Financial Section

Contents

* Sumitomo Forestry changed the accounting classification of its reporting segments from fiscal 2012. In this section, the results of reporting segments in fiscal 2011 are introduced by using the old classification.

Eleven-Year Summary

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

	Millions of yen			
	2012	2011	2010	2009
Operating Results:				
Net sales	¥831,870	¥797,493	¥723,923	¥823,810
Gross profit	136,873	132,568	124,269	133,493
Selling, general and administrative expenses	117,682	118,330	114,522	126,656
Operating income	19,191	14,238	9,747	6,837
Recurring income*1	20,714	14,206	9,465	6,160
Net income (loss)	9,271	5,175	2,377	1,028
Financial Position:				
Total assets	¥503,496	¥489,417	¥469,738	¥427,738
Working capital*2	94,509	89,665	88,338	81,700
Interest-bearing debt	67,923	69,229	66,786	49,127
Total net assets	169,335	163,110	162,930	156,192
Cash Flows:				
Cash flows from operating activities	¥ 26,873	¥ 17,515	¥ 37,239	¥ (8,161)
Cash flows from investment activities	(32,903)	(13,247)	(19,117)	(29,062)
Cash flows from financing activities	(5,622)	372	11,546	24,196
Cash and cash equivalents at the end of the year	63,839	75,582	71,662	40,730
Capital Investment:				
Tangible fixed assets*3	¥ 10,970	¥ 11,923	¥ 10,636	¥ 24,075
Intangible fixed assets	2,786	2,434	1,561	2,013
Others	194	215	395	150
Total	13,950	14,572	12,592	26,238
Depreciation and amortization	8,469	8,437	8,502	8,477
	Yen			
Per Share Data:				
Net income (loss)	¥ 52.34	¥ 29.2	¥ 13.4	¥ 5.8
Net assets	954.8	919.5	917.8	880.9
Cash dividends	15.0	15.0	15.0	15.0
	%			
Financial Ratios:				
Gross profit margin	16.5	16.6	17.2	16.2
Operating income margin	2.3	1.8	1.3	0.8
Recurring income margin	2.5	1.8	1.3	0.7
Return on assets (ROA)*4	4.2	3.0	2.1	1.4
Return on equity (ROE)*4	5.6	3.2	1.5	0.6
Equity ratio	33.6	33.3	34.6	36.5
Interest-bearing debt ratio*5	28.7	29.8	29.1	23.9
Current ratio	137.1	136.8	140.3	141.6
Interest coverage ratio [times]	10.8	8.2	6.8	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			
2008	2006	2005	2004	2003	2002	2002
¥861,357	¥911,674	¥791,128	¥723,193	¥673,779	¥645,100	¥644,731
135,277	141,117	127,853	125,582	120,778	109,632	109,438
128,041	120,711	112,407	107,116	103,201	100,859	106,398
7,235	20,405	15,446	18,466	17,577	8,773	3,040
7,659	21,259	16,800	18,692	17,074	9,721	3,731
1,115	11,954	10,842	8,014	9,870	(15,440)	466
¥450,730	¥500,136	¥464,193	¥370,684	¥369,755	¥357,322	¥365,531
64,156	76,453	68,037	67,579	66,377	60,260	60,477
25,816	25,739	22,067	15,580	19,929	16,497	18,124
173,089	188,855	175,206	152,500	146,269	129,727	147,440
¥ 26,106	¥ 7,084	¥ 16,626	¥ 6,685	¥ 25,962	¥ 19,734	¥ 17,332
(17,587)	(7,102)	(8,998)	(12,895)	(7,646)	2,026	(16,439)
(4,262)	665	(14,039)	(7,087)	(735)	(8,171)	(9,716)
54,475	50,311	49,628	55,928	69,312	52,029	38,873
¥ 9,578	¥ 7,020	¥ 8,132	¥ 7,016	¥ 4,040	¥ 2,761	¥ 7,705
1,694	1,586	1,857	1,673	1,468	2,077	2,194
222	420	454	549	883	283	225
11,494	9,026	10,443	9,237	6,392	5,123	10,124
7,258	6,476	6,403	6,452	6,447	5,985	5,289
			Yen			
¥ 6.3	¥ 67.4	¥ 61.3	¥ 45.3	¥ 55.8	¥ (87.5)	¥ 2.6
976.0	1,059.2	996.0	866.5	830.5	736.4	835.1
15.0	15.0	13.0	13.0	13.0	10.0	10.0
			%			
15.7	15.5	16.2	17.4	17.9	17.0	17.0
0.8	2.2	2.0	2.6	2.6	1.4	0.5
0.9	2.3	2.1	2.6	2.5	1.5	0.6
1.6	4.4	4.0	5.0	4.7	2.7	1.0
0.6	6.6	6.6	5.4	7.2	(11.1)	0.3
38.4	37.5	37.7	41.1	39.6	36.3	40.3
13.0	12.1	11.2	9.3	12.0	11.3	10.9
127.6	129.3	129.3	137.4	135.7	132.6	131.8
4.5	11.2	10.8	18.6	21.9	18.3	7.8

*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

The tough conditions in the Japanese economy continued in fiscal 2011, ended March 31, 2012, due to the on-going effects of the Great East Japan Earthquake. However, within this environment signs of recovery could be seen in production activity and individual consumption, due mainly to demand relating to the post-earthquake recovery and also to various government policies. On the other hand, the effects of the financial crisis in Europe, the slow economic recovery in the United States, and the unprecedented strength of the yen, meant that in Japan corporate profits declined and the employment situation worsened and so the sense of uncertainty about the direction the economy is headed lingers on.

In the housing industry, new housing starts increased 2.7% year on year, to 841,000 units, partly due to support from government initiatives to promote house purchases, such as the re-launch of the Home Eco-point System and the strengthening of the Flat 35S system for home loans with preferential interest rates. Owner-occupied housing starts, which are closely correlated with the performance of the Group's housing business, declined 1.2% year on year, to 305,000 units. In the timber and building materials industry, the supply of home building materials was temporarily disrupted in the aftermath of the Great East Japan Earthquake, but market conditions recovered and it subsequently performed strongly, thanks to demand from the increase in new housing starts.

Consolidated Operating Results

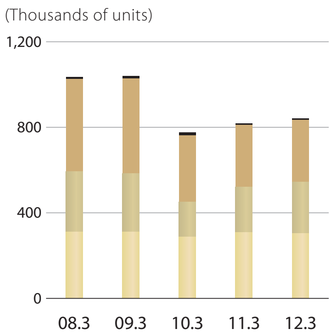
❶ Net Sales and Orders Received

Net sales increased 4.3% year on year, to ¥831,870 million, primarily due to the strong performances of the timber and building materials business and the housing business, which are the Group's core businesses. The value of orders received for custom-built detached housing totaled ¥295,194 million, up 3.8% year on year, while the number of orders received came to 8,962 units, up 0.4%.
Sales of custom-built detached housing totaled ¥294,081 million, up 8.6% year on year, while unit sales came in at 9,007 units, an increase of 3.3%.

❷ Selling, General and Administrative Expenses

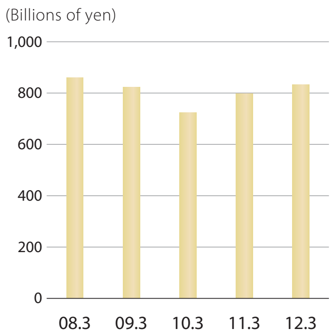
Selling, general and administrative expenses totaled ¥117,682 million, a decrease of 0.5% compared with the previous fiscal year. As in the previous fiscal year, personnel expenses increased due to an actuarial difference in accounting for retirement benefit obligations owing to deterioration in the operating environment for the Group's pension assets amid weakness in the stock market. However, thanks to comprehensive Group-wide expense reduction efforts, selling, general and administrative expenses decreased ¥648 million year on year.

Number of New Housing Starts in Japan

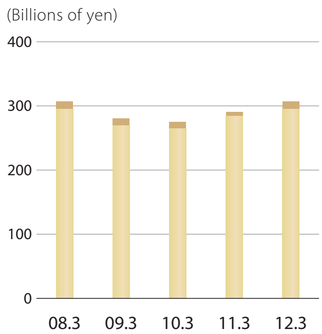


Owner-occupied housing
Built-for-sale housing
Rental housing ■ Corporate housing
Source: Ministry of Land, Infrastructure, Transport and Tourism

Net Sales



Amount of Orders Received



Custom-built detached housing
Collective housing (wooden apartment)

③ Operating Income, Recurring Income

Although personnel expenses rose due to the actuarial difference in accounting for retirement benefit obligations, operating income increased by ¥4,952 million, to ¥19,191 million, an improvement of 34.8% year on year. This improvement was attributable to the increase in sales volume for timber and building materials, an increase in unit sales of custom-built detached housing, and an improvement in the price per unit. Recurring income was ¥20,714 million yen, a rise of 45.8%. Excluding the impact of the above-mentioned actuarial difference, operating profit would have been ¥24,107 million, an increase of 41.6% year on year, and recurring income ¥25,631 million, an increase of 50.8%.

④ Net Income

Net income increased by ¥4,095 million, to ¥9,271 million, an improvement of 79.1% year on year, despite the booking of extraordinary losses of ¥3,038 million, including the recording of an impairment loss on construction materials manufacturing equipment at some overseas subsidiaries.

Net income per share came to ¥52.34, an increase of ¥23.13 from the previous fiscal year.

Segment Results

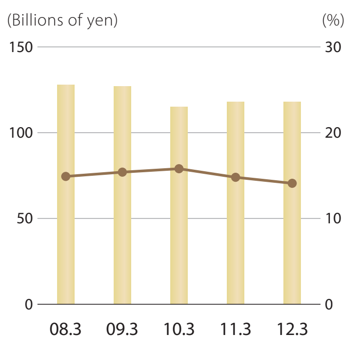
* Sales and recurring income figures given below include intersegment sales and transfers. Recurring income figures have been used for the segment results section.

① Timber and Building Materials Business

Net sales in the timber and building materials business rose 2.5% year on year, to ¥399,794 million, and recurring income decreased 3.7% to ¥4,667 million.

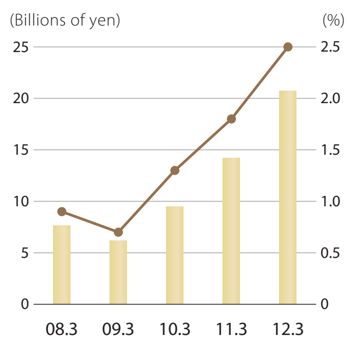
In Japan, the timber and building materials distribution business performed strongly on the back of the increase in the new housing starts and also in the volume of products handled, which was the result of a strengthening of collaborations with business partners. In addition, within the situation of a materials shortage due to the effects of the Great East Japan Earthquake, the Sumitomo Forestry Group leveraged its material procurement capabilities to minimize to the greatest possible extent the impact of the earthquake and provided its business partners with alternative materials. In the domestic timber distribution business, the Company worked to increase orders for high-quality domestic-timber products, but due to the overall slump in sales, the results did not reach the hoped for level. The Group is implementing various measures that help to protect forests, including by providing branches extracted from forest thinning and left over materials from logged forest land, such as stumps and roots, as fuel for use in wood biomass power generation. Results were down in the building materials manufacturing business in Japan, primarily due to higher raw materials costs.

SG&A Expenses and
SG&A Expenses Ratio



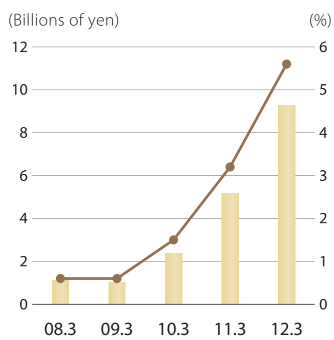
SG&A expenses (Left)
SG&A expenses ratio* (Right)
*SG&A expenses ratio = SG&A expenses / Net sales

Recurring Income and
Recurring Income Margin



Recurring income (Left)
Recurring income margin (Right)

Net Income and ROE



Net income (Left)
ROE (Right)

② Overseas Business

Net sales in the overseas business rose 13.1% year on year, to ¥37,595 million. The business reported a recurring loss of ¥2,853 million, compared with a recurring loss of ¥1,829 million in the previous fiscal year.

In the overseas distribution of timber and building materials, the Group worked to increase orders for its line-up of products in expanding markets, like China and South East Asia. In the overseas building materials manufacturing business, results were sluggish in Australia due to strength of the Australian dollar, which resulted in a decline in exports, and an intensification of competition within this country's domestic market. The tough conditions also continued in China, where the production volume at the Group's manufacturing company remained at a low level. Conversely, the recovery trend continued at manufacturing companies in Indonesia and New Zealand, which once again recorded increases in sales volumes. In the Company's housing business, the housing markets in the US and Australia were sluggish and this was reflected in the weak results in these regions. In China, consumers are placing increasing importance on environmental protection and energy conservation and the Sumitomo Forestry Group has been focusing its resources on increasing orders for wooden homes by utilizing the expertise it has accumulated over many years in these areas. Also, the Group continues to develop its plantation forest operations in Papua New Guinea, New Zealand, and Indonesia, and now has in place a system for providing customers with environmentally sound timber products; for example, in September 2011 it acquired FSC-FM/CoC* certification.

* FSC-FM/CoC certification
The Forest Stewardship Council (FSC) is an international third-party organization that provides two types of certification on the management of forests and timber. The Forest Management (FM) Certification certifies that a forest is being managed in a responsible manner, while the Chain of Custody (CoC) Certification certifies that the management of the processing and distribution of timber from certified forests is being carried out responsibly.

③ Housing Business

Net sales in the housing business rose 8.2% year on year, to ¥374,719 million, and recurring income increased 29.7% to ¥24,621 million.

In its custom-built detached housing business, the Company increased its market share in Japan's three major urban centers at the same time as implementing a highly targeted area strategy that tailors sales activities to the characteristics of each region. Thanks to these initiatives, and also to continuous measures to reduce production costs, the custom-built detached housing business performed strongly. Sales promotion initiatives included holding *Sumai Haku* housing fairs in Japan's three major urban centers of Tokyo, Osaka, and Nagoya, as well as region-based *Small Sumai Haku* at branches nationwide. It also held promotional events throughout the country to showcase the appeal of its environmentally sound housing that is fitted with solar power generation systems and the *ENE FARM*

Housing Business / Real Estate Business

(Years ended March 31)		2009	2010	2011	**2012**
Orders					
Custom-Built Detached Housing	(¥million)	¥268,889	¥265,203	¥284,420	**¥295,194**
	(Units)	8,703	8,593	8,926	**8,962**
Sales					
Custom-Built Detached Housing	(¥million)	¥294,551	¥264,215	¥270,903	**¥294,081**
	(Units)	9,297	8,580	8,721	**9,007**
Detached Spec Homes*2	(¥million)	¥ 3,253	¥ 7,851	¥ 9,567	**¥ 9,862**
	(Units)	144	183	226	**225**
Total Detached Homes	(¥million)	¥297,805	¥272,066	¥280,470	**¥303,943**

*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.

household fuel cell. In terms of product strategy, the Company has responded to the diversification of consumer lifestyles to develop and launch the *mamato* home as a lifestyle proposal-type product. It reflects the Company's goal of strengthening family bonds as it is designed to reduce the burden of housework and to create an environment that makes it easier to bring up children. In addition, it also launched the *ikiki* two-family home that helps to realize a stress-free living environment, through such features as specially constructed noise insulating floors. Moreover, in addition to the usual energy conservation and carbon-storage features possessed by all *Sumitomo Forestry Home* houses, the newly launched *Smart Solabo* home is installed with smart home technologies to further keep down electricity consumption and CO_2 emissions, providing a home that reduces both economic costs and environmental impact. Since the Great East Japan Earthquake, consumers have been increasingly concerned that their homes are safe and secure, and to capture the resulting demand the Company is working to expand sales of homes that use its proprietary Big-Frame (BF) construction method and of *Earthquake Energy-Absorbing Panels.*

The Company's apartment business performed strongly, primarily due to the fact that the Company has been adding to its sales branches, particularly in the Tokyo metropolitan area, and that sales managers in the custom-built detached housing business are now also able to sell properties in the apartment business.

In the renovation business, the renovation market is expected to grow in the future and to increase orders the Company is working to increase awareness of its *Reforest* brand of renovation products. In fiscal 2011, the renovation business recorded strong results thanks to an aggressive publicity campaign for its *Reforest* brand and the opening of new stores. In product development, in addition to measures to increase orders for fixed-price renovation products for detached housing, the Company launched *Reforest Ma:Ri* as a fixed-price renovation service for condominiums. Setting fixed prices for each item, from basic construction through to equipment specifications, not only creates a clear pricing structure, but also enables the Company to provide the kind of housing proposals, which feature the plentiful use of wood for the interiors, that only the Sumitomo Forestry Group is capable of providing.

Segment Performance Highlights

	Millions of yen			
(Years ended March 31)	2011	**2012**	2011/2012 (change)	(% of change)
Net sales	¥797,493	**¥831,870**	+34,377	+ 4.3%
Timber and Building Materials Business	390,231	**399,794**	+ 9,563	+ 2.5%
Overseas Business	33,234	**37,595**	+ 4,361	+13.1%
Housing Business	346,279	**374,719**	+28,440	+ 8.2%
Real Estate Business	50,881	**44,240**	− 6,641	−13.1%
Other Businesses	13,529	**12,064**	− 1,466	−10.8%
Adjustments	(36,662)	**(36,542)**	+ 120	—
Recurring Income	¥ 14,206	**¥ 20,714**	+ 6,508	+45.8%
Timber and Building Materials Business	4,848	**4,667**	− 181	− 3.7%
Overseas Business	(1,829)	**(2,853)**	− 1,024	—
Housing Business	18,988	**24,621**	+ 5,633	+29.7%
Real Estate Business	903	**1,193**	+ 290	+32.1%
Other Businesses	502	**709**	+ 207	+41.3%
Adjustments	(9,206)	**(7,622)**	+ 1,585	—

*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 declined 13.1% year on year, to ¥44,240 million, while recurring income was ¥1,193 million, an increase of 32.1%. Sales were solid in the detached spec homes business. In the real estate purchase and resale business, the Company is focusing on the market for pre-owned homes, where demand is expected to increase in the future, and is steadily purchasing these homes. In real estate sales and management, it is aiming to create a profit structure that is not controlled by market trends. In its management of private-pay elderly care facilities, it is implementing measures to improve the quality of its services at the same time as strengthening its management structure.

❺ Other Businesses

In addition to the above businesses, the Sumitomo Forestry Group provides a range of services for Group companies, such as IT system development and leasing operations, and for its housing customers, including property insurance agency services. The Group also manufactures and sells farming and gardening materials. In fiscal 2011, net sales totaled ¥12,064 million, a decline of 10.8% year on year, and recurring income came to ¥709 million, up 41.3%.

Recurring Income of Main Subsidiaries

Timber and Building Materials Business

	Millions of yen	
(Years ended March 31)	2011	2012
Sumitomo Forestry Crest Co., Ltd.	¥ 462	¥ 173

Overseas Business

	Millions of yen	
(Years ended December 31)	2010	2011
Overseas Subsidiaries*		
PT. Kutai Timber Indonesia (Indonesia)	¥ 90	¥ 207
Alpine MDF Industries Pty Ltd. (Australia)	(100)	(457)
Nelson Pine Industries Ltd. (New Zealand)	1,378	1,152

Housing Business / Real Estate Business

	Millions of yen	
(Years ended March 31)	2011	2012
Sumitomo Forestry Residential Co., Ltd.	¥ 321	¥ 472
Sumitomo Forestry Home Engineering Co., Ltd.	1,240	932
Sumitomo Forestry Home Service Co., Ltd.	134	132
Sumitomo Forestry Landscaping Co., Ltd.	(127)	124
Sumitomo Forestry Home Tech Co., Ltd.	2,060	2,641

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

	US$	AU$	NZ$
FY2010:	87.76	80.64	63.26
FY2011:	79.70	82.31	63.07

Financial Position and Cash Flow

❶ Financial Position

At the end of March 2012, total assets stood at ¥503,496 million, an increase of ¥14,079 million year on year, mainly as a result of an increase in trade receivables in the timber and building materials business and investment in facilities at an overseas subsidiary.

Liabilities increased by ¥7,854 million, to ¥334,161 million, as the repayment of part of the long-term debt was exceeded by the increase in trade payables in the timber and building materials business.

Interest-bearing debt decreased ¥1,306 million year on year, to ¥67,923 million, while the interest-bearing debt ratio fell from 29.8% in the previous fiscal year to 28.7%.

Despite a steep decline in foreign currency translation adjustments owing to the appreciation of the yen, net assets increased by ¥6,225 million, to ¥169,335 million, due to an increase in net income. The equity ratio increased by 0.3 percentage points, to 33.6%.

❷ Cash Flow

Net cash provided by operating activities was ¥26,873 million. This mainly reflected that the increases from the recording of income before income taxes and minority interests of ¥17,683 million, depreciation and amortization of ¥8,469 million yen, and also the increase in trade payables and the allowance for retirement benefits exceeded the decrease in the corporation tax payment.

Net cash used in investing activities was ¥32,903 million, due mainly to fund management of fixed deposits and investment in facilities at an overseas subsidiary.

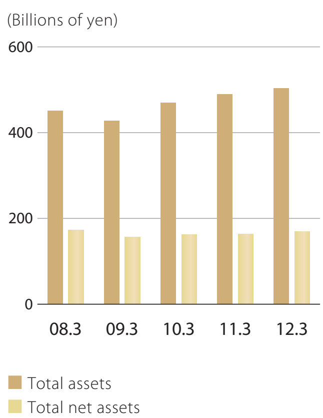
Net cash used in financing activities was ¥5,622 million. This was mainly the result of loan repayments and dividends paid.

As a result of the above, cash and cash equivalents at the end of the fiscal year stood at ¥63,839 million, a decrease of ¥11,742 million from the end of the previous fiscal year.

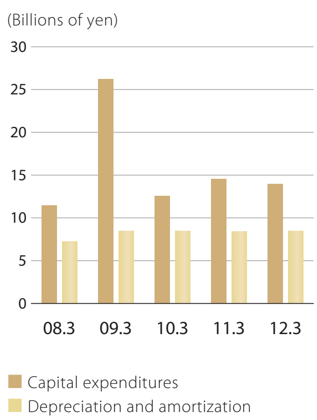
❸ Capital Expenditures

Capital expenditures decreased by 4.3%, from ¥14,572 million in the previous fiscal year to ¥13,950 million in the fiscal year under review. Investment in tangible fixed assets declined 8.0% year on year, to ¥10,970 million, while investment in intangible assets increased 14.5% to ¥2,786 million. Major investments included ¥4,900 million for construction of a particle board plant in Vietnam, ¥2,500 million for IT system investment, and ¥1,500 million for investment in reconstructing model home exhibitions.

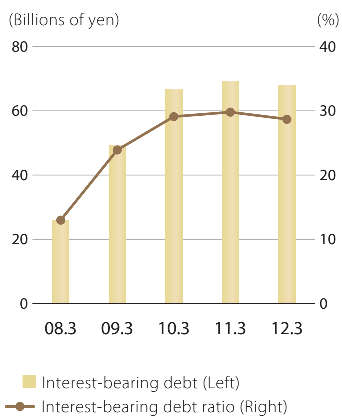
Total Assets and Total Net Assets



Capital Expenditures, Depreciation and Amortization



Interest-Bearing Debt and Interest-Bearing Debt Ratio



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

In the future, if the consumption tax is increased and applied as is to housing purchases, it would induce rush demand to avoid an increase in total payments and thus a temporary increase in overall housing demand. However, this could later invite a sharp reactive decline, with a possibility of the Group's results being affected.

❷ Statutory Changes

Laws and regulations surrounding the housing business include the Personal Information Protection Act, Building Standards Law, Construction Industry Law, Architect Act, 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 than anticipated. 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.

❽ 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.

❾ 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.

❿ 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.

⓫ 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.

⓬ 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.

⓭ 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.

⓮ 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.

⓯ 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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	2012	2011	2012
Current assets:			
Cash and time deposits (Notes 12, 16)	¥ 64,870	¥ 55,618	$ 791,092
Marketable securities (Notes 5, 12, 16)	15,000	20,000	182,927
Receivables —			
Notes and accounts, trade (Notes 7, 16)	124,883	118,451	1,522,965
Loans and other (Note 16)	48,279	46,736	588,763
Inventories —			
Finished goods, logs and lumber (Note 7)	20,977	19,015	255,815
Developed land and housing for sale	34,880	31,492	425,364
Land and housing projects in progress	28,397	31,242	346,302
Deferred tax assets (Note 9)	7,971	7,915	97,203
Other current assets	5,004	4,241	61,020
Allowance for doubtful accounts	(1,329)	(1,272)	(16,210)
Total current assets	348,930	333,439	4,255,241
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 6, 7)	24,475	26,048	298,482
Buildings and structures (Notes 7, 8)	49,794	51,244	607,242
Machinery and equipment (Notes 7, 8)	57,363	61,360	699,550
Timberland (Note 6)	11,236	10,972	137,019
Construction in progress	5,973	3,062	72,844
Leased assets	8,330	6,615	101,587
	157,171	159,302	1,916,724
Less accumulated depreciation	(71,530)	(71,700)	(872,319)
Net property, plant and equipment	85,641	87,602	1,044,405
Intangible assets, net of amortization:			
Goodwill (Note 8)	924	201	11,273
Other intangible assets (Note 8)	7,466	6,867	91,048
Total intangible assets	8,390	7,068	102,321
Investments and other assets:			
Investment securities (Notes 5, 7, 16)	48,487	48,458	591,299
Long-term loans and receivables	5,342	5,739	65,149
Deferred tax assets (Note 9)	1,251	1,354	15,253
Other assets	8,666	8,903	105,679
Allowance for doubtful accounts	(3,211)	(3,146)	(39,155)
Total investments and other assets	60,534	61,309	738,225
Total assets	¥503,496	¥489,417	$6,140,192

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 4) 2012
Current liabilities:			
Payables —			
Notes and accounts, trade (Notes 16, 17)	¥155,425	¥150,161	$1,895,427
Other	10,131	7,743	123,551
Short-term debt (Note 7)	14,068	11,620	171,556
Current portion of long-term debt (Note 7)	6,693	6,968	81,626
Current portion of lease obligation (Note 7)	1,217	1,095	14,840
Advances received from customers	39,597	38,622	482,887
Accrued income taxes	5,749	6,909	70,108
Accrued employees' bonuses	8,931	8,256	108,920
Accrued directors and corporate auditors' bonuses	95	60	1,159
Other current liabilities	12,515	12,340	152,621
Total current liabilities	254,421	243,774	3,102,695
Long-term liabilities:			
Bonds issued (Note 7)	15,000	15,000	182,927
Long-term debt (Notes 7, 16, 17)	28,284	32,101	344,932
Long-term lease obligation (Note 7)	2,661	2,445	32,454
Deferred tax liabilities (Note 9)	7,316	8,782	89,215
Accrued employees' retirement benefits (Note 18)	10,033	6,152	122,359
Other long-term liabilities	16,445	18,052	200,547
Total long-term liabilities	79,740	82,532	972,434
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 2012 and 177,410,239 shares in 2011	27,672	27,672	337,464
Capital surplus	26,872	26,872	327,701
Retained earnings	114,223	107,584	1,392,968
Treasury stock: 271,922 shares in 2012 and 270,845 shares in 2011	(268)	(267)	(3,264)
Total shareholders' equity	168,499	161,861	2,054,869
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	5,734	4,876	69,922
Deferred gain on hedges	192	154	2,336
Translation adjustments	(5,291)	(4,005)	(64,523)
Total accumulated other comprehensive income	634	1,025	7,735
Minority interests	202	224	2,459
Total net assets	169,335	163,110	2,065,063
Total liabilities and net assets	¥503,496	¥489,417	$6,140,192

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets	¥954.81	¥919.54	$11.64

Consolidated Statements of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
Net sales	¥831,870	¥797,493	$10,144,751
Cost of sales	694,997	664,925	8,475,570
Gross profit	136,873	132,568	1,669,181
Selling, general and administrative expenses (Note 11)	117,682	118,330	1,435,147
Operating income	19,191	14,238	234,034
Other income (expenses):			
Interest and dividends income	1,163	967	14,188
Interest expense	(1,296)	(1,318)	(15,803)
Equity in losses of affiliates	(314)	(778)	(3,831)
Loss on devaluation of investment securities	(68)	(1,024)	(829)
Gain on transition to defined contribution pension plan	156	—	1,900
Impairment loss	(3,038)	(695)	(37,050)
Gain on sales of investment securities	5	12	62
Gain on sales of subsidiary's stock	—	273	—
Gain on abolishment of retirement benefit plan	—	53	—
Loss on natural disaster	(71)	(780)	(869)
Effect of adoption of accounting standard for asset retirement obligations	—	(706)	—
Special retirement payment	—	(378)	—
Other gains (losses), net (Note 10)	1,955	1,144	23,839
Total	(1,508)	(3,229)	(18,393)
Income before income taxes and minority interests	17,683	11,010	215,641
Income taxes (Note 9):			
Current	9,709	7,926	118,405
Deferred	(1,282)	(1,998)	(15,628)
Total	8,428	5,928	102,777
Income before minority interests	9,255	5,082	112,864
Minority interests	(16)	(93)	(192)
Net income	¥ 9,271	¥ 5,175	$ 113,056

	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net income (Note 21)	¥52.34	¥ 29.21	$0.64
Cash dividends	15.00	15.00	0.18

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
Income before minority interests	¥9,255	¥5,082	$112,864
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	857	(718)	10,455
Deferred gain on hedges	37	130	457
Translation adjustments	(1,077)	(1,614)	(13,135)
Share of other comprehensive income of companies accounted for by the equity method	(214)	(36)	(2,612)
Total other comprehensive income	(396)	(2,238)	(4,835)
Comprehensive income	8,858	2,844	108,029
Total comprehensive income attributable to:			
Shareholders of the parent company	8,880	2,960	108,289
Minority interests	(21)	(116)	(260)

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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
SHAREHOLDERS' EQUITY			
Common stock			
Balance at the end of previous period	¥ 27,672	¥ 27,672	$ 337,464
Changes during the period			
Total changes during the period	—	—	—
Balance at the end of current period	¥ 27,672	¥ 27,672	$ 337,464
Capital surplus			
Balance at the end of previous period	¥ 26,872	¥ 26,872	$ 327,701
Changes during the period			
Disposal of treasury stock	(0)	(0)	(0)
Total changes during the period	(0)	(0)	(0)
Balance at the end of current period	¥ 26,872	¥ 26,872	$ 327,701
Retained earnings			
Balance at the end of previous period	¥107,584	¥105,066	$1,312,005
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,404)
Net income	9,271	5,175	113,056
Change in scope of equity method	26	—	311
Total changes during the period	6,639	2,518	80,963
Balance at the end of current period	¥114,223	¥107,584	$1,392,968
Treasury stock at cost			
Balance at the end of previous period	¥ (267)	¥ (262)	$ (3,255)
Changes during the period			
Purchases of treasury stock	(1)	(5)	(10)
Disposal of treasury stock	0	0	1
Total changes during the period	(1)	(5)	(9)
Balance at the end of current period	¥ (268)	¥ (267)	$ (3,264)
Total shareholders' equity			
Balance at the end of previous period	¥161,861	¥159,348	$1,973,915
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,404)
Net income	9,271	5,175	113,056
Purchases of treasury stock	(1)	(5)	(10)
Disposal of treasury stock	0	0	1
Change in scope of equity method	26	—	311
Total changes during the period	6,638	2,513	80,954
Balance at the end of current period	¥168,499	¥161,861	$2,054,869

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
ACCUMULATED OTHER COMPREHENSIVE INCOME			
Unrealized gain on available-for-sale securities			
Balance at the end of previous period	¥ 4,876	¥ 5,594	$ 59,466
Changes during the period			
Net changes in items other than shareholders' equity	857	(718)	10,456
Total changes during the period	857	(718)	10,456
Balance at the end of current period	¥ 5,734	¥ 4,876	$ 69,922
Deferred gain on hedges			
Balance at the end of previous period	¥ 154	¥ 24	$ 1,879
Changes during the period			
Net changes in items other than shareholders' equity	37	130	457
Total changes during the period	37	130	457
Balance at the end of current period	¥ 192	¥ 154	$ 2,336
Translation adjustments			
Balance at the end of previous period	¥ (4,005)	¥ (2,378)	$ (48,844)
Changes during the period			
Net changes in items other than shareholders' equity	(1,286)	(1,627)	(15,679)
Total changes during the period	(1,286)	(1,627)	(15,679)
Balance at the end of current period	¥ (5,291)	¥ (4,005)	$ (64,523)
Minority interests			
Balance at the end of previous period	¥ 224	¥ 342	$ 2,732
Changes during the period			
Net changes in items other than shareholders' equity	(22)	(118)	(273)
Total changes during the period	(22)	(118)	(273)
Balance at the end of current period	¥ 202	¥ 224	$ 2,459
Total net assets			
Balance at the end of previous period	¥163,110	¥162,930	$1,989,148
Changes during the period			
Cash dividends (¥15.00 per share)	(2,657)	(2,657)	(32,404)
Net income	9,271	5,175	113,056
Purchases of treasury stock	(1)	(5)	(10)
Disposal of treasury stock	0	0	1
Change in scope of equity method	26	—	311
Net changes in items other than shareholders' equity	(413)	(2,334)	(5,039)
Total changes during the period	6,225	180	75,915
Balance at the end of current period	¥169,335	¥163,110	$2,065,063

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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥17,683	¥11,010	$215,641
Adjustments —			
Depreciation and amortization	8,469	8,437	103,279
Impairment loss	3,038	695	37,050
Amortization of goodwill	211	110	2,571
Provision for (reversal of) doubtful accounts	69	1,548	848
Provision for (reversal of) employees' retirement benefits, less payments	3,892	2,428	47,460
Interest and dividends income	(1,163)	(967)	(14,188)
Interest expense	1,296	1,318	15,803
Equity in losses of affiliates	314	778	3,831
Losses on devaluation of marketable securities and investment securities	68	1,024	829
Losses (gains) on sales of marketable securities and investment securities, net	94	(285)	1,149
Losses (gains) on disposal of fixed assets, net	(84)	(197)	(1,023)
Loss on natural disaster	(485)	545	(5,918)
Effect of adoption of accounting standard for asset retirement obligations	—	706	—
Change in assets and liabilities:			
Notes and accounts receivable, trade	(6,257)	(12,340)	(76,307)
Inventories	860	(1,720)	10,489
Other current assets	1,622	(3,415)	19,776
Notes and accounts payable, trade	6,073	2,026	74,065
Advances received from customers	794	7,331	9,675
Other current liabilities	1,407	1,391	17,163
Other	(516)	50	(6,288)
Total	37,384	20,471	455,905
Interest and dividends income received	1,760	1,374	21,469
Interest paid	(1,347)	(1,276)	(16,425)
Income taxes paid, net	(10,925)	(3,054)	(133,229)
Net cash provided by operating activities	26,873	17,515	327,720
Cash flows from investment activities:			
Decrease (increase) in short-term loans receivable	(3,839)	(165)	(46,814)
Payments for purchases of fixed assets	(10,454)	(11,662)	(127,482)
Proceeds from sales of fixed assets	2,578	1,743	31,442
Payments for purchases of intangible assets	(2,788)	(2,473)	(34,002)
Payments for purchases of investment securities	(716)	(1,466)	(8,734)
Proceeds from sales of investment securities	10	480	121
Payments for additional acquisition of stock of consolidated subsidiaries	(1)	(2)	(13)
Payments for purchase of stock of subsidiary newly consolidated	(1,984)	—	(24,194)
Proceeds from sales of subsidiary's stock resulting in change of scope of consolidation	—	313	—
Payments for long-term loans receivable	(260)	(386)	(3,171)
Repayments of long-term loans receivable	644	264	7,857
Other	(16,094)	105	(196,266)
Net cash used in investment activities	(32,903)	(13,247)	(401,256)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	3,280	1,094	39,996
Payment of lease obligation	(1,746)	(1,264)	(21,296)
Proceeds from long-term debt	3,224	3,342	39,312
Repayments of long-term debt	(7,721)	(138)	(94,162)
Dividends paid	(2,657)	(2,657)	(32,404)
Other	(1)	(5)	(10)
Net cash provided by (used in) financing activities	(5,622)	372	(68,564)
Effect of exchange rate changes on cash and cash equivalents	(90)	(721)	(1,099)
Net increase (decrease) in cash and cash equivalents	(11,742)	3,919	(143,199)
Cash and cash equivalents at the beginning of the year	75,582	71,662	921,727
Cash and cash equivalents at the end of the year (Note 12)	¥63,839	¥75,582	$778,528

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2012 and 2011

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.

As of March 31, 2012, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 47 and 23 (45 and 20 in 2011), respectively.

The Company initially consolidated the accounts of PT. Sumitomo Forestry Indonesia and Canyon Creek Cabinet Company for the year ended March 31, 2012.

Certain subsidiaries and affiliates have fiscal years ending on the day other than March 31 and necessary adjustments for significant transactions, if any, are made on consolidation.

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) Statement of cash flows

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

(d) Allowance for doubtful accounts

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

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

(e) 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) Accrued directors' and corporate auditors' bonuses

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

(h) 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, 2012, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥1,843 million (US$22,470 thousand).

(i) 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.

(j) 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, 2012, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥81 million (US$985 thousand).

(k) 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, 2012, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥1,435 million (US$17,500 thousand).

(l) 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.

(m) Derivatives

Derivatives are stated at fair value.

(n) 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 sheet is calculated by write-down method based on the decrease in profitability.

The company recognized ¥569 million ($ 6,940 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2012.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) Consumption taxes

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

(x) 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.

(y) 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.

(z) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2011 have been reclassified to conform to presentation in 2012.

(aa) Adoption of accounting standard for accounting changes and error corrections

The Company has adopted the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan (ASBJ) Statement No.24 of December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 of December 4, 2009), for accounting changes and corrections of past errors made as of the beginning of the fiscal year under review.

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 ¥82 = US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2012. 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, 2012 and 2011 were as follows:

	Millions of yen			
	2012			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥25,866	¥9,792	¥(1,299)	¥34,360
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	1,257	33	(0)	1,290
Other	¥15,000	¥ —	¥ —	¥15,000

	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

	Thousands of U.S. dollars			
	2012			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$315,444	$119,420	$(15,838)	$419,026
Debt securities	—	—	—	—
Held-to-maturity:				
Debt securities	15,327	407	(0)	15,734
Other	$182,927	$ —	$ —	$182,927

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, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Proceeds	¥—	¥21	$—
Gross gains	—	0	—
Gross losses	—	5	—

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

6. Timberland

The investment in timberland at March 31, 2012 and 2011 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Standing timber:			
Mature timber	¥11,032	¥10,786	$134,531
Growing timber	204	186	2,490
	11,236	10,972	137,021
Land	732	727	8,923
	¥11,967	¥11,699	$145,944

The timberland accounts at March 31, 2012 and 2011 were reduced by ¥242 million (US$2,953 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, 2012 and 2011 generally represented short-term borrowings which bore interest of 2.33% and 2.76% per annum, respectively. Long-term debt at March 31, 2012 and 2011 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Loans, principally from banks and insurance companies, due 2012 to 2035 with interest of 1.42%:			
Secured			
Loans from banks or other	¥ 538	¥ 600	$ 6,555
Unsecured			
Bonds issued	15,000	15,000	182,927
Loans from banks or other	34,440	38,469	420,002
Lease obligation	3,878	3,540	47,294
	53,856	57,609	656,778
Portion due within one year			
Loans from banks or other	6,693	6,968	81,626
Lease obligation	1,217	1,095	14,840
	7,910	8,063	96,466
	¥45,946	¥49,546	$560,312

The following assets were pledged to secure bank loans and long-term debt at March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Receivables — Notes and accounts, trade	¥ 389	¥ 326	$ 4,749
Finished goods, logs and lumber	1,450	1,285	17,684
Land	14	15	170
Buildings and structures	494	539	6,024
Machinery and equipment	994	845	12,120
	¥3,341	¥3,009	$40,747

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements at March 31, 2012 and 2011 were ¥10 million (US$119 thousand) and ¥8 million, investment securities as security for deferred payment of customs duties at March 31, 2012 and 2011 were ¥9,302 million (US$113,443 thousand) and ¥9,589 million, and investment securities as deposit for housing warranty were ¥1,252 million (US$15,271 thousand) and ¥1,047 million, respectively.

The aggregate annual maturities of long-term debt and lease obligation at March 31, 2012 were as follows:

Years ending March 31	Bonds issued		Long-term debt		Lease obligation	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2012	¥ —	$ —	¥ 6,693	$ 81,626	¥1,217	$14,840
2013	—	—	10,460	127,562	1,622	19,779
2014	10,000	121,951	5,901	71,966	595	7,254
2015	—	—	6,782	82,702	301	3,667
2016	5,000	60,976	1,254	15,291	96	1,167
Thereafter	—	—	3,888	47,410	48	587
	¥15,000	$182,927	¥34,978	$426,557	¥3,878	$47,294

8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2012 and 2011 consisted of the following:

Location	Major use	Asset category	Millions of yen 2012	Thousands of U.S. dollars 2012
Fuxin, Liaoning, China	Plywood manufacturing facility	Buildings and structures	¥ 471	$ 5,738
		Machinery and equipment	201	2,450
		Other	402	4,901
		Total	1,073	13,089
Wangaratta, Victoria, Australia	Mid-density fiber board manufacturing facility	Machinery and equipment	1,345	16,403
		Other	54	661
		Total	1,399	17,064
Bellevue, Washington, U.S.A	Assets for residential housing sales business	Good will	53	641
		Other intangible assets	499	6,086
		Other	14	170
		Total	566	6,897
			¥3,038	$37,050

Location	Major use	Asset category	Millions of yen 2011
Komatsujima City, Tokushima Prefecture	Factory	Land	¥695
			¥695

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 2012 was 40.0%.

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

	2012	2011
Statutory tax rate	40.0%	40.0%
Non-deductible expense for purposes	1.8	2.7
Per capita portion of Inhabitant tax	1.7	2.9
Amortization of goodwill	0.4	0.3
Valuation allowance	2.7	5.2
Equity in losses of affiliates	0.7	2.8
Taxes on undistributed earnings of overseas subsidiaries	0.1	0.9
Effect of changes in corporate tax rates	0.2	—
Other	0.0	(0.9)
Effective tax rate	47.7%	53.8%

The significant components of deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Allowance for doubtful accounts	¥ 728	¥ 1,339	$ 8,877
Accrued employees' bonuses	3,376	3,583	41,172
Accrued employees' retirement benefits	3,515	2,176	42,861
Payable for transition of defined-contribution pension	567	1,229	6,913
Warranty reserve for completed construction	708	803	8,639
Devaluation of real estate for sale	536	2,386	6,542
Devaluation of financial instruments	1,958	2,053	23,882
Devaluation of property	1,765	400	21,520
Provision for loss on business liquidation	511	574	6,237
Tax loss carryforwards	3,117	2,265	38,016
Impairment loss	1,265	2,230	15,422
Other	5,212	5,076	63,568
Gross deferred tax assets	23,259	24,113	283,649
Valuation allowance	(10,584)	(11,802)	(129,073)
Total deferred tax assets	12,675	12,311	154,576
Deferred tax liabilities:			
Deferred gains on sales of property	(799)	(897)	(9,749)
Gain on securities contributed to employee retirement benefit trusts	(1,417)	(1,590)	(17,281)
Unrealized gain on available-for-sale securities	(2,557)	(2,813)	(31,184)
Land revaluation differences	(1,157)	(1,309)	(14,113)
Taxes on undistributed earnings of overseas subsidiaries	(1,885)	(1,898)	(22,992)
Other	(2,953)	(3,324)	(36,017)
Gross deferred tax liabilities	(10,770)	(11,833)	(131,336)
Net deferred tax assets (liabilities)	¥ 1,906	¥ 478	$ 23,240

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2012 and 2011 as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current assets — Deferred tax assets	¥7,971	¥7,915	$97,203
Investment and other assets — Deferred tax assets	1,251	1,354	15,252
Current liabilities — Other	—	(10)	—
Long-term liabilities — Deferred tax liabilities	(7,316)	(8,782)	(89,215)
Net deferred tax assets (liabilities)	¥1,906	¥ 478	$23,240

(Adjustment on deferred tax assets and liabilities due to tax rate change)
Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No.114 of 2011) and the "Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No.117 of 2011), the corporation tax rate will be reduced and a special reconstruction tax will be applied from the fiscal years beginning on or after April 1, 2012. Accordingly, the statutory tax rate to calculate deferred tax assets and liabilities will be reduced from 40.0% to 38.0% for temporary differences that are expected to be realized during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Subsequently, it will be reduced to 35.6% for temporary differences that are expected to be realized from the fiscal years beginning on or after April 1, 2015.

As a result of this change, net deferred tax assets (net of deferred tax liabilities), income tax — deferred, unrealized gain on available-for sale securities, and deferred gains on hedges increased by ¥291 million (US$3,554 thousand), ¥27 million (US$331 thousand), ¥312 million (US$3,808 thousand), and ¥6 million (US$77 thousand), respectively as of and for the year ended March 31, 2012.

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Gain on foreign exchange	¥ 777	¥ —	$ 9,470
Loss on foreign exchange	—	(207)	—
Gain on sales of property, plant and equipment	295	424	3,593
Loss on disposal of property, plant and equipment	(211)	(227)	(2,570)
Other, net	1,094	1,154	13,346
	¥1,955	¥1,144	$23,839

11. Research and Development Expenses

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2012 and 2011 were ¥1,261 million (US$15,375 thousand) and ¥1,294 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and time deposits	¥64,870	¥55,618	$791,092
Short-term investments	15,000	20,000	182,927
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(16,030)	(36)	(195,491)
Cash and cash equivalents	¥63,839	¥75,582	$778,528

The Company initially consolidated the accounts of a company for the year ended March 31, 2012. The assets and liabilities acquired and the relationship between acquisition cost and net cash disbursements for the year ended March 31, 2012 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Current assets	¥1,666	$20,312
Non-current assets	1,689	20,601
Goodwill	975	11,894
Current liabilities	(939)	(11,447)
Long-term liabilities	(290)	(3,539)
Acquisition cost	3,101	37,821
Cash and cash equivalents	(1,117)	(13,627)
Net disbursement of acquisition	¥1,984	$24,194

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 appropriate 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, 2012 and 2011, which were included in retained earnings in the accompanying consolidated balance sheet, were ¥2,857 million (US$34,843 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
	2012	2011	2012
Buildings and structures	¥ 2	¥3,472	$ 22
Machinery and equipment	836	1,747	10,195
Other	21	21	254
Accumulated depreciation	(639)	(4,481)	(7,790)
	¥220	¥ 760	$ 2,681

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Depreciation	¥518	¥1,623	$6,315
Interest expenses	9	26	105

Finance leased charges in earnings to the Companies for the years ended March 31, 2012 and 2011 were ¥526 million (US$6,420 thousand) and ¥1,649 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, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current obligation	¥116	¥539	$1,409
Long-term obligation	112	242	1,365
Present value of lease payments	¥227	781	$2,774

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 at March 31, 2012 and 2011, for loans guaranteed amounted to ¥25,178 million (US$307,044 thousand) and ¥25,908 million.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Guarantee on loans from financial institutions			
Dongwha SFC Housing Co., Ltd.	¥ —	¥ 53	$ —
Kawasaki Biomass Electric Power Co., Ltd.	2,212	2,730	26,974
Cascadia Resort Communities LLC	39	42	474
Purchasers with housing loans applied	22,763	22,907	277,596
Other	1	1	12
Guarantee on rent payment			
Sumikyo Co., Ltd.	¥ 163	¥ 175	$ 1,988
Total	¥25,178	¥25,908	$307,044

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 need in relation to normal foreign currency-denominated transactions, 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		
	2012		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	¥ 64,870	¥ 64,870	¥ —
Receivables-notes and accounts, trade	120,536	120,536	—
Marketable securities and investment securities			
Held-to-maturity	1,257	1,290	33
Available-for-sale	49,360	49,360	—
Receivables-loans and other	43,471	43,471	—
Total	¥279,494	¥279,527	¥ 33
Payables-notes and accounts, trade	¥155,425	¥155,425	¥ —
Long-term debt	34,978	35,458	(480)
Total	¥190,403	¥190,883	¥(480)
Derivatives*			
Hedge accounting not applied	¥ 50	¥ 50	¥ —
Hedge accounting applied	311	311	—
Total	¥ 360	¥ 360	¥ —

	Thousands of U.S. dollars		
	2012		
	Carrying amount	Fair value	Unrealized gain
Cash and time deposits	$ 791,092	$ 791,092	$ —
Receivables-notes and accounts, trade	1,469,951	1,469,951	—
Marketable securities and investment securities			
Held-to-maturity	15,327	15,734	407
Available-for-sale	601,952	601,952	—
Receivables-loans and other	530,140	530,140	—
Total	$3,408,462	$3,408,869	$ 407
Payables-notes and accounts, trade	$1,895,427	$1,895,427	$ —
Long-term debt	426,557	432,415	(5,858)
Total	$2,321,984	$2,327,842	$(5,858)
Derivatives*			
Hedge accounting not applied	$ 607	$ 607	$ —
Hedge accounting applied	3,789	3,789	—
Total	$ 4,396	$ 4,396	$ —

* 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
	2012	2011	2012
Unlisted equity securities	¥1,357	¥1,355	$ 16,549
Preferred stock	3,000	3,000	36,585
Investment in affiliates	8,513	9,326	103,812

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

	Millions of yen			
	2012			
	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	¥ 64,432	¥ —	¥ —	¥—
Receivables-notes and accounts, trade	120,536	—	—	—
Marketable securities and investment securities				
Government bonds	—	109	1,148	—
Other	15,000	—	—	—
Receivables-loans and other	43,471	—	—	—
Total	¥243,439	¥109	¥1,148	¥—

	Thousands of U.S. dollars			
	2012			
	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	$ 785,753	$ —	$ —	$—
Receivables-notes and accounts, trade	1,469,951	—	—	—
Marketable securities and investment securities				
Government bonds	—	1,329	13,997	—
Other	182,926	—	—	—
Receivables-loans and other	530,140	—	—	—
Total	$2,968,770	$1,329	$13,997	$—

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2012

	Millions of yen			
	2012			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	¥4,334	¥1,048	¥49	¥49
Sell (U.S. dollar)	471	—	14	14
Sell (Other)	236	—	(0)	(0)
Buy (NZ dollar)	832	—	(13)	(13)
Buy (Euro)	7	—	(0)	(0)
Total	¥5,879	¥1,048	¥50	¥50

	Thousands of U.S. dollars			
	2012			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain
Currency-related				
Forward foreign currency exchange contracts:				
Sell (Yen)	$52,856	$12,778	$594	$594
Sell (U.S. dollar)	5,742	—	174	174
Sell (Other)	2,873	—	(2)	(2)
Buy (NZ dollar)	10,148	—	(159)	(159)
Buy (Euro)	82	—	(0)	(0)
Total	$71,701	$12,778	$607	$607

Derivative transactions to which hedge accounting is applied at March 31, 2012

		Millions of yen		
		2012		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	¥ 4,757	¥ —	¥ (3)
Sell (Euro)		1,404	—	(23)
Buy (U.S. dollar)	Accounts amount payable	6,687	—	154
Buy (Euro)		3,802	—	183
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	265	—	*
Total		¥16,915	¥ —	¥311
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	11,000	6,600	*
Total		¥11,000	¥6,600	

		Thousands of U.S. dollars		
		2012		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts amount payable	$ 58,012	$ —	$ (41)
Sell (Euro)		17,126	—	(277)
Buy (U.S. dollar)	Accounts amount payable	81,543	—	1,880
Buy (Euro)		46,369	—	2,227
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	3,230	—	*
Total		$206,280	$ —	$3,789
Interest rate swaps:				
Accounted for by short-cut method				
Receive floating pay fixed	Long-term bank loans	134,146	80,488	*
Total		$134,146	$80,488	

* 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, 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

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

		Millions of yen		
		2011		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle				
Sell (U.S. dollar)	Accounts 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	

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.

The liability for employees' retirement benefits at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligation	¥(52,598)	¥(47,385)	$(641,440)
Fair value of plan assets	42,565	41,233	519,081
Unrecognized actuarial loss	—	—	—
Unrecognized prior service cost	—	—	—
Prepaid pension cost	—	—	—
Net liability for retirement benefits	¥(10,033)	¥ (6,152)	$(122,359)
Net liability for retirement benefits consist of:			
Prepaid pension cost	¥ —	¥ —	$ —
Accrued employees' retirement benefits	(10,033)	(6,152)	(122,359)
	¥(10,033)	¥ (6,152)	$(122,359)

The components of net periodic benefit cost for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥2,615	¥2,616	$31,891
Interest cost	965	983	11,770
Expected return on plan assets	(1,474)	(1,502)	(17,980)
Recognized actuarial loss	4,916	2,792	59,957
Amortization of prior service cost	49	137	600
Expense of changing accounting method	—	—	—
Net periodic benefit cost	¥7,072	¥5,027	$86,238
Gain on transition to defined-contribution pension plan	(156)	—	(1,900)
Gain on abolishment of retirement benefit plan	—	(53)	—
Other	687	585	8,380
Total periodic benefit cost	¥7,603	¥5,560	$92,718

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

Assumptions used for the years ended March 31, 2012 and 2011 were set forth as follows:

	2012	2011
Discount rate	1.8%	2.1%
Expected rate of return on plan assets	3.6%	3.6%
Recognition period of actuarial gain / loss	1 year	1 year

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, 2012 and 2011 were ¥904 million (US$11,028 thousand) and ¥1,145 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
2011	Increase / (Decrease)	2012	2012	2012	2012
¥15,637	¥(3,471)	¥12,166	¥12,339	$148,362	$150,474

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, 2012	Timber and Building Materials	Overseas	Housing	Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥381,086	¥28,977	¥372,861	¥44,020	¥826,943	¥ 4,153	¥831,095	¥ 774	¥831,870
Intersegment transfers	18,708	8,618	1,858	221	29,406	7,911	37,316	(37,316)	—
Total	399,794	37,595	374,719	44,240	856,348	12,064	868,412	(36,542)	831,870
Segment income (loss)	4,667	(2,853)	24,621	1,193	27,628	709	28,336	(7,622)	20,714
Segment assets	154,844	59,184	96,670	58,617	369,314	11,588	380,903	122,593	503,496
Other items									
Depreciation and amortization	¥ 914	¥ 2,192	¥ 3,328	¥ 538	¥ 6,972	¥ 792	¥ 7,763	¥ 706	¥ 8,469
Amortization of goodwill	(11)	169	—	53	211	—	211	—	211
Interest income	21	130	1	53	205	0	206	63	269
Interest expense	685	974	313	746	2,718	20	2,738	(1,442)	1,296
Equity in earnings of affiliates	177	(492)	—	0	(315)	—	(315)	0	(314)
Investments in affiliates	267	8,253	—	4	8,523	—	8,523	(11)	8,513
Increase in tangible and intangible fixed assets	692	6,636	4,517	566	12,410	1,072	13,483	467	13,950

	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

Year ended March 31, 2012	Thousands of U.S. dollars Timber and Building Materials	Overseas	Housing	Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	$4,647,388	$353,372	$4,547,083	$536,823	$10,084,666	$ 50,645	$10,135,311	$ 9,440	$10,144,751
Intersegment transfers	228,150	105,102	22,664	2,691	358,607	96,472	455,079	(455,079)	—
Total	4,875,538	458,474	4,569,747	539,514	10,443,273	147,117	10,590,390	(445,639)	10,144,751
Segment income (loss)	56,913	(34,796)	300,261	14,546	336,924	8,641	345,565	(92,949)	252,616
Segment assets	1,888,338	721,751	1,178,905	714,838	4,503,832	141,321	4,645,153	1,495,039	6,140,192
Other items									
Depreciation and amortization	$ 11,151	$ 26,729	$ 40,583	$ 6,555	$ 85,018	$ 9,657	$ 94,675	$ 8,606	$ 103,279
Amortization of goodwill	(134)	2,055	—	650	2,571	—	2,571	—	2,571
Interest income	256	1,587	12	651	2,506	4	2,510	769	3,277
Interest expense	8,358	11,879	3,812	9,092	33,141	249	33,390	(17,587)	15,803
Equity in earnings of affiliates	2,162	(5,999)	—	1	(3,836)	—	(3,836)	5	(3,831)
Investments in affiliates	3,251	100,650	—	43	103,944	—	103,944	(132)	103,812
Increase in tangible and intangible fixed assets	8,442	80,923	55,084	6,897	151,346	13,077	164,423	5,697	170,120

(Related information)

(1) Products and services information

Year ended March 31, 2012	Millions of yen Timber and Building Materials	Housing	Other	Total
Sales and contract revenues from unaffiliated customers	¥407,051	¥420,052	¥4,767	¥831,870

Year ended March 31, 2011	Millions of yen Timber and Building Materials	Housing	Other	Total
Sales and contract revenues from unaffiliated customers	¥395,743	¥397,549	¥4,201	¥797,493

Year ended March 31, 2012	Thousands of U.S. dollars Timber and Building Materials	Housing	Other	Total
Sales and contract revenues from unaffiliated customers	$4,964,031	$5,122,588	$58,132	$10,144,751

(2) Geographic area information

Sales information by geographic area has been omitted since sales and contract revenues from unaffiliated customers in the Japan area accounted for more than 90% of consolidated net sales.

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

Year ended March 31, 2012	Millions of yen Japan	Oceania	Asia	Other	Total
	¥60,832	¥14,079	¥9,667	¥1,063	¥85,641

Year ended March 31, 2011	Millions of yen Japan	Oceania	Asia	Other	Total
	¥65,099	¥16,038	¥6,423	¥41	¥87,602

Year ended March 31, 2012	Thousands of U.S. dollars Japan	Oceania	Asia	Other	Total
	$741,849	$171,693	$117,895	$12,968	$1,044,405

(3) Customer information

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

(Information of loss on impairment of fixed assets)

	Millions of yen						
Year ended March 31, 2012	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥—	¥3,038	¥—	¥—	¥—	¥—	¥3,038

	Millions of yen						
Year ended March 31, 2011	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥695	¥—	¥—	¥—	¥—	¥—	¥695

	Thousands of U.S. dollars						
Year ended March 31, 2012	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	$—	$37,050	$—	$—	$—	$—	$37,050

(Amortization and balance of goodwill)

	Millions of yen						
Year ended March 31, 2012	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥(11)	¥169	¥—	¥53	¥—	¥—	¥211
Balance of goodwill	(11)	907	—	29	—	—	924

	Millions of yen						
Year ended March 31, 2011	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥(18)	¥ 80	¥—	¥49	¥—	¥—	¥110
Balance of goodwill	(22)	141	—	82	—	—	201

	Thousands of U.S. dollars						
Year ended March 31, 2012	Timber and Building Materials	Overseas	Housing	Real Estate	Other	Elimination and/or Corporate	Total
Amortization of goodwill	$(135)	$ 2,056	$—	$650	$—	$—	$ 2,571
Balance of goodwill	(137)	11,056	—	354	—	—	11,273

21. Net Income per Share

The computation of net income per share for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Numerator for net income per share:			
Net income	¥9,271	¥5,175	$113,056
Income not available to common stockholders	—	—	—
Income available to common stockholders	9,271	5,175	113,056
Denominator for net income per share:			
Weighted average number of shares issued	177,138,651	177,142,840	

The diluted net income per share for the years ended March 31, 2012 and 2011 were not presented because there were no shares with dilutive effect.

22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the year ended March 31, 2012 were as follows:

	Millions of yen 2012	Thousands of U.S. dollars 2012
Unrealized gain on available-for-sale securities		
Amount incurred during the year	¥ 614	$ 7,488
Reclassification adjustments for gains and losses included in net income	—	—
Amount before tax effect	614	7,488
Tax effect	243	2,967
Unrealized gain on available-for-sale securities	857	10,455
Deferred gain on hedges		
Amount incurred during the year	(2)	(21)
Reclassification adjustments for gains and losses included in net income	22	265
Amount before tax effect	20	244
Tax effect	17	213
Deferred gains on hedges	37	457
Translation adjustments		
Amount incurred during the year	(1,077)	(13,135)
Reclassification adjustments for gains and losses included in net income	—	—
Amount before tax effect	(1,077)	(13,135)
Tax effect	—	—
Translation adjustments	(1,077)	(13,135)
Share of other comprehensive income of affiliated companies accounted for by the equity method		
Amount incurred during the year	(257)	(3,130)
Reclassification adjustments for gains and losses included in net income	42	518
Share of other comprehensive income of affiliated companies accounted for by the equity method	(214)	(2,612)
Total other comprehensive income	¥ (396)	$ (4,835)

23. Asset Retirement Obligations

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

The asset retirement obligations are determined and discounted to their present value using the discount rates ranging from 0.26% to 2.15% and the anticipated future useful lives ranging from 5 years to 29 years.

Breakdowns of the total amount of the asset retirement obligations for the years ended March 31, 2012 and 2011 are summarized as follows:

	Millions of yen 2012	2011	Thousands of U.S. dollars 2012
Balance at beginning of the year *	¥1,395	¥1,368	$17,017
Liability incurred for assets acquired	76	121	932
Accretion expense	12	12	145
Liabilities settled	(104)	(105)	(1,267)
Balance at end of the year	¥1,380	¥1,395	$16,827

Note: Balance at beginning of 2011 under initial application of new accounting standards "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).

24. Related Party Transactions

Principal transactions between the Company and its related parties for the years ended March 31, 2012 and 2011 are summarized as follows:

2012

Name	Title	Transactions	Millions of yen Amounts	Thousands of U.S. dollars Amounts
Shigeru Sasabe	Director of the Company	Sales of housing	¥45	$546

2011

Name	Title	Transactions	Millions of yen Amounts
Hideyuki Kamiyama	Director of the Company	Sales of housing	¥17
Shigeru Sasabe	Director of the Company	Sales of housing	17
Keita Nose	Relative of Director of the Company	Sales of housing	23

Prices for sales of housing were determined based on the same terms as third party transactions.

25. Loss on disaster

Losses related to the March 11, 2011 Great East Japan Earthquake are accounted for under "Loss on natural disaster."

Breakdowns of the main components for the fiscal years ended March 31, 2012 and 2011 are as follows:

	Millions of yen 2012	2011	Thousands of U.S. dollars 2012
Restoration of damaged assets to their original state	¥ 8	¥ —	$ 97
Loss on disappearance and disposal of inventories	21	75	259
Inspection charge for houses the company constructed	39	—	475
Loss on retirement of fixed assets	—	56	—
Provision for loss on natural disaster	—	545	—
	¥68	¥676	$831

26. Subsequent Event

The Company has determined to revise its operating segments.

The Company's results of operations are reported in five segments: Timber and Building Materials, Overseas, Housing, Real Estate and Other during the fiscal year ended March 31, 2012. However, the Company reports its results in four segments: Timber and Building Materials, Housing, Overseas and Other from the fiscal year ending March 31, 2013.

The revision is a reflection of changes in organizational structure made in April 2012.

	Millions of yen							
Year ended March 31, 2012	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥386,229	¥414,867	¥23,834	¥824,930	¥ 6,166	¥831,095	¥ 774	¥831,870
Intersegment transfers	19,121	231	11,138	30,490	7,884	38,373	(38,373)	—
Total	405,350	415,098	34,971	855,419	14,049	869,469	(37,599)	831,870
Segment income (loss)	¥ 4,781	¥ 25,800	¥ (2,938)	¥ 27,642	¥ 728	¥ 28,370	¥ (7,655)	¥ 20,714