

Summary of Financial Results for the First Quarter of the Fiscal Year Ending March 2020 [Japan GAAP] (Consolidated)

Name of Company: Sumitomo Forestry Co., Ltd.	Stock Exchange Listing: Tokyo
Stock Code: 1911	URL: http://sfc.jp/english/
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Date of filing of financial report: August 9, 2019	
Date of commencement of dividend payment (tentative): –	
Preparation of supplementary materials: Yes	
Convening of a first quarter results meeting: Yes (for financial analysts and institutional investors)	

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

1. Consolidated financial results for the first quarter of the FY ending March 2020 (April 1, 2019 – June 30, 2019)

(1) Consolidated results of operations (Cumulates total) (%: change from the same period of the previous year)

	Net sales		Operating income		Recurring income		Profit for the year attributable to owners of the parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1Q FY Ending March 2020	235,009	-5.7	4,512	–	4,979	–	565	–
1Q FY Ended March 2019	249,274	9.0	-3,871	–	-2,708	–	-3,518	–

Note: Comprehensive income 1Q FY Ending March 2020 711 million yen (-%)
1Q FY Ended March 2019 -11,720 million yen (-%)

	Net income per share	Net income per share fully diluted
	Yen	Yen
1Q FY Ending March 2020	3.12	3.04
1Q FY Ended March 2019	-19.40	–

Note: Diluted net income per share for the first quarter of the fiscal year ended March 2019 has not been recorded, because, although there are residual securities, the Company posted a net loss per share.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2019	966,202	340,006	31.8
As of March 31, 2019	970,976	353,489	32.8

Note: Shareholders' equity As of June 30, 2019 307,170 million yen
As of March 31, 2019 318,320 million yen

2. Dividends

	Dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Full year
	Yen	Yen	Yen	Yen	Yen
FY Ended March 2019	–	20.00	–	20.00	40.00
FY Ending March 2020	–				
FY Ending March 2020 (Est.)		20.00	–	20.00	40.00

Note: Revised dividend forecast for the quarter under review: None

**3. Forecast of the consolidated financial results for the FY ending March 2020
(Consolidated, April 1, 2019 – March 31, 2020)**

(%: change from the previous year)

	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	1,123,000	-14.2	52,500	6.6	57,000	10.8	30,000	2.9	165.40

Note: Revised forecast for the quarter under review: None

* Notice

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

(2) Application of accounting treatment specific to the preparation of the consolidated quarterly financial statements: None

(3) 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): Yes

(c) Changes in accounting estimates: None

(d) Restatements: None

(4) Number of shares outstanding (common stock)

(a) Shares outstanding (including treasury stock)

As of June 30, 2019	182,699,536	As of March 31, 2019	182,698,636
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(b) Treasury stock

As of June 30, 2019	1,326,055	As of March 31, 2019	1,325,804
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(c) Average number of shares during the term (cumulative for the quarter)

As of June 30, 2019	181,373,218	As of June 30, 2018	181,283,835
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* 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. Actual results may differ substantially due to various factors.

(Method of Obtaining Supplemental Explanatory Material)

The Company will hold a briefing (teleconference) for securities analysts and institutional investors on Wednesday, July 31, 2019.

The explanatory material on the financial results to be distributed at the briefing will be published on the website afterwards.

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

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

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Quarterly Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

(million yen)

	Previous consolidated fiscal year (ended March 31, 2019)	First quarter consolidated accounting period (ended June 30, 2019)
Assets		
Current assets		
Cash and time deposits	82,421	52,827
Notes and accounts receivable-trade	135,636	132,376
Accounts receivable from completed construction contracts	9,601	38,401
Marketable securities	5,304	5,015
Finished goods, logs and lumber, boards, others	20,588	21,174
Work in process	1,443	1,603
Raw materials and supplies	8,039	8,165
Costs on uncompleted construction contracts	26,945	25,854
Developed land and housing for sale	63,736	64,652
Real estate for sale in process	173,472	184,098
Short-term loans receivable	20,267	20,164
Accounts receivable-other	45,967	36,940
Other	16,756	19,136
Allowance for doubtful accounts	(355)	(328)
Total current assets	609,820	610,079
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	87,084	88,201
Accumulated depreciation	(39,850)	(40,774)
Buildings and structures, net	47,234	47,427
Machinery, equipment and vehicles	76,357	76,579
Accumulated depreciation	(49,245)	(50,186)
Machinery, equipment and vehicles, net	27,113	26,393
Land	39,513	39,700
Forest assets	34,956	33,901
Leased assets	8,535	8,350
Accumulated depreciation	(4,115)	(4,082)
Leased assets, net	4,419	4,268
Construction in progress	11,770	13,080
Other	15,811	16,255
Accumulated depreciation	(10,815)	(11,176)
Other, net	4,996	5,079
Total property, plant and equipment	170,000	169,847
Intangible assets		
Goodwill	12,651	10,959
Other	13,900	13,681
Total intangible assets	26,551	24,641
Investments and other assets		
Investment securities	140,968	139,739
Long-term loans receivable	2,501	2,318
Net defined benefit assets	238	224
Deferred tax assets	4,945	4,826
Other	16,991	15,548
Allowance for doubtful accounts	(1,039)	(1,018)
Total investments and other assets	164,605	161,636
Total noncurrent assets	361,156	356,124
Total assets	970,976	966,202

(million yen)

	Previous consolidated fiscal year (ended March 31, 2019)	First quarter consolidated accounting period (ended June 30, 2019)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	118,547	111,048
Accounts payable for construction contracts	75,595	75,023
Short-term debt	61,506	52,895
Commercial paper	–	15,000
Lease obligations	584	488
Income taxes payable	4,902	1,451
Advances received on uncompleted construction contracts	52,198	38,211
Provision for employees' bonuses	14,353	7,988
Provision for directors' bonuses	143	–
Provision for warranties for completed construction	3,733	3,168
Asset retirement obligation	853	832
Other	41,359	55,454
Total current liabilities	373,772	361,556
Long-term liabilities		
Bonds issued	70,000	70,000
Convertible bonds	10,090	10,085
Long-term debt	102,269	126,483
Lease obligation	4,436	4,390
Deferred tax liabilities	11,474	6,948
Provision for directors' retirement benefits	127	133
Net defined benefit liabilities	19,822	19,891
Asset retirement obligation	1,157	1,209
Other	24,339	25,502
Total long-term liabilities	243,714	264,640
Total liabilities	617,486	626,196
Net assets		
Shareholders' equity		
Common stock	32,752	32,752
Capital surplus	22,247	22,248
Retained earnings	241,427	231,907
Treasury stock	(2,337)	(2,338)
Total shareholders' equity	294,088	284,569
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25,196	22,981
Deferred gains or losses on hedges	752	650
Foreign currency translation adjustment	(1,733)	(1,053)
Remeasurements of defined benefit plans	17	23
Total accumulated other comprehensive income	24,232	22,600
Subscription rights to shares	135	134
Non-controlling interests	35,034	32,703
Total net assets	353,489	340,006
Total liabilities and net assets	970,976	966,202

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

(Consolidated Statements of Income)

(For the first quarter cumulative period (consolidated))

(million yen)

	Previous 1Q Cumulative Period (Consolidated) (April 1, 2018 – June 30, 2018)	1Q Cumulative Period under Review (Consolidated) (April 1, 2019 – June 30, 2019)
Net sales	249,274	235,009
Cost of sales	210,943	185,468
Gross profit	38,331	49,542
Selling, general and administrative expenses	42,201	45,030
Operating income (loss)	(3,871)	4,512
Non-operating income		
Interest income	139	101
Purchase discounts	87	89
Dividends income	835	643
Equity in earnings of affiliates	439	245
Foreign exchange gains	–	35
Other	418	452
Total non-operating income	1,917	1,566
Non-operating expenses		
Interest expenses	371	698
Sales discount	173	171
Foreign exchange losses	105	–
Other	105	229
Total non-operating expenses	754	1,098
Recurring income (loss)	(2,708)	4,979
Extraordinary gains		
Gain on sales of noncurrent assets	23	18
Total extraordinary gains	23	18
Extraordinary loss		
Loss on sales of noncurrent assets	0	1
Loss on retirement of noncurrent assets	21	16
Disaster losses	–	1,601
Loss on liquidation of subsidiaries and affiliates	–	53
Total extraordinary loss	21	1,671
Income (loss) before income taxes and non-controlling interests	(2,706)	3,326
Income taxes-current	1,933	1,926
Income taxes-deferred	(2,965)	(876)
Total income taxes	(1,031)	1,050
Net income (loss)	(1,674)	2,277
Profit attributable to non-controlling interests	1,844	1,711
Profit (loss) attributable to owners of parent	(3,518)	565

(Consolidated Statements of Comprehensive Income)

(For the first quarter cumulative period (consolidated))

(million yen)

	Previous 1Q Cumulative Period (Consolidated) (April 1, 2018 – June 30, 2018)	1Q Cumulative Period under Review (Consolidated) (April 1, 2019 – June 30, 2019)
Net income (loss)	(1,674)	2,277
Other comprehensive income		
Valuation difference on available-for-sale securities	885	(2,109)
Deferred gains or losses on hedges	272	(102)
Foreign currency translation adjustment	(10,685)	650
Share in equity method affiliates	(519)	(3)
Total other comprehensive income (loss)	(10,046)	(1,565)
Comprehensive income	(11,720)	711
Comprehensive income attributable to owners of the parent	(11,473)	(1,066)
Comprehensive income attributable to non-controlling interests	(247)	1,777

(3) Explanation Concerning Consolidated Financial Statements

(Notes related to the Assumption of a Going Concern)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition)

It became possible to apply the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018) from the beginning of the consolidated fiscal year starting on or after April 1, 2018. As such, the Accounting Standard for Revenue Recognition has been applied from the beginning of the first quarter under review. The amount expected to be received in exchange for promised goods or services is recognized as revenue at the time control of those goods or services is transferred to the customer.

The main changes resulting from application of the Accounting Standard for Revenue Recognition are as follows:

(1) Recognition of revenue related to agent transactions

In regard to revenue related to the domestic distribution business, primarily in the Timber and Building Materials segment, the total amount of consideration received from the customer was recognized as revenue in the past. However, for transactions where the Company's role in providing the product to the customer is fulfilled by an agent, the method of revenue recognition has changed to one in which the net amount after the amount paid to the supplier is deducted from the amount received from the customer is recognized as revenue.

(2) Recognition of revenue related to construction contracts

In regard to construction contracts in the Housing and Construction segment and the Overseas Housing and Real Estate segment, the percentage-of-completion method was used if the outcome of a construction contract could be estimated reliably, and the completed contract method was used for other short-term construction contracts. However, the method has been changed to one in which revenue is recognized for all construction over a fixed period as performance obligations are fulfilled. Additionally, the method used for estimating progress on fulfillment of performance obligations is the input method based on costs incurred. An alternative treatment is applied for construction contracts where the period from the transaction start date to the expected date of complete fulfillment of performance obligations is very short. In these cases, revenue is not recognized over a fixed period but rather at the time of complete fulfillment of performance obligations.

(3) Recognition of revenue related to warranty service

In the Housing and Construction segment, a free inspection service is provided to customers after delivery based on construction or sales contracts for custom-built detached houses and other products. In the past, revenue was not recognized for this service, but the method has been changed to one in which performance obligations are identified in relation to delivery of the custom-built detached house or other product and in relation to the service, and revenue is recognized when those performance obligations are fulfilled.

Application of the Accounting Standard for Revenue Recognition is in accordance with the transitional treatment as provided in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retroactively applying new accounting policies prior to the beginning of the first quarter under review is added to or deducted from retained earnings, and the balance was adjusted to apply the new standard from the beginning of the period under review. However, the Company has applied the method prescribed in proviso (1)

of Paragraph 86 of the Accounting Standard for Revenue Recognition. For contract changes made before the beginning of the period under review, the treatment set forth in (1) to (3) below is implemented based on the contract conditions after all changes have been reflected, and the cumulative effect is added to or deducted from retained earnings at the beginning of the period under review.

- (1) Classification as fulfilled or unfulfilled performance obligations
- (2) Calculation of transaction price
- (3) Allocation of transaction price to fulfilled or unfulfilled performance obligations

As a result, net sales in the first quarter under review decreased by ¥25,931 million, and cost of sales decreased by ¥35,139 million. Operating income, recurring income, and quarterly net income before income taxes each increased by ¥9,208 million. Beginning of period retained earnings decreased by ¥6,437 million.

(Segment Information)

I Previous first quarter cumulative period (consolidated, April 1, 2018 – June 30, 2018)

1. Information regarding Sales and Income (Loss) for each Reporting Segment

(million yen)

	Reporting segment					Other (Note 1)	Total	Adjustment (Note 2)	Total shown in the quarterly consolidated financial statement (Note 3)
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Total				
Net sales									
(1) Unaffiliated customers	111,566	63,070	68,103	3,230	245,970	3,142	249,111	162	249,274
(2) Intersegment sales/transfers	5,342	74	117	985	6,519	2,278	8,796	(8,796)	–
Total	116,908	63,145	68,220	4,215	252,488	5,419	257,908	(8,634)	249,274
Segment income (loss)	1,808	(8,798)	4,938	489	(1,563)	(454)	(2,017)	(691)	(2,708)

- Notes:
1. “Other” is business segments not included in the reporting segments. Such segments include private-pay elderly care facilities business, insurance agency business and civil engineering/construction contracting business.
 2. The adjusted business loss of ¥691 million includes ¥412 million in eliminated intersegment transactions and ¥279 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. Total segment income (loss) is adjusted against recurring loss in the quarterly consolidated statements of income.

2. Information on Impairment Loss on Noncurrent Assets, Goodwill, etc., for each Reporting Segment

Not applicable

II First quarter cumulative period under review (consolidated, April 1, 2019 – June 30, 2019)

1. Information regarding Sales and Income (Loss) for each Reporting Segment

(million yen)

	Reporting segment					Other (Note 1)	Total	Adjustment (Note 2)	Total shown in the quarterly consolidated financial statement (Note 3)
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Total				
Net sales									
(1) Unaffiliated customers	52,618	98,210	77,863	3,152	231,843	3,007	234,850	160	235,009
(2) Intersegment sales/transfers	4,857	59	141	943	6,000	2,363	8,363	(8,363)	–
Total	57,475	98,269	78,004	4,095	237,843	5,370	243,213	(8,204)	235,009
Segment income (loss)	926	430	3,921	507	5,783	61	5,844	(865)	4,979

- Notes: 1. “Other” is business segments not included in the reporting segments. Such segments include private-pay elderly care facilities business, insurance agency business and civil engineering/construction contracting business.
2. The adjusted business loss of ¥865 million includes ¥208 million in eliminated intersegment transactions and ¥657 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. Total segment income (loss) is adjusted against recurring loss in the quarterly consolidated statements of income.

2. Changes to Reporting Segments

(Changes to Reporting Segments)

Beginning from the first quarter under review, the reporting segments have been changed from “Timber and Building Materials,” “Housing and Construction,” and “Overseas Housing and Real Estate” to “Timber and Building Materials,” “Housing and Construction,” “Overseas Housing and Real Estate,” and “Environment and Resources.”

The main change is that the biomass power generation business and overseas forestation business, which had been included in “Other,” is included in “Environment and Resources” business.

Segment information for the previous first quarter has been prepared based on the new reporting segments.

(Changes in Accounting Policies)

As detailed under Changes in Accounting Policies, the Accounting Standard for Revenue Recognition has been applied from the beginning of the first quarter under review. The accounting method related to revenue recognition has changed, so the method of measuring segment profit and loss has likewise been changed.

As a result of this change, compared to the previous method, net sales in the Timber and Building Materials Business decreased by ¥60,994 million, net sales in the Housing and Construction Business increased by ¥35,195 million, segment income increased by ¥9,187 million, net sales in the Other decreased by ¥131 million, and segment income increased by ¥21 million in the first quarter under review.

3. Information on Impairment Loss on Noncurrent Assets, Goodwill, etc., for each Reporting Segment

Not applicable