

Summary of Financial Results for the Second 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/
Representative Title: President / Representative Director	Name: Akira Ichikawa
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Date of filing of financial report:	November 9, 2018
Date of commencement of dividend payment (tentative):	December 6, 2018
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 second quarter cumulative period (April 1, 2018 – September 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	%
2Q FY Ending March 2019	592,851	5.5	17,305	11.6	18,729	2.4	10,635	6.1
2Q FY Ended March 2018	562,109	9.5	15,508	-3.6	18,297	2.2	10,022	-2.8

Note: Comprehensive income 2Q FY Ending March 2019 8,884 million yen (-45.4%)
2Q FY Ended March 2018 16,282 million yen (-%)

	Net income per share	Net income per share fully diluted
	Yen	Yen
2Q FY Ending March 2019	58.65	56.14
2Q FY Ended March 2018	56.58	53.31

Note: The monetary amount as of the second quarter of the fiscal year ended/ending March 2018/2019 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 September 30, 2018	930,928	351,296	33.7
As of March 31, 2018	899,120	345,639	34.7

Note: Shareholders' equity As of September 30, 2018 313,666 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	–	20.00	–	20.00	40.00
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
FY Ending March 2019	1,310,000	7.2	54,500	2.8	57,500	-0.6	31,500	4.5	173.73

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):
New Company 2 (Company name) Crescent Communities II, LLC, CC-SFA MF Atherton, LLC
- (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 September 30, 2018	182,695,936	As of March 31, 2018	182,607,739
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(b) Treasury stock

As of September 30, 2018	1,324,425	As of March 31, 2018	1,323,737
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(c) Average number of shares during the term (cumulative for two quarters)

As of September 30, 2018	181,318,258	As of September 30, 2017	177,127,777
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* Quarterly financial summaries are not subject to quarterly review by public accountant or auditing firm.

* 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 for securities analysts and institutional investors on Friday, November 9, 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.

○ Contents of Accompanying Materials

Consolidated Financial Statements and Main Notes	2
(1) Consolidated Balance Sheet.....	2
(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income	4
Consolidated Statements of Income	
For the second quarter cumulative period (consolidated).....	4
Consolidated Statements of Comprehensive Income	
For the second quarter cumulative period (consolidated).....	5
(3) Quarterly Consolidated Statements of Cash Flows	6
(4) Explanation Concerning Consolidated Financial Statements.....	8
(Notes related to the Assumption of a Going Concern)	8
(Notes on Significant Changes in Shareholders' Equity).....	8
(Additional Information).....	8
(Segment Information)	8

Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

(million yen)

	Previous consolidated fiscal year (ended March 31, 2018)	Second quarter consolidated accounting period (ended September 30, 2018)
Assets		
Current assets		
Cash and time deposits	105,865	46,088
Notes and accounts receivable-trade	127,387	126,753
Accounts receivable from completed construction contracts	8,255	8,794
Marketable securities	5,010	307
Finished goods, logs and lumber, boards, others	17,603	20,753
Work in process	1,268	1,346
Raw materials and supplies	7,602	8,093
Costs on uncompleted construction contracts	25,322	31,908
Developed land and housing for sale	55,751	64,298
Real estate for sale in process	138,457	174,149
Short-term loans receivable	15,479	18,380
Accounts receivable-other	41,722	42,968
Other	16,191	17,779
Allowance for doubtful accounts	(343)	(413)
Total current assets	565,570	561,203
Noncurrent assets		
Property, plant and equipment		
Buildings and structures	78,307	88,792
Accumulated depreciation	(37,533)	(38,516)
Buildings and structures, net	40,774	50,276
Machinery, equipment and vehicles	77,588	75,537
Accumulated depreciation	(48,401)	(47,820)
Machinery, equipment and vehicles, net	29,187	27,717
Land	34,216	39,406
Forest assets	36,735	34,954
Leased assets	10,728	9,939
Accumulated depreciation	(5,391)	(5,135)
Leased assets, net	5,337	4,804
Construction in progress	2,700	10,055
Other	14,027	15,573
Accumulated depreciation	(9,863)	(10,438)
Other, net	4,165	5,135
Total property, plant and equipment	153,113	172,347
Intangible assets		
Goodwill	15,762	20,135
Other	13,309	13,065
Total intangible assets	29,071	33,199
Investments and other assets		
Investment securities	131,470	143,669
Long-term loans receivable	2,294	1,062
Net defined benefit assets	138	130
Deferred tax assets	5,248	5,624
Other	14,657	14,723
Allowance for doubtful accounts	(2,440)	(1,029)
Total investments and other assets	151,366	164,179
Total noncurrent assets	333,550	369,725
Total assets	899,120	930,928

(million yen)

	Previous consolidated fiscal year (ended March 31, 2018)	Second quarter consolidated accounting period (ended September 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	111,587	109,152
Accounts payable for construction contracts	70,266	68,667
Short-term debt	40,490	49,233
Current portion of convertible bonds	20,000	–
Lease obligations	1,100	801
Income taxes payable	4,830	2,771
Advances received on uncompleted construction contracts	50,242	57,468
Provision for employees' bonuses	11,708	13,350
Provision for directors' bonuses	146	–
Provision for warranties for completed construction	3,595	3,327
Asset retirement obligation	584	791
Other	41,515	39,980
Total current liabilities	356,064	345,538
Long-term liabilities		
Bonds issued	50,000	50,000
Convertible bonds	–	10,100
Long-term debt	84,374	112,757
Lease obligations	4,666	4,453
Deferred tax liabilities	13,904	14,856
Provision for directors' retirement benefits	112	114
Net defined benefit liabilities	16,723	16,488
Asset retirement obligation	922	781
Other	26,715	24,546
Total long-term liabilities	197,417	234,094
Total liabilities	553,481	579,632
Net assets		
Shareholders' equity		
Common stock	32,672	32,750
Capital surplus	23,637	23,715
Retained earnings	219,562	226,550
Treasury stock	(2,333)	(2,335)
Total shareholders' equity	273,538	280,680
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33,258	34,589
Deferred gains or losses on hedges	(221)	469
Foreign currency translation adjustment	5,053	(2,087)
Remeasurements of defined benefit plans	9	14
Total accumulated other comprehensive income	38,099	32,985
Subscription rights to shares	129	138
Non-controlling interests	33,873	37,492
Total net assets	345,639	351,296
Total liabilities and net assets	899,120	930,928

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

Consolidated Statements of Income

For the second quarter cumulative period (consolidated)

(million yen)

	Previous 2Q Cumulative Period (Consolidated) (April 1, 2017 – September 30, 2017)	2Q Cumulative Period under Review (Consolidated) (April 1, 2018 – September 30, 2018)
Net sales	562,109	592,851
Cost of sales	464,050	489,764
Gross profit	98,059	103,086
Selling, general and administrative expenses	82,551	85,782
Operating income	15,508	17,305
Non-operating income		
Interest income	268	262
Purchase discounts	180	173
Dividends income	791	923
Equity in earnings of affiliates	1,731	710
Other	1,384	1,018
Total non-operating income	4,354	3,087
Non-operating expenses		
Interest expenses	765	787
Sales discounts	335	349
Foreign exchange losses	58	167
Other	406	360
Total non-operating expenses	1,565	1,662
Recurring income	18,297	18,729
Extraordinary gains		
Gain on sales of noncurrent assets	29	44
Gain on sales of investment securities	87	1,384
Gain on step acquisitions	6,464	629
Total extraordinary gains	6,580	2,057
Extraordinary loss		
Loss on sales of noncurrent assets	20	–
Loss on retirement of noncurrent assets	57	77
Impairment loss	5,739	126
Total extraordinary loss	5,815	203
Income before income taxes and non-controlling interests	19,062	20,583
Income taxes-current	6,727	5,329
Income taxes-deferred	(336)	(206)
Total income taxes	6,391	5,123
Net income	12,671	15,460
Profit attributable to non-controlling interests	2,649	4,825
Profit attributable to owners of parent	10,022	10,635

Consolidated Statements of Comprehensive Income

For the second quarter cumulative period (consolidated)

(million yen)

	Previous 2Q Cumulative Period (Consolidated) (April 1, 2017 – September 30, 2017)	2Q Cumulative Period under Review (Consolidated) (April 1, 2018 – September 30, 2018)
Net income	12,671	15,460
Other comprehensive income		
Valuation difference on available-for-sale securities	5,610	1,213
Deferred gains or losses on hedges	300	690
Foreign currency translation adjustment	(1,457)	(8,262)
Share in equity method affiliates	(843)	(217)
Total other comprehensive income (loss)	3,611	(6,576)
Comprehensive income	16,282	8,884
Comprehensive income attributable to owners of the parent	13,766	5,522
Comprehensive income attributable to non-controlling interests	2,517	3,362

(3) Quarterly Consolidated Statements of Cash Flows

(million yen)

	Previous 2Q Cumulative Period (Consolidated) (April 1, 2017 – September 30, 2017)	2Q Cumulative Period under Review (Consolidated) (April 1, 2018 – September 30, 2018)
Cash flows from operating activities		
Income before income taxes and non-controlling interests	19,062	20,583
Depreciation and amortization	7,114	6,378
Impairment loss	5,739	126
Amortization of goodwill	2,424	2,982
Provision for (reversal of) doubtful accounts	31	(1,286)
Provision for (reversal of) employees' bonuses	310	463
Provision for (reversal of) directors' bonuses	(146)	(146)
Provision for (reversal of) warranties for completed construction	(379)	(273)
Provision for (reversal of) directors' retirement benefits	9	1
Net defined benefit liability	(5)	(190)
Interest and dividends income	(1,059)	(1,185)
Interest expenses	765	787
Equity in (earnings) losses of affiliates	(1,731)	(710)
Losses (gains) on sales of marketable securities and investment securities	(87)	(1,384)
Losses (gains) on step acquisitions	(6,464)	(629)
Losses (gains) on sales/disposal of fixed assets	48	33
Decrease (increase) in notes and accounts receivable-trade	(8,604)	1,045
Inventories	(30,021)	(29,512)
Other current assets	2,794	(745)
Notes and accounts payable, trade	(3,446)	(9,125)
Advances received	1,811	962
Advances received on uncompleted construction contracts	8,349	7,431
Accrued consumption taxes	(764)	(210)
Other current liabilities	(356)	(949)
Other	2,354	(551)
Subtotal	(2,253)	(6,106)
Interest and dividends income received	2,382	2,346
Interest paid	(847)	(833)
Income taxes paid	(9,353)	(8,091)
Net cash provided by (used in) operating activities	(10,071)	(12,683)

(million yen)

	Previous 2Q Cumulative Period (Consolidated) (April 1, 2017 – September 30, 2017)	2Q Cumulative Period under Review (Consolidated) (April 1, 2018 – September 30, 2018)
Cash flows from investment activities		
Payments into time deposits	(20,446)	(2,059)
Proceeds from withdrawal of time deposits	35,281	2,207
Decrease (increase) in short-term loans receivable	(50)	440
Payments for purchases of fixed assets	(6,697)	(8,916)
Proceeds from sales of fixed assets	1,394	821
Payments for purchases of intangible assets	(622)	(1,164)
Payments for purchase of investment securities	(2,273)	(2,085)
Proceeds from sales of investment securities	183	2,999
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(7,661)	(46,939)
Payments of long-term loans payable	(53)	(28)
Repayments of long-term loans receivable	500	1,730
Other payments	(1,501)	(787)
Other proceeds	880	523
Cash flows from investment activities	(1,065)	(53,257)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	10,137	561
Repayments of finance lease obligations	(1,248)	(958)
Proceeds from long-term debt	894	24,043
Repayment of long-term debt	(5,382)	(2,470)
Proceeds from issuance of convertible bonds	–	10,100
Payments for redemption of convertible bonds	–	(19,900)
Proceeds from stock issuance to non-controlling interests	1,870	5
Cash dividends paid	(3,543)	(3,646)
Cash dividends paid to non-controlling interests	(2,746)	(3,690)
Other proceeds	0	0
Other payments	(1)	(1)
Net cash provided by (used in) financing activities	(20)	4,043
Effect of exchange rate change on cash and cash equivalents	(346)	(1,224)
Net increase (decrease) in cash and cash equivalents	(11,502)	(63,120)
Cash and cash equivalents at the beginning of period	132,707	125,555
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	121,723	62,434

(4) 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 second quarter cumulative period (Consolidated, April 1, 2017 – September 30, 2017)

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	Total				
Net sales								
(1) Unaffiliated customers	216,123	207,227	126,792	550,142	11,392	561,534	575	562,109
(2) Intersegment sales/transfers	10,569	254	223	11,046	6,292	17,339	(17,339)	–
Total	226,692	207,481	127,015	561,188	17,685	578,873	(16,764)	562,109
Segment income (loss)	3,852	7,826	7,080	18,758	2,112	20,870	(2,573)	18,297

- 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 ¥2,573 million includes ¥355 million in eliminated intersegment transactions and ¥2,218 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

(Material impairment loss on noncurrent assets)

In the Timber and Building Materials segment, impairment loss on particle board manufacturing equipment has been recorded as extraordinary loss. The total amount of impairment loss for the second quarter cumulative period under review was ¥5,739 million.

II Second quarter cumulative period under review (Consolidated, April 1, 2018 - September 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	Total				
Net sales								
(1) Unaffiliated customers	223,993	200,859	154,043	578,896	13,345	592,241	610	592,851
(2) Intersegment sales/transfers	11,223	271	245	11,739	6,772	18,511	(18,511)	–
Total	235,216	201,130	154,289	590,635	20,118	610,753	(17,902)	592,851
Segment income (loss)	3,423	3,999	11,518	18,940	2,148	21,089	(2,359)	18,729

- 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, insurance agency business, farming and gardening material manufacturing and sales business, and contracted civil engineering and construction work.
2. The adjusted business loss of ¥2,359 million includes ¥1,260 million in eliminated intersegment transactions and ¥1,099 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

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 second 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

(Important change in the amount of goodwill)

In the Overseas Housing and Real Estate segment, we acquired equity interest in the Crescent Communities Group (Crescent Communities II, LLC and 65 other companies) and made it a consolidated subsidiary. The provisional increase in goodwill from this event was ¥6,615 million.