

Happiness Grows from Trees



SUMITOMO FORESTRY

Financial Results for the Third Quarter of FY Ending March, 2015

January 30, 2015

SUMITOMO FORESTRY Co., LTD.

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3Q Summary of Cumulative Financial Results

- In the domestic housing market, the sharp reactive decline in surge demand accompanying the consumption tax hike has been prolonged, and stagnation continued, primarily in the new residential housing market.
- The timber and building materials business struggled, and while the housing business stagnated, performance of the overseas business improved substantially, so the overall performance is steady.

<Factors Behind Decline in Net Income>

3Q FY3/14 A marginal gain on step acquisition (approx. ¥2.1 billion) was posted as an extraordinary gain in conjunction with the conversion of the Henley Group into a consolidated subsidiary, along with a reversal (approx. ¥2.1 billion) in deferred tax liabilities resulting from an amendment to the tax treaty between Japan and New Zealand.

3Q FY3/15 An extraordinary loss of around ¥1.0 billion was posted in conjunction with consolidation and restructuring of manufacturing plants at building materials manufacturing subsidiary Sumitomo Forestry Crest Co., Ltd.

(Billion yen)	3Q FY 3/14 Cumulative		3Q FY 3/15 Cumulative		YoY	
Net sales		670.1		699.3	+29.2	+4.4%
Gross profit	15.7%	105.4	16.3%	113.9	+8.5	+8.0%
SG&A expenses		91.4		99.2	+7.9	+8.6%
Operating income	2.1%	14.0	2.1%	14.7	+0.6	+4.4%
Recurring income	2.1%	14.3	2.4%	16.8	+2.5	+17.7%
Net income	1.9%	12.6	1.1%	7.9	-4.7	-37.1%

3Q Cumulative Results by Segment

- Timber and Building Materials
 - ⇒ The domestic distribution business struggled, and both revenues and earnings declined due to the impact of such factors as a decrease in the number of new housing starts.
- Housing
 - ⇒ Although the number of units sold in the custom-built detached housing business dropped, the price per unit increased, and the amount of sales was on par with that of the same period of the previous year.
 - Revenues and earnings declined in the renovation business due to the impact of the sharp reactive decline associated with the consumption tax hike.
- Overseas
 - ⇒ Revenues and earnings rose substantially due to expansion of the housing business in the United States and Australia.

(Billion yen)		3Q FY3/14 Cumulative	3Q FY3/15 Cumulative	YoY	
<Net sales>	Timber and building materials	342.7	321.3	-21.3	-6.2%
	Housing	299.7	301.8	+2.1	+0.7%
	Inc. Renovation	42.6	42.6	-0.1	-0.2%
	Overseas	47.7	97.1	+49.4	+103.5%
	Other	12.4	11.5	-0.8	-6.8%
	Adjustment	-32.3	-32.5	-0.2	-
	Total	670.1	699.3	+29.2	+4.4%

<Recurring income>	Timber and building materials	1.3%	4.5	1.1%	3.4	-1.0	-23.2%
	Housing	4.2%	12.6	3.5%	10.6	-2.0	-15.6%
	Inc. Renovation	5.5%	2.3	3.9%	1.7	-0.7	-28.7%
	Overseas	-3.3%	-1.6	3.4%	3.3	+4.9	-
	Other	6.3%	0.8	7.0%	0.8	+0	+2.1%
	Adjustment	-	-2.0	-	-1.4	+0.6	-
	Total	2.1%	14.3	2.4%	16.8	+2.5	+17.7%

Profit and Loss Performance in Overseas Business

<Resources and Manufacturing Business>

- Indonesia: Plywood and particle board sales were favorable, so performance was strong.
- New Zealand/Australia: The business struggled due to factors such as the exchange rate (strong NZ dollar).

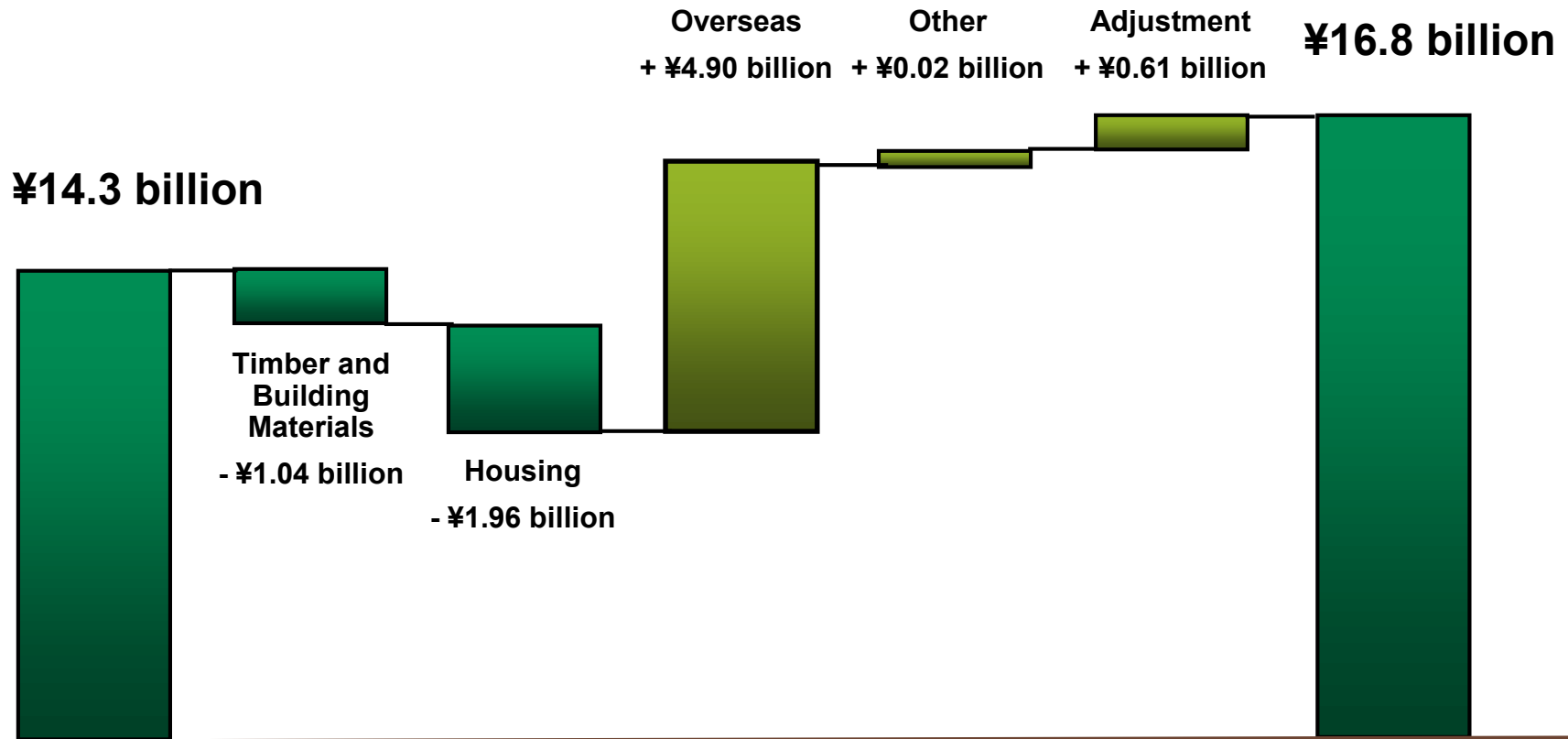
<Housing and Real Estate Business>

- Performance of the Henley Group (Australia/United States) which has been included in consolidated results since the previous 3Q has contributed to full year results as of this year.
- Performance of Bloomfield Homes (equity-method affiliate) and Gehan Homes (consolidated subsidiary) , which operate out of Texas in the United States trended favorably.

(Billion yen)

Overseas Segment	Net sales				Recurring income			
	3Q FY3/14	3Q FY3/15	Change	YoY	3Q FY3/14	3Q FY3/15	Change	YoY
Resources and Manufacturing	32.8	37.1	+4.3	+13.2%	0.2	0.6	+0.4	+208.1%
Housing and Real Estate	16.2	61.1	+44.9	+277.5%	0.9	5.4	+4.5	+500.9%
Other, Consolidated Adjustments, etc.	-1.2	-1.0	+0.2	-	-2.7	-2.6	+0.0	-
Total	47.7	97.1	+49.4	+103.5%	-1.6	3.3	+4.9	-

3Q Changes in Recurring Income (Year-on-Year)



Timber and Building Materials Business

Approx. ¥1.0 billion down due to decreased revenue from the domestic distribution business.

Housing Business

The price per unit increased, but due to such factors as the number of custom-built detached housing units falling, a sharp rise in the cost of labor and materials and decreased earnings in the renovation business, recurring income was down about ¥2.0 billion.

Overseas Business

Recurring income was up around ¥4.9 billion owing to expansion of the size of the housing and real estate business.

FYE March 2015 Full Year Forecast

- An extraordinary loss of ¥1.5 billion associated with consolidation and restructuring of manufacturing plants at our building materials manufacturing subsidiary has been newly incorporated into our full year earnings forecast, and net income has been revised downward.

Net income: ¥18.0 billion (before change) → ¥16.5 billion (after change)

(Billion yen)	FY3/14 Results		FY3/14 Results (Without actuarial gains/losses)		FY3/15 Full Year Forecast		YoY		YoY (Without actuarial gains/losses)	
Net sales		973.0	—		990.0		+17.0	+1.8%	—	—
Gross profit	16.5%	160.2	—		167.0	16.9%	+6.8	+4.3%	—	—
SG&A expenses		126.7		125.7	136.0		+9.3	+7.3%	+10.3	+8.2%
Operating income	3.4%	33.4	3.5%	34.4	31.0	3.1%	-2.4	-7.2%	-3.4	-10.0%
Recurring income	3.4%	33.6	3.6%	34.6	32.0	3.2%	-1.6	-4.7%	-2.6	-7.5%
Net income	2.3%	225	2.4%	23.2	16.5	1.7%	-6.0	-26.8%	-6.7	-28.8%

➤ Recognition of actuarial differences

Actuarial differences related to retirement benefit obligations are handled as a one-time write-off in the year of occurrence.

FYE March 2015 Full Year Forecast (by Segment)

- There are no changes in any segments from the forecasts at the time of the announcement of 2nd quarter financial results.
- Earnings were down in the domestic business due to the impact of the sharp reactive decline in surge demand accompanying the consumption tax hike, but the overseas business made up for it.
- Driven by the housing business in the United States and Australia, the overseas business is expected to see substantial increases in earnings and revenue.

(Billion yen)		FY3/14 Results		FY3/15 Full Year Forecast		YoY		YoY (Without actuarial gains/losses)			
		FY3/14 Results	FY3/14 Results (Without actuarial gains/losses)	FY3/15 Full Year Forecast							
<Net sales>	Timber and building materials	458.6	—	420.0	-38.6	-8.4%	—				
	Housing	465.4	—	455.0	-10.4	-2.2%	—				
	Inc. Renovation	62.2	—	61.2	-1.0	-1.6%	—				
	Overseas	76.3	—	136.0	+59.7	+78.2%	—				
	Other	17.3	—	15.0	-2.3	-13.2%	—				
	Adjustment	-44.6	—	-36.0	+8.6	—	—				
	Total	973.0	—	990.0	+17.0	+1.8%	—				
<Recurring income>	Timber and building materials	1.1%	5.0	—	1.0%	4.2	-0.8	-15.2%	—		
	Housing	6.9%	32.2	—	6.0%	27.5	-4.7	-14.6%	—		
	Inc. Renovation	6.6%	4.1	—	5.2%	3.2	-0.9	-21.7%	—		
	Overseas	-0.2%	-0.1	—	2.6%	3.5	+3.6	—	—		
	Other	4.8%	0.8	—	4.7%	0.7	-0.1	-14.8%	—		
	Adjustment	—	-4.3	—	-3.2	—	-3.9	+0.4	—	-0.7	—
	Total	3.4%	33.6	3.6%	34.6	3.2%	32.0	-1.6	-4.7%	-2.6	-7.5%

FY 3/2015 Results: Profit and Loss Forecast in Overseas Business

<Resources and Manufacturing Business>

- Gains and losses vary by country and business depending on market trends, exchange rates, etc., and the business is struggling.

<Housing and Real Estate Business>

- As a result of expanding the size of the business through M&A and other efforts in the United States and Australia, performance has been improving steadily.

(Billion yen)

Overseas Segment	Net sales				Recurring income			
	FY 3/14 Results	FY 3/15 Forecast	Change	YoY	FY 3/14 Results	FY 3/15 Forecast	Change	YoY
Resources and Manufacturing	45.1	48.0	+2.9	+6.4%	0.8	0.7	-0.1	-15.2%
Housing and Real Estate	32.9	89.7	+56.8	+172.9%	2.3	7.1	+4.8	+208.8%
Other, Consolidated Adjustments, etc.	-1.7	-1.7	-0.0	-	-3.3	-4.3	-1.1	-
Total	76.3	136.0	+59.7	+78.2%	-0.1	3.5	+3.6	-

Housing Business Sales and Full Year Forecast

- There is no change in the full year forecast for sales in the housing business.
- The 3Q results for custom-built detached housing stayed about the same year on year in terms of the amount of sales, as the price per unit rose (¥34.6 million → ¥36.0 million) despite the number of units sold dropping by 207 year on year.
- Wooden apartment sales are trending favorably, and the full year results are expected to surpass the results of the previous year.

		FY3/14 3Q Cumulative	FY3/15 3Q Cumulative	Change	YoY	FY3/14 Results	FY3/15 Forecast	Change	YoY	
Non-consolidated	Contract business	Custom-built detached								
		(Amounts)	206.5	207.6	+1.1	+0.5%	320.3	310.0	-10.3	-3.2%
		(Units)	5,970	5,763	-207	-3.5%	9,243	8,700	-543	-5.9%
		million yen (Unit price)	34.6	36.0	+1.4	+4.1%	34.6	35.6	+1.0	+2.8%
		Wooden apartments								
		(Amounts)	5.7	6.6	+0.9	+15.4	13.1	14.8	+1.7	+12.7%
		(Units)	490	465	-25	-5.1%	1,124	1,150	+26	+2.3%
		Other contracts (Amounts)	0.9	2.1	+1.2	+140.0%	1.4	2.6	+1.2	+89.0%
		Detached spec homes								
		(Amounts)	6.1	5.8	-0.2	-3.7%	9.7	9.5	-0.2	-2.3%
		(Units)	144	159	+15	+10.4%	242	250	+8	+3.3%
		million yen (Unit price)	42.1	36.7	-5.4	-12.8%	40.2	38.0	-2.2	-5.4%
	Land for custom-built housing									
	(Amounts)	3.1	3.1	-0.0	-1.1%	5.6	5.7	+0.1	+2.2%	
	Renovation business									
	(Amounts)	2.9	3.6	+0.7	+25.3%	9.0	8.0	-1.0	-11.1%	
	Other									
	(Amounts)	7.3	5.9	-1.4	-19.6%	9.6	7.5	-2.1	-22.1%	
	Renovation (construction completed)									
	(Amounts)	40.5	40.3	-0.2	-0.5%	59.3	58.2	-1.1	-1.9%	

Orders Received and Full Year Forecast

- The impact of the reactive decline associated with the consumption tax hike has become prolonged, and the conditions for orders received remain harsh.
- We are rolling out a strategy leveraging our characteristics, including the “Estate Design Project.”
- Wooden apartment orders are trending favorably, owing in part to demand for measures to address inheritance tax.

		FY3/14 3Q cumulative	FY3/15 3Q cumulative	Change	YoY	FY3/14 Results	FY3/15Fo recast	(Billion yen)		
								Change	YoY	
Contract business	Custom-built detached									
	(Amounts)	273.4	206.0	-67.3	-24.6%	339.9	305.5	-34.4	-10.1%	
	(Units)	7,416	5,566	-1,850	-24.9%	9,364	8,500	-864	-9.2%	
	Million yen (Unit price)	32.1	32.9	+0.8	+2.4%	32.1	32.5	+0.4	+1.3%	
	Wooden apartments									
	(Amounts)	13.3	15.3	+1.9	+14.5%	15.5	16.5	+1.0	+6.4%	
	(Units)	981	1,029	+48	+4.9%	1,140	1,250	+110	+9.6%	
	Other contracts	(Amounts)	2.2	1.4	-0.8	-36.9%	2.6	1.5	-1.1	-41.4%
	Renovation	(Amounts)	47.4	42.1	-5.3	-11.1%	61.0	59.0	-2.0	-3.3%



Estate Design Project (1) (Komazawa Exhibit)



Estate Design Project (2) (Komazawa Exhibit)



Big-Frame Construction Method

Third Quarter Balance Sheet

(Billion yen)	End of March 2014	3Q 3/15	Change		End of March 2014	3Q 3/15	Change
Cash, deposits, securities	118.7	84.5	-34.2	Payables	191.4	164.7	-26.8
Receivables	132.9	131.3	-1.6	Short-term debt/bonds issued	36.4	29.9	-6.5
Finished goods	26.9	26.8	-0.1	Advances received on uncompleted construction contracts	55.1	61.4	+6.2
Costs on uncompleted construction contracts	24.4	42.0	+17.6	Income taxes payable	8.1	0.8	-7.3
Developed land and housing for sale	31.5	41.3	+9.8	Provision for bonuses	10.5	5.1	-5.4
Real estate for sale in process	11.1	34.0	+22.8	Other current liabilities	24.6	32.9	+8.4
Short-term loans receivable	33.4	17.3	-16.1	Total current liabilities	326.1	294.8	-31.4
Accounts receivable-other	54.3	41.2	-13.1	Long-term debt/bonds issued	51.6	57.9	+6.3
Other current assets	13.6	18.5	+4.9	Net defined benefit liabilities	11.0	12.6	+1.6
Total current assets	446.9	437.0	-9.8	Other long-term liabilities	30.3	32.7	+2.3
Buildings and structures	31.3	30.8	-0.5	Total long-term liabilities	93.0	103.2	+10.2
Land	26.7	26.4	-0.2	Shareholders' equity	200.9	204.9	+4.0
Investment securities	65.5	70.7	+5.2	Accumulated other comprehensive income	17.8	25.1	+7.4
Other noncurrent assets	74.8	75.3	+0.4	Minority interests	7.4	12.2	+4.8
Total noncurrent assets	198.3	203.2	+4.9	Total net assets	226.1	242.2	+16.2
Total assets	645.2	640.2	-5.0	Total liabilities/net assets	645.2	640.2	-5.0

- Total assets remained steady for the most part from the end of the previous year at ¥640.2 billion.
- The increase in real estate for sale in process is a result of M&A in the US housing business.

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