

Summary of Financial Results for the Second Quarter of the Fiscal Year Ending March, 2018 [Japan GAAP] (Consolidated)

Name of Company: Sumitomo Forestry Co., Ltd. Stock Exchange Listing: Tokyo
 Stock Code: 1911 URL: <http://sfc.jp/>
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Date of filing of financial report: November 10, 2017
 Date of commencement of dividend payment (tentative): December 8, 2017
 Preparation of supplementary materials: Yes
 Convening of a second 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 under review (April 1, 2017 – September 30, 2017)

(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 2018 | 562,109 | 9.5 | 16,063 | -0.1 | 18,852 | 5.3 | 10,305 | -0.0 |
| 2Q FY Ended March 2017 | 513,575 | 5.6 | 16,084 | 25.0 | 17,908 | 33.0 | 10,306 | 49.7 |

Note: Comprehensive income 2Q FY Ending March 2018 16,838 million yen (-%)
 2Q FY Ended March 2017 658 million yen (-88.4%)

| | Net income per share | Net income per share fully diluted |
|-------------------------|----------------------|------------------------------------|
| | Yen | Yen |
| 2Q FY Ending March 2018 | 58.18 | 54.81 |
| 2Q FY Ended March 2017 | 58.18 | 54.85 |

Note: The monetary amount as the second quarter of the fiscal year ended/ending March 2017/2018 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 September 30, 2018 | 843,384 | 313,738 | 33.8 |
| As of March 31, 2017 | 794,360 | 295,857 | 34.6 |

Note: Shareholders' equity As of September 30, 2017 285,415 million yen
 As of March 31, 2017 274,911 million yen

Note: The monetary amount as the second quarter of the fiscal year ended/ending March 2017/2018 reflects adjustments of the purchase price allocation following the determination of the provisional accounting treatment.

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 2017 | - | 15.00 | - | 20.00 | 35.00 |
| FY Ending March 2018 | - | 20.00 | - | - | - |
| FY Ending March 2018 (Est.) | - | - | - | 20.00 | 40.00 |

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

3. Forecast for the fiscal year ending March, 2018 (Consolidated, April 1, 2017- March 31, 2018)

(%: 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 2018 | 1,220,000 | 9.6 | 49,500 | -8.3 | 53,500 | -7.5 | 30,000 | -13.1 | 169.37 |

Note: Revised forecast for the year 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): 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, 2017 | 177,410,239 | As of March 31, 2017 | 177,410,239 |
|--------------------------|-------------|----------------------|-------------|

(b) Treasury stock

| | | | |
|--------------------------|---------|----------------------|---------|
| As of September 30, 2017 | 282,790 | As of March 31, 2017 | 281,970 |
|--------------------------|---------|----------------------|---------|

(c) Average number of shares during the term (cumulative for two quarters)

| | | | |
|--------------------------|-------------|--------------------------|-------------|
| As of September 30, 2017 | 177,127,777 | As of September 30, 2016 | 177,129,397 |
|--------------------------|-------------|--------------------------|-------------|

* Financial results summaries are not subject to quarterly review.

* 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 as 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 10, 2017.

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

<http://sfc.jp/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

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Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheet

(million yen)

| | Previous consolidated fiscal year (ended March 31, 2017) | Second quarter consolidated accounting period (ended September 30, 2017) |
|---|--|--|
| Assets | | |
| Current assets | | |
| Cash and time deposits | 111,506 | 97,190 |
| Notes and accounts receivable-trade | 119,274 | 126,907 |
| Accounts receivable from completed construction contracts | 4,180 | 5,266 |
| Marketable securities | 6,500 | 5,000 |
| Finished goods, logs and lumber, boards, others | 14,708 | 16,073 |
| Work in process | 1,389 | 1,633 |
| Raw materials and supplies | 7,917 | 7,695 |
| Costs on uncompleted construction contracts | 23,934 | 32,923 |
| Developed land and housing for sale | 48,291 | 49,227 |
| Real estate for sale in process | 80,389 | 121,595 |
| Deferred tax assets | 7,001 | 7,123 |
| Short-term loans receivable | 30,287 | 20,246 |
| Accounts receivable-other | 45,902 | 43,382 |
| Other | 13,551 | 14,718 |
| Allowance for doubtful accounts | (438) | (286) |
| Total current assets | 514,390 | 548,692 |
| Noncurrent assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 63,411 | 76,955 |
| Accumulated depreciation | (29,272) | (36,963) |
| Buildings and structures, net | 34,139 | 39,992 |
| Machinery, equipment and vehicles | 76,290 | 72,560 |
| Accumulated depreciation | (46,495) | (47,661) |
| Machinery, equipment and vehicles, net | 29,796 | 24,898 |
| Land | 30,597 | 34,103 |
| Forest assets | 37,189 | 37,249 |
| Leased assets | 10,724 | 9,859 |
| Accumulated depreciation | (6,034) | (5,193) |
| Leased assets, net | 4,691 | 4,666 |
| Construction in progress | 6,013 | 6,030 |
| Other | 11,874 | 13,308 |
| Accumulated depreciation | (8,500) | (9,404) |
| Other, net | 3,374 | 3,904 |
| Total property, plant and equipment | 145,798 | 150,842 |
| Intangible assets | | |
| Goodwill | 11,065 | 21,068 |
| Other | 12,421 | 12,341 |
| Total Intangible assets | 23,486 | 33,409 |
| Investments and other assets | | |
| Investment securities | 91,806 | 93,187 |
| Long-term loans receivable | 3,683 | 2,877 |
| Net defined benefit assets | 142 | 132 |
| Deferred tax assets | 3,276 | 3,099 |
| Other | 14,141 | 13,558 |
| Allowance for doubtful accounts | (2,362) | (2,413) |
| Total investments and other assets | 110,686 | 110,441 |
| Total noncurrent assets | 279,970 | 294,692 |
| Total assets | 794,360 | 843,384 |

(million yen)

| | Previous consolidated fiscal year (ended March 31, 2017) | Second quarter consolidated accounting period (ended September 30, 2017) |
|---|--|--|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable-trade | 111,281 | 117,510 |
| Accounts payable for construction contracts | 71,211 | 64,928 |
| Short-term debt | 37,108 | 40,085 |
| Current portion of convertible bonds | – | 20,000 |
| Lease obligations | 1,628 | 1,364 |
| Income taxes payable | 5,511 | 3,700 |
| Advances received on uncompleted construction contracts | 48,249 | 56,631 |
| Provision for employees' bonuses | 11,139 | 11,886 |
| Provision for directors' bonuses | 146 | – |
| Provision for warranties for completed construction | 3,849 | 3,604 |
| Asset retirement obligation | 551 | 638 |
| Other | 33,332 | 33,196 |
| Total current liabilities | 324,004 | 353,542 |
| Long-term liabilities | | |
| Bonds issued | 20,000 | 20,000 |
| Convertible bonds | 20,000 | – |
| Long-term debt | 81,818 | 92,834 |
| Lease obligations | 3,264 | 3,572 |
| Deferred tax liabilities | 11,695 | 14,300 |
| Provision for directors' retirement benefits | 80 | 110 |
| Net defined benefit liabilities | 18,732 | 18,952 |
| Asset retirement obligation | 937 | 878 |
| Other | 17,974 | 25,458 |
| Total long-term liabilities | 174,499 | 176,103 |
| Total liabilities | 498,503 | 529,645 |
| Net assets | | |
| Shareholders' equity | | |
| Common stock | 27,672 | 27,672 |
| Capital surplus | 18,637 | 18,637 |
| Retained earnings | 196,511 | 203,274 |
| Treasury stock | (280) | (281) |
| Total shareholders' equity | 242,541 | 249,302 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 25,896 | 31,507 |
| Deferred gains or losses on hedges | (80) | 220 |
| Foreign currency translation adjustment | 6,874 | 4,463 |
| Remeasurements of defined benefit plans | (320) | (77) |
| Total accumulated other comprehensive income | 32,370 | 36,113 |
| Subscription rights to shares | 82 | 105 |
| Non-controlling interests | 20,864 | 28,218 |
| Total net assets | 295,857 | 313,738 |
| Total liabilities and net assets | 794,360 | 843,384 |

(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, 2016 – September 30, 2016) | 2Q Cumulative Period under Review (Consolidated) (April 1, 2017 – September 30, 2017) |
|--|--|--|
| Net sales | 513,575 | 562,109 |
| Cost of sales | 422,336 | 463,273 |
| Gross profit | 91,239 | 98,836 |
| Selling, general and administrative expenses | 75,155 | 82,773 |
| Operating income | 16,084 | 16,063 |
| Non-operating income | | |
| Interest income | 206 | 268 |
| Purchase discounts | 185 | 180 |
| Dividends income | 675 | 791 |
| Equity in earnings of affiliates | 1,768 | 1,731 |
| Other | 1,219 | 1,384 |
| Total non-operating income | 4,054 | 4,354 |
| Non-operating expenses | | |
| Interest expenses | 1,024 | 765 |
| Sales discount | 331 | 335 |
| Foreign exchange losses | 302 | 58 |
| Other | 573 | 406 |
| Total non-operating expenses | 2,230 | 1,565 |
| Recurring income | 17,908 | 18,852 |
| Extraordinary gains | | |
| Gain on sales of noncurrent assets | 181 | 29 |
| Gain on sales of investment securities | – | 87 |
| Gain on step acquisitions | – | 6,464 |
| Total extraordinary gains | 181 | 6,580 |
| Extraordinary loss | | |
| Loss on sales of noncurrent assets | 18 | 20 |
| Loss on retirement of noncurrent assets | 84 | 57 |
| Impairment loss | – | 5,739 |
| Total extraordinary loss | 103 | 5,815 |
| Income before income taxes and non-controlling interests | 17,986 | 19,617 |
| Income taxes-current | 5,567 | 6,727 |
| Income taxes-deferred | (131) | (336) |
| Total income taxes | 5,436 | 6,391 |
| Net income | 12,550 | 13,226 |
| Profit attributable to non-controlling interests | 2,244 | 2,921 |
| Profit attributable to owners of parent | 10,306 | 10,305 |

Consolidated Statements of Comprehensive Income

For the second quarter cumulative period (consolidated)

(million yen)

| | Previous 2Q Cumulative Period (Consolidated) (April 1, 2016 – September 30, 2016) | 2Q Cumulative Period under Review (Consolidated) (April 1, 2017 – September 30, 2017) |
|--|--|--|
| Net income | 12,550 | 13,226 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 720 | 5,610 |
| Deferred gains or losses on hedges | (51) | 300 |
| Foreign currency translation adjustment | (10,814) | (1,457) |
| Share in equity method affiliates | (1,747) | (843) |
| Total other comprehensive income (loss) | (11,892) | 3,611 |
| Comprehensive income | 658 | 16,838 |
| Comprehensive income attributable to owners of the parent | 425 | 14,048 |
| Comprehensive income attributable to non-controlling interests | 233 | 2,790 |

(3) Quarterly Consolidated Statements of Cash Flows

(million yen)

| | Previous 2Q Cumulative Period (Consolidated) (April 1, 2016 – September 30, 2016) | 2Q Cumulative Period under Review (Consolidated) (April 1, 2017 – September 30, 2017) |
|--|--|--|
| Cash flows from operating activities | | |
| Income before income taxes and non-controlling interests | 17,986 | 19,617 |
| Depreciation and amortization | 6,403 | 7,114 |
| Impairment loss | – | 5,739 |
| Amortization of goodwill | 1,228 | 2,646 |
| Provision for (reversal of) doubtful accounts | 607 | 31 |
| Provision for (reversal of) employees' bonuses | 20 | 310 |
| Provision for (reversal of) directors' bonuses | (130) | (146) |
| Provision for (reversal of) warranties for completed construction | (411) | (379) |
| Provision for (reversal of) directors' retirement benefits | (10) | 9 |
| Net defined benefit liability | (152) | (5) |
| Interest and dividends income | (882) | (1,059) |
| Interest expenses | 1,024 | 765 |
| Equity in (earnings) losses of affiliates | (1,768) | (1,731) |
| Losses (gains) on sales of marketable securities and investment securities | – | (87) |
| Losses (gains) on step acquisitions | – | (6,464) |
| Losses (gains) on sales/disposal of fixed assets | (78) | 48 |
| Decrease (increase) in notes and accounts receivable-trade | 2,764 | (8,604) |
| Inventories | (20,269) | (30,021) |
| Other current assets | 2,843 | 2,794 |
| Notes and accounts payable, trade | (6,468) | (3,446) |
| Advances received | 1,067 | 1,811 |
| Advances received on uncompleted construction contracts | 9,128 | 8,349 |
| Accrued consumption taxes | (2,569) | (764) |
| Other current liabilities | (1,009) | (356) |
| Other | (939) | 1,577 |
| Subtotal | 8,383 | (2,253) |
| Interest and dividends income received | 2,748 | 2,382 |
| Interest paid | (958) | (847) |
| Income taxes paid | (10,188) | (9,353) |
| Net cash provided by (used in) operating activities | (15) | (10,071) |

(million yen)

| | Previous 2Q Cumulative Period (Consolidated) (April 1, 2016 – September 30, 2016) | 2Q Cumulative Period under Review (Consolidated) (April 1, 2017 – September 30, 2017) |
|---|--|--|
| Cash flows from investment activities | | |
| Payments into time deposits | (292) | (20,446) |
| Proceeds from withdrawal of time deposits | 6,272 | 35,281 |
| Decrease (increase) in short-term loans receivable | 1,031 | (50) |
| Payments for purchases of fixed assets | (37,111) | (6,697) |
| Proceeds from sales of fixed assets | 3,056 | 1,394 |
| Payments for purchases of intangible assets | (1,039) | (622) |
| Payments for purchase of investment securities | (2,188) | (2,273) |
| Proceeds from sales of investment securities | – | 183 |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | (1,399) | (7,661) |
| Payments of long-term loans payable | (781) | (53) |
| Repayments of long-term loans receivable | 12 | 500 |
| Other payments | (735) | (1,501) |
| Other proceeds | 319 | 880 |
| Cash flows from investment activities | (32,857) | (1,065) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term debt | 14,617 | 10,137 |
| Repayments of finance lease obligations | (1,334) | (1,248) |
| Proceeds from long-term debt | 14,755 | 894 |
| Repayment of long-term debt | (2,734) | (5,382) |
| Proceeds from issuance of bonds | 20,000 | – |
| Repayment of bonds | (5,000) | – |
| Proceeds from stock issuance to non-controlling interests | – | 1,870 |
| Cash dividends paid | (2,126) | (3,543) |
| Cash dividends paid to non-controlling interests | (1,270) | (2,746) |
| Payments for purchase of subsidiary shares not resulting in change in scope of consolidation | (14,750) | – |
| Other proceeds | – | 0 |
| Other payments | (1) | (1) |
| Net cash provided by (used in) financing activities | 22,158 | (20) |
| Effect of exchange rate change on cash and cash equivalents | (2,657) | (346) |
| Net increase (decrease) in cash and cash equivalents | (13,371) | (11,502) |
| Cash and cash equivalents at the beginning of period | 141,265 | 132,707 |
| 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 | 127,893 | 121,723 |

(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

(Segment Information)

I Previous second quarter cumulative period (Consolidated, April 1, 2016 – September 30, 2016)

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 | Overseas | Total | | | | |
| Net sales | | | | | | | | |
| (1) Unaffiliated customers | 198,586 | 210,197 | 100,576 | 509,359 | 3,653 | 513,012 | 563 | 513,575 |
| (2) Intersegment sales/transfers | 10,999 | 249 | 7,862 | 19,111 | 4,403 | 23,514 | (23,514) | – |
| Total | 209,585 | 210,447 | 108,438 | 528,470 | 8,056 | 536,526 | (22,951) | 513,575 |
| Segment income (loss) | 2,401 | 10,943 | 6,656 | 20,000 | 262 | 20,262 | (2,354) | 17,908 |

- Notes: 1 “Other” is a business segment not included in the reporting segments. The segment includes 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 ¥2,354 million includes ¥132 million in eliminated intersegment transactions, as well as ¥2,222 million in corporate loss that is 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 (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

Not applicable

II Second quarter cumulative period under review (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 | Overseas | Total | | | | |
| Net sales | | | | | | | | |
| (1) Unaffiliated customers | 202,052 | 207,227 | 140,862 | 550,142 | 11,392 | 561,534 | 575 | 562,109 |
| (2) Net Intersegment sales/transfers | 10,674 | 254 | 8,728 | 19,656 | 6,292 | 25,948 | (25,948) | – |
| Total | 212,726 | 207,481 | 149,590 | 569,798 | 17,685 | 587,482 | (25,373) | 562,109 |
| Segment income (loss) | 2,269 | 7,826 | 9,226 | 19,321 | 2,112 | 21,433 | (2,581) | 18,852 |

- Notes:
1. "Other" is a business segment not included in the reporting segments. The segment includes 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 ¥2,581 million includes ¥363 million in eliminated intersegment transactions, as well as ¥2,218 million in corporate loss that is 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 (loss) in the quarterly consolidated statements of income.

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

(Material impairment loss on noncurrent assets)

In the overseas segment, impairment loss associated with particle board manufacturing equipment is recorded as extraordinary loss. A ¥5,739 million impairment loss was recorded for the second quarter cumulative period (consolidated).

(Important change in the amount of goodwill)

In the overseas business segment, the corporate merger with the Edge Homes Group carried out in the previous consolidated fiscal year had been applying provisional accounting, but in the second quarter consolidated accounting period it was finalized. The decrease in goodwill associated with this event was ¥1,124 million.