



November 9, 2017

News Release

Company name: Sumitomo Forestry Co., Ltd.  
(Stock code: 1911, TSE, First Section)  
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**Notice of New Share Issue via Private Placement Based on Capital and Business Alliance  
between Sumitomo Forestry Co., Ltd. and Kumagai Gumi Co., Ltd.**

As indicated in the “Notice of Capital and Business Alliance between Sumitomo Forestry Co., Ltd. and Kumagai Gumi Co., Ltd.” Sumitomo Forestry has concluded an agreement on a capital and business alliance (hereafter, “the Alliance”) with Kumagai Gumi Co., Ltd. (Head Office: Fukui-shi, Fukui; Tokyo Headquarters: Shinjuku-ku, Tokyo; President: Yasushi Higuchi. Hereafter, “Kumagai Gumi”).

Today, the Sumitomo Forestry Board of Directors passed a resolution approving a new share issue via private placement (hereafter, “the capital increase via private placement”) with Kumagai Gumi as the intended allottee. This provides notice of the details.

I. Purpose of the Alliance and Capital Increase via Private Placement

The residential housing and construction markets in Japan are projected to reach a contracted equilibrium at a smaller market size as the population declines over the medium to long-term. Recognizing the need for initiatives aimed at sustainable growth amid the changing business environment, the two companies are aiming to build new, independent positions that exceed the boundaries of their existing businesses. They have considered a collaborative structure for initiatives such as creating new markets, development of high value-added technology, and business expansion overseas.

Sumitomo Forestry, which is the top brand in the timber and building materials business and the wooden custom-built detached housing business, recognizes the need for a general contracting function in pursuing a global strategy that includes the real estate development business in addition to strengthening Sumitomo Forestry’s business in the non-housing sector in Japan. Meanwhile, Kumagai Gumi, which has an extensive track record in construction both in Japan and overseas, is aiming to strengthen its renewable energy business in biomass power generation and other forms of alternative energy, and to strengthen its overseas business as a medium to long-term strategy, in addition to the civil engineering and construction sectors. The two companies determined that their strategic directions are compatible, and that they can achieve mutual maximization of corporate value, and thus entered the Alliance.

Known as a country with one of the highest percentages of forested land in the world, people in Japan have long been closely connected with trees and greenery. Not only has there been increasing demand for the “warmth” and “healing” of trees and greenery recently; the Act for Promotion of Use of Wood in Public Buildings was enacted in October 2010. Promoting the use of wood has been positioned as a national government policy of Japan, and the need for the use of wood is increasing in a wide range of areas other than residential housing.

The two companies will work to realize an abundant society by providing buildings and housing that utilize wood and greenery and fuse the in-depth knowledge of natural materials of wood and greenery that are the strengths of Sumitomo Forestry with the superior technology and expertise in civil engineering and construction that are strengths of Kumagai Gumi. Both companies share strong feelings about forest resources and have the goal of revitalizing the forestry business, beginning with effective use of wood in the civil engineering and construction sector and, by extension, contributing to national conservation and the environment. They will move forward on working to build social infrastructure that maintains a balanced harmony with the natural environment in terms of both the hard and soft aspects.

The companies will also proactively develop a model that creates synergy in each business segment, and will conduct a capital increase via private placement of new shares and acquire shares in each other's company to develop and strengthen a long-term partnership and pursue sustainable collaboration.

In the future, the two companies will accelerate collaboration and development based on the Alliance, and will contribute to the development of a sustainable society that can meet the expectations of customers.

[Description of the Alliance]

Sumitomo Forestry and Kumagai Gumi have agreed to collaborate on each business area and will build a framework for collaboration. The main aspects of this are described below. Please see the notice entitled, "Notice of Capital and Business Alliance between Sumitomo Forestry Co., Ltd. and Kumagai Gumi Co., Ltd." released by Sumitomo Forestry and Kumagai Gumi today for further details.

- 1) Construction business related to MOCCA (timber solutions) and greening
- 2) Renewable energy business
- 3) Overseas business
- 4) Peripheral business sectors (healthcare, sales of products developed, etc.)
- 5) Joint research and development (New construction methods, materials and equipment, robotics, etc.)

## II. New Share Issue via Private Placement

### 1. Summary of Offering

(1) Pay-in date	November 28, 2017
(2) Number of shares issued	5,197,500 shares of Sumitomo Forestry common stock
(3) Issue price (Pay-in amount)	1,924 yen per share
(4) Proceeds from share issue	9,999,990,000 yen
(5) Offer method (Intended allottee)	Share issue via private placement (Kumagai Gumi Co., Ltd.)
(6) Other	Each of the provisions noted above is conditioned upon validation of the securities registration statement pursuant to the Financial Instruments and Exchange Act.

### 2. Purpose and Reason for Offering

As noted above in I. Purpose of the Alliance and Capital Increase via Private Placement, this capital increase via private placement is being executed in conjunction with the Alliance. The purpose of this capital increase is to ensure a sound alliance to develop and strengthen a long-term partnership and pursue ongoing collaboration, based on a good relationship involving mutual respect for independence and autonomy in management and a spirit of equality.

This capital increase via private placement will cause a certain degree of dilution. However, we think that pursuing collaboration with Kumagai Gumi via the Alliance and this capital increase via private placement will help to increase the corporate value of the Sumitomo Forestry Group over the medium- to long-term, and will ultimately lead to greater returns to existing shareholders.

We also view increasing our net assets via this capital increase to further strengthen our business base.

### 3. Proceeds, Purpose of Use, and Timing of Planned Expenditures

#### 1) Proceeds

(1) Total amount paid in	9,999,990,000 yen
(2) Estimated issue costs	44,000,000 yen
(3) Estimated net proceeds	9,955,990,000 yen

- Notes:
1. The estimated issue costs do not include consumption tax.
  2. The estimated issue costs mainly consist of the registration cost and stock exchange-related costs.

2) Specific purposes of use of the proceeds

As noted above in 2. Purpose and Reason for Offering, one purpose of this capital increase via private placement is to build a framework for collaboration as long-term partners by improving the implementability of the Alliance with the intended allottee, Kumagai Gumi, and maintaining a good relationship and a spirit of equality. We intend to use the estimated net proceeds of 9,955,990,000 yen mentioned above by March 31, 2021 to cover investment in biomass power generation and other types of renewable energy business, and the business of developing condominiums, healthcare facilities and other projects in Taiwan, Vietnam, and Myanmar, etc. The proceeds will be safely managed in a bank account until they are invested.

Specific Purposes of Use	Amount (yen)	Timing of Planned Expenditure
Funds for investment in biomass power generation and other types of renewable energy business, and the business of developing condominiums, healthcare facilities and other projects in Taiwan, Vietnam, and Myanmar that are associated with the Alliance.	9,955,990,000	April 2018 to March 2021

4. View on Justifiable Use of Funds

As noted above in 3. Proceeds, Purpose of Use, and Timing of Planned Expenditures, 2) Specific purposes of use of the proceeds, we think that using the proceeds for the stated purposes of use will help to increase the corporate value of Sumitomo Forestry, and will ultimately lead to higher returns for existing shareholders. We have therefore judged the purposes of use for proceeds from the private placement to be justifiable.

5. Justifiable Issuing Terms, etc.

1) Basis for Calculation of Amount Paid-in and Specifics

The issue price was set at 1,924 yen, the closing price for the common stock of Sumitomo Forestry on the Tokyo Stock Exchange on November 8, 2017, the business day immediately preceding the date on which the Board of Directors approved the capital increase via private placement.

This share price represents a 2.34% premium over the average closing price of 1,880 yen (rounded to whole yen) for the one month immediately preceding the date of approval by the Board of Directors (October 10, 2017 to November 8, 2017). It represents a premium of 9.63% over the average closing price of 1,755 yen (rounded to whole yen) over the three months immediately preceding the same date (August 9, 2017 to November 8, 2017), and a 9.38% premium over the average closing price of 1,759 yen (rounded to whole yen) for the six months immediately preceding the same date (May 9, 2017 to November 8, 2017).

The reason why issue price was set the business day immediately preceding the date of approval by the Board of Directors was because the closing price on the business day immediately preceding the date of approval by the Board of Directors was the market price closest to the time of calculation, and this was viewed as a reasonable price on which to base fair price calculations for the shares at the time. The issue price was also set on this date after collective consideration of fluctuations in the company's share price, dilution that will result from the capital increase, and corporate value over the medium- to long-term that will result from pursuing the Alliance with the intended allottee, and after discussing it with the intended allottee.

The issue price calculated according to the above thought process is in conformance with the Guidelines on Handling of Capital Increases by Private Placement by the Japan Securities Dealers Association (JSDA) and has been deemed to be a price that is not a particularly advantageous price.

Moreover, the four statutory auditors (two of whom are outside auditors) who attended the Board of Directors meeting concerning the capital increase via private placement unanimously agreed that the grounds for calculating the issue price were reasonable and were in conformance with the guidelines noted above. We therefore obtained an opinion that the method of calculation was appropriate, and the issue price is a price that is not particularly advantageous.

2) Grounds for Determining the Number of Shares Issues and the Amount of Dilution to be Reasonable

The number of shares to be issued in the capital increase via private placement is 5,197,500. This is equivalent to 2.93% of 177,410,239 shares, the total number of common shares issued by Sumitomo Forestry prior to this capital increase (as of September 30, 2017) (2.94% of 1,770,269, the total number of voting rights) and will

cause a certain degree of dilution. However, it is the view of Sumitomo Forestry that this capital increase via private placement will help to increase the corporate value of the Sumitomo Forestry Group because it will build a capital relationship with Kumagai Gumi and a strong relationship of trust on which to pursue the business alliance. We think this will ultimately lead to greater returns to existing shareholders, and have therefore determined the number of shares and the amount of dilution resulting from this capital increase to be of a reasonable size.

## 6. Reason for Selecting the Intended Allottee

### 1) Profile of the Intended Allottee (as of September 30, 2017, unless otherwise stated)

(1) Name	Kumagai Gumi Co., Ltd.		
(2) Location	(Head Office) 8-6, 2-chome, Chuo, Fukui-shi, Fukui Prefecture, Japan (Tokyo Headquarters) 2-1, Tsukudo-cho, Shinjuku-ku, Tokyo, Japan		
(3) Name and title of representative	Yasushi Higuchi, President		
(4) Business description	Construction business and peripheral businesses		
(5) Capital	13,341 million yen		
(6) Date founded	January 6, 1938		
(1) Number of shares issued	377,544,607 shares		
(2) Fiscal year-end	March		
(3) Number of employees	3,798 (consolidated basis) (as of March 31, 2017)		
(4) Main customers	East Nippon Expressway Company Limited, Mitsui Fudosan Residential Co., Ltd., et al.		
(5) Main banks	Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Trust Bank, Limited		
(6) Major shareholders and percentage of shares held	Japan Trustee Services Bank, Ltd. (Trust Account)		9.19%
	The Master Trust Bank of Japan, Ltd. (Trust Account)		7.77%
	Kumagai Gumi Business Partner Shareholding Association		4.65%
	Japan Trustee Services Bank, Ltd. (Trust Account 9)		3.08%
	Japan Trustee Services Bank, Ltd. (Trust Account 5)		1.76%
	Sumitomo Mitsui Banking Corporation		1.57%
	NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited)		1.48%
	HAYAT (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)		1.45%
	The Nomura Trust and Banking Co., Ltd. (Trust account)		1.37%
	Japan Trustee Services Bank, Ltd. (Trust Account 2)		1.27%
(7) Relationship between the listed company and the company in question	Capital relationship	Number of intended allottee shares held by Sumitomo Forestry	Not applicable
		Number of Sumitomo Forestry shares held by intended allottee	Not applicable
	Personal relationships		Not applicable
	Transactional relationships		Not applicable
	Existence of interested parties		Not applicable
(8) Business results and financial position over the past three years (Millions of yen, unless otherwise stated)			
Consolidated Fiscal Year	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Net assets	53,551	64,933	80,288
Total assets	255,514	255,525	271,908
Net assets per share (yen)	143.27	173.76	215.03
Net sales	362,090	343,647	344,706
Operating income	16,104	24,540	25,135

Ordinary income	15,658	25,772	25,358
Profit attributable to owners of parent	5,458	12,092	16,433
Net income per share (yen)	15.72	32.35	43.99
Dividends per share (yen)	2.00	4.00	7.00

- Notes:
1. The percentage of shares held is the number of shares held divided by the total number of shares issued.
  2. The percentage of shares held is rounded to two decimal places.
  3. The intended allottee conducted a 10:1 reverse stock split on October 1, 2017. The number of shares issued, net assets per share, net income per share, and dividends per share noted above do not take the impact of the reverse stock split into account.
  4. The intended allottee is listed on the first section of the Tokyo Stock Exchange, has no relationship whatsoever with antisocial forces and firmly rejects and adopts a resolute stance toward unlawful demands from antisocial forces. The intended allottee and its officers have been determined to have no relationships with antisocial forces, as stated in the basic views and progress on the elimination of antisocial forces in the Corporate Governance Report submitted to the Tokyo Stock Exchange on June 29, 2017.

2) Reason for Selecting the Intended Allottee

Please see I. Purpose of the Alliance and Capital Increase via Private Placement, above.

3) Intended Allottee's Policy on Shareholding

The intended allottee has explained that it intends to hold the shares it acquires in Sumitomo Forestry through the capital increase via private placement from a medium- to long-term perspective. Moreover, in the policy concerning cross-shareholdings stated in the Corporate Governance Report submitted by the allottee, it states that "The Company conducts cross-shareholdings to improve sustainable corporate value and to strengthen mid- to long-term transactions and collaborative relations and obtain opportunities to generate profit." In regard to voting rights associated with cross-shareholdings, it notes that "When exercising voting rights relating to cross-shareholding shares, the Company will do so by deciding whether such exercise will improve the corporate value of the corporations that it invests in and increase shareholder returns, from a mid- to long-term perspective."

Sumitomo Forestry also intends to obtain a pledge from the intended allottee by the pay-in date stating that if the allottee transfers all or part of the common stock it has acquired in Sumitomo Forestry as a result of the capital increase via private placement during a two-year period extending from the scheduled date of allocation, the intended allottee agrees that it will promptly provide Sumitomo Forestry written notice of the name and address of the transferee, the number of shares transferred, the transfer date, the transfer price, the reason for transfer, and the method of transfer; that Sumitomo Forestry will submit a written report to Tokyo Stock Exchange, Inc. with the reported contents; and that the reported contents will be provided for public inspection.

4) Results of Confirmation that the Intended Allottee Possesses the Assets Required for Pay-in

Sumitomo Forestry has received a report from the intended allottee confirming the funds required for the total pay-in amount (issue amount) for the capital increase via private placement. Sumitomo Forestry has also confirmed that the intended allottee has sufficient cash and other liquid assets for pay-in of the required amount through inspection of the financial statements in the quarterly report (for Period 81 (for the second quarter of fiscal year ending March 31, 2018)), and has therefore determined there to be no problems with the pay-in.

## 7. Major Shareholders and Percentage of Shares Held after Private Placement

Before Placement (As of September 30, 2017)		After Placement	
The Master Trust Bank of Japan, Ltd. (Trust Account)	5.88%	The Master Trust Bank of Japan, Ltd. (Trust Account)	5.71%
Sumitomo Metal Mining Co., Ltd.	5.70%	Sumitomo Metal Mining Co., Ltd.	5.54%
Japan Trustee Services Bank, Ltd. (Trust Account)	4.39%	Japan Trustee Services Bank, Ltd. (Trust Account)	4.26%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	3.59%	Japan Trustee Services Bank, Ltd. (Trust Account 9)	3.49%
THE IYO BANK, LTD.	3.30%	THE IYO BANK, LTD.	3.20%
SUMITOMO CORPORATION	2.47%	Kumagai Gumi Co., Ltd.	2.85%
SUMITOMO LIFE INSURANCE COMPANY	2.38%	SUMITOMO CORPORATION	2.40%
The Hyakujushi Bank, Ltd.	2.37%	SUMITOMO LIFE INSURANCE COMPANY	2.31%
Sumitomo Mitsui Banking Corporation	2.33%	The Hyakujushi Bank, Ltd.	2.30%
Sumitomo Mitsui Trust Bank, Limited	1.92%	Sumitomo Mitsui Banking Corporation	2.27%

- Notes: 1. Based on the shareholders roster as of September 30, 2017.  
2. The percentage of shares held is the number of shares held divided by the total number of shares issued.  
3. The percentage of shares held is rounded to the second decimal point.

## 8. Future Forecast

Sumitomo Forestry projects that the impact of the capital and business alliance with and allocation of shares to Kumagai Gumi through a capital increase via private placement on the consolidated results for fiscal year ending March 31, 2018 will be minor. However, we think that this will help to increase the corporate value of Sumitomo Forestry over the medium- to long-term by creating synergies through the Alliance and by developing and strengthening the long-term partnership between the two companies. If the need to revise earnings forecasts arises or other information that should be disclosed emerges at a later date, such information will be disclosed promptly.

## 9. Matters Concerning Corporate Code of Conduct Process

This capital increase via private placement will 1) result in dilution of less than 25% and 2) will not cause a change in the controlling shareholder. It therefore does not require obtaining a third-party opinion and confirmation of the will of shareholders specified in Article 432 of the rules of Tokyo Stock Exchange, Inc.

## 10. Earnings Results and Equity Financing over the Past Three Years

### 1) Consolidated Earnings Results over the Past Three Years

(Millions of yen, unless otherwise stated)

	Fiscal Year Ended March 2015	Fiscal Year Ended March 2016	Fiscal Year Ended March 2017
Net sales	997,256	1,040,524	1,113,364
Operating income	33,994	30,093	53,989
Ordinary income	36,424	30,507	57,841
Profit attributable to owners of parent	18,572	9,727	34,532
Net income per share (yen)	104.85	54.92	194.95
Annual dividends per share (yen) (Of which, interim dividends per share)	21.50 (9.50)	24.00 (12.00)	35.00 (15.00)
Net assets per share (yen)	1,387.39	1,374.47	1,552.04

2) Current Number of Shares Issued and Potential Dilutive Shares (As of September 30, 2017)

	Number of Shares	Percentage of the Number of shares issued
Number of shares issued	177,410,239 shares	100%
Number of dilutive shares at the current conversion price (exercise price)	10,874,473 shares	6.13%
Number of dilutive shares at the minimum conversion price (exercise price)	— shares	—%
Number of dilutive shares at the maximum conversion price (exercise price)	— shares	—%

3) Recent Share Price Movement

(1) Past Three Years

(yen)	Fiscal Year Ended March 2015	Fiscal Year Ended March 2016	Fiscal Year Ended March 2017
Opening price	1,038	1,301	1,288
High	1,347	1,742	1,787
Low	1,009	1,205	1,190
Closing price	1,313	1,293	1,690

(2) Past Six Months

(yen)	June 2017	July	August	September	October	November
Opening price	1,760	1,777	1,690	1,714	1,755	1,920
High	1,859	1,790	1,727	1,777	1,924	1,947
Low	1,750	1,645	1,594	1,647	1,735	1,905
Closing price	1,766	1,690	1,714	1,760	1,904	1,924

Note: November 2017 indicates the price level up to November 8, 2017.

(3) Share Price on Business Day Preceding Issue Date

(yen)	November 8, 2017
Opening price	1,928
High	1,930
Low	1,914
Closing price	1,924

4) Equity Financing over the Past Three Years

Not applicable.

11. Issue Terms

- |   |   |
|---|---|
| 1) Class and number of shares offered     | 5,197,500 common shares in Sumitomo Forestry  |
| 2) Pay-in amount                          | 1,924 yen per share   |
| 3) Total pay-in amount                    | 9,999,990,000 yen   |
| 4) Amount of capital increase             | 4,999,995,000 yen   |
| 1) Amount of increase in capital reserves | 4,999,995,000 yen   |
| 2) Application date                       | November 27, 2017   |
| 3) Pay-in date                            | November 28, 2017   |
| 4) Offer method                           | Capital increase via private placement  |
| 5) Prospective allottee                   | Kumagai Gumi Co., Ltd.  |
| 6) Other                                  | The validity of the security registration statement is conditioned upon each of the provisions noted above, pursuant to the Financial Instruments and Exchange Act. |