

Happiness Grows from Trees



**SUMITOMO FORESTRY**

# **Financial Results for the Third Quarter of FY Ending March, 2017**

**SUMITOMO FORESTRY CO., LTD.**

**January 31, 2017**

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## 3Q FY3/17 Results Summary of Financial Results

- Both the domestic and overseas housing businesses performed well, and net sales and profit levels both exceeded those of the previous year.
- The significant change in net income attributable to parent company shareholders is a result of the extraordinary loss posted in conjunction with the forestation business impairment in Papua New Guinea in the previous year.

| (Billion yen)   | 3Q FY3/16    |              | 3Q FY3/17    |              | Change       | Pct.           |
|---|--------------|--------------|--------------|--------------|--------------|----------------|
|   | Profit ratio | Amounts      | Profit ratio | Amounts      |              |                |
| <b>Net sales</b>  |              | <b>730.1</b> |              | <b>771.8</b> | <b>+41.8</b> | <b>+5.7%</b>   |
| <b>Gross profit</b>   | <b>16.8%</b> | <b>122.8</b> | <b>17.5%</b> | <b>134.7</b> | <b>+11.9</b> | <b>+9.7%</b>   |
| <b>SG&amp;A expenses</b>                                      |              | <b>105.1</b> |              | <b>111.9</b> | <b>+6.9</b>  | <b>+6.5%</b>   |
| <b>Operating income</b>                                       | <b>2.4%</b>  | <b>17.7</b>  | <b>2.9%</b>  | <b>22.8</b>  | <b>+5.1</b>  | <b>+28.7%</b>  |
| <b>Recurring income</b>                                       | <b>2.4%</b>  | <b>17.6</b>  | <b>3.4%</b>  | <b>26.0</b>  | <b>+8.4</b>  | <b>+47.6%</b>  |
| <b>Net income attributable to parent company shareholders</b> | <b>0.6%</b>  | <b>4.0</b>   | <b>2.0%</b>  | <b>15.5</b>  | <b>+11.5</b> | <b>+283.4%</b> |

## 3Q FY3/17 Results

### Summary of Financial Results by Segment

- Timber and Building Materials  
⇒ Net sales were down due to a stronger yen, but recurring income was up owing to improved profitability.
- Housing ⇒ Sales and profit were up thanks to an increase in the number of custom-built detached houses completed and higher unit prices.
- Overseas ⇒ The manufacturing, housing and real estate businesses all trended favorably, and a substantial increase was achieved in both sales and profit.
- Other ⇒ In addition to the impairment in the Indonesian forestation business in the previous year, the biomass power generation business in Mombetsu City, Hokkaido and the forestation business in New Zealand contributed to profitability for increased profit

|                  |                               | (Billion yen) |              |              |              |            |               |
|------------------|-------------------------------|---------------|--------------|--------------|--------------|------------|---------------|
|                  |                               | 3Q FY3/16     | 3Q FY3/17    | Change       | Pct.         |            |               |
| Net sales        | Timber and Building Materials | 320.5         | 319.3        | -1.2         | -0.4%        |            |               |
|                  | Housing                       | 292.9         | 303.3        | +10.4        | +3.6%        |            |               |
|                  | Inc. Renovation               | 47.0          | 47.3         | +0.3         | +0.6%        |            |               |
|                  | Overseas                      | 138.5         | 167.9        | +29.4        | +21.2%       |            |               |
|                  | Other                         | 12.3          | 14.4         | +2.1         | +16.7%       |            |               |
|                  | Adjustment                    | -34.2         | -33.0        | +1.2         | -            |            |               |
|                  | <b>Total</b>                  | <b>730.1</b>  | <b>771.8</b> | <b>+41.8</b> | <b>+5.7%</b> |            |               |
| Recurring income | Timber and Building Materials | 0.9%          | 2.9          | 1.4%         | 4.3          | +1.5       | +51.2%        |
|                  | Housing                       | 3.5%          | 10.1         | 4.1%         | 12.3         | +2.2       | +21.5%        |
|                  | Inc. Renovation               | 3.6%          | 1.7          | 2.7%         | 1.3          | -0.4       | -23.4%        |
|                  | Overseas                      | 6.3%          | 8.7          | 6.9%         | 11.5         | +2.8       | +32.3%        |
|                  | Other                         | -9.5%         | -1.2         | 6.5%         | 0.9          | +2.1       | -             |
|                  | Adjustment                    | -             | -2.9         | -3.0         | -0.2         | -          |               |
|                  | <b>Total</b>                  | <b>2.4%</b>   | <b>17.6</b>  | <b>3.4%</b>  | <b>26.0</b>  | <b>+84</b> | <b>+47.6%</b> |

# 3Q FY3/17 Results

## Profit and Loss Performance by Business in Overseas Business

- Manufacturing ⇒ Owing in part to the impact of the exchange rate in addition to strong sales, the results of our MDF manufacturing subsidiary in New Zealand trended favorably.
- Housing and Real Estate ⇒ Driven by the results of US East Coast-based DRB Group, which has been contributing to profits since the beginning of the year, both sales and recurring income were up.

| (Billion yen)                         | Net sales    |              |              |               | Recurring income |             |             |               |
|---------------------------------------|--------------|--------------|--------------|---------------|------------------|-------------|-------------|---------------|
|                                       | 3Q FY3/16    | 3Q FY3/17    | Change       | Pct.          | 3Q FY3/16        | 3Q FY3/17   | Change      | Pct.          |
| Manufacturing                         | 40.5         | 37.0         | -3.4         | -8.5%         | 1.7              | 2.6         | +0.9        | +54.5%        |
| Housing and Real Estate               | 98.5         | 131.2        | +32.7        | +33.3%        | 11.4             | 12.9        | +1.5        | +12.9%        |
| Other, Consolidated Adjustments, etc. | -0.4         | -0.4         | +0.0         | -             | -4.4             | -4.0        | +0.4        | -             |
| <b>Total</b>                          | <b>138.5</b> | <b>167.9</b> | <b>+29.4</b> | <b>+21.2%</b> | <b>8.7</b>       | <b>11.5</b> | <b>+2.8</b> | <b>+32.3%</b> |

# 3Q FY3/17 Results

## Housing Business Sales (non-consolidated)

- Custom-built detached houses  
⇒ The backlog of orders received at the beginning of the year was smaller than the year before, but housing starts trended favorably, so both amounts and number of houses were up year on year.
- Apartments ⇒ Sales were up against the backdrop of a strong market environment, and net sales surpassed ¥10 billion.

|  |  | (Billion yen) | 3Q FY3/16    | 3Q FY3/17   | Change       | Pct.     |
|--|--|---------------|--------------|-------------|--------------|----------|
| Contract business  | Custom-built detached houses (Amounts) |               | 190.4        | 195.7       | +5.3         | +2.8%    |
|  | (Units)                                |               | (5,016)      | (5,099)     | (+83)        | (+1.7%)  |
|  | Million yen (Unit price)               |               | (38.0)       | (38.4)      | (+0.4)       | (+1.1%)  |
|  | Apartments (Amounts)                   |               | 9.6          | 10.1        | +0.5         | +5.0%    |
|  | (Units)                                |               | (545)        | (678)       | (+133)       | (+24.4%) |
|  | Other contracts (Amounts)              |               | 1.3          | 3.1         | +1.9         | +145.8%  |
|  | Detached spec homes (Amounts)          |               | 7.5          | 7.0         | -0.5         | -6.8%    |
|  | (Units)                                |               | (193)        | (184)       | (-9)         | (-4.7%)  |
|  | Million yen (Unit price)               |               | (38.7)       | (37.8)      | (-0.9)       | (-2.3%)  |
| Land for custom-built housing (Amounts)                        |  | 2.9           | 3.2          | +0.4        | +12.6%       |          |
| Existing home renovation (Resale of Renovated Homes) (Amounts) |  | 3.2           | 2.8          | -0.3        | -10.5%       |          |
| Other (Amounts)  |  | 5.2           | 6.1          | +0.9        | +17.2%       |          |
| <b>Total (Amounts)</b>   |  | <b>220.0</b>  | <b>228.0</b> | <b>+8.0</b> | <b>+3.6%</b> |          |
| Gross profit ratio (%)   |  | (25.2%)       | (25.2%)      | (+0%)       | —            |          |
| Gross profit (Amounts)   |  | 55.4          | 57.5         | +2.0        | +3.7%        |          |

## 3Q FY3/17 Results

### Housing Business Orders Received

- Custom-built detached houses
  - ⇒ Unit prices remained on the rise, and although the negative gap was smaller than in the second quarter on a monetary amount basis, results were down year on year.
- Renovation ⇒ A positive trend was secured despite overall market stagnation.

|                        |                                     | (Billion yen)                   | 3Q FY3/16      | 3Q FY3/17      | Change        | Pct.           |
|------------------------|-------------------------------------|---------------------------------|----------------|----------------|---------------|----------------|
| <b>Orders Received</b> | <b>Custom-built detached houses</b> | <b>(Amounts)</b>                | <b>220.6</b>   | <b>217.6</b>   | <b>-3.0</b>   | <b>-1.4%</b>   |
|                        |                                     | <b>(Units)</b>                  | <b>(5,720)</b> | <b>(5,570)</b> | <b>(-150)</b> | <b>(-2.6%)</b> |
|                        |                                     | <b>Million yen (Unit price)</b> | <b>(34.0)</b>  | <b>(34.2)</b>  | <b>(+0.3)</b> | <b>(+0.9%)</b> |
|                        | <b>Apartments</b>                   | <b>(Amounts)</b>                | <b>17.7</b>    | <b>17.1</b>    | <b>-0.6</b>   | <b>-3.4%</b>   |
|                        |                                     | <b>(Units)</b>                  | <b>(1,165)</b> | <b>(1,120)</b> | <b>(-45)</b>  | <b>(-3.9%)</b> |
|                        | <b>Renovation</b>                   | <b>(Amounts)</b>                | <b>46.8</b>    | <b>48.5</b>    | <b>+1.6</b>   | <b>+3.5%</b>   |
|                        | <b>Other contracts</b>              | <b>(Amounts)</b>                | <b>3.3</b>     | <b>1.6</b>     | <b>-1.7</b>   | <b>-52.5%</b>  |
|                        |                                     |                                 |                |                |               |                |
|                        |                                     |                                 |                |                |               |                |
|                        |                                     |                                 |                |                |               |                |

# FY3/17 Forecast

## Summary of Earnings Forecast for the Full Year

- The forecast for net sales was left unchanged from the second quarter, but performance in the overseas segment trended better than anticipated, so the profit level was revised upward.
- Recurring income is expected to hit the ¥50 billion mark, a first for the Group and the highest ever.

| <Full Year Forecast><br>(Billion yen)                  | FY3/16  | FY3/17 Forecast | Change | Pct.    | FY3/17                           |            |
|--|---------|-----------------|--------|---------|----------------------------------|------------|
|  |         |                 |        |         | Previous (2Q) Full-Year Forecast | Difference |
| Net sales  | 1,040.5 | 1,110.0         | +69.5  | +6.7%   | 1,110.0                          | —          |
| Gross profit   | 183.1   | 202.0           | +18.9  | +10.3%  | 200.5                            | +1.5       |
| SG&A expenses  | 153.0   | 154.5           | +1.5   | +1.0%   | 154.5                            | —          |
| Operating income                                       | 30.1    | 47.5            | +17.4  | +57.8%  | 46.0                             | +1.5       |
| Recurring income                                       | 30.5    | 50.0            | +19.5  | +63.9%  | 48.0                             | +2.0       |
| Net income attributable to parent company shareholders | 9.7     | 29.0            | +19.3  | +198.1% | 27.0                             | +2.0       |



# FY3/17 Forecast

## Earnings Forecast by Segment for Full Year

- In regards to the net sales forecasts, the forecast for the timber and building materials business was revised downward ¥6 billion from last time, while the forecast for the overseas business was revised upward by the same amount.
- Recurring income in the overseas business, which is performing favorably, was revised upward ¥2 billion.

|                  |                               | (Billion yen) |       | FY3/16  | FY3/17 Forecast | Change | Pct.   | Difference from Previous (2Q) Forecast |
|------------------|-------------------------------|---------------|-------|---------|-----------------|--------|--------|--|
| Net sales        | Timber and Building Materials |               |       | 427.0   | 420.0           | -7.0   | -1.6%  | -6.0                                   |
|                  | Housing                       |               |       | 454.6   | 468.0           | +13.4  | +2.9%  | —                                      |
|                  | Inc. Renovation               |               |       | 64.9    | 66.7            | +1.8   | +2.8%  | —                                      |
|                  | Overseas                      |               |       | 187.9   | 243.0           | +55.1  | +29.3% | +6.0                                   |
|                  | Other                         |               |       | 16.9    | 22.5            | +5.6   | +33.3% | —                                      |
|                  | Adjustment                    |               |       | -45.8   | -43.5           | +2.3   | —      | —                                      |
|                  | Total                         |               |       | 1,040.5 | 1,110.0         | +69.5  | +6.7%  | —                                      |
| Recurring income | Timber and Building Materials | 0.8%          | 3.4   | 1.1%    | 4.5             | +1.1   | +34.2% | —                                      |
|                  | Housing                       | 6.9%          | 31.5  | 6.7%    | 31.5            | -0.0   | -0.0%  | —                                      |
|                  | Inc. Renovation               | 4.1%          | 2.7   | 3.7%    | 2.5             | -0.2   | -6.5%  | —                                      |
|                  | Overseas                      | 7.0%          | 13.1  | 7.4%    | 18.0            | +4.9   | +37.5% | +2.0                                   |
|                  | Other                         | -6.1%         | -1.0  | 4.4%    | 1.0             | +2.0   | —      | —                                      |
|                  | Adjustment                    |               | -16.4 |         | -5.0            | +11.4  | —      | —                                      |
|                  | Total                         | 2.9%          | 30.5  | 4.5%    | 50.0            | +19.5  | +63.9% | +2.0                                   |

# FY3/17 Forecast

## Profit and Loss Forecast by Business in Overseas Business

- Net sales were revised upward ¥6 billion, and recurring income was revised upward ¥2 billion from the second quarter business results forecast.
- The main factors behind the increase in net sales were the US housing companies, the Gehan Group and the DRB Group.
- The main factors behind the upward revision of recurring income were the New Zealand-based MDF manufacturing subsidiary and Texas, US-based Bloomfield, in addition to the aforementioned two companies.



| (Billion yen)                         | Net sales    |                 |              |               |  |
|---------------------------------------|--------------|-----------------|--------------|---------------|--|
|                                       | FY3/16       | FY3/17 Forecast | Change       | Pct.          | Difference from Previous (2Q) Forecast |
| Manufacturing                         | 54.6         | 48.9            | -5.7         | -10.4%        | +0.2                                   |
| Housing and Real Estate               | 134.2        | 196.6           | +62.5        | +46.5%        | +5.0                                   |
| Other, Consolidated Adjustments, etc. | -0.8         | -2.5            | -1.7         | -             | +0.8                                   |
| <b>Total</b>                          | <b>187.9</b> | <b>243.0</b>    | <b>+55.1</b> | <b>+29.3%</b> | <b>+6.0</b>                            |

| Recurring income |                 |             |               |  |
|------------------|-----------------|-------------|---------------|--|
| FY3/16           | FY3/17 Forecast | Change      | Pct.          | Difference from Previous (2Q) Forecast |
| 2.6              | 3.6             | +1.0        | +36.4%        | +0.2                                   |
| 15.2             | 20.1            | +4.9        | +32.1%        | +0.8                                   |
| -4.8             | -5.7            | -0.9        | -             | +1.1                                   |
| <b>13.1</b>      | <b>18.0</b>     | <b>+4.9</b> | <b>+37.5%</b> | <b>+2.0</b>                            |

# FY3/17 Forecast

## Housing Business Sales Forecast (non-consolidated)

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- Custom-built detached houses  
⇒ Full-year forecast is achievable based on progress and starts up to 3Q.
- Apartments ⇒ There is a tendency for construction completions to be concentrated in 4Q, so full-year forecast is expected to be achieved.

|  |  | (Billion yen) | FY3/16  | FY3/17 Forecast | Change | Pct.     |
|--|--|---------------|---------|-----------------|--------|----------|
| Contract business  | Custom-built detached houses (Amounts) |               | 299.8   | 305.6           | +5.8   | +1.9%    |
|  | (Units)                                |               | (7,962) | (8,000)         | (+38)  | (+0.5%)  |
|  | Million yen (Unit price)               |               | (37.7)  | (38.2)          | (+0.5) | (+1.4%)  |
|  | Apartments (Amounts)                   |               | 20.5    | 21.9            | +1.4   | +6.8%    |
|  | (Units)                                |               | (1,324) | (1,510)         | (+186) | (+14.0%) |
|  | Other contracts (Amounts)              |               | 2.1     | 4.4             | +2.3   | +110.4%  |
|  | Detached spec homes (Amounts)          |               | 11.6    | 12.1            | +0.5   | +4.3%    |
|  | (Units)                                |               | (303)   | (320)           | (+17)  | (+5.6%)  |
|  | Million yen (Unit price)               |               | (38.3)  | (37.8)          | (-0.5) | (-1.3%)  |
| Land for custom-built housing (Amounts)                        |  | 4.9           | 5.1     | +0.2            | +3.6%  |          |
| Existing home renovation (Resale of Renovated Homes) (Amounts) |  | 4.8           | 4.5     | -0.3            | -5.4%  |          |
| Other (Amounts)  |  | 8.0           | 7.4     | -0.6            | -7.6%  |          |
| Total (Amounts)  |  | 351.7         | 361.0   | +9.3            | +2.6%  |          |
| Gross profit ratio (%)   |  | (25.5%)       | (25.2%) | (-0.3%)         | -      |          |
| Gross profit (Amounts)   |  | 89.9          | 91.1    | +1.2            | +1.4%  |          |

# FY3/17 Forecast

## Housing Business Orders Received Forecast

- In the main custom-built detached houses business, the market environment lacks vigor, but there have been some positive developments such as a year-on-year increase in the number of visitors to display centers in the third quarter. We will continue to pour effort into achieving the plan.

|                |                              | (Billion yen)            | FY3/16<br>Actual | FY3/17<br>Forecast | Change | Pct.    |
|----------------|------------------------------|--------------------------|------------------|--------------------|--------|---------|
| Order received | Custom-built detached houses | (Amounts)                | 297.5            | 304.0              | +6.5   | +2.2%   |
|                |                              | (Units)                  | (7,730)          | (8,000)            | (+270) | (+3.5%) |
|                |                              | Million yen (Unit price) | (34.1)           | (34.1)             | (+0.0) | (+0.1%) |
|                | Apartments                   | (Amounts)                | 23.0             | 24.0               | +1.0   | +4.5%   |
|                |                              | (Units)                  | (1,523)          | (1,650)            | (+127) | (+8.3%) |
|                | Renovation                   | (Amounts)                | 63.6             | 67.5               | +3.9   | +6.1%   |
|                | Other contracts              | (Amounts)                | 4.4              | 4.5                | +0.1   | +3.0%   |

## Balance Sheet

|   | FY3/16 | 3Q FY3/17 | Change |   | FY3/16 | 3Q FY3/17 | Change |
|---|--------|-----------|--------|---|--------|-----------|--------|
| Cash, deposits, securities                  | 117.5  | 63.4      | -54.1  | Payables  | 176.4  | 170.4     | -6.1   |
| Receivables                                 | 127.1  | 133.6     | 6.5    | Short-term debt /bonds issued                           | 32.6   | 37.2      | 4.6    |
| Finished goods                              | 26.1   | 23.5      | -2.6   | Advances received on uncompleted construction contracts | 48.6   | 61.4      | 12.8   |
| Costs on uncompleted construction contracts | 23.9   | 43.5      | 19.6   | Income taxes payable                                    | 7.6    | 0.9       | -6.7   |
| Developed land and housing for sale         | 43.2   | 46.4      | 3.2    | Provision for employees' bonuses                        | 11.0   | 5.8       | -5.2   |
| Real estate for sale in process             | 56.4   | 61.7      | 5.3    | Other current liabilities                               | 37.0   | 36.6      | -0.4   |
| Short-term loans receivable                 | 31.7   | 40.2      | 8.5    | Total current liabilities                               | 313.3  | 312.3     | -1.0   |
| Accounts receivable, other                  | 47.0   | 39.9      | -7.1   | Long-term debt/bonds issued                             | 82.1   | 109.5     | 27.4   |
| Other current assets                        | 18.5   | 22.0      | 3.4    | Net defined benefit liability                           | 23.7   | 23.4      | -0.3   |
| Total current assets                        | 491.5  | 474.2     | -17.2  | Other long-term liabilities                             | 26.0   | 30.1      | 4.1    |
| Buildings and structures                    | 32.1   | 32.1      | 0.1    | Total long-term liabilities                             | 131.8  | 163.1     | 31.3   |
| Land  | 26.8   | 29.5      | 2.7    | Shareholders' equity                                    | 221.0  | 223.5     | 2.5    |
| Forest assets                               | 10.1   | 34.4      | 24.3   | Accumulated other comprehensive income                  | 22.4   | 16.6      | -5.8   |
| Investment securities                       | 74.9   | 86.6      | 11.7   | Subscription rights to shares                           | 0.1    | 0.1       | 0.0    |
| Other noncurrent assets                     | 75.0   | 74.5      | -0.5   | Non-controlling interests                               | 21.8   | 15.7      | -6.0   |
| Total noncurrent assets                     | 218.8  | 257.1     | 38.2   | Total assets  | 265.3  | 255.9     | -9.3   |
| Total assets                                | 710.3  | 731.3     | 21.0   | Total liabilities/net assets                            | 710.3  | 731.3     | 21.0   |

- Total assets increased ¥21 billion compared to the end of FY3/16.
- Noncurrent assets increased due to the impact of acquiring a forest asset in New Zealand in the second quarter in addition to the increase in real estate for sale overseas.

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**SUMITOMO FORESTRY**

**Note: The forecast figures in this presentation are based on projections deemed logical at the time when it was prepared.  
Actual performance may differ materially from these projections.**