

Summary of Financial Results for the First Quarter of the Fiscal Year Ending March 2019 [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 10, 2018
 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. Financial results for the first quarter cumulative period (April 1, 2018 – June 30, 2018)

(1) Results of operations (Consolidated)

(%: 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 2019	249,274	9.0	(3,871)	–	(2,708)	–	(3,518)	–
1Q FY Ended March 2018	228,661	10.1	(5,815)	–	(4,318)	–	2,357	–

Note: Comprehensive income

1Q FY Ending March 2019 (11,720) million yen (–%)

1Q FY Ended March 2018 2,428 million yen (–%)

	Net income per share	Net income per share fully diluted
	Yen	Yen
1Q FY Ending March 2019	(19.40)	–
1Q FY Ended March 2018	13.31	12.54

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

The monetary amount as of the first quarter of the fiscal year ended March 2018 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
	Million yen	Million yen	%
As of June 30, 2018	904,995	329,061	32.8
As of March 31, 2018	899,120	345,639	34.7

Note: Shareholders' equity

As of June 30, 2018 296,516 million yen

As of March 31, 2018 311,637 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 2018	–	20.00	–	20.00	40.00
FY Ending March 2019	–				
FY Ending March 2019(Est.)		20.00	–	20.00	40.00

Note: Revised dividend forecast for the quarter under review: No

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

(%: 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
Fiscal Year Ending March 2019	1,310,000	7.2	54,500	2.8	57,500	(0.6)	31,500	4.5	173.76

Note: Revised forecast for the quarter under review: No

* 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): None

(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, 2018	182,607,739	As of March 31, 2018	182,607,739
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(b) Treasury stock

As of June 30, 2018	1,323,963	As of March 31, 2018	1,323,737
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(c) Average number of shares during the term (cumulative for the quarter)

As of June 30, 2018	181,283,835	As of June 30, 2017	177,127,996
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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 Tuesday, July 31, 2018. The explanatory material on the financial results to be distributed at the briefing will be published on the website afterwards.

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

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.

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Quarterly Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

(million yen)

	Previous consolidated fiscal year (ended March 31, 2018)	First quarter consolidated accounting period (ended June 30, 2018)
Assets		
Current assets		
Cash and time deposits	105,865	96,204
Notes and accounts receivable-trade	127,387	127,738
Accounts receivable from completed construction contracts	8,255	6,734
Marketable securities	5,010	306
Finished goods, logs and lumber, boards, others	17,603	19,392
Work in process	1,268	1,468
Raw materials and supplies	7,602	8,040
Costs on uncompleted construction contracts	25,322	43,700
Developed land and housing for sale	55,751	61,198
Real estate for sale in process	138,457	140,669
Short-term loans receivable	15,479	20,471
Accounts receivable-other	41,722	31,327
Other	16,191	17,688
Allowance for doubtful accounts	(343)	(358)
Total current assets	565,570	574,577
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	78,307	77,334
Accumulated depreciation	(37,533)	(37,509)
Buildings and structures, net	40,774	39,825
Machinery, equipment and vehicles	77,588	75,528
Accumulated depreciation	(48,401)	(47,390)
Machinery, equipment and vehicles	29,187	28,138
Land	34,216	34,035
Forest assets	36,735	35,814
Leased assets	10,728	10,323
Accumulated depreciation	(5,391)	(5,228)
Leased assets, net	5,337	5,095
Construction in progress	2,700	2,959
Other	14,027	13,938
Accumulated depreciation	(9,863)	(9,855)
Other, net	4,165	4,083
Total property, plant and equipment	153,113	149,949
Intangible assets		
Goodwill	15,762	15,754
Other	13,309	12,722
Total Intangible assets	29,071	28,476
Investments and other assets		
Investment securities	131,470	131,840
Long-term loans receivable	2,294	1,872
Net defined benefit assets	138	131
Deferred tax assets	5,248	5,709
Other	14,657	13,478
Allowance for doubtful accounts	(2,440)	(1,037)
Total investments and other assets	151,366	151,993
Total noncurrent assets	333,550	330,418
Total assets	899,120	904,995

(million yen)

	Previous consolidated fiscal year (ended March 31, 2018)	First quarter consolidated accounting period (ended June 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	111,587	108,035
Accounts payable for construction contracts	70,266	47,100
Short-term debt	40,490	50,044
Commercial paper	—	20,000
Current portion of convertible bonds	20,000	20,000
Lease obligations	1,100	926
Income taxes payable	4,830	1,566
Advances received on uncompleted construction contracts	50,242	66,895
Provision for employees' bonuses	11,708	6,632
Provision for directors' bonuses	146	—
Provision for warranties for completed construction	3,595	3,310
Asset retirement obligation	584	805
Other	41,515	38,378
Total current liabilities	356,064	363,692
Long-term liabilities		
Bonds issued	50,000	50,000
Long-term debt	84,374	103,100
Lease obligations	4,666	4,612
Deferred tax liabilities	13,904	11,806
Provision for directors' retirement benefits	112	108
Net defined benefit liabilities	16,723	16,560
Asset retirement obligation	922	737
Other	26,715	25,319
Total long-term liabilities	197,417	212,242
Total liabilities	553,481	575,934
Net assets		
Shareholders' equity		
Common stock	32,672	32,672
Capital surplus	23,637	23,637
Retained earnings	219,562	212,397
Treasury stock	(2,333)	(2,334)
Total shareholders' equity	273,538	266,373
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33,258	34,214
Deferred gains or losses on hedges	(221)	51
Foreign currency translation adjustment	5,053	(4,134)
Remeasurements of defined benefit plans	9	12
Total accumulated other comprehensive income	38,099	30,143
Subscription rights to shares	129	141
Non-controlling interests	33,873	32,403
Total net assets	345,639	329,061
Total liabilities and net assets	899,120	904,995

(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, 2017 – June 30, 2017)	1Q Cumulative Period under Review (Consolidated) (April 1, 2018– June 30, 2018)
Net sales	228,661	249,274
Cost of sales	193,889	210,943
Gross Profit	34,772	38,331
Selling, general and administrative expenses	40,587	42,201
Operating income (loss)	(5,815)	(3,871)
Non-operating income		
Interest income	146	139
Purchase discounts	90	87
Dividends income	699	835
Equity in earnings of affiliates	1,088	439
Other	381	418
Total non-operating income	2,404	1,917
Non-operating expenses		
Interest expenses	510	371
Sales discount	168	173
Foreign exchange losses	117	105
Other	112	105
Total non-operating expenses	907	754
Recurring income (loss)	(4,318)	(2,708)
Extraordinary gains		
Gain on sales of noncurrent assets	17	23
Gain on sales of investment securities	87	—
Gain on step acquisitions	6,464	—
Total extraordinary gains	6,568	23
Extraordinary loss		
Loss on sales of noncurrent assets	10	0
Loss on retirement of noncurrent assets	31	21
Total extraordinary loss	42	21
Income (loss) before income taxes and non-controlling interests	2,208	(2,706)
Income taxes-current	1,823	1,933
Income taxes-deferred	(2,920)	(2,965)
Total income taxes	(1,097)	(1,031)
Net income (loss)	3,306	(1,674)
Profit attributable to non-controlling interests	949	1,844
Profit (loss) attributable to owners of parent	2,357	(3,518)

Consolidated Statements of Comprehensive Income

For the first quarter cumulative period (consolidated)

(million yen)

	Previous 1Q Cumulative Period (Consolidated) (April 1, 2017 – June 30, 2017)	1Q Cumulative Period under Review (Consolidated) (April 1, 2018– June 30, 2018)
Net income (loss)	3,306	(1,674)
Other comprehensive income		
Valuation difference on available-for-sale securities	3,208	885
Deferred gains or losses on hedges	319	272
Foreign currency translation adjustment	(3,682)	(10,685)
Share in equity method affiliates	(722)	(519)
Total other comprehensive income (loss)	(877)	(10,046)
Comprehensive income	2,428	(11,720)
(Breakdown)		
Comprehensive income attributable to owners of the parent	1,632	(11,473)
Comprehensive income attributable to non-controlling interests	796	(247)

(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

(Additional Information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.)

The "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) has been applied as of the beginning of the first quarter consolidated accounting period under review. Deferred tax assets are included under "Investments and other assets," while deferred tax liabilities are included under "Long-term liabilities."

(Segment Information)

I Previous first quarter cumulative period (April 1, 2017 – June 30, 2017)

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

(Unit: 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	Total				
Net sales								
(1) Unaffiliated customers	106,764	63,348	53,077	223,188	5,187	228,376	286	228,661
(2) Intersegment sales/transfers	5,008	57	111	5,175	2,945	8,121	(8,121)	–
Total	111,771	63,404	53,188	228,364	8,133	236,496	(7,835)	228,661
Segment income (loss)	1,572	(8,010)	2,577	(3,861)	627	(3,234)	(1,084)	(4,318)

- 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. The adjusted business loss of ¥1,084 million includes ¥306 million in eliminated intersegment transactions and ¥778 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.
 4. Segment income (loss) is 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.

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

(Important change in the amount of goodwill)

Additional stake was acquired in Bloomfield Homes, L.P. and one other company, which were equity-method affiliates, in the Overseas Housing and Real Estate Segment to make them consolidated subsidiaries. This resulted in a ¥7,223 million increase in goodwill.

II First quarter cumulative period under review (April 1, 2018 – June 30, 2018)

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

(Unit: 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	Total				
Net sales								
(1) Unaffiliated customers	111,566	63,070	68,103	242,740	6,218	248,957	316	249,274
(2) Intersegment sales/transfers	5,342	74	117	5,533	3,089	8,623	(8,623)	–
Total	116,908	63,145	68,220	248,273	9,307	257,580	(8,306)	249,274
Segment income (loss)	1,808	(8,798)	4,938	(2,052)	369	(1,682)	(1,025)	(2,708)

- 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 The adjusted business loss of ¥1,025 million includes ¥1,266 million in eliminated intersegment transactions and ¥241 million in corporate income 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

In conjunction with the reorganization in April 2018, beginning from the first quarter consolidated accounting period under review, the reporting segments have been changed from “Timber and Building Materials Business,” “Housing Business” and “Overseas Business” to “Timber and Building Materials Business,” “Housing and Construction Business” and “Overseas Housing and Real Estate Business.”

The main change is that overseas timber and building materials manufacturing and sales previously included in the “Overseas Business” are now included in the “Timber and Building Materials Business.”

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

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

Not applicable

(Important Subsequent Events)

Business combination through acquisition

On July 2, 2018 (US time), we acquired 100% ownership of US-based Crescent Communities II, LLC through consolidated subsidiary Sumitomo Forestry America, Inc. and made it a consolidated subsidiary.

(1) Overview of merger

1) Name of acquired company and description of business

Name of acquired company: Crescent Communities II, LLC

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

2) Main reason(s) for merger

To diversify the business and stabilize earnings by acquiring ownership of Crescent Communities II, LLC, a general real estate company operating primarily in North Carolina, USA, and securing an excellent platform for the US apartment business and development of commercial facilities.

3) Date of merger

July 2, 2018 (US time)

4) Legal form of merger

Cash-based stake acquisition

5) Name of company after merger

No change in name

6) Percentage of voting rights acquired

100%

7) Main grounds for decision

Our consolidated subsidiary Sumitomo Forestry America, Inc. acquired the stake with cash.

(2) Breakdown of acquisition price and type of consideration

<u>Acquisition price</u>	Cash	¥43,600 million (approximate)
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Cost of acquisition		¥43,600 million (approximate)
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Note: The amount above is approximate as of the time of acquisition 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.