

## Summary of Financial Results for the Second 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: <a href="http://sfc.jp/english/">http://sfc.jp/english/</a>
Representative: Title: President / Representative Director	Name: Akira Ichikawa
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Date of filing of financial report:	November 11, 2019
Date of commencement of dividend payment (tentative):	December 6, 2019
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 second quarter of the FY ending March 2020 (April 1, 2019 – September 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	%
2Q FY Ending March 2020	529,748	-10.6	24,992	44.4	25,689	37.2	12,591	18.4
2Q FY Ended March 2019	592,851	5.5	17,305	11.6	18,729	2.4	10,635	6.1

(Note) Comprehensive income	2Q FY Ending March 2020	9,502 million yen (7.0%)
	2Q FY Ended March 2019	8,884 million yen (-45.4%)

	Net income per share	Net income per share fully diluted
	Yen	Yen
2Q FY Ending March 2020	69.41	67.67
2Q FY Ended March 2019	58.65	56.14

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	958,939	347,543	32.8
As of March 31, 2019	970,976	353,489	32.8

(Note) Shareholders' equity	As of September 30, 2019	314,237 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	–	20.00	–	20.00	40.00
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	1,117,000	-14.7	51,000	3.6	57,000	10.8	30,000	2.9	165.39

(Note) Revised forecast for the quarter under review: Yes

\* 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 September 30, 2019	182,741,236	As of March 31, 2019	182,698,636
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(b) Treasury stock

As of September 30, 2019	1,326,379	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 September 30, 2019	181,393,907	As of September 30, 2018	181,318,258
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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 for securities analysts and institutional investors on Monday, November 11, 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)	Second quarter consolidated accounting period (ended September 30, 2019)
<b>Assets</b>		
<b>Current assets</b>		
Cash and time deposits	82,421	53,433
Notes and accounts receivable-trade	135,636	126,549
Accounts receivable from completed construction contracts	9,601	35,968
Marketable securities	5,304	5,549
Finished goods, logs and lumber, boards, others	20,588	20,536
Work in process	1,443	1,547
Raw materials and supplies	8,039	8,055
Costs on uncompleted construction contracts	26,945	13,880
Developed land and housing for sale	63,736	63,703
Real estate for sale in process	173,472	180,640
Short-term loans receivable	20,267	21,218
Accounts receivable-other	45,967	47,673
Other	16,756	18,384
Allowance for doubtful accounts	(355)	(300)
<b>Total current assets</b>	<b>609,820</b>	<b>596,835</b>
<b>Noncurrent assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	87,084	88,388
Accumulated depreciation	(39,850)	(41,068)
Buildings and structures, net	47,234	47,320
Machinery, equipment and vehicles	76,357	75,113
Accumulated depreciation	(49,245)	(49,601)
Machinery, equipment and vehicles, net	27,113	25,512
Land	39,513	39,718
Forest assets	34,956	32,896
Leased assets	8,535	10,657
Accumulated depreciation	(4,115)	(4,271)
Leased assets, net	4,419	6,386
Construction in progress	11,770	14,863
Other	15,811	16,413
Accumulated depreciation	(10,815)	(11,363)
Other, net	4,996	5,050
<b>Total property, plant and equipment</b>	<b>170,000</b>	<b>171,745</b>
<b>Intangible assets</b>		
Goodwill	12,651	9,195
Other	13,900	13,842
<b>Total intangible assets</b>	<b>26,551</b>	<b>23,037</b>
<b>Investments and other assets</b>		
Investment securities	140,968	144,503
Long-term loans receivable	2,501	2,291
Net defined benefit assets	238	216
Deferred tax assets	4,945	4,802
Other	16,991	16,487
Allowance for doubtful accounts	(1,039)	(977)
<b>Total investments and other assets</b>	<b>164,605</b>	<b>167,322</b>
<b>Total noncurrent assets</b>	<b>361,156</b>	<b>362,104</b>
<b>Total assets</b>	<b>970,976</b>	<b>958,939</b>

(million yen)

	Previous consolidated fiscal year (ended March 31, 2019)	Second quarter consolidated accounting period (ended September 30, 2019)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	118,547	111,381
Accounts payable for construction contracts	75,595	83,997
Short-term debt	61,506	48,321
Lease obligations	584	980
Income taxes payable	4,902	4,145
Advances received on uncompleted construction contracts	52,198	36,157
Provision for employees' bonuses	14,353	13,910
Provision for directors' bonuses	143	–
Provision for warranties for completed construction	3,733	3,054
Asset retirement obligation	853	826
Other	41,359	49,087
Total current liabilities	373,772	351,859
Long-term liabilities		
Bond issued	70,000	70,000
Convertible bonds	10,090	10,080
Long-term debt	102,269	118,983
Lease obligation	4,436	6,056
Deferred tax liabilities	11,474	7,637
Provision for directors' retirement benefits	127	111
Net defined benefit liabilities	19,822	19,997
Asset retirement obligation	1,157	1,237
Other	24,339	25,436
Total long-term liabilities	243,714	259,538
Total liabilities	617,486	611,396
<b>Net assets</b>		
Shareholders' equity		
Common stock	32,752	32,779
Capital surplus	22,247	22,273
Retained earnings	241,427	243,933
Treasury stock	(2,337)	(2,338)
Total shareholders' equity	294,088	296,647
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	25,196	24,108
Deferred gains or losses on hedges	752	1,241
Foreign currency translation adjustment	(1,733)	(7,788)
Remeasurements of defined benefit plans	17	29
Total accumulated other comprehensive income	24,232	17,591
Subscription rights to shares	135	133
Non-controlling interests	35,034	33,173
Total net assets	353,489	347,543
Total liabilities and net assets	970,976	958,939

## (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, 2018 – September 30, 2018)	2Q Cumulative Period under Review (Consolidated) (April 1, 2019 – September 30, 2019)
Net sales	592,851	529,748
Cost of sales	489,764	413,791
Gross profit	103,086	115,957
Selling, general and administrative expenses	85,782	90,965
Operating income	17,305	24,992
Non-operating income		
Interest income	262	206
Purchase discounts	173	182
Dividends income	923	776
Equity in earnings of affiliates	710	864
Other	1,018	1,166
Total non-operating income	3,087	3,194
Non-operating expenses		
Interest expenses	787	1,476
Sales discount	349	345
Foreign exchange losses	167	65
Other	360	611
Total non-operating expenses	1,662	2,497
Recurring income	18,729	25,689
Extraordinary gains		
Gain on sales of noncurrent assets	44	32
Gain on sales of investment securities	1,384	–
Gain on step acquisitions	629	–
Total extraordinary gains	2,057	32
Extraordinary loss		
Loss on sales of noncurrent assets	–	3
Loss on retirement of noncurrent assets	77	102
Impairment loss	126	–
Disaster losses	–	1,578
Loss on liquidation of subsidiaries and affiliates	–	53
Total extraordinary loss	203	1,736
Income before income taxes and non-controlling interests	20,583	23,985
Income taxes-current	5,329	7,637
Income taxes-deferred	(206)	(809)
Total income taxes	5,123	6,828
Net income	15,460	17,157
Profit attributable to non-controlling interests	4,825	4,566
Profit attributable to owners of parent	10,635	12,591

(Consolidated Statements of Comprehensive Income)

(For the second quarter cumulative period (consolidated))

(million yen)

	Previous 2Q Cumulative Period (Consolidated) (April 1, 2018 – September 30, 2018)	2Q Cumulative Period under Review (Consolidated) (April 1, 2019 – September 30, 2019)
Net income	15,460	17,157
Other comprehensive income		
Valuation difference on available-for-sale securities	1,213	(1,062)
Deferred gains or losses on hedges	690	489
Foreign currency translation adjustment	(8,262)	(6,090)
Share in equity method affiliates	(217)	(992)
Total other comprehensive income (loss)	(6,576)	(7,655)
Comprehensive income	8,884	9,502
Comprehensive income attributable to owners of the parent	5,522	5,949
Comprehensive income attributable to non-controlling interests	3,362	3,552

## (3) Quarterly Consolidated Statements of Cash Flows

(million yen)

	Previous 2Q Cumulative Period (Consolidated) (April 1, 2018 – September 30, 2018)	2Q Cumulative Period under Review (Consolidated) (April 1, 2019 – September 30, 2019)
<b>Cash flows from operating activities</b>		
Income before income taxes and non-controlling interests	20,583	23,985
Depreciation and amortization	6,378	6,758
Impairment loss	126	–
Disaster losses	–	1,578
Loss on liquidation of subsidiaries and affiliates	–	53
Amortization of goodwill	2,982	3,227
Provision for (reversal of) doubtful accounts	(1,286)	(61)
Provision for (reversal of) employees' bonuses	463	(365)
Provision for (reversal of) directors' bonuses	(146)	(143)
Provision for (reversal of) warranties for completed construction	(273)	(636)
Provision for (reversal of) directors' retirement benefits	1	(16)
Net defined benefit liability	(190)	230
Interest and dividends income	(1,185)	(983)
Interest expenses	787	1,476
Equity in (earnings) losses of affiliates	(710)	(864)
Losses (gains) on sales of marketable securities and investment securities	(1,384)	–
Losses (gains) on step acquisitions	(629)	–
Losses (gains) on sales/disposal of fixed assets	33	72
Decrease (increase) in notes and accounts receivable-trade	1,045	(6,966)
Inventories	(29,512)	(14,364)
Other current assets	(745)	(3,594)
Notes and accounts payable, trade	(9,125)	(7,579)
Advances received	962	163
Advances received on uncompleted construction contracts	7,431	(1,596)
Accrued consumption taxes	(210)	(565)
Other current liabilities	(949)	(1,408)
Other	(551)	989
<b>Subtotal</b>	<b>(6,106)</b>	<b>(608)</b>
Interest and dividends income received	2,346	2,399
Interest paid	(833)	(1,433)
Income taxes paid	(8,091)	(8,490)
<b>Net cash provided by (used in) operating activities</b>	<b>(12,683)</b>	<b>(8,132)</b>

(million yen)

	Previous 2Q Cumulative Period (Consolidated) (April 1, 2018 – September 30, 2018)	2Q Cumulative Period under Review (Consolidated) (April 1, 2019 – September 30, 2019)
Cash flows from investment activities		
Payments into time deposits	(2,059)	(5,057)
Proceeds from withdrawal of time deposits	2,207	5,091
Decrease (increase) in short-term loans receivable	440	(977)
Proceeds from sales and redemption of investment securities	–	300
Payments for purchases of fixed assets	(8,916)	(11,420)
Proceeds from sales of fixed assets	821	2,109
Payments for purchases on intangible assets	(1,164)	(1,235)
Payments for purchase of investment securities	(2,085)	(6,605)
Proceeds from sales of investment securities	2,999	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(46,939)	–
Payments of long-term loans payable	(28)	(25)
Repayments of long-term loans receivable	1,730	219
Other payments	(787)	(1,298)
Other proceeds	523	1,653
Cash flows from investment activities	(53,257)	(17,246)
Cash flows from financing activities		
Net increase (decrease) in short-term debt	561	(8,720)
Repayments of finance lease obligations	(958)	(754)
Proceeds from long-term debt	24,043	30,138
Repayment of long-term debt	(2,470)	(14,395)
Proceeds from issuance of convertible bonds	10,100	–
Payments for redemption of convertible bonds	(19,900)	–
Proceeds from stock issuance to non-controlling interests	5	158
Cash dividends paid	(3,646)	(3,648)
Cash dividends paid to non-controlling interests	(3,690)	(5,545)
Net decrease (increase) in deposits with withdrawal and usage restrictions	–	39
Other proceeds	0	0
Other payments	(1)	(2)
Net cash provided by (used in) financing activities	4,043	(2,730)
Effect of exchange rate change on cash and cash equivalents	(1,224)	(740)
Net increase (decrease) in cash and cash equivalents	(63,120)	(28,848)
Cash and cash equivalents at the beginning of period	125,555	105,102
Cash and cash equivalents at the end of period	62,434	76,254

#### (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

(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 of the fiscal year 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 of the fiscal year 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 second quarter cumulative period (consolidated) under review decreased by ¥98,884 million, and cost of sales decreased by ¥106,275 million. Operating income, recurring income, and quarterly net income before income taxes each increased by ¥7,391 million. Beginning of period retained earnings decreased by ¥6,437 million.

(Segment Information)

I Previous second quarter cumulative period (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	Environment and Resources	Total				
Net sales									
(1) Unaffiliated customers	223,993	200,859	154,043	7,397	586,292	6,260	592,553	298	592,851
(2) Intersegment sales/transfers	11,223	271	245	2,264	14,003	4,855	18,858	(18,858)	–
Total	235,216	201,130	154,289	9,661	600,296	11,115	611,410	(18,560)	592,851
Segment income (loss)	3,423	3,999	11,518	1,988	20,928	(389)	20,540	(1,810)	18,729

- 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 ¥1,810 million includes ¥387 million in eliminated intersegment transactions and ¥1,423 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 income in the quarterly consolidated statements of income.

2. 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, stakes were acquired in the Crescent Communities Group (Crescent Communities II, LLC and 65 other companies), making it a consolidated subsidiary. The associated increase in goodwill is ¥2,552 million.

## II Second quarter cumulative period under review (Consolidated, April 1, 2019 – September 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	106,541	233,186	176,085	7,401	523,212	6,241	529,454	295	529,748
(2) Intersegment sales/transfers	10,387	479	280	1,663	12,810	5,092	17,902	(17,902)	–
Total	116,928	233,665	176,365	9,064	536,022	11,333	547,355	(17,607)	529,748
Segment income (loss)	2,885	12,206	10,893	1,763	27,748	402	28,150	(2,462)	25,689

- 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 ¥2,462 million includes ¥194 million in eliminated intersegment transactions and ¥2,268 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 income in the quarterly consolidated statements of income.

### 2. Changes to Reporting Segments

#### (Changes to Reporting Segments)

Beginning from the first quarter of the fiscal year 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 second quarter cumulative period (consolidated) 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 of the fiscal year 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 ¥125,512 million, net sales in the Housing and Construction Business increased by ¥26,932 million, segment income increased by ¥7,360 million, net sales in the Other decreased by ¥304 million, and segment income increased by ¥31 million in the second quarter cumulative period (consolidated) under review.

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

Not applicable