

## Summary of Financial Results for the Year Ended March 2018 [Japan GAAP] (Consolidated)

Name of Company: Sumitomo Forestry Co., Ltd. Stock Exchange Listing: Tokyo  
 Stock Code: 1911 URL: <http://sfc.jp/english/>  
 Representative: Title: President / Representative Director Name: Akira Ichikawa  
 Contact Person: Title: General Manager, Corporate Communications Name: Yuichiro Ono  
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Date of regular general meeting of shareholders: June 22, 2018  
 Date of commencement of dividend payment (tentative): June 25, 2018  
 Date of filing of financial report: June 22, 2018  
 Preparation of supplementary materials: Yes  
 Convening of a results meeting: Yes (for financial analysts and institutional investors)

(Note: Amounts are rounded to nearest million Yen.)

### 1. Financial results for the current fiscal year (April 1, 2017 – March 31, 2018)

#### (1) Result of operations (Consolidated)

(% figures represent year-on-year change)

	Net sales		Operating income		Recurring income		Profit for the year attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 2018	1,221,998	9.8	53,021	(1.8)	57,865	0.0	30,135	(12.7)
FY ended March 2017	1,113,364	7.0	53,989	79.4	57,841	89.6	34,532	255.0

Note: Comprehensive income

FY ended March 2018: 44,547 million yen (10.9%)

FY ended March 2017: 49,997 million yen 634.3%

	Net income per share	Net income per share fully diluted	Return on equity	Ratio of recurring income to assets	Operating income Margin
	Yen	Yen	%	%	%
FY ended March 2018	168.49	158.82	10.3	6.8	4.3
FY ended March 2017	194.95	183.76	13.3	7.7	4.8

Note: Equity in income (losses) of affiliates

FY ended March 2018: 3,026 million yen

FY ended March 2017: 3,053 million yen

Note: The monetary amount as of the fiscal year ended March 2017 reflects adjustments of the purchase price allocation following the determination of the provisional accounting treatment.

#### (2) Financial Position (Consolidated)

	Total assets	Net assets	Equity ratio	Shareholder's Equity per Share
	Million yen	Million yen	%	Yen
As of March 31, 2018	903,682	345,639	34.5	1,719.05
As of March 31, 2017	794,360	295,857	34.6	1,552.04

Note: Shareholders' equity

As of March 31, 2018: 311,637 million yen

As of March 31, 2017: 274,911 million yen

Note: The monetary amount as of March 2017 reflects adjustments of the purchase price allocation following the determination of the provisional accounting treatment.

(3) Cash flow position (Consolidated)

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investment activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY ended March 2018	13,732	(46,250)	25,156	125,555
FY ended March 2017	40,337	(62,350)	14,267	132,707

2. Dividends

	Dividend per share					Annual aggregate amount	Payout ratio (Consolidated)	Dividends/ net assets (Consolidated)
	End of 1Q	End of 2Q	End of 3Q	End of FY	Full year			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY ended March 2017	–	15.00	–	20.00	35.00	6,200	18.0	2.4
FY ended March 2018	–	20.00	–	20.00	40.00	7,189	23.7	2.4
FY ending March 2019 (Est.)	–	20.00	–	20.00	40.00		23.0	

3. Forecast for the fiscal year ending March 2019 (Consolidated, April 1, 2018 - March 31, 2019)

(% figures represent year-on-year change)

	Net sales		Operating income		Recurring income		Profit for the year attributable to owners of the parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	1,310,000	7.2	54,500	2.8	57,500	(0.6)	31,500	4.5	173.76

\* Notice:

(1) Changes in main subsidiaries (Changes in specific subsidiaries accompanied by changes in the scope of consolidation): None

(2) Changes in accounting policies, accounting estimates, and restatements

(a) Changes in accounting policies due to revision of accounting standards: None

(b) Changes in accounting policies other than those in (a): None

(c) Changes in accounting estimates: None

(d) Restatements: None

(3) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury stock)

As of March 31, 2018	182,607,739	As of March 31, 2017	177,410,239
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(b) Treasury stock

As of March 31, 2018	1,323,737	As of March 31, 2017	281,970
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(c) Average number of shares during the term

As of March 31, 2018	178,859,807	As of March 31, 2017	177,129,048
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Non-consolidated Financial Results (For reference)

Financial results for the current fiscal year (April 1, 2017 – March 31, 2018)

(1) Result of operations (Non-consolidated)

(% figures represent year-on-year change)

	Net sales		Operating income		Recurring income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY ended March 2018	701,534	(1.8)	10,301	(60.0)	18,201	(42.6)	13,545	(39.2)
FY ended March 2017	714,040	0.9	25,734	131.7	31,696	54.0	22,292	117.8

	Net income per share	Net income per share fully diluted
	Yen	Yen
FY ended March 2018	75.55	71.22
FY ended March 2017	125.85	118.63

(2) Financial Position (Non-consolidated)

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2018	640,204	254,003	39.7	1,392.43
As of March 31, 2017	595,161	230,098	38.6	1,298.59

Note: Shareholders' equity

As of March 31, 2018: 253,873 million yen

As of March 31, 2017: 230,016 million yen

\* Financial results summaries not subject to audit.

\* Cautionary statement regarding business results forecasts and special notes

(Caution regarding forward-looking statements)

Earnings forecasts and other forward-looking statements in this release are based on data currently available to the Company and certain assumptions that the Company believes are reasonable and are not intended to be a promise by the Company to achieve those forecasts. For information regarding using the assumptions that form the basis for the business results forecasts and cautionary notes about using business results forecasts, please refer to accompanying materials page 4 “1. Overview of Results of Operations, etc. (4) Future Outlook.”

(Method of Obtaining Supplemental Explanatory Material)

The Company will hold a briefing for securities analysts and institutional investors on Monday, May 14, 2018. The explanatory material on the financial results to be distributed at the briefing will be published on the website afterwards.

<http://sfc.jp/english/ir/>

Additionally, the Supplementary Information that has heretofore been provided in the summaries of financial results is provided in the Financial Factbook beginning the year ended March 31, 2018, and the material will be published on the website simultaneously with the announcement of financial results.

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## 1. Overview of Results of Operations, etc.

### (1) Overview of Results of Operations

In the period under review, the global economy continued a mild recovery overall with the economic recovery in the United States remaining steady and economies in China and other Asian countries showing signs of a recovery. The Japanese economy also showed a gentle recovery owing to an improvement in employment conditions, increases in production and capital expenditures and higher corporate earnings despite some sheepishness in consumer spending.

In the domestic housing market, which has a deep relationship to our Group businesses, the number of new housing starts was 946,000 (a decrease of 2.8% year on year) due to protracted business talks and some signs of weakness in the apartments market, which had been performing well against the backdrop of a revision to the inheritance tax system in 2015, despite housing loan interest rates remaining low. Of that number, 282,000 (a decrease of 3.3% year on year) were owner-occupied dwellings.

Under this business environment, the Sumitomo Forestry Group worked to improve profitability in the main businesses of custom-built detached housing and timber and building materials to achieve the targets of the Sumitomo Forestry Group 2018 Medium-Term Management Plan, this year being the second year of the plan. Moreover, we aggressively invested management resources into expanding the size and domain of our overseas business and continued to work on diversifying our revenue streams, including pouring effort into the wood biomass power generation business and other resource and environment-related businesses.

As a result, net sales were ¥1,221.998 billion (an increase of 9.8% year-on-year), operating income was ¥53.021 billion (a decrease of 1.8% year-on-year), recurring income was ¥57.865 billion (an increase of 0.0% year on year), and profit for the year attributable to owners of the parent was ¥30.135 billion (a decrease of 12.7% year-on-year). For two years in a row, actuarial differences for retirement benefit accounting\* were a factor increasing income, coming to ¥4.981 billion last year and ¥2.291 billion this year. Recurring income excluding actuarial differences was up 5.1% year on year from ¥52.860 billion last year to ¥55.574 billion this year. Additionally, in regard to extraordinary gains/losses, a ¥6.464 billion gain on step acquisitions associated with making an equity-method affiliate engaged in the housing business in the United States a consolidated subsidiary by acquiring additional stakes was recorded as an extraordinary gain, while a ¥5.727 billion impairment loss on particle board manufacturing equipment in Vietnam was recorded as an extraordinary loss.

In addition to the above, we concluded an agreement on a capital and business alliance with Kumagai Gumi Co., Ltd. in November 2017 for the purpose of creating a new market for the MOCCA (timber solutions) and greening-related construction business starting with large and medium-sized wooden buildings and developing high value-added construction technology.

\* In retirement benefit accounting, the amounts of retirement benefit obligations and investment returns on pension assets are estimated, so differences will arise when comparing them to the actual numbers. These differences are called “actuarial differences for retirement benefit accounting” and will fluctuate depending on trends in interest rate levels and financial markets. Actuarial differences for retirement benefit accounting are recorded as expenses or income in the year of occurrence or for a fixed period beginning the following year, but we record them as a lump sum to expenses or income in the year of occurrence.

An overview of conditions for each business segment is as follows. Net sales for each segment include intersegment internal sales and transfers.

### *1) Timber and Building Materials Business*

In the domestic timber and building materials distribution business, results were strong owing to expanded sales of “KIKORIN-PLYWOOD”, an environmentally friendly plywood made from certified forests and plantation timber, and efforts made to strengthen relationships with trading partners, despite an increase in materials costs resulting from global timber demand and depreciation of the yen. Additionally, we focused on increasing the volume of fuel wood for power generation handled, expanding sales of “Kigurumi FR,” a fire-resistant material made of pure laminated lumber, and increasing exports of domestic materials to work on developing diverse revenue streams.

In the domestic building materials manufacturing business, we worked on improving profitability through such means as focusing on expanding sales of stairway and floor material, which are differentiated products.

In the overseas distribution business, we focused on expanding sales primarily in Southeast Asia under the leadership of our regional headquarters in Singapore. We also concluded a capital and business tie-up agreement with an interior construction material company in Vietnam and began efforts aimed at market expansion in Vietnam and other areas where housing demand is expected to grow.

As a result, the timber and building materials business posted net sales of ¥435,508 million (an increase of 2.6% year-on-year) and recurring income of ¥5,583 million (an increase of 25.3% year-on-year).

### *2) Housing Business*

In the custom-built detached housing business, we worked to promote sales of housing using our original Big-Frame Construction (BF) method, which offers high earthquake resistance and excellent flexibility of design, as well as to expand orders and maximize customer satisfaction through efforts such as providing products to meet diverse customer needs with respect to specifications and other requirements. Despite these efforts, however, results were lackluster, mainly as a result of a decrease in the number of completed and delivered units associated with sluggish orders in the previous year. On the product side, we launched “The Forest BF,” which offers various room spaces with customizable ceiling heights and large openings utilizing innovative technology, and “Forest Selection BF,” exclusive products selected from plans that are more discriminating from the standpoint of comfortable living based on the know-how we cultivated from our roughly 300,000 “Sumitomo Forestry Home houses.”

In our apartment business, we worked to expand orders for apartments using our original Wall Frame (WF) method, which allows for greater customization of floor plans and more adaptability to tenant needs by supporting the building frame with “big columns” (large cross-sectional laminated columns), but due to deceleration of the rental housing market, results were sluggish.

In the renovation business, we worked to expand orders of earthquake resistance renovations utilizing advanced technologies such as our original seismic resistance/seismic mitigation methods and focused on uncovering demand in conjunction with provision of patrol and inspection services for owners who have lived in “Sumitomo Forestry Home houses” for many years. As a result, business results were strong.

In our MOCCA (timber solution) business, adoption of wood construction and material in public buildings utilizing domestic materials has spread, and this year we completed construction of a junior high school dormitory and a new wing of a rehabilitation hospital. We also worked to expand the market for wood construction and material, including completing construction of an office building utilizing cross-laminated timber (CLT), a wood material that offers high performance in terms of earthquake and fire resistance.

In addition to the above, we began running existing rental condominiums as vacation rentals concluding a business tie-up agreement with another company utilizing the special vacation rental zoning system under the National Strategic Special Zone Act as the preparation of lodging facilities to meet diversifying lodging needs has become an urgent task with the rapid increase in foreign tourists to Japan.

As a result, the housing business posted net sales of ¥449,201 million (a decrease of 3.7% year-on-year) and recurring income of ¥24,945 million (a decrease of 22.9% year-on-year).

### 3) Overseas Business

Results were strong in the manufacturing business, owing to favorable sales in New Zealand of medium density fiberboard (MDF) to Japan and of laminated veneer lumber (LVL) to New Zealand and Australia. In Indonesia, the particle board sales volume grew, but due mainly to stagnation of plywood profits resulting from higher timber prices and other such factors, results were sluggish.

In the housing and real estate business, the number of units delivered by our existing local affiliates increased year on year against the backdrop of robust housing markets in the United States and Australia, and making Bloomfield Homes, L.P. (based out of Texas, USA) and one other company, which were equity-method affiliates, consolidated subsidiaries in May of the previous year. As a result of these and other factors, business results improved substantially. Additionally, in Southeast Asia, we worked to enhance the revenue base of our overseas business through expansion of our business development area, including launching a detached spec home business in Indonesia and a condominium business in Thailand, in order to expand our housing and real estate business.

As a result, the overseas business posted net sales of ¥352,897 million (an increase of 42.4% year-on-year) and a recurring income of ¥26,491 million (an increase of 37.2% year-on-year).

### 4) Other Businesses

Besides the aforementioned businesses, the Sumitomo Forestry Group operates a biomass power generation business, an overseas forestation business, private-pay elderly care facilities, and a wide range of service businesses for residential customers (including non-life insurance agency services) and also manufactures and sells farming and gardening materials and engages in civil engineering/construction work.

Results in the biomass power generation business in Mombetsu City, Hokkaido, which was launched in December of 2016, were strong.

The other businesses recorded net sales of ¥37,007 million (an increase of 61.0% year-on-year) and recurring income of ¥4,934 million (an increase of 122.0% year-on-year).

## (2) Overview of Financial Position

Total assets totaled ¥903,682 million at the end of the current consolidated fiscal year, an increase of ¥109,322 million year on year. The increase was attributable mainly to an increase in inventories associated with expansion of the overseas housing and real estate business as well as an increase in investment securities resulting from acquisition of equity-method affiliate shares. Liabilities increased ¥59,540 million compared to the end of the previous consolidated fiscal year to ¥558,043 million due to such factors as capital expenditures and the issuance of corporate bonds to fund acquisitions and other such endeavors. Net assets totaled ¥345,639 million, and the equity ratio was 34.5%.

## (3) Overview of Cash Flow

There was a net decrease of ¥7,152 million in cash and cash equivalents (hereinafter: “cash”) to ¥125,555 million.

A summary of cash flows is presented below.

### 1) Operating Activities

Net cash provided by operating activities increased ¥13,732 million (an increase of ¥40,337 million was posted the previous consolidated fiscal year). This was due mainly to an increase in capital resulting from posting of ¥58,538 million in income before income taxes and minority interests, despite a decrease in capital resulting from an increase in inventories associated with expansion of the overseas housing and real estate business.



## 2) *Investment Activities*

Net cash used in investment activities decreased ¥46,250 million (a decrease of ¥62,350 million was posted the previous consolidated fiscal year). This was due mainly to acquiring stakes in equity-method affiliates in Japan and the United States.

## 3) *Financing Activities*

Net cash used in financing activities increased ¥25,156 million (an increase of ¥14,267 million was posted the previous consolidated fiscal year). This was due mainly to an increase in capital resulting from the issuance of corporate bonds and the issuance of new shares through third party allotment despite a decrease of capital resulting from payment of dividends and repayment of long-term debt.

## (4) Future Outlook

The global economy is expected to continue its mild recovery, but caution is required as there is a risk of a downturn resulting from such factors as the impact of monetary policy normalization and inward-looking policies in the United States and increasing geopolitical tensions in the Middle East and other regions. The outlook for the Japanese economy is uncertain due to rising prices of raw materials despite improvements in corporate earnings and employment conditions associated with increased production and exports against the backdrop of a mild recovery in the global economy.

Under this business environment, the Sumitomo Forestry Group will strive to surpass the numerical targets (net sales of ¥1.17 trillion, recurring income of ¥55 billion [excluding actuarial differences for retirement benefit accounting] and ROE of at least 10%) of the Sumitomo Forestry Group 2018 Medium-Term Management Plan in the fiscal year ending March 31, 2019, which is the final year of the plan. Additionally, reorganization will be carried out on April 1, 2018, and management resources will be utilized to the fullest for sustainable growth, including promoting business expansion and strengthening of manufacturing in non-housing and construction fields.

In the timber and building materials business, we will work to expand the volume of fuel wood for power generation handled to promote diversification of revenue streams in the distribution business, and at the same time, we will make high value-added proposals, starting with the provision of construction materials for commercial facilities. We will also contribute to the promotion of domestic timber, focusing on such efforts as increasing domestic timber exports, particularly to China where demand is high, and expanding sales of “Kigurumi FR,” which utilizes a large amount of domestic timber. In the manufacturing business, we will consolidate the organizational structure, which had been divided into domestic and overseas, while at the same time further enhancing marketing by coordinating with the distribution business and promoting integration of manufacturing and sales. In so doing, we will work to supply products in line with market needs and develop high value-added products to boost profitability.

As for the housing and construction businesses, in the custom-built detached housing business we will make new proposals concerning interior construction materials made from choice wood procured via our own network that feature a wood design sense while also focusing on expanding orders for ZEH (net zero-energy homes). Additionally, in the three major metropolitan areas, we will focus on expanding orders and sales of products other than custom-built detached houses by strengthening our exclusive sales system for apartments, non-residential buildings and ready-built spec home properties. In the renovation business, we will increase the number of interior coordinators to further enhance our sales approach for interior and other proposals while also working to expand orders, including continued efforts to improve proposals utilizing original technologies for seismic resistance and seismic control.

In our overseas housing and real estate business, we will promote growth of existing businesses in the United States and Australia and diversification of revenue streams through expansion of the real estate leasing and other businesses. Additionally, in South East Asia, we will actively develop the housing and real estate business. Moreover, we will also continue to enhance risk management with respect to our real estate holdings, including further improving our analytical capabilities and tracking the status of real estate inventory for sale through regular management to

accurately understand sudden changes and signs of such changes in the housing markets of the countries in which we operate.

In the forest management business, we will work to revitalize the forestry industry in Japan, utilizing the sustainable forestry know-how which has been cultivated in our management of company-owned forests to promote orders for forestry management consulting and forest management while also working to strengthen our system for ensuring a stable supply of saplings for reforestation, which are in short supply nationwide. Additionally, we will promote a sustainable forestation business overseas, including in New Zealand, in consideration of the environment. In the environment and energy field, we will work on stable operation of wood biomass power plants that make effective use of unused left-over timber and thinnings and other materials and further promote power generation businesses that utilize renewable energy. In the lifestyle services field, we will pour efforts into expanding the business scale by constructing new private-pay elderly care facilities and increasing the occupancy rate at existing facilities. We will also enter new service fields to address ever-changing lifestyles and enrich the daily lives of our customers. In regard to our collaboration with Kumagai Gumi Co., Ltd., we will work to create synergy through such efforts as establishing and promoting a specific plan for collaboration in businesses peripheral to the MOCCA (timber solutions)/greening-related construction business, the renewable energy business, the overseas business and the healthcare business as well as joint R&D fields such as new construction methods.

In addition to the aforementioned efforts, the Sumitomo Forestry Group will anticipate social changes and fulfil our corporate social responsibility by such means as enhancing corporate governance and strengthening our efforts related to environmental responsibility, human rights and diversity, risk management and legal compliance, and customer satisfaction as we accept feedback from our stakeholders. We will also develop businesses around the world which contribute to the achievement of a sustainable society leveraging the knowledge and technology related to wood that we have cultivated in our business activities up until now.

We have also established “the W350 Plan”, which is our vision for research and technological development to construct a 350-meter-high wood-constructed skyscraper by 2041, the 350<sup>th</sup> anniversary of our founding. This is part of our aim to achieve an environmental wood-based city using trees, which are a renewable resource, while considering biodiversity.

#### (5) Policy on Profit Distribution and Dividends for FY 3/18 and FY 3/19

Sumitomo Forestry Co., Ltd. has a fundamental policy of achieving stable and continuous shareholder returns and considers this to be one of its highest priorities. In the future, we will work to improve return on equity (ROE) and increase shareholders' equity effectively utilizing internal reserves in effective investments that contribute to the improvement of long-term corporate value and in research and development activities. At the same time, we will return an appropriate level of earnings to shareholders in accordance with total earnings, while taking into account the need to balance these distributions with the base of operations, financial position, cash flow and other items.

Based on the above-mentioned basic policy, the Company plans to pay a fiscal year-end dividend of ¥20.00 per share for the fiscal year that ended in March 2018. Together with the interim dividend of ¥20.00 per share that the Company has already paid, this will bring the dividend for the full year to ¥40.00 per share.

For the fiscal year ending in March 2019, the company plans to pay an annual dividend of ¥40.00 per share – an interim and year-end dividend of ¥20.00 each.

## 2. Basic Thinking on Selection of Accounting Standards

The Sumitomo Forestry Group applies Japanese standards when preparing consolidated financial statements. Our policy on the application of international accounting standards is to address the matter appropriately based on circumstances in Japan and other countries where we do business.

### 3. Consolidated Financial Statements and Main Notes

#### (1) Consolidated Balance Sheet

(Unit: million yen)

	Previous consolidated fiscal year (ended March 31, 2017)	Current consolidated fiscal year (ended March 31, 2018)
<b>Assets</b>		
<b>Current assets</b>		
Cash and time deposits	111,506	105,865
Notes and accounts receivable-trade	119,274	127,387
Accounts receivable from completed construction contracts	4,180	8,255
Marketable securities	6,500	5,010
Finished goods, logs and lumber, boards, others	14,708	17,603
Work in process	1,389	1,268
Raw materials and supplies	7,917	7,602
Costs on uncompleted construction contracts	23,934	25,322
Developed land and housing for sale	48,291	55,751
Real estate for sale in process	80,389	138,457
Deferred tax assets	7,001	6,531
Short-term loans receivable	30,287	15,479
Accounts receivable-other	45,902	41,722
Other	13,551	16,191
Allowance for doubtful accounts	(438)	(343)
<b>Total current assets</b>	<b>514,390</b>	<b>572,101</b>
<b>Noncurrent assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	63,411	78,307
Accumulated depreciation	(29,272)	(37,533)
Buildings and structures, net	34,139	40,774
Machinery, equipment and vehicles	76,290	77,588
Accumulated depreciation	(46,495)	(48,401)
Machinery, equipment and vehicles, net	29,796	29,187
Land	30,597	34,216
Forest assets	37,189	36,735
Leased assets	10,724	10,728
Accumulated depreciation	(6,034)	(5,391)
Leased assets, net	4,691	5,337
Construction in progress	6,013	2,700
Other	11,874	14,027
Accumulated depreciation	(8,500)	(9,863)
Other, net	3,374	4,165
<b>Total property, plant and equipment</b>	<b>145,798</b>	<b>153,113</b>
<b>Intangible assets</b>		
Goodwill	11,065	15,762
Other	12,421	13,309
<b>Total Intangible assets</b>	<b>23,486</b>	<b>29,071</b>
<b>Investments and other assets</b>		
Investment securities	91,806	131,470
Long-term loans receivable	3,683	2,294
Net defined benefit assets	142	138
Deferred tax assets	3,276	3,279
Other	14,141	14,657
Allowance for doubtful accounts	(2,362)	(2,440)
<b>Total investments and other assets</b>	<b>110,686</b>	<b>149,398</b>
<b>Total noncurrent assets</b>	<b>279,970</b>	<b>331,581</b>
<b>Total assets</b>	<b>794,360</b>	<b>903,682</b>

(million yen)

	Previous consolidated fiscal year (ended March 31, 2017)	Current consolidated fiscal year (ended March 31, 2018)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	111,281	111,587
Accounts payable for construction contracts	71,211	70,266
Short-term debt	37,108	40,490
Current portion of convertible bonds	–	20,000
Lease obligations	1,628	1,100
Income taxes payable	5,511	4,830
Advances received on uncompleted construction contracts	48,249	50,242
Provision for employees' bonuses	11,139	11,708
Provision for directors' bonuses	146	146
Provision for warranties for completed construction	3,849	3,595
Asset retirement obligation	551	584
Other	33,332	42,978
Total current liabilities	324,004	357,527
Long-term liabilities		
Bonds issued	20,000	50,000
Convertible bonds	20,000	–
Long-term debt	81,818	84,374
Lease obligations	3,264	4,666
Deferred tax liabilities	11,695	17,003
Provision for directors' retirement benefits	80	112
Net defined benefit liabilities	18,732	16,723
Asset retirement obligation	937	922
Other	17,974	26,715
Total long-term liabilities	174,499	200,516
Total liabilities	498,503	558,043
Net assets		
Shareholders' equity		
Common stock	27,672	32,672
Capital surplus	18,637	23,637
Retained earnings	196,511	219,562
Treasury stock	(280)	(2,333)
Total shareholders' equity	242,541	273,538
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25,896	33,258
Deferred gains or losses on hedges	(80)	(221)
Foreign currency translation adjustment	6,874	5,053
Remeasurements of defined benefit plans	(320)	9
Total accumulated other comprehensive income	32,370	38,099
Subscription rights to shares	82	129
Non-controlling interests	20,864	33,873
Total net assets	295,857	345,639
Total liabilities and net assets	794,360	903,682

## (2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

## Consolidated Statements of Income

(million yen)

	Previous consolidated fiscal year (April 1, 2016 – March 31, 2017)	Current consolidated fiscal year (April 1, 2017 – March 31, 2018)
Net sales	1,113,364	1,221,998
Cost of sales	909,225	1,002,683
Gross Profit	204,138	219,315
Selling, general and administrative expenses	150,149	166,294
Operating Income	53,989	53,021
Non-operating income		
Interest income	533	445
Purchase discounts	381	371
Dividends income	1,363	1,440
Equity in earnings of affiliates	3,053	3,026
Other	2,260	3,095
Total non-operating income	7,589	8,377
Non-operating expenses		
Interest expenses	1,560	1,387
Sales discount	680	704
Foreign exchange losses	47	188
Other	1,450	1,253
Total non-operating expenses	3,737	3,532
Recurring income	57,841	57,865
Extraordinary gains		
Gain on sales of noncurrent assets	193	62
Gain on sales of investment securities	96	132
Gain on step acquisitions	–	6,464
Gain on liquidation of subsidiaries and affiliates	152	–
Gain on sales of stocks of subsidiaries and affiliates	481	–
Total extraordinary gains	922	6,658
Extraordinary loss		
Loss on sales of noncurrent assets	37	82
Loss on retirement of noncurrent assets	164	151
Impairment loss	30	5,727
Loss on sales of investment securities	8	24
Loss on devaluation of investment securities	1	–
Total extraordinary loss	240	5,985
Income before income taxes and minority interests	58,523	58,538
Income taxes-current	15,652	16,846
Income taxes-deferred	2,640	3,060
Total income taxes	18,292	19,906
Net income	40,230	38,632
Profit attributable to non-controlling interests	5,699	8,497
Profit for the year attributable to owners of the parent	34,532	30,135

## Consolidated Statements of Comprehensive Income

(million yen)

	Previous consolidated fiscal year (April 1, 2016 – March 31, 2017)	Current consolidated fiscal year (April 1, 2017– March 31, 2018)
Net income	40,230	38,632
Other comprehensive income		
Valuation difference on available-for-sale securities	9,634	7,694
Deferred gains or losses on hedges	(22)	(141)
Foreign currency translation adjustment	350	(756)
Share in equity method affiliates	(196)	(883)
Total other comprehensive income (loss)	9,766	5,914
Comprehensive income	49,997	44,547
(Breakdown)		
Comprehensive income attributable to owners of the parent	44,470	35,864
Comprehensive income attributable to non-controlling interests	5,527	8,683

## (3) Consolidated Statements of Changes in Net Assets

Previous consolidated fiscal year (April 1, 2016 - March 31, 2017)

(million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	27,672	26,872	166,762	(278)	221,028
Changes during the period					
Issuance of new shares					–
Dividends from surplus			(4,782)		(4,782)
Profit for the year attributable to owners of the parent			34,532		34,532
Purchase of treasury stock				(2)	(2)
Disposal of treasury stock					–
Change in stake of parent company related to transactions with non-controlling interests		(8,234)			(8,234)
Net changes in items other than shareholders' equity					
Total changes during the period	–	(8,234)	29,749	(2)	21,512
Balance at the end of current period	27,672	18,637	196,511	(280)	242,541

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	16,270	(58)	6,497	(276)	22,432	36	21,761	265,257
Changes during the period								
Issuance of new shares								–
Dividends from surplus								(4,782)
Profit for the year attributable to owners of the parent								34,532
Purchase of treasury stock								(2)
Disposal of treasury stock								–
Change in stake of parent company related to transactions with non-controlling interests								(8,234)
Net changes in items other than shareholders' equity	9,627	(22)	377	(44)	9,938	46	(897)	9,087
Total changes during the period	9,627	(22)	377	(44)	9,938	46	(897)	30,600
Balance at the end of current period	25,896	(80)	6,874	(320)	32,370	82	20,864	295,857

## Current consolidated fiscal year (April 1, 2017 - March 31, 2018)

(million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	27,672	18,637	196,511	(280)	242,541
Changes during the period					
Issuance of new shares	5,000	5,000			10,000
Dividends from surplus			(7,085)		(7,085)
Profit for the year attributable to owners of the parent			30,135		30,135
Purchase of treasury stock				(2,053)	(2,053)
Disposal of treasury stock		0		0	0
Change in stake of parent company related to transactions with non-controlling interests		0			0
Net changes in items other than shareholders' equity					
Total changes during the period	5,000	5,000	23,050	(2,053)	30,998
Balance at the end of current period	32,672	23,637	219,562	(2,333)	273,538

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of current period	25,896	(80)	6,874	(320)	32,370	82	20,864	295,857
Changes during the period								
Issuance of new shares								10,000
Dividends from surplus								(7,085)
Profit for the year attributable to owners of the parent								30,135
Purchase of treasury stock								(2,053)
Disposal of treasury stock								0
Change in stake of parent company related to transactions with non-controlling interests								0
Net changes in items other than shareholders' equity	7,361	(141)	(1,821)	329	5,728	48	13,009	18,785
Total changes during the period	7,361	(141)	(1,821)	329	5,728	48	13,009	49,782
Balance at the end of current period	33,258	(221)	5,053	9	38,099	129	33,873	345,639



## (4) Consolidated Statements of Cash Flows

(million yen)

	Previous consolidated fiscal year (April 1, 2016 – March 31, 2017)	Current consolidated fiscal year (April 1, 2017– March 31, 2018)
<b>Cash flows from operating activities</b>		
Income before income taxes and minority interests	58,523	58,538
Depreciation and amortization	12,887	13,727
Impairment loss	30	5,727
Amortization of goodwill	2,274	5,448
Provision for (reversal of) doubtful accounts	48	92
Provision for (reversal of) employees' bonuses	282	123
Provision for (reversal of) directors' bonuses	16	–
Provision for (reversal of) warranties for completed construction	903	(407)
Provision for (reversal of) directors' retirement benefits	(2)	11
Net defined benefit liability	(5,117)	(2,621)
Interest and dividends income	(1,896)	(1,885)
Interest expenses	1,560	1,387
Equity in (earnings) losses of affiliates	(3,053)	(3,026)
Losses (gains) on sales of marketable securities and investment securities	(88)	(108)
Losses (gains) on devaluation of marketable securities and investment securities	1	–
Losses (gains) on step acquisitions	–	(6,464)
Losses (gains) on sales/disposal of fixed assets	8	172
Decrease (increase) in notes and accounts receivable-trade	2,986	(12,017)
Inventories	(16,920)	(38,473)
Other current assets	307	4,447
Notes and accounts payable, trade	5,027	752
Advances received	568	869
Advances received on uncompleted construction contracts	(1,983)	1,910
Accrued consumption taxes	(1,396)	(1,431)
Other current liabilities	1,057	1,653
Other	(574)	2,084
Subtotal	55,449	30,507
Interest and dividends income received	4,778	3,948
Interest paid	(1,488)	(1,438)
Income taxes paid	(18,402)	(19,286)
Net cash provided by (used in) operating activities	40,337	13,732

(million yen)

	Previous consolidated fiscal year (April 1, 2016 – March 31, 2017)	Current consolidated fiscal year (April 1, 2017– March 31, 2018)
<b>Cash flows from investment activities</b>		
Payments into time deposits	(20,830)	(20,526)
Proceeds from withdrawal of time deposits	11,759	35,514
Decrease (increase) in short-term loans receivable	3,408	391
Payments for purchases of fixed assets	(48,946)	(14,827)
Proceeds from sales of fixed assets	4,480	3,275
Payments for purchases of intangible assets	(2,556)	(2,183)
Payments for purchase of investment securities	(3,994)	(42,710)
Proceeds from sales of investment securities	386	3,507
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(7,585)	(7,661)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	3,087	–
Payments of long-term loans payable	(853)	(148)
Repayments of long-term loans receivable	106	1,070
Other payments	(1,415)	(2,977)
Other proceeds	602	1,027
Net cash provided by (used in) investment activities	(62,350)	(46,250)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term debt	12,774	3,973
Repayments of finance lease obligations	(2,404)	(2,096)
Proceeds from long-term debt	16,490	13,560
Repayment of long-term debt	(5,886)	(20,665)
Proceeds from issuance of bonds	20,000	30,000
Repayment of bonds	(5,000)	–
Proceeds from issuance of shares	–	10,000
Proceeds from stock issuance to non-controlling interests	377	2,312
Cash dividends paid	(4,782)	(7,085)
Cash dividends paid to non-controlling interests	(2,550)	(4,838)
Payments for purchase of subsidiary shares not resulting in change in scope of consolidation	(14,750)	(1)
Other proceeds	–	0
Other payments	(2)	(3)
Net cash provided by (used in) financing activities	14,267	25,156
Effect of exchange rate change on cash and cash equivalents	(811)	(307)
Net increase (decrease) in cash and cash equivalents	(8,558)	(7,670)
Cash and cash equivalents at the beginning of period	141,265	132,707
Net increase (decrease) in cash and cash equivalents resulting in change in scope of consolidation	–	518
Cash and cash equivalents at the end of period	132,707	125,555

(5) Notes to the Consolidated Financial Statements

(Notes related to the Assumption of a Going Concern)

Not applicable

(Segment Information)

1. Outline of Reporting Segments

Reporting segments are discrete constituent units of the Sumitomo Forestry Group for which financial statements are separately prepared. In order to determine the allocation of the Group's management resources and evaluate its business results, the Board of Directors regularly discusses the reporting segments.

The Sumitomo Forestry Group has established divisions in its Headquarters to handle its products, services and regions. Each division formulates comprehensive strategies for the products and services that it handles and uses these strategies to conduct its business activities.

Therefore, the Sumitomo Forestry Group consists of different product, service and region-oriented segments which are based around divisions. There are 3 reporting segments: the timber and building materials business, the housing business, and the overseas business.

The "Timber and building materials business" is engaged in the purchase, manufacture, processing and sale etc. of timber and building materials. The "Housing business" is engaged in the construction, maintenance and renovation of detached houses and apartment buildings, the sale of spec homes, the sale of interior goods, the leasing, management, purchase and sale and brokerage of real estate, house exterior fixtures, landscaping works contracting, urban greening works, CAD, site surveys, etc. The "Overseas business" is engaged in the manufacture and sale of timber and building materials overseas, sale of spec homes, construction and sale of detached houses, etc., in overseas markets.

2. Method Used for Calculating Sales, Income (loss), Assets and other Items by Each Reporting Segment

The accounting treatment used for all reporting segments is basically the same as that stated in "Basis of Presenting the Consolidated Financial Statements," except for the treatment used to account for retirement benefit cost.

Lump-sum expenses such as actuarial differences for retirement benefit cost are not included in the income or losses of business segments.

Segment income figures are based on recurring income.

Intersegment transactions are priced in accordance with prevailing market prices.

Monetary amounts in segment information for the previous consolidated fiscal year reflect adjustments of the purchase price allocation following the determination of the provisional accounting treatment related to business combinations.

## 3. Information regarding Sales, Income (loss), Assets and Other Items by Each Reporting Segment

Previous consolidated fiscal year (April 1, 2016 – March 31, 2017)

(million yen)

	Reporting segment				Other (Note 1)	Total	Adjustment (Note 2)	Total shown in the consolidated financial statement (Note 3)
	Timber and building materials	Housing	Overseas	Total				
Net sales								
(1) Unaffiliated customers	402,605	464,720	232,017	1,099,342	12,728	1,112,070	1,294	1,113,364
(2) Intersegment sales/transfers	21,835	1,578	15,873	39,286	10,251	49,537	(49,537)	–
Total	424,440	466,298	247,890	1,138,628	22,979	1,161,607	(48,243)	1,113,364
Segment income (loss)	4,456	32,349	19,310	56,116	2,223	58,338	(497)	57,841
Segment assets	144,382	144,108	228,409	516,899	79,977	596,876	197,483	794,360
Other								
Depreciation and amortization (Note 4)	906	5,136	4,370	10,412	1,630	12,042	845	12,887
Amortization of goodwill	–	–	2,274	2,274	–	2,274	–	2,274
Interest income	26	45	268	339	139	479	54	533
Interest expenses	378	543	1,817	2,738	190	2,928	(1,368)	1,560
Equity in earnings (losses) of affiliates	(1,142)	(1)	3,657	2,514	539	3,053	0	3,053
Investments in equity method affiliates	579	3	15,862	16,444	625	17,069	(9)	17,060
Increase in property, plant and equipment and intangible assets (Note 4)	947	4,482	7,261	12,690	39,455	52,145	1,983	54,128

- Notes:
- 1 “Other” is business segments not included in the reporting segments. Such segments include biomass power generation business, an overseas forestation business, private-pay elderly care facilities business, leasing business, insurance agency business and farming and gardening material manufacturing and sales business.
  - 2 Adjustments are as presented below.
    - (1) Adjusted sales to unaffiliated customers of ¥1,294 million are attributable to the administrative departments, and comprised mainly of rent from Company landholdings.
    - (2) The adjusted business loss of ¥497 million includes ¥453 million in eliminated intersegment transactions, ¥4,981 million in retirement benefit costs and ¥5,025 million in corporate losses which are not allocated to any of the reporting segments. Corporate income (loss) is primarily selling, general and administrative expenses, non-operating income or non-operating expenses not belonging to any reporting segments.
    - (3) The adjusted segment assets of ¥197,483 million include ¥11,290 million in eliminated intersegment transactions and ¥208,773 million in corporate assets which are not allocated to any reporting segment. Corporate assets are mainly unused funds after management (cash, deposits and securities), long-term investments (investment securities) and assets used by administrative departments.
  - 3 Total segment income (loss) and segment assets are the total adjusted recurring income and assets shown in the consolidated financial statements, respectively.
  - 4 The increase in depreciation expenses, property, plant and equipment and intangible assets includes long-term prepaid expenses and write-offs associated with these expenses.

## Current Consolidated Fiscal Year (April 1, 2017 – March 31, 2018)

(million yen)

	Reporting segment				Other (Note 1)	Total	Adjustment (Note 2)	Total shown in the consolidated financial statement (Note 3)
	Timber and building materials	Housing	Overseas	Total				
Net sales								
(1) Unaffiliated customers	413,224	448,623	335,390	1,197,237	23,663	1,220,899	1,098	1,221,998
(2) Intersegment sales/transfers	22,284	578	17,507	40,369	13,345	53,713	(53,713)	–
Total	435,508	449,201	352,897	1,237,605	37,007	1,274,613	(52,615)	1,221,998
Segment income (loss)	5,583	24,945	26,491	57,019	4,934	61,953	(4,088)	57,865
Segment assets	157,448	144,066	277,903	579,417	132,064	711,481	192,201	903,682
Other								
Depreciation and amortization (Note 4)	962	4,611	4,531	10,105	2,771	12,876	851	13,727
Amortization of goodwill	–	–	5,280	5,280	168	5,448	–	5,448
Interest income	37	42	189	268	150	418	27	445
Interest expenses	320	427	1,741	2,488	252	2,740	(1,353)	1,387
Equity in earnings (losses) of affiliates	(49)	(1)	1,843	1,793	1,233	3,026	0	3,026
Investments in equity method affiliates	797	2	11,656	12,455	34,133	46,588	(9)	46,580
Increase in property, plant and equipment and intangible assets (Note 4)	707	7,085	6,409	14,202	3,746	17,947	2,605	20,552

- Notes:
- 1 “Other” is business segments not included in the reporting segments. Such segments include the biomass power generation business, an overseas forestation business, private-pay elderly care facilities business, insurance agency business, farming and gardening material manufacturing and sales business, and contracted civil engineering/construction work.
  - 2 Adjustments are as presented below.
    - (1) Adjusted sales to unaffiliated customers of ¥1,098 million are attributable to the administrative departments, and comprised mainly of rent from Company landholdings.
    - (2) The adjusted business loss of ¥4,088 million includes ¥706 million in eliminated intersegment transactions, ¥2,291 million in retirement benefit costs and ¥5,673 million in corporate losses which are not allocated to any of the reporting segments. Corporate income (loss) is primarily selling, general and administrative expenses, non-operating income or non-operating expenses not belonging to any reporting segments.
    - (3) The adjusted segment assets of ¥192,201 million include ¥10,549 million in eliminated intersegment transactions and ¥202,750 million in corporate assets which are not allocated to any reporting segment. Corporate assets are mainly unused funds after management (cash, deposits and securities), long-term investments (investment securities) and assets used by administrative departments.
  - 3 Total segment income (loss) and segment assets are the total adjusted recurring income and assets shown in the consolidated financial statements, respectively.
  - 4 The increase in depreciation expenses, property, plant and equipment and intangible assets includes long-term prepaid expenses and write-offs associated with these expenses.

## (Per-Share Information)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net assets per share	¥1,552.04	¥1,719.05
Net income per share	¥194.95	¥168.49
Net income per share (diluted)	¥183.76	¥158.82

(Notes) 1. The basis for calculating net asset per share is as follows.

	Fiscal year ended March 31, 2017 (As of March 31, 2017)	Fiscal year ended March 31, 2018 (As of March 31, 2018)
Total net assets (million yen)	295,857	345,639
Breakdown of deductions from total net (million yen)	20,946	34,002
(Subscription rights to shares (million yen))	(82)	(129)
(Non-controlling interests (million yen))	(20,864)	(33,873)
Total net assets for common stock (million yen)	274,911	311,637
Number of common stocks issued (shares)	177,410,239	182,607,739
Number of treasury stocks (shares)	281,970	1,323,737
Number of common stocks used for calculation of net asset per share (shares)	177,128,269	181,284,002

2. The basis for calculating net income per share and net income per share fully diluted is as follows.

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net income per share		
Profit for the year attributable to owners of the parent (million yen)	34,532	30,135
Income not available to common stockholders (million yen)	–	–
Profit for the year attributable to owners of the parent for common stock (million yen)	34,532	30,135
Weighted average number of shares issued (shares)	177,129,048	178,859,807
Net income per share fully diluted		
Adjusted profit for the year attributable to owners of parent (million yen)	–	–
Common shares increase (shares)	10,784,027	10,889,784
(Convertible bonds with stock acquisition rights (shares))	(10,719,837)	(10,785,741)
(Stock acquisition rights (shares))	(64,190)	(104,043)
Overview of potentially dilutive common shares not included in computation of diluted net income per share because of their anti-dilutive effect	–	–

3. Based on the monetary amount reflecting the adjustments of the purchase price allocation following the determination of the provisional accounting treatment related to business combinations.

(Important Subsequent Events)

Business combination through acquisition

At the board meeting of the Company held on April 27, 2018, a resolution was passed to acquire all interests in the new company taking over the business of US-based Crescent Communities, LLC through consolidated subsidiary Sumitomo Forestry America, Inc. and make it a consolidated subsidiary.

1. Overview of merger

(1) Name of acquired company and description of business

Name of acquired company: TBD

Description of business: Apartment development business, commercial complex development business, spec homes business

(2) Main reason(s) for merger

In July 2017, the Group began developing apartments in North Carolina as a joint venture with Crescent Communities, LLC. We were able to verify that it was a favorable partnership, so the decision was made to acquire the new company for the purpose of business diversification and stabilization of earnings.

(3) Timing of merger

June 2018 (tentative)

(4) Legal form of merger

Cash-based stake acquisition

(5) Percentage of voting rights acquired

100%

(6) Main grounds for decision

Our consolidated subsidiary Sumitomo Forestry America, Inc. will acquire the stakes with cash.

2. Breakdown of acquisition price and type of consideration

<u>Acquisition price</u>	Cash	¥39,300 million (approximate)
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Cost of acquisition		¥39,300 million (approximate)
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(Note) The amount above is approximate as of the date the agreement was signed and may differ from the actual amount depending on future price adjustments, etc.

3. Amount of goodwill, reasons and method/period of amortization

Not yet determined.