plan assets	41,233	41,965	496,780
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	¥ (6,152)	¥ (3,794)	$ (74,126)
Net liability for retirement benefits consist of:			
Prepaid pension cost	¥ —	¥ 1,595	$ —
Accrued employees' retirement benefits	(6,152)	(5,390)	(74,126)
	¥ (6,152)	¥ (3,794)	$ (74,126)

The components of net periodic benefit cost for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥2,616	¥ 3,068	$31,520
Interest cost	983	1,076	11,849
Expected return on plan assets	(1,502)	(1,262)	(18,092)
Recognized actuarial loss	2,792	(2,364)	33,643
Amortization of prior service cost	137	(2,068)	1,647
Expense of changing accounting method	—	—	—
Net periodic benefit cost	¥5,027	¥(1,550)	$60,567
Gain on transition of defined-contribution pension	—	(1,714)	—
Gain on abolishment of retirement benefit plan	(53)	—	(635)
Other	585	112	7,052
Total periodic benefit cost	¥5,560	¥(3,152)	$66,984

Certain consolidated subsidiaries have adopted the conventional method in calculating their projected benefit obligation.

Assumptions used for the years ended March 31, 2011 and 2010 were set forth as follows:

	2011	2010
Discount rate	2.1%	2.2%
Expected rate of return on plan assets	3.6%	3.6%
Recognition period of actuarial gain / loss	1year	1year

19. Investment Property

The Company and some of its consolidated subsidiaries hold some rental properties such as apartment houses in Tokyo and other areas. The net income for the investment properties for the years ended March 31, 2011 and 2010 was ¥1,145 million (US$13,792 thousand) and ¥1,052 million. The Income is recognized in Net sales and the expense is principally charged to Cost of sales. The amounts recognized in the consolidated balance sheet and fair values related to investment properties are as follows:

Millions of yen				Thousands of U.S. dollars	
Carrying amount			Fair value	Carrying amount	Fair value
2010	Increase / (Decrease)	2011	2011	2011	2011
¥16,486	¥(849)	¥15,637	¥16,572	$188,395	$199,666

(Additional information)

Effective from the year ended March 31, 2010, the Company has applied the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No.20, November 28, 2008) and the "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No.23, November 28, 2008).

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 the following four segments based on division and identified by products, services and geographical areas:

Timber and Building Materials: manufacturing or purchasing and sale of timber and building materials
Overseas: manufacturing or purchasing and sale of timber and building materials, construction of houses overseas
Housing: construction and renovation of houses, house exteriors, gardening, planting, sale of interiors
Real Estate: sales and brokerage of real estate
Other: leasing, insurance agent business and other

The tables below present sales, income or loss, assets and other items by reportable segment.

	Millions of yen								
Year ended March 31, 2011	Timber and Building Materials	Overseas	Housing	Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	**¥372,025**	**¥26,529**	**¥344,424**	**¥50,185**	**¥793,163**	**¥ 3,557**	**¥796,720**	**¥ 773**	**¥797,493**
Intersegment transfers	**18,206**	**6,704**	**1,855**	**696**	**27,462**	**9,973**	**37,435**	**(37,435)**	**—**
Total	**390,231**	**33,234**	**346,279**	**50,881**	**820,626**	**13,529**	**834,155**	**(36,662)**	**797,493**
Segment income (loss)	**4,848**	**(1,829)**	**18,988**	**903**	**22,911**	**502**	**23,412**	**(9,206)**	**14,206**
Segment assets	**147,135**	**52,576**	**98,083**	**62,917**	**360,711**	**10,843**	**371,554**	**117,863**	**489,417**
Other items									
Depreciation and amortization	**¥ 993**	**¥ 2,048**	**¥ 3,162**	**¥ 560**	**¥ 6,763**	**¥ 788**	**¥ 7,551**	**¥ 885**	**¥ 8,437**
Amortization of goodwill	**(18)**	**80**	**—**	**49**	**110**	**—**	**110**	**—**	**110**
Interest income	**20**	**106**	**2**	**42**	**169**	**0**	**170**	**55**	**225**
Interest expense	**735**	**981**	**342**	**883**	**2,941**	**23**	**2,965**	**(1,647)**	**1,318**
Equity in earnings of affiliates	**(23)**	**(755)**	**—**	**1**	**(778)**	**—**	**(778)**	**0**	**(778)**
Investments in affiliates	**125**	**9,209**	**—**	**3**	**9,337**	**—**	**9,337**	**(11)**	**9,326**
Increase in tangible and intangible fixed assets	**1,318**	**4,324**	**2,996**	**4,875**	**13,514**	**877**	**14,390**	**182**	**14,572**

	Millions of yen								
Year ended March 31, 2010	Timber and Building Materials	Overseas	Housing	Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥324,447	¥20,681	¥336,760	¥38,071	¥719,959	¥ 3,204	¥723,163	¥ 759	¥723,923
Intersegment transfers	16,985	4,790	1,535	99	23,409	11,967	35,376	(35,376)	—
Total	341,432	25,472	338,295	38,169	743,368	15,171	758,539	(34,617)	723,923
Segment income (loss)	2,006	(2,582)	13,250	(1,042)	11,632	583	12,215	(2,750)	9,465
Segment assets	135,557	51,811	90,670	63,344	341,381	10,307	351,689	118,050	469,738
Other items									
Depreciation and amortization	¥ 1,388	¥ 1,872	¥ 3,133	¥ 496	¥ 6,890	¥ 825	¥ 7,715	¥ 788	¥ 8,502
Amortization of goodwill	(18)	59	—	172	213	—	213	—	213
Interest income	21	463	2	1	487	1	488	33	521
Interest expense	846	839	357	830	2,872	23	2,895	(1,732)	1,162
Equity in earnings of affiliates	(48)	(2,196)	—	0	(2,244)	—	(2,244)	—	(2,244)
Investments in affiliates	150	9,748	—	3	9,901	—	9,901	—	9,901
Increase in tangible and intangible fixed assets	665	1,923	3,154	4,149	9,891	707	10,598	1,994	12,592

Year ended March 31, 2011	Timber and Building Materials	Overseas	Housing	Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
	Thousands of U.S. dollars								
Sales and contract revenues:									
Unaffiliated customers	$4,482,230	$319,632	$4,149,683	$604,642	$9,556,187	$ 42,850	$ 9,599,037	$ 9,313	$9,608,350
Intersegment transfers	219,352	80,777	22,354	8,387	330,870	120,154	451,024	(451,024)	—
Total	4,701,582	400,409	4,172,037	613,029	9,887,057	163,004	10,050,061	(441,711)	9,608,350
Segment income (loss)	58,414	(22,037)	228,777	10,880	276,033	6,043	282,077	(110,920)	171,157
Segment assets	1,772,709	633,448	1,181,727	758,033	4,345,918	130,636	4,476,554	1,420,036	5,896,590
Other items									
Depreciation and amortization	$ 11,968	$ 24,669	$ 38,096	$ 6,753	$ 81,486	$ 9,494	$ 90,980	$ 10,668	$ 101,647
Amortization of goodwill	(222)	960	—	588	1,326	-	1,326	—	1,326
Interest income	239	1,277	21	504	2,041	4	2,045	665	2,710
Interest expense	8,860	11,823	4,119	10,635	35,436	281	35,718	(19,843)	15,874
Equity in earnings of affiliates	(280)	(9,097)	—	7	(9,370)	—	(9,370)	0	(9,370)
Investments in affiliates	1,502	110,955	—	41	112,498	—	112,498	(135)	112,363
Increase in tangible and intangible fixed assets	15,878	52,102	36,100	58,734	162,815	10,561	173,376	2,190	175,566

(Additional information)

Effective the year ended March 31, 2011, the Company has adopted new accounting standards for disclosures about segments of an enterprise and related information. Segment information for the year ended March 31, 2010 has been restated in accordance with such accounting standards for comparative purposes.

21. Net Income per Share

The computation of net income per share for the years ended March 31, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Numerator for net income per share:			
Net income	**¥5,175**	¥2,377	**$62,352**
Income not available to common stockholders	—	—	—
Income available to common stockholders	**5,175**	2,377	**62,352**
Denominator for net income per share:			
Weighted average number of shares issued	**177,142,840**	177,147,826	

The diluted net income per share for the years ended March 31, 2011 and 2010 were not presented because there were no shares with dilutive effect.

22. Other Comprehensive Income

The following table presents components of other comprehensive income for the year ended March 31, 2010:

	Millions of yen
	2010
Unrealized gain on available-for-sale securities	¥3,235
Deferred loss on hedges	(5)
Translation adjustments	3,467
Share of other comprehensive income of companies accounted for by the equity method	112
Total other comprehensive income	¥6,809
Total comprehensive income (loss) attributable to:	
Shareholders of the parent company	¥9,190
Minority interests	¥ (27)