

Financial Section

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Financial Section

Eleven-Year Summary

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries

Millions of yen

Years ended March 31

	2015	2014	2013	2012
Operating Results:				
Net sales	¥997,256	¥972,968	¥845,184	¥831,870
Gross profit	169,492	160,162	141,436	136,873
Selling, general and administrative expenses	135,498	126,747	116,105	117,682
Operating income	33,994	33,415	25,330	19,191
Recurring income* ¹	36,424	33,567	26,981	20,714
Net income	18,572	22,531	15,923	9,271
Financial Position:				
Total assets	¥665,538	¥645,197	¥547,973	¥503,496
Working capital* ²	158,110	120,725	91,335	94,509
Interest-bearing debt	103,369	92,975	69,229	67,923
Total net assets	260,782	226,078	193,250	169,335
Cash Flows:				
Cash flows from operating activities	¥ 14,709	¥ 54,057	¥ 45,910	¥ 26,873
Cash flows from investment activities	(23,575)	(10,476)	(28,662)	(32,903)
Cash flows from financing activities	(17,286)	8,511	(5,305)	(5,622)
Cash and cash equivalents at the end of the year	103,296	128,343	75,658	63,839
Capital Investment:				
Tangible fixed assets* ³	¥ 12,617	¥ 14,735	¥ 7,058	¥ 10,970
Intangible fixed assets	2,488	2,417	2,890	2,786
Others	282	252	343	194
Total	15,388	17,404	10,291	13,950
Depreciation and amortization	11,453	9,810	8,978	8,469
Per Share Data:				
Net income	¥ 104.85	¥ 127.20	¥ 89.89	¥ 52.34
Net assets	1,387.39	1,234.53	1,086.68	954.81
Cash dividends	21.50	19.0	17.0	15.0
Financial Ratios:				
Gross profit margin	17.0	16.5	16.7	16.5
Operating income margin	3.4	3.4	3.0	2.3
Recurring income margin	3.7	3.4	3.2	2.5
Return on assets (ROA)* ⁴	5.6	5.6	5.1	4.2
Return on equity (ROE)* ⁴	8.0	11.0	8.8	5.6
Equity ratio	36.9	33.9	35.1	33.6
Interest-bearing debt ratio* ⁵	29.6	29.8	26.5	28.7
Current ratio	154.1	137.0	133.1	137.1
Interest coverage ratio [times]	19.3	18.8	14.2	10.8

*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

*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)

Millions of yen						
2011	2010	2009	2008	2007	2006	2005
¥797,493	¥723,923	¥823,810	¥861,357	¥911,674	¥791,128	¥723,193
132,568	124,269	133,493	135,277	141,117	127,853	125,582
118,330	114,522	126,656	128,041	120,711	112,407	107,116
14,238	9,747	6,837	7,235	20,405	15,446	18,466
14,206	9,465	6,160	7,659	21,259	16,800	18,692
5,175	2,377	1,028	1,115	11,954	10,842	8,014
¥489,417	¥469,738	¥427,738	¥450,730	¥500,136	¥464,193	¥370,684
89,665	88,338	81,700	64,156	76,453	68,037	67,579
69,229	66,786	49,127	25,816	25,739	22,067	15,580
163,110	162,930	156,192	173,089	188,855	175,206	152,500
¥ 17,515	¥ 37,239	¥ (8,161)	¥ 26,106	¥ 7,084	¥ 16,626	¥ 6,685
(13,247)	(19,117)	(29,062)	(17,587)	(7,102)	(8,998)	(12,895)
372	11,546	24,196	(4,262)	665	(14,039)	(7,087)
75,582	71,662	40,730	54,475	50,311	49,628	55,928
¥ 11,923	¥ 10,636	¥ 24,075	¥ 9,578	¥ 7,020	¥ 8,132	¥ 7,016
2,434	1,561	2,013	1,694	1,586	1,857	1,673
215	395	150	222	420	454	549
14,572	12,592	26,238	11,494	9,026	10,443	9,237
8,437	8,502	8,477	7,258	6,476	6,403	6,452
Yen						
¥ 29.21	¥ 13.42	¥ 5.80	¥ 6.29	¥ 67.43	¥ 61.28	¥ 45.28
919.54	917.82	880.94	975.99	1,059.20	996.03	866.47
15.0	15.0	15.0	15.0	15.0	13.0	13.0
%						
16.6	17.2	16.2	15.7	15.5	16.2	17.4
1.8	1.3	0.8	0.8	2.2	2.0	2.6
1.8	1.3	0.7	0.9	2.3	2.1	2.6
3.0	2.1	1.4	1.6	4.4	4.0	5.0
3.2	1.5	0.6	0.6	6.6	6.6	5.4
33.3	34.6	36.5	38.4	37.5	37.7	41.1
29.8	29.1	23.9	13.0	12.1	11.2	9.3
136.8	140.3	141.6	127.6	129.3	129.3	137.4
8.2	6.8	4.5	4.5	11.2	10.8	18.6

Management's Discussion and Analysis

Market Overview

In fiscal 2014, ended March 31, 2015, the Japanese economy displayed signs of moderate recovery, including rising stock prices, improved corporate profits, and continued improvement in employment and incomes. These positive results were underpinned mainly by a gradual recovery in the global economy, particularly in the United States and Europe, as well as a weakening yen and rising domestic stock prices. Although consumer confidence still shows signs of softening following the hike in the consumption tax, consumer spending overall remained at a stable level.

In the domestic housing market, housing loan interest rates remained low, and the government introduced incentives to promote house purchases, including expanded tax breaks for housing loans. However, the effects of the market recoil that followed the last-minute surge in demand prior to the hike in the consumption tax lingered. As a result, new housing starts fell 10.8% from the previous fiscal year to 880,000.* Of this number, owner-occupied dwellings were 278,000*, down 21.1% year on year.

* Amounts have been rounded down to the nearest thousand units

Consolidated Operating Results

① Net Sales and Orders Received

Net sales increased 2.5% year on year to ¥997,256 million. The prolonged effects of the market recoil following the consumption tax hike impacted both the Timber and Building Materials Business and the Custom-Built Detached Housing Business. Nevertheless, operating results overall surpassed those of the previous fiscal year thanks to the strong growth of the Overseas Business. We have undertaken various efforts to expand the Overseas Business, including active investment of management resources.

The volume of orders received for custom-built detached wooden homes fell 14.6% to ¥290,203 million due to the prolonged effects of the market recoil following the consumption tax hike. Although order volume declined, the average unit price increased, mainly as a result of efforts to expand orders for our original Big-Frame construction method.

② Selling, General and Administrative Expenses

Selling, general and administrative expenses rose 6.9% year on year to ¥135,498 million. Personnel expenses increased, owing to actuarial differences in accounting for retirement benefit of ¥257 million, which arose mainly due to a fall in long-term interest rates. Excluding this factor, selling, general and administrative expenses increased 7.6% year on year to ¥135,241 million. Aside from the impact of actuarial differences, the increase in selling, general and administrative expenses was due mainly to the full-year accounting of the selling, general and administrative expenses of the Henley Properties Group, which became a consolidated subsidiary in September 2013. Another contributing factor was making the Gehan Homes Group, which is engaged in the housing business in the United States, a consolidated subsidiary in May 2014. In addition, costs associated with expansion of the Renovation Business increased.

③ Operating Income, Recurring Income

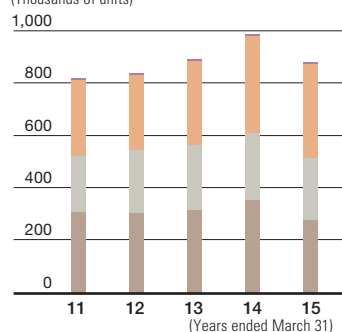
Operating income grew to ¥33,994 million, up 1.7% from the previous fiscal year. Recurring income rose 8.5% year on year to ¥36,424 million. This performance was achieved despite decreased net sales of both the Timber and Building Materials Business and the Housing Business following the consumption tax hike, as well as increased selling, general and administrative expenses. Overall net sales and gross profit increased as the Overseas Business grew steadily amid persistently favorable housing markets in the United States and Australia. Excluding the aforementioned actuarial differences, operating income fell 0.5% to ¥34,251 million, and recurring income rose 6.1% to ¥36,681 million.

④ Net Income

Net income declined 17.6% year on year to ¥18,572 million due mainly to the absence of extraordinary factors that boosted results in fiscal 2013, such as recording about ¥2.1 billion of gain on step acquisition of the Henley Properties Group, which was converted from an equity-method affiliate to a consolidated subsidiary. In addition, the amendment of the tax treaty between Japan and New Zealand resulted in a reversal of nearly ¥2.1 billion in deferred tax liabilities in fiscal 2013. Net income per share fell ¥22.35 to ¥104.85.

Number of New Housing Starts in Japan

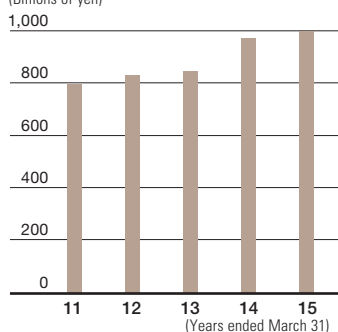
(Thousands of units)



Source: Ministry of Land, Infrastructure, Transport and Tourism

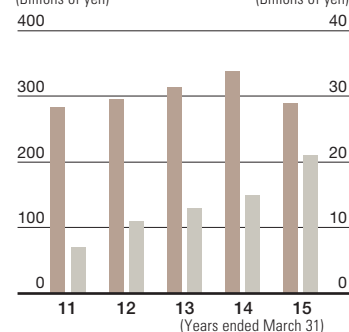
Net Sales

(Billions of yen)



Orders Received

(Billions of yen)



Segment Results

Note: Net sales for each segment include intersegment sales and transfers.
Segment income represents figures for recurring income.

1 Timber and Building Materials Business

Net sales in the Timber and Building Materials Business fell 7.8% year on year to ¥423,020 million, and recurring income declined 18.4% to ¥4,039 million.

Both net sales and recurring income declined for our domestic timber and building materials distribution business against the backdrop of weak demand due to the prolonged effects of the market recoil following the consumption tax hike, as well as rising wholesale prices.

Our efforts during fiscal 2014 were focused on cultivating new markets, in addition to promoting localized sales strategies to expand our share of the existing market. Specifically, we strengthened sales of materials in the renovation market and built a stable supply system for wood chips for biomass power generation. We also focused on expanding sales of domestic timber to other Asian countries. Deriving momentum from a weakening yen, exports of domestic timber to other Asian countries increased.

In the domestic building materials manufacturing business, we improved profitability, in part by ongoing efforts to reduce operating costs. Furthermore, we have decided to consolidate our manufacturing plants from six to four in order to concentrate and optimize management resources as we raise productivity.

2 Housing Business

Net sales in the Housing Business decreased 2.5% year-on-year to ¥453,940 million, and recurring income fell 12.1% to ¥28,302 million. Although the average unit price increased for our custom-built detached houses, the number of houses sold declined. Operating results of the Renovation Business also stagnated. As a result, both net sales and recurring income declined overall.

Custom-Built Detached Housing Business

In the Custom-Built Detached Housing Business, we worked to expand orders received for our original Big-Frame construction method, which has superior earthquake resistance and offers greater design flexibility.

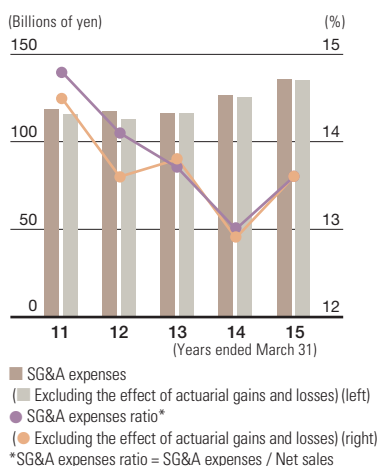
Meanwhile, we promoted marketing activities that highlighted the Company's unique characteristics. We held housing fairs in Osaka and Nagoya where visitors can get a comprehensive, hands-on look at Sumitomo Forestry houses. We also expanded the Technology Housing Display Center, which showcases our Big-Frame construction method, and the Proto-housing Display Center, which brings together various concepts related to housing design, from exteriors to floor plans. Furthermore, to differentiate ourselves from the competitors, we developed the Estate Design Project with the aim of providing residences that satisfy customers with discerning tastes for architectural design and building specifications. In Tokyo and Nagoya, we opened model houses in fiscal 2014 run by an architectural team with a wealth of experience and the ability to make sophisticated proposals. Furthermore, we continued to promote the "Fresh Perspective: Women-led Development Project" with the goal of making proposals for more comfortable and cozy living by leveraging the perspectives and ideas of women in product development and services.

On the product strategy front, we launched BF GranSQUARE as a product to embody the Estate Design Project. We also launched GRAND LIFE Stage, a single story home designed to easily expand as the owner proceeds through the different stages of life.

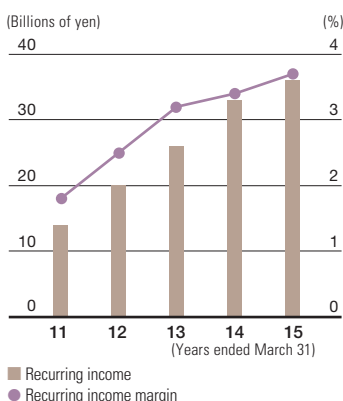
Apartment Business

In the Apartment Business, we worked to strengthen our marketing team to respond to the growing needs of property owners to optimize their assets in light of the revision of inheritance tax regulations in January 2015. We also launched the ForestMaison Plus BF rental housing design, which uses the Big-Frame construction method.

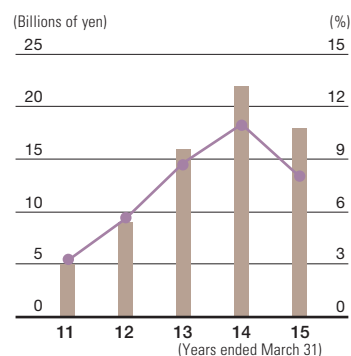
SG&A Expenses and SG&A Expenses Ratio



Recurring Income and Recurring Income Margin



Net Income and ROE



Renovation Business

In the Renovation Business, we held open houses across the country and worked to raise the profile of our renovation products and services through increased advertising. We worked to win more orders of earthquake resistant renovations, making use of such advanced technology as our original seismic-resistance, seismic-vibration damper construction. We also reinforced our marketing teams to build up orders of condominium renovations mainly in the Tokyo, Nagoya and Osaka areas.

Detached Spec Home / MOCCA (timber solutions) Business

In the Detached Spec Home Business, we focused efforts on bolstering sales capabilities. In the MOCCA (timber solutions) Business, we received orders for childcare facilities and restaurants by leveraging the skills, knowhow and logistics network cultivated in the Custom-Built Detached Housing Business. We also allocated resources for creating and expanding a market for medium- to large-scale wooden architecture.

③ Overseas Business

Net sales in the Overseas Business jumped 92.6% year on year to ¥147,024 million, and recurring income totaled ¥6,126 million, a reversal from a recurring loss of ¥149 million in the previous year.

In the Overseas Manufacturing Business, our efforts in New Zealand centered on exports to Japan, but profitability declined due to the impact of exchange rate fluctuations. In Indonesia, sales of plywood and particle board remained firm, underpinning solid operating results. In Australia, efforts to expand sales channels within the

country have stalled, leading to flat profits. In Vietnam, we endeavored to build a stable production system for particle board and were able to expand production output.

In the Overseas Housing and Real Estate Business, operating results improved steadily thanks in part to the full-year contribution of profits from the Henley Group, which became a consolidated subsidiary in September 2013 with the acquisition of an additional equity stake. Moreover, in the United States, we acquired an equity stake in the Gehan Homes Group, which operates in the states of Texas and Arizona, in May 2014, expanding our area of operations beyond Seattle, Washington. In Australia, the housing market grew steadily amid low interest rates, leading to an increase in the number of houses sold.

④ Other Businesses

In addition to the aforementioned businesses, the Sumitomo Forestry Group engages in the biomass power generation business, the management of private-pay elderly care facilities, the lease business, and the manufacture and sale of farming and gardening supplies. We also provide a wide range of service businesses primarily for residential customers, including non-life insurance agency service, and develop IT systems for each Group company.

As for our insurance agency business, we saw an increase in income from various insurance fees despite a year-on-year decrease in the number of new fire insurance policies.

Net sales for the segment as a whole dipped 4.2% year on year to ¥16,565 million, but recurring income grew 43.1% to ¥1,175 million.

Housing Business

(Years ended March 31)

		2012	2013	2014	2015
Orders					
Custom-Built Detached Housing	(¥ million)	¥295,194	¥314,240	¥339,909	¥290,203
	(units)	8,962	9,105	9,364	7,804
Apartment	(¥ million)	¥ 11,169	¥ 13,043	¥ 15,502	¥ 21,790
	(units)	986	1,138	1,140	1,486
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 47,792	¥ 53,818	¥ 61,004	¥ 55,887
Sales					
Custom-Built Detached Housing	(¥ million)	¥294,081	¥300,936	¥320,260	¥313,396
	(units)	9,007	8,999	9,243	8,743
Apartment	(¥ million)	¥ 7,899	¥ 9,371	¥ 13,130	¥ 13,569
	(units)	772	858	1,124	1,014
Detached Spec Homes	(¥ million)	¥ 9,862	¥ 11,376	¥ 9,723	¥ 10,174
	(units)	225	254	242	272
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 45,278	¥ 50,312	¥ 59,336	¥ 56,656

Segment Performance Highlights

(Years ended March 31)	Millions of yen			
	2014	2015	Change	Percent of change
Net Sales	¥972,968	¥997,256	+24,288	+2.5%
Timber and Building Materials Business	458,611	423,020	-35,591	-7.8%
Housing Business	465,368	453,940	-11,428	-2.5%
Overseas Business	76,320	147,024	+70,704	+92.6%
Other Businesses	17,286	16,565	-721	-4.2%
Adjustments	(44,617)	(43,293)	+1,324	—
Recurring Income	¥ 33,567	¥ 36,424	+2,857	+8.5%
Timber and Building Materials Business	4,950	4,039	-912	-18.4%
Housing Business	32,211	28,302	-3,909	-12.1%
Overseas Business	(149)	6,126	+6,275	—
Other Businesses	821	1,175	+354	+43.1%
Adjustments	(4,268)	(3,219)	+1,049	—

Note: Net sales include intersegment sales and transfers. Adjustments include net sales and selling, general and administrative expenses that cannot be allocated to specific businesses.

Net Sales and Recurring Income of Main Subsidiaries

(Millions of yen)

Timber and Building Materials Business

(Years ended March 31)	Net Sales		Recurring Income	
	2014	2015	2014	2015
Sumitomo Forestry Crest Co., Ltd.	¥39,932	¥37,469	¥ (856)	¥ 73

Housing Business

(Years ended March 31)	Net Sales		Recurring Income	
	2014	2015	2014	2015
Sumitomo Forestry Residential Co., Ltd.	¥20,402	¥20,377	¥ 465	¥ 642
Sumitomo Forestry Home Engineering Co., Ltd.	88,316	82,861	907	800
Sumitomo Forestry Home Service Co., Ltd.	5,873	6,089	253	267
Sumitomo Forestry Landscaping Co., Ltd.	24,315	27,946	394	1,141
Sumitomo Forestry Home Tech Co., Ltd.	62,189	59,646	4,088	2,651

Overseas Business

(Years ended December 31)	Net Sales		Recurring Income	
	2013	2014	2013	2014
Overseas Subsidiaries* ¹				
PT. Kutai Timber Indonesia (Indonesia)	¥11,872	¥13,122	¥ 582	¥ 782
Alpine MDF Industries Pty Ltd. (Australia)	4,490	4,544	6	(329)
Henley Properties Group (Australia, U.S.A.)* ²	52,633	67,671	2,634	5,762
Nelson Pine Industries Ltd. (New Zealand)	14,873	15,637	1,199	468
Gehan Homes Group (U.S.A.)* ³	—	29,241	—	3,141

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

	US\$	AU\$	NZ\$
2013/12:	97.59	94.32	80.02
2014/12:	105.88	95.38	87.78

*2 Henley Properties Group consists of Henley Arch Unit Trust, Henley Arch Pty Ltd., and seven other companies.

*3 Gehan Homes Group consists of Gehan Homes, Ltd., and eight other companies. Its fiscal 2014 results are for the eight months from May 2014, the month in which it became a consolidated subsidiary.

Financial Position and Cash Flow

1 Financial Position

At the end of March 2015, total assets were ¥665,538 million, an increase of ¥20,341 million year on year. The increase was attributable, among other things, to an increase in inventories after the acquisition of an equity stake converted the Gehan Homes Group into a consolidated subsidiary, despite a decline in cash on hand due mainly to the redemption of convertible bonds.

Liabilities fell by ¥14,363 million year on year to ¥404,756 million. This mainly resulted from the aforementioned redemption of convertible bonds and a decrease in accounts payable accompanying completed construction contracts.

Interest-bearing debt increased by ¥10,394 million year on year to ¥103,369 million despite the above-mentioned redemption of convertible bonds, due to an increase in long-term debt. Nevertheless, the interest-bearing debt ratio decreased from 29.8% at the end of the previous fiscal year to 29.6% due to rising shareholders' equity as retained earnings increased by ¥14,632 million.

Net assets totaled ¥260,782 million, and the equity ratio was 36.9%.

2 Cash Flow

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥14,709 million. This arose from factors such as income before income taxes and minority interests of ¥34,738 million, depreciation and amortization of ¥11,453 million, and a decrease in trade receivables, which together surpassed outflows from such factors as income taxes paid and a decrease in notes and accounts payable.

Cash flows from investment activities

Net cash used in investment activities totaled ¥23,575 million. This was due to the acquisition of equity interest in a North American housing business and capital expenditures.

Cash flows from financing activities

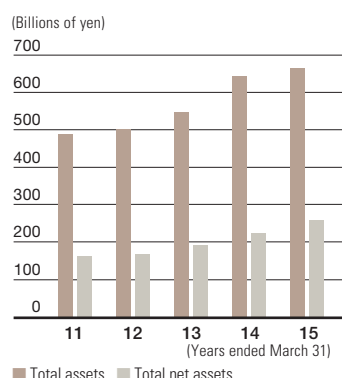
Net cash used in financing activities amounted to ¥17,286 million. This was chiefly due to the redemption of convertible bonds, payment of dividends and repayment of loans.

As a result of the above, cash and cash equivalents at March 31, 2015, stood at ¥103,296 million, a decrease of ¥25,047 million from the end of the previous fiscal year.

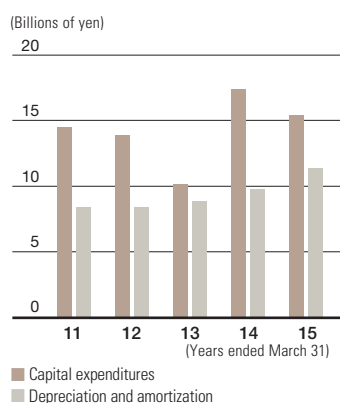
3 Capital Expenditures

Capital expenditures decreased by 11.6% from ¥17,404 million in the previous fiscal year to ¥15,388 million in the fiscal year under review. Investment in tangible fixed assets decreased 14.4% year on year to ¥12,617 million, while investment in intangible fixed assets increased 2.9% year on year to ¥2,488 million. Major investments included ¥3,788 million for housing showrooms inside and outside Japan, ¥2,829 million for construction-related expenditures at biomass power plants, ¥2,695 million for plant equipment in manufacturing businesses inside and outside Japan, and ¥3,063 million for IT investment.

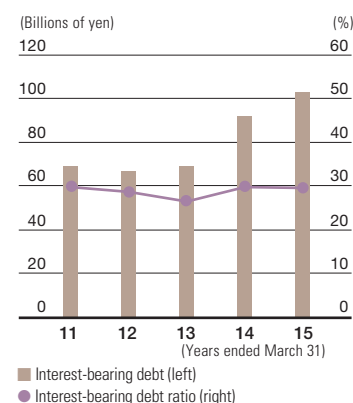
Total Assets and Total Net Assets



Capital Expenditures, Depreciation and Amortization



Interest-Bearing Debt and Interest-Bearing Debt Ratio



Business Risk

1 Housing Market Trends

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

1. Economic Cyclical Changes

An economic slump or deterioration in the economic outlook, or a consequential worsening of the employment situation and decline in personal consumption, could affect the Group's operating results and financial position by weakening demand for housing purchases.

2. Interest Rate Fluctuations

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

3. Land Price Fluctuations

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

4. Tax System and Housing-Related Policy Changes

In the future, the scheduled increase in the rate of the consumption tax has the potential to induce surge demand in housing purchases and thus temporarily increase housing demand. However, this could later invite a sharp reactive decline. Moreover, changes to housing-related policies such as tax breaks associated with housing loans and subsidy programs could affect the motivation for customers to buy housing, impacting the Group's operating results and financial position.

2 Statutory Changes

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

3 Competition

The Sumitomo Forestry Group is engaged in various businesses, including timber and building materials and housing. In each of these businesses, we must compete with other companies. For that reason, failure to gain an advantage over our competitors in terms of the quality, price, sales, etc. of our products and services could negatively impact the Group's operating results and financial position.

4 Capitalization and Investment Strategy

We invest in various businesses, so if profits and return on investment do not go as planned due to factors such as changes in the business environment or a downturn/stagnation in the performance of our investments or business partners, it could result in partial or total loss of our investment or the necessity of additional contribution of funds. Moreover, we may not be able to proceed with withdrawal from operations or restructuring according to our desired timing or methods due to factors such as the management policies of our partners or the low liquidity of the investment. In such cases there could be a negative impact on the Group's operating results and financial position.

5 Timber and Building Materials Market Conditions

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

6 Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks attendant on foreign currency-denominated imports through foreign exchange contracts and other means. However, greater than expected exchange rate fluctuations may occur. Also, there is a chance that fluctuations in the exchange rates of currencies of settlement may impact subsidiaries that sell and manufacture timber and construction materials overseas, impacting the Group's operating results and financial position.

7 Product Quality Assurance

The Group endeavors to ensure complete quality control with respect to its products, housing, and all aspects of its operations. However, serious quality issues arising from unforeseen circumstances may impact the Group's operating results and financial position.

8 Overseas Business Activities

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

9 Retirement Benefit Obligations

A significant deterioration in the investment performance of the Group's pension assets or the necessity to revise assumptions for

pension actuarial calculations could entail an increase in pension assets or increase the costs associated with pension accounts, potentially impacting the Group's operating results and financial position.

10 Stock Market

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

11 Natural Disasters

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

12 Information Security

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

13 Environmental Risk

"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 that could influence the Group's operating results and financial position.

14 Decline in the Value of Assets under Management

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

15 Provision of Credit to Business Partners

The Group extends credit to business partners in the form of trade receivables, etc., and meticulously manages the credit it extends, including by setting appropriate limits for credit losses to avoid credit risk exposure. Nevertheless, it is still possible the Group will be exposed to credit risk. The Group also sets reserves for credit losses based on rational estimates, but it is possible that the actual losses incurred will surpass the allocated reserves. As these measures do not ensure complete avoidance of exposure to credit risk, credit risk could still potentially influence the Group's operating results and financial position.

16 Litigation Risk

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

17 Fundraising Risk

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

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

Financial Section

Consolidated Balance Sheets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2014	2015
ASSETS			
Current assets:			
Cash and time deposits (Notes 7, 12, 16)	¥ 81,756	¥ 75,694	\$ 681,296
Marketable securities (Notes 5, 12, 16)	26,000	43,000	216,667
Receivables—			
Notes and accounts, trade (Notes 7, 16, 17)	124,215	132,921	1,035,126
Loans and other (Notes 7, 16)	77,325	87,774	644,378
Inventories—			
Finished goods, logs and lumber (Note 7)	26,559	26,922	221,323
Construction projects in progress (Notes 3, 7)	22,863	24,433	190,524
Real estate for sale (Note 7)	39,232	31,514	326,931
Real estate for sale in process (Notes 3, 7)	37,063	11,132	308,856
Deferred tax assets (Note 9)	7,590	8,754	63,250
Other current assets	8,616	5,435	71,803
Allowance for doubtful accounts	(998)	(724)	(8,320)
Total current assets	450,220	446,855	3,751,834
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 6, 7, 8)	27,007	26,665	225,059
Buildings and structures (Notes 7, 8)	62,856	59,845	523,796
Machinery, equipment and vehicles (Notes 7, 8)	88,588	79,803	738,230
Timberland (Note 6)	12,838	12,442	106,984
Construction in progress (Note 7)	8,628	6,917	71,902
Leased assets	10,299	9,214	85,821
	210,215	194,886	1,751,792
Less accumulated depreciation	(101,169)	(91,153)	(843,078)
Net property, plant and equipment	109,046	103,733	908,714
Intangible assets, net of amortization:			
Goodwill	5,981	3,122	49,838
Other intangible assets (Note 8)	10,306	8,570	85,880
Total intangible assets	16,286	11,692	135,718
Investments and other assets:			
Investment securities (Notes 5, 7, 16)	75,322	65,499	627,683
Long-term loans and receivables	5,491	2,663	45,761
Deferred tax assets (Note 9)	2,196	1,797	18,299
Asset for retirement benefits (Note 18)	303	68	2,521
Other assets	9,127	14,983	76,057
Allowance for doubtful accounts	(2,452)	(2,093)	(20,436)
Total investments and other assets	89,986	82,917	749,885
Total assets	¥665,538	¥645,197	\$5,546,151

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2014	2015
LIABILITIES AND NET ASSETS			
Current liabilities:			
Payables—			
Notes and accounts, trade (Notes 16, 17)	¥167,563	¥191,430	\$1,396,358
Other	12,623	8,824	105,194
Short-term debt (Note 7)	22,990	19,749	191,587
Current portion of long-term debt (Note 7)	8,350	16,685	69,582
Current portion of lease obligation (Note 7)	2,146	1,468	17,884
Advances received from customers	49,644	56,880	413,703
Accrued income taxes	4,617	8,102	38,471
Accrued employees' bonuses	9,866	10,360	82,215
Accrued directors and corporate auditors' bonuses	135	120	1,125
Other current liabilities (Notes 3, 23)	14,176	12,512	118,132
Total current liabilities	292,110	326,130	2,434,251
Long-term liabilities:			
Bonds issued (Note 7)	5,000	5,000	41,667
Bonds with subscription rights to shares (Note 7)	20,000	20,000	166,667
Long-term debt (Notes 7, 16, 17)	41,214	26,616	343,447
Long-term lease obligation (Note 7)	3,669	3,458	30,576
Deferred tax liabilities (Note 9)	12,244	10,807	102,031
Liability for retirement benefits (Note 18)	13,066	11,038	108,884
Other long-term liabilities (Notes 3, 23)	17,454	16,071	145,446
Total long-term liabilities	112,646	92,989	938,718
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 2015 and 177,410,239 shares in 2014	27,672	27,672	230,600
Capital surplus	26,872	26,872	223,930
Retained earnings	161,286	146,654	1,344,051
Treasury stock: 278,529 shares in 2015 and 276,468 shares in 2014	(275)	(272)	(2,290)
Total shareholders' equity	215,555	200,925	1,796,291
Accumulated other comprehensive income			
Unrealized gain on available-for-sale securities	22,342	14,559	186,180
Deferred gain (loss) on hedges	(124)	21	(1,029)
Translation adjustments	8,101	3,284	67,507
Retirement benefits liability adjustments	(124)	(112)	(1,030)
Total accumulated other comprehensive income	30,195	17,751	251,628
Minority interests	15,032	7,401	125,263
Total net assets	260,782	226,078	2,173,182
Total liabilities and net assets	¥665,538	¥645,197	\$5,546,151
	Yen		U.S. dollars (Note 4)
	2015	2014	2015
Per share of common stock:			
Net assets	¥1,387.39	¥1,234.53	\$11.56

See accompanying notes to consolidated financial statements.

Financial Section

Consolidated Statements of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2014	2015
Net sales	¥997,256	¥972,968	\$8,310,470
Cost of sales (Note 3):	827,764	812,806	6,898,035
Gross profit	169,492	160,162	1,412,435
Selling, general and administrative expenses (Note 11)	135,498	126,747	1,129,151
Operating income	33,994	33,415	283,284
Other income (expenses):			
Interest and dividends income	1,624	1,520	13,535
Interest expense	(1,136)	(1,127)	(9,470)
Equity in earnings (losses) of affiliates	1,021	(522)	8,510
Loss on devaluation of investment securities	(0)	(193)	(1)
Gain (Loss) on step acquisitions	(338)	2,124	(2,815)
Impairment loss (Note 8)	(1,112)	(436)	(9,269)
Gain on sales of investment securities	128	31	1,064
Special retirement payment	(536)	—	(4,467)
Other gains (losses), net (Note 10)	1,094	(183)	9,114
Total	744	1,214	6,201
Income before income taxes and minority interests	34,738	34,629	289,485
Income taxes (Note 9):			
Current	11,914	13,101	99,287
Deferred	841	(1,613)	7,012
Total	12,756	11,488	106,299
Income before minority interests	21,982	23,141	183,186
Minority interests	3,410	610	28,421
Net income	¥ 18,572	¥ 22,531	\$ 154,765
		Yen	U.S. dollars (Note 4)
	2015	2014	2015
Per share of common stock:			
Net income (Note 21)	¥104.85	¥127.20	\$0.87
Cash dividends	21.50	19.00	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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2014	2015
Income before minority interests	¥21,982	¥23,141	\$183,186
Other comprehensive income			
Unrealized gain on available-for-sale securities	7,771	2,425	64,760
Deferred gain (loss) on hedges	(144)	(228)	(1,203)
Translation adjustments	4,936	4,940	41,131
Retirement benefits liability adjustments	(63)	—	(524)
Share of other comprehensive income of affiliates accounted for by the equity method	1,293	106	10,775
Total other comprehensive income (Note 22)	13,793	7,244	114,939
Comprehensive income	35,775	30,385	298,125
Total comprehensive income attributable to:			
Shareholders of the parent company	31,016	29,667	258,469
Minority interests	4,759	718	39,656

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, 2015 and 2014

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2014	¥27,672	¥26,872	¥146,654	¥(272)	¥200,925
Cumulative effect of change in accounting principle (Note 3)			(574)		(574)
Restated balance at April 1, 2014	27,672	26,872	146,080	(272)	200,351
Changes during the period					
Cash dividends (¥19.00 per share)			(3,366)		(3,366)
Net income			18,572		18,572
Purchases of treasury stock				(3)	(3)
Disposal of treasury stock		0		0	0
Change of scope of equity method			(0)		(0)
Net changes in items other than shareholders' equity					
Total changes during the period	—	0	15,206	(2)	15,204
Balance at the end of current period	¥27,672	¥26,872	¥161,286	¥(275)	¥215,555

	Millions of yen					
	Accumulated other comprehensive income					Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	
Balance at April 1, 2014	¥14,559	¥ 21	¥3,284	¥(112)	¥17,751	¥ 7,401
Cumulative effect of change in accounting principle (Note 3)						(574)
Restated balance at April 1, 2014	14,559	21	3,284	(112)	17,751	7,401
Changes during the period						
Cash dividends (¥19.00 per share)						(3,366)
Net income						18,572
Purchases of treasury stock						(3)
Disposal of treasury stock						0
Change of scope of equity method						(0)
Net changes in items other than shareholders' equity	7,783	(144)	4,817	(11)	12,444	7,630
Total changes during the period	7,783	(144)	4,817	(11)	12,444	7,630
Balance at the end of current period	¥22,342	¥(124)	¥8,101	¥(124)	¥30,195	¥15,032

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2014	\$230,600	\$223,929	\$1,222,119	\$(2,269)	\$1,674,379
Cumulative effect of change in accounting principle (Note 3)			(4,786)		(4,786)
Restated balance at April 1, 2014	230,600	223,929	1,217,333	(2,269)	1,669,593
Changes during the period					
Cash dividends (¥19.00 per share)			(28,046)		(28,046)
Net income			154,765		154,765
Purchases of treasury stock				(22)	(22)
Disposal of treasury stock		1		1	2
Change of scope of equity method			(1)		(1)
Net changes in items other than shareholders' equity					
Total changes during the period	—	1	126,718	(21)	126,698
Balance at the end of current period	\$230,600	\$223,930	\$1,344,051	\$(2,290)	\$1,796,291

Financial Section

	Thousands of U.S. dollars						
	Accumulated other comprehensive income						
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at April 1, 2014	\$121,321	\$ 174	\$27,365	\$ (935)	\$147,924	\$ 61,677	\$1,883,980
Cumulative effect of change in accounting principle (Note 3)							(4,786)
Restated balance at April 1, 2014	121,321	174	27,365	(935)	147,924	61,677	1,879,194
Changes during the period							
Cash dividends (¥19.00 per share)							(28,046)
Net income							154,765
Purchases of treasury stock							(22)
Disposal of treasury stock							2
Change of scope of equity method							(1)
Net changes in items other than shareholders' equity	64,859	(1,203)	40,142	(95)	103,704	63,586	167,290
Total changes during the period	64,859	(1,203)	40,142	(95)	103,704	63,586	293,988
Balance at the end of current period	\$186,180	\$(1,029)	\$67,507	\$(1,030)	\$251,628	\$125,263	\$2,173,182

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2013	¥27,672	¥26,872	¥127,489	¥(269)	¥181,763
Cumulative effect of change in accounting principle (Note 3)					—
Restated balance at April 1, 2013	27,672	26,872	127,489	(269)	181,763
Changes during the period					
Cash dividends (¥19.00 per share)			(3,366)		(3,366)
Net income			22,531		22,531
Purchases of treasury stock				(3)	(3)
Disposal of treasury stock		0		0	0
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	—	0	19,165	(3)	19,162
Balance at the end of current period	¥27,672	¥26,872	¥146,654	¥(272)	¥200,925

	Millions of yen						Total net assets
	Accumulated other comprehensive income					Minority interests	
	Unrealized gain on available-for-sale securities	Deferred gain on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income		
Balance at April 1, 2013	¥12,132	¥249	¥(1,654)	¥ —	¥10,727	¥ 760	¥193,250
Cumulative effect of change in accounting principle (Note 3)							—
Restated balance at April 1, 2013	12,132	249	(1,654)	—	10,727	760	193,250
Changes during the period							
Cash dividends (¥19.00 per share)							(3,366)
Net income							22,531
Purchases of treasury stock							(3)
Disposal of treasury stock							0
Change of scope of equity method							—
Net changes in items other than shareholders' equity	2,426	(228)	4,937	(112)	7,023	6,642	13,665
Total changes during the period	2,426	(228)	4,937	(112)	7,023	6,642	32,827
Balance at the end of current period	¥14,559	¥ 21	¥ 3,284	¥(112)	¥17,751	¥7,401	¥226,078

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, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2014	2015
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 34,738	¥ 34,629	\$ 289,485
Adjustments —			
Depreciation and amortization	11,453	9,810	95,446
Impairment loss	1,112	436	9,269
Amortization of goodwill	1,957	847	16,311
Provision for (reversal of) doubtful accounts	499	(831)	4,161
Provision for loss on business liquidation	—	(1,435)	—
Net changes in defined benefit liability	469	1,082	3,905
Interest and dividends income	(1,624)	(1,520)	(13,535)
Interest expense	1,136	1,127	9,470
Equity in losses (earnings) of affiliates	(1,021)	522	(8,510)
Losses on devaluation of marketable securities and investment securities	0	193	1
Losses (gains) on sales of marketable securities and investment securities, net	(124)	(29)	(1,035)
Loss (gain) on step acquisitions	338	(2,124)	2,815
Losses (gains) on disposal of fixed assets, net	(101)	188	(841)
Loss on natural disaster	—	(60)	—
Change in assets and liabilities:			
Notes and accounts receivable, trade	9,153	(4,130)	76,278
Inventories	(7,257)	(551)	(60,477)
Other current assets	9,391	(4,948)	78,261
Notes and accounts payable, trade	(23,159)	16,631	(192,988)
Advances received from customers	(7,617)	12,478	(63,475)
Other current liabilities	(984)	763	(8,199)
Other	670	1,141	5,584
Total	29,031	64,218	241,926
Interest and dividends income received	2,205	1,945	18,375
Interest paid	(1,172)	(1,224)	(9,764)
Income taxes paid, net	(15,355)	(10,882)	(127,961)
Net cash provided by operating activities	14,709	54,057	122,576
Cash flows from investment activities:			
Payments into time deposits	(45,110)	(30,457)	(375,918)
Proceeds from withdrawal of time deposits	35,411	40,099	295,089
Decrease (increase) in short-term loans receivable	3,126	164	26,053
Payments for purchases of fixed assets	(12,075)	(14,403)	(100,626)
Proceeds from sales of fixed assets	4,783	5,379	39,860
Payments for purchases of intangible assets	(2,480)	(2,912)	(20,669)
Payments for purchases of investment securities	(997)	(9,071)	(8,305)
Proceeds from sales of investment securities	3,295	155	27,462
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(7,353)	(4)	(61,275)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(3)	—
Payments for long-term loans receivable	(2,728)	(11)	(22,738)
Repayments of long-term loans receivable	596	770	4,970
Other	(43)	(182)	(362)
Net cash used in investment activities	(23,575)	(10,476)	(196,459)
Cash flows from financing activities:			
Increase (decrease) in short-term debt	(2,352)	(3,074)	(19,603)
Payments of lease obligation	(2,198)	(1,917)	(18,316)
Proceeds from long-term debt	8,244	7,872	68,697
Repayments of long-term debt	(6,854)	(11,001)	(57,115)
Redemption of bonds	(10,000)	—	(83,333)
Proceeds from issuance of bonds with subscription rights to shares	—	20,000	—
Dividends paid	(3,366)	(3,366)	(28,046)
Dividends paid to minority shareholders	(1,035)	(241)	(8,626)
Other	275	237	2,290
Net cash provided by financing activities	(17,286)	8,511	(144,052)
Effect of exchange rate changes on cash and cash equivalents	1,105	593	9,211
Net increase (decrease) in cash and cash equivalents	(25,047)	52,685	(208,724)
Cash and cash equivalents at the beginning of the year	128,343	75,658	1,069,523
Cash and cash equivalents at the end of the year (Note 12)	¥103,296	¥128,343	\$ 860,799

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2015 and 2014

1. Nature of Operations

Sumitomo Forestry Co., Ltd. (the "Company") and its affiliated companies (together, the "Group") are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Group's operations encompass forest management as well as timber and building materials-related operations, including procurement, manufacture and sale of timber and building materials; housing-related operations, including construction, maintenance, renovation and landscaping of custom-built and other homes and sale and brokerage of real estate; operations in overseas countries, including manufacture and sale of timber and building materials, construction and sale of detached houses, afforestation and sale of plantation timber; and other businesses, including biomass power generation, private-pay elderly care facilities, 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 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, 2015, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 72 and 21 (58 and 16 in 2014), respectively.

PAN ASIA PACKING LTD. and the Gehan Homes Group, in which shares were acquired, and the newly established Hachinohe Biomass Electric Power Co., Ltd., Michinoku Bio Energy Co., Ltd., SFA Land Developments Unit Trust, SFA Land Developments Pty Ltd. and SF Holdings (Thailand) Co., Ltd. are included in the consolidated results from the fiscal year ended March 31, 2015.

Additionally, Cascadia Resort Communities LLC was an equity method affiliate in the fiscal year ended March 31, 2014, but additional share has been acquired, so it is included in the consolidated results from the fiscal year ended March 31, 2015.

Likewise, Tomakomai Biomass Power Co., Ltd., Brookhollow Mortgage Services, Ltd., Advisa Mortgage Services, Ltd. and Rainbow Alpha Holdings Limited, in which shares were acquired, and the newly established MOS Lumber Products Co., Ltd. are included as equity-method affiliates from the fiscal year ended March 31, 2015.

In addition, Partner Ally Limited was a non-equity-method affiliate in the fiscal year ended March 31, 2015, but it has grown in importance, so it is included as an equity-method affiliate from the fiscal year ended March 31, 2015.

At the same time, Cascadia Resort Communities LLC was an equity-method affiliate in the fiscal year ended March 31, 2014, but an additional share has been acquired, so it is no longer included as an equity-method affiliate from the fiscal year ended March 31, 2015.

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) Accrued employees' bonuses

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

(f) Accrued directors' and corporate auditors' bonuses

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

(g) Warranty reserve for completed construction

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

The balance of the reserves at March 31, 2015, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥2,275 million (\$18,962 thousand).

(h) Accrued employees' retirement benefits

Accrued retirement benefits and prepaid pension cost for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

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

(i) Accrued retirement benefits to directors and corporate auditors

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

The balance of these reserves at March 31, 2015, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥75 million (\$629 thousand).

(j) Marketable securities and investments

Marketable securities and investments are classified and accounted for, depending on management's intent, as follows:

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

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

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

(k) Derivatives

Derivatives are carried at fair value with changes in unrealized gain or loss charged or credited to profit or loss, except for those which meet the criteria for hedge accounting.

(l) Inventories

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

Real estate for sale, construction projects in progress and real estate for sale in process are stated at cost, which is determined by the specific identification method.

The amount on the balance sheet is calculated using a write-down method based on the decrease in profitability.

The Company recognized ¥382 million (\$3,187 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2015.

(m) Property, plant and equipment

Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance, repairs, minor renewals and improvements are charged to income. 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.

(n) Intangible assets

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

(o) Impairment of fixed assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, the amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in the consolidated statements of income. The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets.

(p) Hedge accounting

i) Hedge accounting method:

The deferred hedge accounting method is applied.

Appropriated accounting for foreign currency transactions is applied to foreign exchange hedging transactions. A special accounting treatment is used for interest rate swaps in case they satisfy the requirements for the special accounting treatment.

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

(q) Amortization method and period of goodwill

Goodwill is amortized using the straight-line method over its estimated useful life, up to a maximum of 20 years. Insignificant amounts are charged to income when incurred.

(r) 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.

(s) 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 by the completed-contract-method.

(t) 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.

(u) Consumption taxes

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

(v) 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.

(w) 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.

(x) Reclassifications

Certain accounts in the consolidated financial statements for the year ended March 31, 2014 have been reclassified to conform to presentation in 2015.

(y) Accounting Change

The Company and its domestic subsidiaries adopted Section 35 of "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26 of May 17, 2012) and the main clause of Section 67 of "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of March 26, 2015) effective from April 1, 2014. As a result, the methods for calculating the retirement benefit obligation and service cost have been revised in the following respects: the method for attributing projected benefits to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed from using a single discount rate reflecting the yields on bonds with a maturity corresponding to the average estimated years of service of the employees to using different discount rates reflecting the yields on bonds with maturities corresponding to the expected timing of the benefit payments.

The cumulative effect of changing the method for calculating the retirement benefit obligation and service cost was recognized by adjusting retained earnings at April 1, 2014, in accordance with the transitional treatment provided in Section 37 of Accounting Standard for Retirement Benefits.

As a result, the liability for retirement benefits and asset for retirement benefits increased by ¥1,393 million (\$11,604 thousand) and ¥203 million (\$1,694 thousand) respectively, retained earnings decreased by ¥574 million (\$4,786 thousand) at April 1, 2014, and consolidated operating income, ordinary income and income before income taxes and minority interests for the year ended March 31, 2015 decreased by ¥789 million (\$6,576 thousand), respectively. Also,

net assets per share at March 31, 2015 decreased by ¥7.04 (\$0.059), while basic net income per share and diluted net income per share for the year ended March 31, 2015 decreased by ¥4.45 (\$0.037) and ¥4.20 (\$0.035), respectively.

(z) Standards issued but not yet effective

(Accounting standards for business combinations)

On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10).

i) Overview

Under these revised accounting standards and guidance, the major accounting changes are as follows:

- (1) Any differences arising from changes in a parent's ownership interests in a subsidiary shall be accounted for as changes in capital surplus when the parent company retains control over the subsidiary.
In addition, "Minority interests" in the current year's consolidated balance sheet will be changed to "non-controlling interests."
- (2) Acquisition-related costs shall be accounted for as expenses when incurred.
- (3) If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report provisional amounts for the items whose accounting is incomplete in its financial statements ("provisional accounting"). Under these revised accounting standards, if accounting for a business combination is completed during the next fiscal year (the "completion period") and the consolidated financial statements for the completion period and those for the acquisition period are comparatively disclosed, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to the completed amounts and shall reflect new information on facts and circumstances that existed as of the acquisition date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.
- (4) "Income before minority interests" in the current year's consolidated statements of income will be changed to "net income" and "net income" in the current year's consolidated statements of income will be changed to "net income attributable to shareholders of the parent company."

ii) Scheduled date of adoption

The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.

iii) Impact of adopting revised accounting standards and guidance

The Company is currently evaluating the effect of adopting these revised standards and guidance on its consolidated financial statements.

(aa) Changes in presentation

"Real estate for sale in process," which was included in "Construction projects in progress" under current assets as of March 31, 2014, has increased in materiality. Accordingly, as of March 31, 2015, it is presented separately on the consolidated balance sheet. To reflect this

change in presentation, the consolidated balance sheet amounts as of March 31, 2014 have been reclassified.

As a result of the reclassification, the consolidated balance sheet amount, as of March 31, 2014, of ¥35,564 million for "Construction projects in progress" under current assets has been restated as ¥24,433 million for "Construction projects in progress" under current assets and ¥11,132 million for "Real estate for sale in process" under current assets.

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 ¥120 = US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2015. This translation should not be construed as a representation that the yen amounts actually represent, have been or could be converted into, U.S. dollars.

5. Securities

(a) The carrying amounts and estimated fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2015 and 2014 were as follows:

Millions of yen				
2015				
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥27,195	¥31,915	¥(25)	¥59,085
Debt securities	—	—	—	—
Other	¥26,000	¥ —	¥ —	¥26,000
Millions of yen				
2015				
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,808	¥74	¥(0)	¥1,883
Millions of yen				
2014				
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated Fair Value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥26,748	¥21,815	¥(76)	¥48,488
Debt securities	—	—	—	—
Other	¥43,000	¥ —	¥ —	¥43,000
Millions of yen				
2014				
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,646	¥64	¥(0)	¥1,709

Thousands of U.S. dollars			
2015			
	Acquisition cost	Unrealized gains	Unrealized losses
Securities classified as:			Carrying amounts (Estimated Fair Value)
Available-for-sale:			
Equity securities	\$226,623	\$265,959	\$(210)
Debt securities	—	—	—
Other	\$216,667	\$ —	\$ —

Thousands of U.S. dollars			
2015			
	Carrying amounts	Unrealized gains	Unrealized losses
Securities classified as:			Estimated fair value
Held-to-maturity:			
Debt securities	\$15,070	\$621	\$(1)

(b) Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in other gains (losses), net in the accompanying consolidated statements of income for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Proceeds	¥294	¥106	\$2,448
Gross gains	128	31	1,064
Gross losses	3	—	29

(c) Impairment of securities

Impairment losses on other securities were ¥0 million (\$0 thousand) and ¥193 million for the years ended March 31, 2015 and 2014, respectively.

(d) Investments in affiliates included in "Investment securities" as of March 31, 2015 and 2014 were ¥12,825 million (\$106,878 thousand) and ¥10,857 million, respectively.

6. Timberland

The investment in timberland at March 31, 2015 and 2014 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Standing timber:			
Mature timber	¥12,510	¥12,110	\$104,251
Growing timber	328	332	2,733
	12,838	12,442	106,984
Land	1,177	1,146	9,809
	¥14,015	¥13,588	\$116,793

The timberland accounts at March 31, 2015 and 2014 were reduced by ¥242 million (\$2,018 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, 2015 and 2014 generally represented short-term borrowings which bore interest of 1.47% and 1.23% per annum, respectively. Long-term debt at March 31, 2015 and 2014 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Loans, principally from banks and insurance companies, due 2015 to 2035 with interest of 1.65%:			
Secured			
Loans from banks or other	¥15,985	¥ 2,662	\$133,205
Unsecured			
Bonds issued	5,000	15,000	41,667
Bonds with subscription rights to shares	20,000	20,000	166,667
Loans from banks or other	33,579	30,639	279,824
Lease obligation	5,815	4,926	48,460
	80,379	73,226	669,823
Portion due within one year			
Bonds issued	—	10,000	—
Loans from banks or other	8,350	6,685	69,583
Lease obligation	2,146	1,468	17,884
	10,496	18,153	87,467
	¥69,883	¥55,073	\$582,356

The following assets were pledged to secure bank loans and long-term debt at March 31, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and time deposits	¥ 4,330	¥ 2,607	\$ 36,083
Receivables—			
Notes and accounts, trade	1,534	1,762	12,787
Finished goods, logs and lumber	—	1,556	—
Construction projects in progress	587	637	4,893
Real estate for sale	15,342	8,691	127,847
Real estate for sale in process	22,821	7,506	190,172
Accounts receivable—other	34	555	285
Land	3,258	3,190	27,154
Buildings and structures	3,936	4,527	32,801
Machinery, equipment and vehicles	467	1,440	3,894
Construction in progress	62	943	518
Investment securities	362	1,401	3,018
Other	1,321	950	11,008
	¥54,055	¥35,765	\$450,460

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Short-term debt	¥ 7,047	¥1,574	\$ 58,726
Long-term debt	15,851	2,397	132,089
	¥22,898	¥3,971	\$190,815

In addition to the above, certificates of deposit as security on entering into tree-planting business agreements at March 31, 2015 and 2014 were ¥12 million (\$103 thousand) and ¥11 million, investment securities as security for deferred payment of customs duties at March 31, 2015 and 2014 were ¥13,556 million (\$112,964 thousand) and ¥12,215 million, and investment securities as deposit for housing warranty were ¥1,803 million (\$15,029 thousand) and ¥1,646 million, respectively.

The aggregate annual maturities of bonds issued, long-term debt and lease obligation at March 31, 2015 were as follows:

	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
2015	¥ —	\$ —	¥ 8,350	\$ 69,582	¥2,146	\$17,884
2016	5,000	41,667	6,301	52,512	253	2,106
2017	—	—	14,376	119,803	992	8,265
2018	20,000	166,667	3,349	27,912	1,985	16,541
2019	—	—	7,559	62,990	424	3,529
Thereafter	—	—	9,628	80,230	16	135
	¥25,000	\$208,334	¥49,564	\$413,029	¥5,815	\$48,460

8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2015 and 2014 consisted of the following:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars
			2015	2015
Tobishima-mura, Ama-gun, Aichi Prefecture Imari City, Saga Prefecture	Wooden building materials manufacturing plant	Buildings and structures	¥ 852	\$7,099
		Machinery, equipment and vehicles	126	1,049
		Land	114	950
		Other	3	29
		Total	1,095	9,127
Ashigara-shimogun, Kanagawa Prefecture	Idle assets	Land	17	142
		Total	17	142
			¥1,112	\$9,269

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

The book values of the wooden building materials manufacturing plant were written down to their recoverable amounts following the decision to close the plant in line with the integration of production sites and a corresponding impairment loss was recognized for the year ended March 31, 2015. The recoverable amounts were measured at estimated net selling value. The recoverable amount of land was estimated based on real estate property appraisals, and the recoverable amounts of other assets were estimated at nil, because no future use or sale of the assets was expected.

The book values of idle assets were reduced to their recoverable amounts due to the conclusion of sales contracts, and the corresponding write-down was recognized as an impairment loss for the year ended March 31, 2015. The recoverable amounts were measured at net selling value based on the sales contracts.

Location	Major use	Asset category	Millions of yen
			2014
Sakura City, Chiba Prefecture	Culture soil producing plant	Buildings and structures	¥134
		Machinery, equipment and vehicles	12
		Other	0
		Total	147
Nagoya City, Aichi Prefecture	Backbone system	Intangible assets (software in progress)	158
		Total	158
Ashigara-shimogun, Kanagawa Prefecture	Idle assets	Land	35
		Total	35
Shiraoka City, Saitama Prefecture	Idle assets	Land	90
		Total	90
Other			6
			¥436

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 rates for the years ended March 31, 2015 and 2014 were 35.6% and 38.0%, respectively.

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

	2015	2014
Statutory tax rate	—%	38.0%
Non-deductible expense for purposes	—	0.9
Non-taxable dividend income	—	(0.6)
Per capita portion of inhabitant tax	—	0.9
Amortization of goodwill	—	0.9
Valuation allowance	—	(1.0)
Equity in losses of affiliates	—	0.6
Taxes on undistributed earnings of subsidiaries	—	(5.5)
Gain on step acquisitions	—	(2.3)
Effect of changes in corporate tax rates	—	1.3
Other	—	0.1
Effective tax rate	—%	33.2%

The reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2015 is not disclosed because such difference is less than 5% of the statutory tax rate.

The significant components of deferred tax assets and liabilities at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Allowance for doubtful accounts	¥ 722	¥ 335	\$ 6,020
Accrued employees' bonuses	3,155	3,684	26,288
Accrued legal welfare expense on employees' bonuses	435	496	3,623
Enterprise taxes	383	600	3,188
Devaluation of real estate for sale	617	1,069	5,143
Liability for retirement benefits	4,067	3,746	33,891
Devaluation of property	855	1,284	7,122
Devaluation of financial instruments	1,910	2,100	15,917
Tax loss carryforwards	2,391	2,977	19,927
Impairment loss	1,151	1,261	9,594
Warranty reserve for completed construction	549	599	4,577
Unrealized profit on fixed assets	423	499	3,527
Other	4,438	4,350	36,985
Gross deferred tax assets	21,096	23,001	175,802
Valuation allowance	(8,105)	(9,435)	(67,540)
Total deferred tax assets	¥12,991	¥13,566	\$108,262

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax liabilities:			
Deferred gains on sales of property	¥ (799)	¥ (799)	\$ (6,662)
Gain on securities contributed to employee retirement benefit trusts	(1,286)	(1,417)	(10,715)
Unrealized gain on available-for-sale securities	(9,359)	(6,980)	(77,989)
Land revaluation differences	(1,017)	(1,156)	(8,474)
Taxes on undistributed earnings of subsidiaries	(245)	(518)	(2,045)
Other	(2,743)	(2,950)	(22,859)
Gross deferred tax liabilities	(15,449)	(13,821)	(128,744)
Net deferred tax assets (liabilities)	¥ (2,458)	¥ (255)	\$ (20,482)

Net deferred tax assets were included in the consolidated balance sheets at March 31, 2015 and 2014 as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Current assets—			
Deferred tax assets	¥ 7,590	¥ 8,754	\$ 63,250
Investment and other assets—			
Deferred tax assets	2,196	1,797	18,299
Current liabilities—Other	—	—	—
Long-term liabilities—			
Deferred tax liabilities	(12,244)	(10,807)	(102,031)
Net deferred tax assets (liabilities)	¥ (2,458)	¥ (255)	\$ (20,482)

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated on March 31, 2015. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 35.6% to 33.1% for the temporary differences expected to be realized or settled in the year beginning April 1, 2015 and 32.3% for the temporary differences expected to be realized or settled from April 1, 2016. The effect of the announced reduction of the effective statutory tax rate was to increase deferred tax assets after offsetting deferred tax liabilities by ¥497 million (\$4,142 thousand), deferred income taxes by ¥442 million (\$3,680 thousand) and unrealized gain on available-for-sale securities by ¥945 million (\$7,873 thousand) and decrease deferred gain (loss) on hedges by ¥6 million (\$51 thousand) as of and for the year ended March 31, 2015.

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Gain on foreign exchange	¥ 301	¥ —	\$2,506
Loss on foreign exchange	—	(240)	—
Gain on sales of property, plant and equipment	293	99	2,442
Loss on sales of property, plant and equipment	(15)	(26)	(123)
Loss on disposal of property, plant and equipment	(177)	(261)	(1,478)
Loss on liquidation of subsidiaries and affiliates	—	(275)	—
Gain on bargain purchase	70	—	587
Other, net	621	520	5,180
	¥1,094	¥(183)	\$9,114

11. Selling, General and Administrative Expenses

The components of "Selling, General and Administrative Expenses" for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Salaries and allowances	¥44,015	¥40,714	\$366,795
Provision for employees' bonuses	8,273	9,092	68,939
Provision for directors' and corporate auditors' bonuses	135	120	1,125
Retirement benefit expenses	2,453	3,067	20,443
Provision for directors' and corporate auditors' retirement benefits	16	8	137
Allowance for doubtful accounts	818	(115)	6,815
Provision for warranty reserve for completed construction	1,324	1,247	11,035
Reversal of provision for loss on business liquidation	—	(210)	—

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2015 and 2014 were ¥1,561 million (\$13,010 thousand) and ¥1,551 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and time deposits	¥ 81,756	¥ 75,694	\$681,296
Short-term investments	26,000	43,000	216,667
Cash equivalents included in short-term loans receivable	29,993	28,997	249,945
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(34,453)	(19,348)	(287,109)
Cash and cash equivalents	¥103,296	¥128,343	\$860,799

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net expenditure for acquisition of shares for the year ended March 31, 2015 were mainly as follows:

Gehan Homes, Ltd. and six other companies

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Current assets	¥19,640	\$163,669
Non-current assets	2,108	17,566
Goodwill	4,080	34,004
Current liabilities	(9,609)	(80,077)
Long-term liabilities	(4,732)	(39,432)
Minority interests	(3,629)	(30,246)
Acquisition cost	7,858	65,484
Cash and cash equivalents	(712)	(5,932)
Net expenditure for acquisition of shares	¥ 7,146	\$ 59,552

Cascadia Resort Communities LLC

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Current assets	¥558	\$4,650
Non-current assets	—	—
Goodwill	4	34
Current liabilities	(341)	(2,843)
Long-term liabilities	—	—
Translation adjustments	69	573
Loss on step acquisitions	338	2,815
Previously held equity interest before obtaining control	(483)	(4,022)
Acquisition cost	145	1,207
Cash and cash equivalents	—	—
Net expenditure for acquisition of shares	¥145	\$1,207

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net expenditure for acquisition of shares for the fiscal year ended March 31, 2014 were as follows:

Henley Arch Unit Trust and eight subsidiary companies

	Millions of yen
	2014
Current assets	¥18,138
Non-current assets	8,866
Goodwill	2,986
Current liabilities	(15,292)
Long-term liabilities	(5)
Minority interests	(5,838)
Translation adjustments	261
Gain on step acquisitions	(2,124)
Previously held equity interest before obtaining control	(6,825)
Acquisition cost	166
Cash and cash equivalents	(162)
Net expenditure for acquisition of shares	¥ 4

Assets and liabilities of subsidiary at the time it was excluded from the scope of consolidation, related sales price of shares and net expenditure for sale of shares for the fiscal year ended March 31, 2014 were as follows:

Fuxin Sumirin Wood Products Co., Ltd.

	Millions of yen
	2014
Current assets	¥205
Non-current assets	0
Current liabilities	(0)
Long-term liabilities	—
Translation adjustments	414
Net losses on sale of shares	(619)
Sales price of shares	—
Cash and cash equivalents	(3)
Net expenditure for sale of shares	¥ (3)

13. Shareholders' Equity

The Japanese Corporate Law ("the Law") enforced on May 1, 2006 provides that an amount equivalent to 10% of cash dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends. Legal reserve and additional paid-in capital may be reversed without limitation and no further appropriation is required when the sum of legal reserve and additional paid-in capital equals 25% of the common stock.

The Law also provides that the common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of shareholders.

The balances of the legal reserve of the Company at March 31, 2015 and 2014, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$23,809 thousand) and ¥2,857 million, respectively.

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

14. Finance Leases

(Lessee)

Depreciation costs of finance lease transactions that do not transfer ownership are calculated based on the straight-line method over the lease periods of the leased assets, with no residual value of the assets at the end of the lease periods.

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

15. Contingent Liabilities

Contingent liabilities as at March 31, 2015 and 2014, for loans guaranteed amounted to ¥31,526 million (\$262,713 thousand) and ¥34,960 million.

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Guarantee on loans from financial institutions			
Kawasaki Biomass Electric Power Co., Ltd.	¥ 1,227	¥ 1,582	\$ 10,222
Cascadia Resort Communities LLC	—	53	—
Guarantees of housing loans to customers	30,172	33,186	251,433
Guarantee on rent payment			
Sumikyo Co. Ltd.	127	139	1,058
Total	¥31,526	¥34,960	\$262,713

16. Financial Instruments

(a) Policy for financial instruments

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

(b) Details of financial instruments and related risk

Trade receivables are exposed to customer's credit risk. Short-term investments securities are negotiable deposit certificates subject to settlement in the short term. Investment securities are mainly bonds for held-to-maturity and equities of customers and suppliers of the Companies and those are exposed to market price fluctuation risk. Almost all of trade payables have payment due dates within one year. Loans and bonds are mainly used for operating capital expenses and capital investment. Although loans with floating rate interest are exposed to market risk of interest rate fluctuation, the Companies use derivative transaction (interest rate swap) for hedging about a part. 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 payments for loans.

(c) Risk management for financial instruments

(Credit risk management)

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

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

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

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

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

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

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

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

(e) Fair value of financial instruments

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

	Millions of yen		
	2015		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and time deposits	¥ 81,756	¥ 81,756	¥ —
Receivables—notes and accounts, trade	118,156	118,156	—
Marketable securities and investment securities			
Held-to-maturity	1,808	1,883	74
Available-for-sale	85,085	85,085	—
Receivables—loans and other	44,619	44,619	—
Total	¥331,423	¥331,497	¥ 74
Payables—notes and accounts, trade	¥167,563	¥167,563	¥ —
Long-term debt**	¥ 49,564	¥ 49,663	¥(100)
Total	¥217,126	¥217,226	¥(100)
Derivatives*			
Hedge accounting not applied	¥ 171	¥ 171	¥ —
Hedge accounting applied	(252)	(252)	—
Total	¥ (81)	¥ (81)	¥ —

	Millions of yen		
	2014		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and time deposits	¥ 75,694	¥ 75,694	¥ —
Receivables—notes and accounts, trade	128,580	128,580	—
Marketable securities and investment securities			
Held-to-maturity	1,646	1,709	63
Available-for-sale	91,488	91,488	—
Receivables—loans and other	87,651	87,651	—
Total	¥385,058	¥385,122	¥ 63
Payables—notes and accounts, trade	¥191,430	¥191,430	¥ —
Total	¥191,430	¥191,430	¥ —
Derivatives*			
Hedge accounting not applied	¥ 248	¥ 248	¥ —
Hedge accounting applied	33	(26)	(59)
Total	¥ 281	¥ 222	¥(59)

Financial Section

	Thousands of U.S. dollars		
	2015		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and time deposits	\$ 681,296	\$ 681,296	\$ —
Receivables—notes and accounts, trade	984,632	984,632	—
Marketable securities and investment securities			
Held-to-maturity	15,070	15,690	620
Available-for-sale	709,039	709,039	—
Receivables—loans and other	371,822	371,822	—
Total	\$2,761,859	\$2,762,479	\$ 620
Payables—notes and accounts, trade	\$1,396,358	\$1,396,358	\$ —
Long-term debt**	\$ 413,029	\$ 413,862	\$(833)
Total	\$1,809,387	\$1,810,220	\$(833)
Derivatives*			
Hedge accounting not applied	\$ 1,425	\$ 1,425	\$ —
Hedge accounting applied	(2,103)	(2,103)	—
Total	\$ (678)	\$ (678)	\$ —

* Assets and liabilities from derivatives transactions are shown in the net amount. If the total is negative, the amount is shown in brackets.

** Long-term debt includes the current portion.

Notes:

1. Method of estimating the fair values of financial instruments and items relating to securities and derivative transactions.

(1) Assets

(Cash and time deposits, Receivables—notes and accounts, trade, Receivables—loans and other)

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

(Marketable securities and Investment securities)

The fair values of equity securities are based on market prices. The fair values of debt securities are based on market prices or quoted prices obtained from financial institutions. For negotiable deposit certificates, the book value is almost the same as the market value because of their short maturities.

(2) Liabilities

(Payables—notes and accounts, trade)

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

(Long-term debt)

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

(3) Derivative transactions

See Note 17.

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

	Carrying amount		
	Millions of yen	Thousands of U.S. dollars	
	2015	2014	2015
Unlisted equity securities	¥ 1,603	¥ 1,508	\$ 13,362
Preferred stock	—	3,000	—
Investment in affiliates	12,825	10,857	106,878

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

	Millions of yen			
	2015			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	¥ 81,446	¥ —	¥ —	¥ —
Receivables—notes and accounts, trade	118,156	—	—	—
Marketable securities and Investment securities				
Government bonds	114	299	1,396	—
Other	26,000	—	—	—
Receivables—loans and other	44,619	—	—	—
Total	¥270,334	¥299	¥1,396	¥—

	Millions of yen			
	2014			
	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	¥ 75,394	¥ —	¥ —	¥ —
Receivables—notes and accounts, trade	128,580	—	—	—
Marketable securities and Investment securities				
Government bonds	—	121	1,525	—
Other	43,000	—	—	—
Receivables—loans and other	87,651	—	—	—
Total	¥334,625	¥121	¥1,525	¥—

	Thousands of U.S. dollars			
	2015			
	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	\$ 678,720	\$ —	\$ —	\$ —
Receivables—notes and accounts, trade	984,632	—	—	—
Marketable securities and Investment securities				
Government bonds	946	2,494	11,630	—
Other	216,667	—	—	—
Receivables—loans and other	371,822	—	—	—
Total	\$2,252,787	\$2,494	\$11,630	\$—

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2015

	Millions of yen			
	2015			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥ 1,368	¥ —	¥108	¥108
Sell (U.S. dollar)	17,855	—	(75)	(75)
Sell (Australian dollar)	3,693	—	189	189
Sell (Chinese yuan)	239	—	(50)	(50)
Buy (NZ dollar)	4,258	—	150	150
Buy (U.S. dollar)	42	—	1	1
Currency swap contracts:				
Yen receipt, U.S. dollar payment	1,020	637	(165)	(165)
Total	¥28,476	¥ 637	¥159	¥159
Interest rate swaps:				
Receive floating pay fixed	1,736	1,230	12	12
Total	¥ 1,736	¥1,230	¥ 12	¥ 12

	Thousands of U.S. dollars			
	2015			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	\$ 11,404	\$ —	\$ 898	\$ 898
Sell (U.S. dollar)	148,793	—	(624)	(624)
Sell (Australian dollar)	30,775	—	1,578	1,578
Sell (Chinese yuan)	1,995	—	(420)	(420)
Buy (NZ dollar)	35,485	—	1,250	1,250
Buy (U.S. dollar)	353	—	12	12
Currency swap contracts:				
Yen receipt, U.S. dollar payment	8,498	5,311	(1,373)	(1,373)
Total	\$237,303	\$ 5,311	\$1,321	\$1,321
Interest rate swaps:				
Receive floating pay fixed	14,466	10,247	103	103
Total	\$ 14,466	\$10,247	\$ 103	\$ 103

Derivative transactions to which hedge accounting is applied at March 31, 2015

	Hedged item	Millions of yen		
		2015		
		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	¥ 4,099	¥ —	¥ (4)
Sell (Euro)		2,099	—	14
Sell (NZ dollar)		2,718	—	(70)
Buy (U.S. dollar)	Accounts amount payable	10,630	—	122
Buy (Euro)		6,010	—	(315)
Appropriated accounting for foreign currency				
Sell (U.S. dollar)	Accounts amount receivable	146	—	*
Buy (U.S. dollar)	Accounts amount payable	965	—	*
Buy (Euro)		178	—	*
Total		¥26,848	¥ —	¥(252)
Interest rate swaps:				
Accounted for by exceptional method				
Receive floating pay fixed	Long-term bank loans	15,814	3,324	*
Total		¥15,814	¥ —	¥ —

	Hedged item	Thousands of U.S. dollars		
		2015		
		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	\$ 34,161	\$ —	\$ (31)
Sell (Euro)		17,491	—	116
Sell (NZ dollar)		22,654	—	(583)
Buy (U.S. dollar)	Accounts amount payable	88,587	—	1,016
Buy (Euro)		50,087	—	(2,621)
Appropriated accounting for foreign currency				
Sell (U.S. dollar)	Accounts amount receivable	1,220	—	*
Buy (U.S. dollar)	Accounts amount payable	8,044	—	*
Buy (Euro)		1,487	—	*
Total		\$223,731	\$ —	\$(2,103)
Interest rate swaps:				
Accounted for by exceptional method				
Receive floating pay fixed	Long-term bank loans	131,785	27,704	*
Total		\$131,785	\$27,704	\$ —

* 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 receivable, accounts payable or long-term bank loans, the fair values of these derivatives are included in those of the hedged items.

Derivative transactions to which hedge accounting is not applied at March 31, 2014

	Millions of yen			
	2014			
	Contract notional amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,200	¥ —	¥152	¥152
Buy (NZ dollar)	3,528	—	72	72
Buy (U.S. dollar)	47	—	1	1
Total	¥4,775	¥ —	¥225	¥225
Interest rate swaps:				
Receive floating pay fixed	1,518	1,296	22	22
Total	¥1,518	¥1,296	¥ 22	¥ 22

Derivative transactions to which hedge accounting is applied at March 31, 2014

	Hedged item	Millions of yen		
		2014		
		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	¥ 4,503	¥—	¥(43)
Sell (Euro)		2,723	—	(11)
Buy (U.S. dollar)	Accounts amount payable	10,773	—	65
Buy (Euro)		4,760	—	21
Appropriated accounting for foreign currency				
Buy (U.S. dollar)	Accounts amount payable	856	—	*
Buy (Euro)		146	—	*
Total		¥23,761	¥—	¥33
Interest rate swaps:				
Accounted for by exceptional method				
Receive floating pay fixed	Long-term bank loans	13,573	2,911	(59)
Total		¥13,573	¥2,911	¥(59)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

18. Employees' Retirement Benefits and Pension Plans

The Company and most of its consolidated subsidiaries have either funded or unfunded defined benefit plans and/or defined contribution plans. Certain domestic consolidated subsidiaries have a Smaller Enterprise Retirement Allowance Mutual Aid Plan.

The Company and its consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans, annuity payment plans, the amounts

of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities.

In certain cases, special retirement benefits may be paid to employees.

The changes in the retirement benefit obligation for the years ended March 31, 2015 and 2014 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at the beginning of the year	¥58,213	¥54,676	\$485,105
Cumulative effect of change in accounting principle	1,189	—	9,910
Restated balance at the beginning of the year	59,402	54,676	495,015
Service cost	2,822	2,771	23,518
Interest cost	960	893	7,998
Actuarial gain and loss	2,365	1,494	19,710
Retirement benefits paid	(1,744)	(1,630)	(14,535)
Prior service cost	(0)	8	(4)
Other	75	0	625
Balance at the end of the year	¥63,879	¥58,213	\$532,327

The changes in plan assets for the years ended March 31, 2015 and 2014 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at the beginning of the year	¥48,024	¥45,695	\$400,201
Expected return on plan assets	1,153	1,188	9,605
Actuarial gain and loss	2,036	323	16,968
Contributions	2,204	2,199	18,369
Retirement benefits paid	(1,500)	(1,381)	(12,497)
Balance at the end of the year	¥51,918	¥48,024	\$432,646

The changes in the liability for retirement benefits, which were calculated by the simplified method for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at the beginning of the year	¥782	¥698	\$6,515
Retirement benefit expense	169	162	1,410
Retirement benefits paid	(109)	(47)	(907)
Contributions	(54)	(56)	(454)
Other	14	24	118
Balance at the end of the year	¥802	¥782	\$6,682

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2015 and 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Funded retirement benefit obligation	¥60,974	¥55,801	\$508,117
Plan assets at fair value	(52,443)	(48,475)	(437,025)
	8,531	7,326	71,092
Unfunded retirement benefit obligation	4,233	3,644	35,271
Net liability for retirement benefits in the balance sheet	12,764	10,970	106,363
Liability for retirement benefits	13,066	11,038	108,884
Asset for retirement benefits	(303)	(68)	(2,521)
Net liability for retirement benefits in the balance sheet	¥12,764	¥10,970	\$106,363

The components of retirement benefit expense for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	¥2,822	¥2,771	\$23,518
Interest cost	960	893	7,998
Expected return on plan assets	(1,153)	(1,188)	(9,605)
Amortization of actuarial gain and loss	264	1,029	2,198
Amortization of prior service cost	2	2	19
Retirement benefit expense under the simplified method	169	162	1,410
Other	(1)	9	(6)
Retirement benefit expense	¥3,064	¥3,678	\$25,532

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Actuarial gain and loss	¥86	¥—	\$714
Prior service cost	(2)	—	(15)
Total	¥84	¥—	\$699

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized actuarial gain and loss	¥226	¥141	\$1,884
Unrecognized prior service cost	4	6	37
Total	¥231	¥147	\$1,921

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2014 were as follows:

	2015	2014
Bonds	56%	62%
Stocks	25%	23%
General account	12%	13%
Other	7%	2%
Total	100%	100%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	2015	2014
Discount rates	0.034%-1.587%	1.5%
Expected rates of return plan assets	2.4%	2.6%
Expected rate of salary increase (point based plan)	5.5%	5.5%

Contributions to defined contribution retirement benefit plans were ¥735 million (\$6,127 thousand) and ¥691 million for the years ended March 31, 2015 and 2014, respectively.

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, 2015 and 2014 were ¥595 million (\$4,962 thousand) and ¥469 million, respectively. The income is recognized in net sales and the expense is principally charged to cost of sales. The amounts recognized in the consolidated balance sheets and fair values related to investment properties were as follows:

Millions of yen		Thousands of U.S. dollars	
Carrying amount	Fair value	Carrying amount	Fair value
2014	Increase/(Decrease)	2015	2015
2014		2015	2015
¥8,683	¥(43)	¥8,639	¥8,392
		\$71,993	\$69,932

The main components of net change in carrying amount above included an increase of ¥27 million (\$225 thousand) due to acquisitions of real estate and a decrease of ¥23 million (\$192 thousand) due to sales of real estate and a decrease of ¥17 million (\$142 thousand) due to impairment loss for the year ended March 31, 2015.

20. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance. The Group's operations are based on the comprehensive strategies for products and services planned by each division. Accordingly, the Company is classified into three segments (Timber and Building Materials, Housing, and Overseas) based on division and identified by products, services and geographical areas:

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

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

Overseas: manufacture and sale of timber and building materials, construction and sale of detached houses, etc., afforestation business, sale of plantation timber, etc. in overseas markets

Other: biomass power generation business, private-pay elderly care facilities business, leasing business, insurance agency business and farming and gardening material manufacturing and sales business and other

Millions of yen								
As of / Year Ended March 31, 2015	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥401,631	¥453,352	¥133,919	¥ 988,903	¥ 7,298	¥ 996,201	¥ 1,056	¥997,256
Inter-segment transfers	21,389	588	13,105	35,082	9,267	44,349	(44,349)	—
Total	423,020	453,940	147,024	1,023,985	16,565	1,040,549	(43,293)	997,256
Segment income (loss)	4,039	28,302	6,126	38,467	1,175	39,643	(3,219)	36,424
Segment assets	147,990	141,197	149,854	439,042	27,494	466,536	199,002	665,538
Other items								
Depreciation and amortization	¥ 730	¥ 4,530	¥ 4,203	¥ 9,463	¥ 1,158	¥ 10,622	¥ 832	¥ 11,453
Amortization of goodwill	—	8	1,950	1,957	—	1,957	—	1,957
Interest income	33	51	168	252	1	252	163	415
Interest expense	526	551	1,188	2,265	123	2,388	(1,252)	1,136
Equity in earnings (losses) of affiliates	(179)	0	1,112	933	88	1,021	0	1,021
Investments in affiliates	1,240	6	8,834	10,079	565	10,644	(10)	10,634
Increase in tangible and intangible fixed assets	¥ 974	¥ 4,855	¥ 3,912	¥ 9,741	¥ 4,125	¥ 13,866	¥ 1,522	¥ 15,388

- Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,056 million (\$8,799 thousand) of administration department profit.
 2. Adjustments for segment income and loss include ¥162 million (\$1,347 thousand) of elimination of inter-segment income and loss, ¥257 million (\$2,143 thousand) of retirement benefits liability adjustments, and ¥2,800 million (\$23,333 thousand) of corporate general administration expense, which are not allocable to the reportable segments.
 3. Adjustments for segment assets include ¥10,073 million (\$83,941 thousand) of inter-segment eliminations, ¥209,075 million (\$1,742,292 thousand) of corporate asset, which are not allocable to the reportable assets.

	Millions of yen							
As of / Year Ended March 31, 2014	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥437,727	¥464,777	¥ 61,926	¥ 964,430	¥ 7,676	¥ 972,106	¥ 862	¥972,968
Inter-segment transfers	20,884	591	14,395	35,869	9,610	45,479	(45,479)	—
Total	458,611	465,368	76,320	1,000,299	17,286	1,017,585	(44,617)	972,968
Segment income (loss)	4,950	32,211	(149)	37,013	821	37,835	(4,268)	33,567
Segment assets	164,324	146,267	101,408	412,000	24,303	436,302	208,895	645,197
Other items								
Depreciation and amortization	¥ 670	¥ 4,244	¥ 3,073	¥ 7,986	¥ 981	¥ 8,967	¥ 842	¥ 9,810
Amortization of goodwill	(0)	8	836	844	3	847	—	847
Interest income	50	55	201	305	1	306	141	448
Interest expense	574	612	952	2,138	100	2,237	(1,110)	1,127
Equity in earnings (losses) of affiliates	(188)	0	(409)	(597)	75	(522)	0	(522)
Investments in affiliates	1,328	5	7,138	8,472	393	8,865	(10)	8,855
Increase in tangible and intangible fixed assets	¥ 924	¥ 4,991	¥ 5,012	¥ 10,927	¥ 5,238	¥ 16,165	¥ 1,239	¥ 17,404

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥862 million of administration department profit.
2. Adjustments for segment income and loss include ¥211 million of elimination of inter-segment income and loss, ¥1,020 million of retirement benefits liability adjustments, and ¥3,459 million of corporate general administration expense, which are not allocable to the reportable segments.
3. Adjustments for segment assets include ¥10,351 million of inter-segment eliminations, ¥219,246 million of corporate assets, which are not allocable to the reportable assets.

	Thousands of U.S. dollars							
As of / Year Ended March 31, 2015	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	\$3,346,929	\$3,777,935	\$1,115,992	\$8,240,856	\$ 60,815	\$8,301,671	\$ 8,799	\$8,310,470
Inter-segment transfers	178,239	4,900	109,209	292,348	77,224	369,572	(369,572)	—
Total	3,525,168	3,782,835	1,225,201	8,533,204	138,039	8,671,243	(360,773)	8,310,470
Segment income (loss)	33,657	235,853	51,051	320,561	9,795	330,356	(26,823)	303,533
Segment assets	1,233,249	1,176,646	1,248,787	3,658,682	229,118	3,887,800	1,658,351	5,546,151
Other items								
Depreciation and amortization	\$ 6,086	\$ 37,750	\$ 35,024	\$ 78,860	\$ 9,654	\$ 88,514	\$ 6,932	\$ 95,446
Amortization of goodwill	—	65	16,246	16,311	—	16,311	—	16,311
Interest income	275	424	1,399	2,098	6	2,104	1,356	3,460
Interest expense	4,382	4,595	9,898	18,875	1,029	19,904	(10,434)	9,470
Equity in earnings (losses) of affiliates	(1,495)	0	9,270	7,775	732	8,507	3	8,510
Investments in affiliates	10,333	47	73,614	83,994	4,709	88,703	(85)	88,618
Increase in tangible and intangible fixed assets	\$ 8,117	\$ 40,459	\$ 32,599	\$ 81,175	\$ 34,374	\$ 115,549	\$ 12,685	\$ 128,234

(Related information)

(1) Products and services information

	Millions of yen			
Year Ended March 31, 2015	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥438,722	¥552,991	¥5,544	¥997,256
	Millions of yen			
Year Ended March 31, 2014	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥467,841	¥499,215	¥5,912	¥972,968
	Thousands of U.S. dollars			
Year Ended March 31, 2015	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$3,656,017	\$4,608,256	\$46,197	\$8,310,470

Financial Section

(2) Geographic area information

Sales information by geographic area was as follows:

Year Ended March 31, 2015	Millions of yen		
	Japan	Other Area	Total
	¥861,552	¥135,705	¥997,256
Year Ended March 31, 2015	Thousands of U.S. dollars		
	Japan	Other Area	Total
	\$7,179,598	\$1,130,872	\$8,310,470

Sales information by geographic area for the year ended March 31, 2014 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 was as follows:

As of March 31, 2015	Millions of yen				
	Japan	Oceania	Asia	Other	Total
	¥64,382	¥26,963	¥14,438	¥3,262	¥109,046
As of March 31, 2014	Millions of yen				
	Japan	Oceania	Asia	Other	Total
	¥61,864	¥26,471	¥13,208	¥2,190	¥103,733
As of March 31, 2015	Thousands of U.S. dollars				
	Japan	Oceania	Asia	Other	Total
	\$536,519	\$224,693	\$120,319	\$27,183	\$908,714

(3) Customer information

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

(Information of loss on impairment of fixed assets)

Year Ended March 31, 2015	Millions of yen					
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥1,095	¥17	¥—	¥—	¥—	¥1,112
Year Ended March 31, 2014	Millions of yen					
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥158	¥131	¥—	¥147	¥—	¥436
Year Ended March 31, 2015	Thousands of U.S. dollars					
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	\$9,127	\$142	\$—	\$—	\$—	\$9,269

(Amortization and balance of goodwill)

As of / Year Ended March 31, 2015	Millions of yen					
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥—	¥8	¥1,950	¥—	¥—	¥1,957
Balance of goodwill	—	6	5,975	—	—	5,981
As of / Year Ended March 31, 2014	Millions of yen					
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥ (0)	¥ 8	¥ 836	¥ 3	¥—	¥ 847
Balance of goodwill	—	13	3,108	—	—	3,122
As of / Year Ended March 31, 2015	Thousands of U.S. dollars					
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	Total
Amortization of goodwill	\$—	\$65	\$16,246	\$—	\$—	\$16,311
Balance of goodwill	—	47	49,791	—	—	49,838

(Gain on bargain purchase)

In Timber and Building Materials segment, the Company has newly consolidated PAN ASIA PACKING LTD. for the year ended March 31, 2015. As a result, the Company recognized ¥70 million (\$587 thousand) as gain on bargain purchase.

21. Amounts per Share

(a) Basic and diluted net income per share

Details on the computation of net income per share and net income per share fully diluted as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net income per share:			
Net income	¥ 18,572	¥ 22,531	\$154,765
Income not available to common stockholders	—	—	—
Income available to common stockholders	18,572	22,531	154,765
Weighted average number of shares issued	177,132,685	177,134,880	—
Net income per share fully diluted			
Adjusted net income	—	—	—
Common shares increase	10,706,638	7,303,981	—
(Convertible bonds with stock acquisition rights)	(10,706,638)	(7,303,981)	—

(b) Net assets per share

Details on the computation of net assets per share as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net assets per share:			
Total net assets	¥ 260,782	¥ 226,078	\$2,173,182
Amounts deducted from total net assets	15,032	7,401	125,263
Minority interests	15,032	7,401	125,263
Net assets attributable to shares of common stock	245,750	218,676	2,047,919
The number of shares of common stock used for the calculation of net assets per share	177,131,710	177,133,771	—

22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrealized gain on available-for-sale securities			
Amount incurred during the year	¥10,278	¥3,751	\$ 85,649
Reclassification adjustments for gains and losses included in net income	(128)	185	(1,064)
Amount before tax effect	10,150	3,937	84,585
Tax effect	(2,379)	(1,511)	(19,825)
Unrealized gain on available-for-sale securities	7,771	2,425	64,760
Deferred gain (loss) on hedges			
Amount incurred during the year	(250)	(373)	(2,081)
Reclassification adjustments for gains and losses included in net income	11	2	93
Amount before tax effect	(239)	(371)	(1,988)
Tax effect	94	143	785
Deferred gain (loss) on hedges	(144)	(228)	(1,203)
Translation adjustments			
Amount incurred during the year	4,936	4,526	41,131
Reclassification adjustments for gains and losses included in net income	—	414	—
Amount before tax effect	4,936	4,940	41,131
Tax effect	—	—	—
Translation adjustments	4,936	4,940	41,131
Retirement benefits liability adjustments			
Amount incurred during the year	(93)	—	(773)
Reclassification adjustments for gains and losses included in net income	9	—	74
Amount before tax effect	(84)	—	(699)
Tax effect	21	—	175
Retirement benefits liability adjustments	(63)	—	(524)
Share of other comprehensive income of affiliates accounted for by the equity method			
Amount incurred during the year	1,046	767	8,715
Reclassification adjustments for gains and losses included in net income	247	(660)	2,060
Share of other comprehensive income of affiliated companies accounted for by the equity method	1,293	106	10,775
Total other comprehensive income	¥13,793	¥7,244	\$114,939

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 0.03% to 2.15% and the anticipated future useful lives ranging from 5 years to 29 years.

The changes in the asset retirement obligations for the years ended March 31, 2015 and 2014 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at beginning of the year	¥1,433	¥1,382	\$11,943
Liability incurred for assets acquired	122	130	1,018
Accretion expense	10	11	87
Liabilities settled	(165)	(137)	(1,374)
Other increases (decreases)	42	47	346
Balance at end of the year	¥1,443	¥1,433	\$12,020

24. Related Party Transactions

Principal transactions between the Company, the Company's consolidated subsidiaries and their related parties for the years ended March 31, 2015 and 2014 were summarized as follows:

2015			Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Name	Title	Transactions	Amounts	Amounts	Balance at the end of the year	Balance at the end of the year
Akira Ichikawa	Director of the Company	Sales of housing	¥23	\$190	¥25	\$205
2014			Millions of yen			
Name	Title	Transactions	Amounts			
Hideyuki Kamiyama	Director of the Company	Renovation of residence	¥11			

Notes: 1. Prices for sales of housing and renovation of residence were determined based on the same terms as third party transactions.
2. The transaction amounts do not include consumption tax while balance at the end of the year includes consumption tax.

25. Business Combination

Acquisition of shares of Gehan Homes, Ltd. and six subsidiary companies

The Company acquired shares of Gehan Homes, Ltd. and six companies through Sumitomo Forestry America, Inc., its U.S. subsidiary, making them its subsidiaries.

1. Summary of the business combination

(1) Name of the acquiree and business description

Name of the acquiree: Gehan Homes, Ltd. and six subsidiary companies

Description of business: Housing business and related businesses

(2) Main reason for implementing the business combination

The Company has been focusing on business expansion with a view to becoming a builder covering the entire United States for the U.S. housing business under a policy that places the overseas business as one of its core growth businesses. In the course of this expansion, the shares of Gehan Homes, Ltd. and six subsidiary companies were acquired to make them subsidiaries.

(3) Date of the business combination: April 30, 2014 (U.S. date)

(4) Legal form of the business combination: Acquisition of shares for a cash consideration

(5) Name of the merged entity

There was no change in the name of the acquiree after the share acquisition.

(6) Ratio of voting rights acquired: 51%

(7) Main reasons for determining the acquirer

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

2. Period for which the business results of the acquiree are included in the consolidated financial statements of the Company
From May 1, 2014 to December 31, 2014

3. Breakdown of the acquisition cost of the acquiree

Consideration for acquisition: ¥7,858 million (\$65,484 thousand)

Acquisition cost: ¥7,858 million (\$65,484 thousand)

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

(1) Amount of goodwill: ¥4,080 million (\$34,003 thousand)

(2) Reason for recognition

The acquisition cost exceeded the fair value of net asset acquired at the date of business combination.

(3) Amortization method and period

Straight-line amortization over 5 years

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

See Note 12.

6. Estimated impact on the consolidated statement of income in the year ended March 31, 2015, assuming that the business combination was concluded on April 1, 2014, and the method of calculation

	Millions of yen	Thousands of U.S. dollars
Sales	¥10,778	\$89,818
Recurring income	907	7,554
Net income	319	2,655

(Method by which estimated amounts were calculated)

The estimated amounts were calculated based on the difference between financial information on sales and income calculated on the assumption that the business combination was concluded at the beginning of the year ended March 31, 2015 and financial information on sales and income contained in the consolidated statement of income of the acquiring company.

These estimated amounts of impact have not been audited.

26. Subsequent Events

At the 75th Ordinary General Meeting of Shareholders held on June 23, 2015, the Company resolved to introduce stock options as compensation to directors (excluding outside directors).



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Independent Auditor's Report

The Board of Directors
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2015, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries as at March 31, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

June 23, 2015
Tokyo, Japan