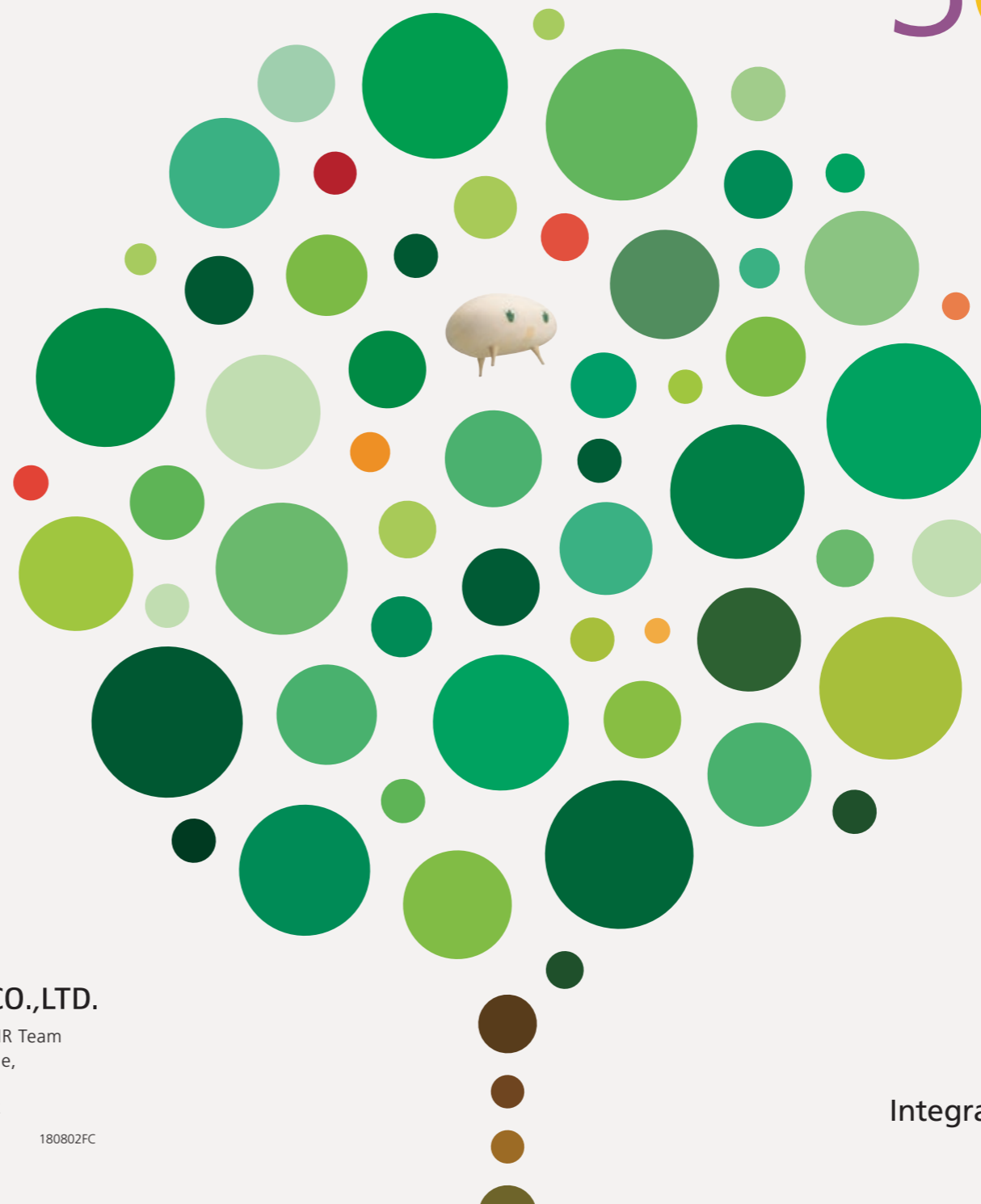


Seeds for a Sustainable Society



Corporate Philosophy

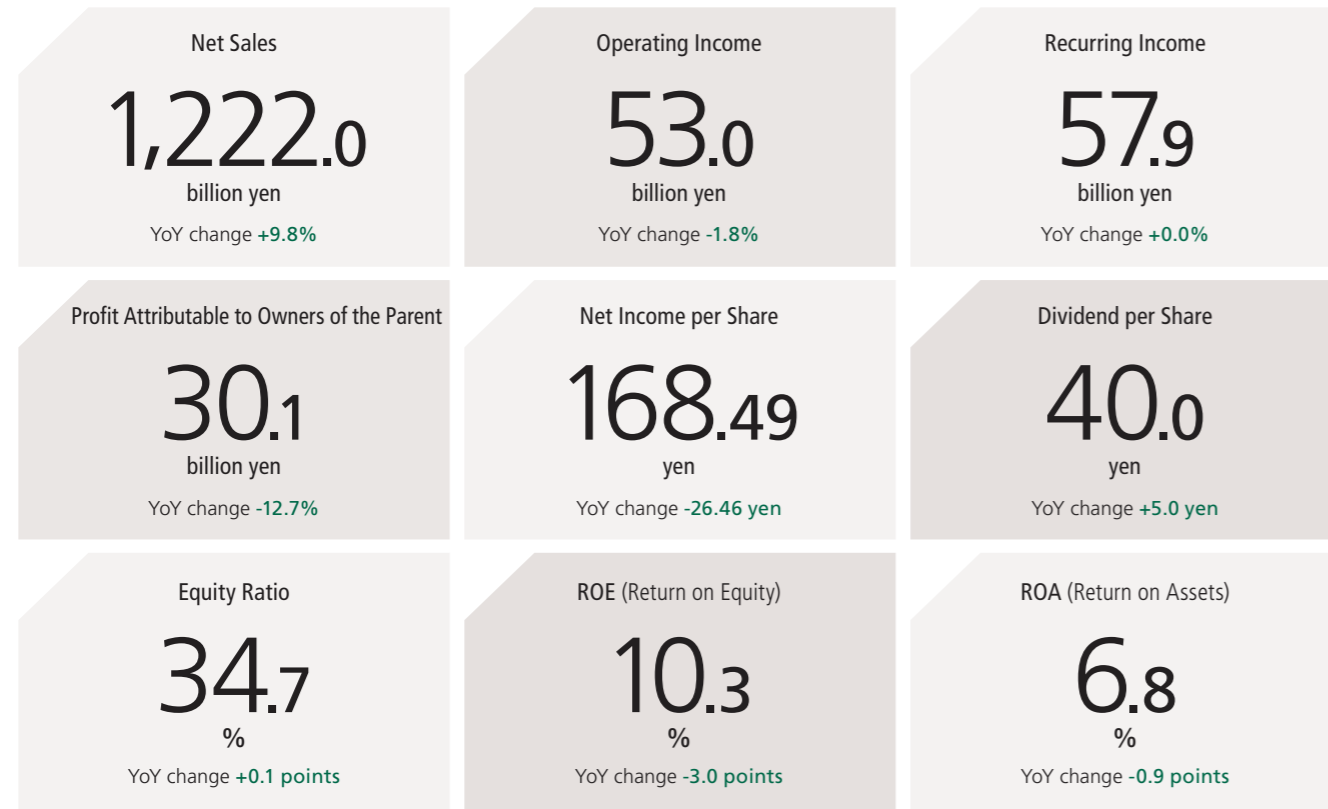
The Sumitomo Forestry Group utilizes wood as a healthy and environmentally friendly natural resource to provide a diverse range of lifestyle-related services that contribute to the realization of a sustainable and prosperous society. All our efforts are based on Sumitomo's Business Spirit, which places prime importance on fairness and integrity for the good of society.

Our Values

- We provide high-quality products and services that bring joy to our customers.
- We create new businesses that lead to happiness for generations to come with a fresh perspective.
- We promote a free and open-minded corporate culture that respects diversity.
- We set and strive to achieve ambitious goals through ongoing effort.
- We do work that wins us the trust of society with fair and honest conduct.

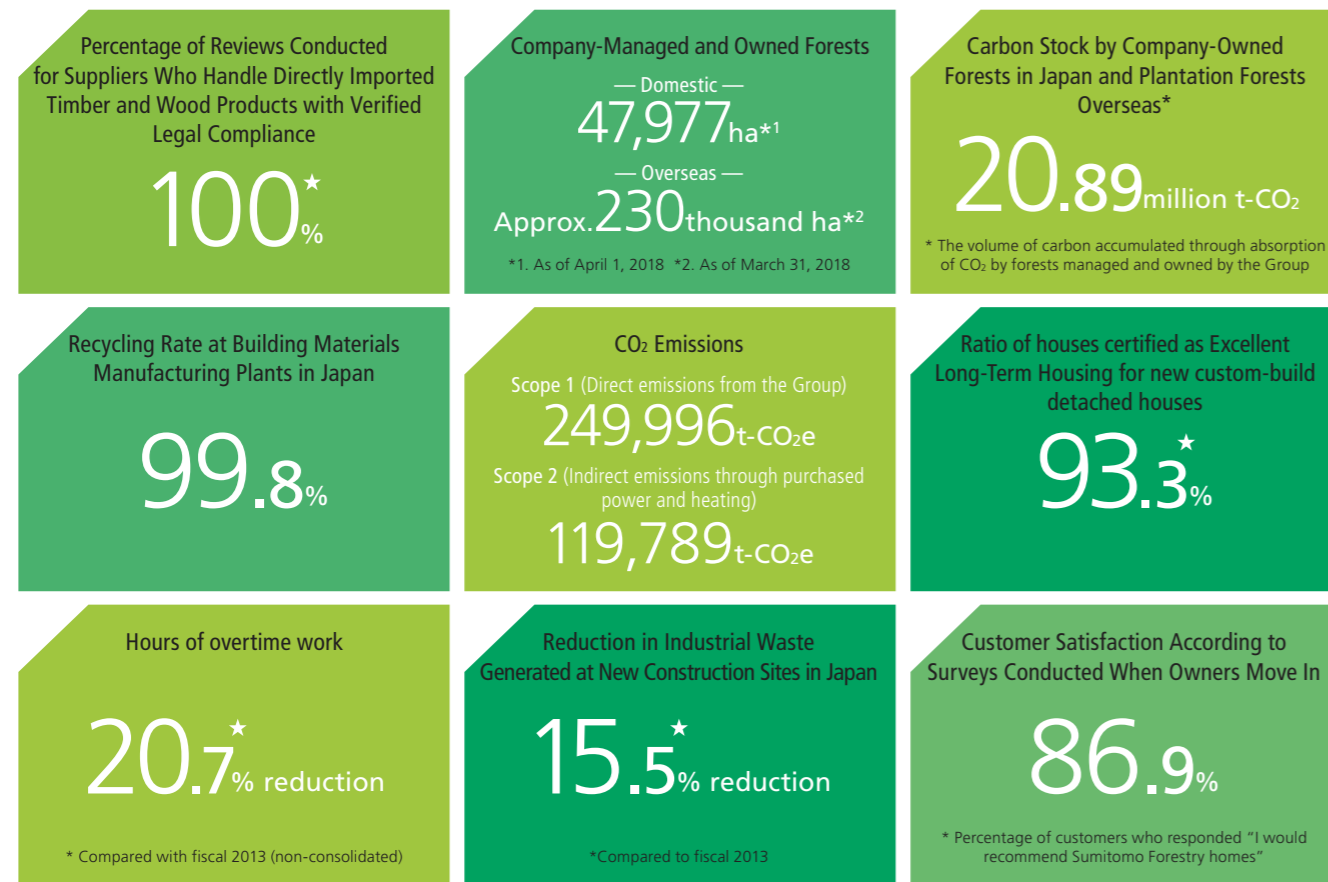


Financial (Years ended March 31)



* Figures after applying the "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.

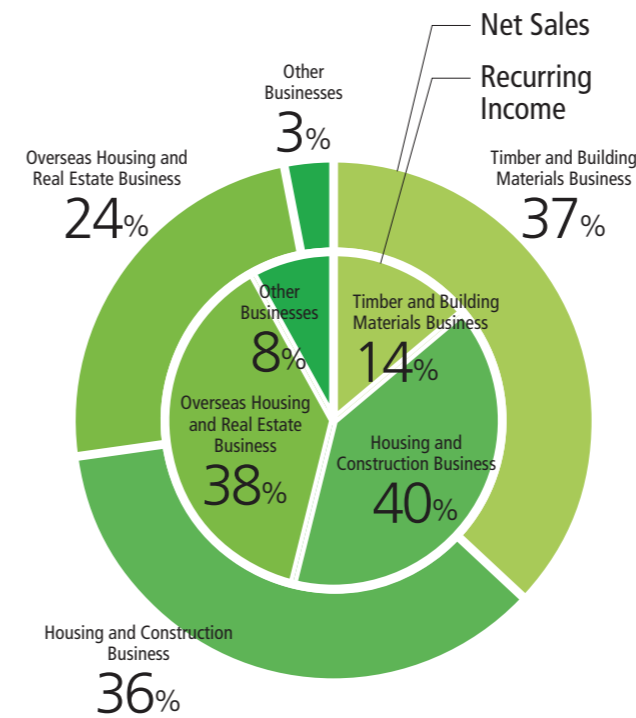
Sustainability



★: Evaluation indicator for material issues related to CSR. For more details, please refer to "Initiatives to Address CSR Material Issues" on Page 48.

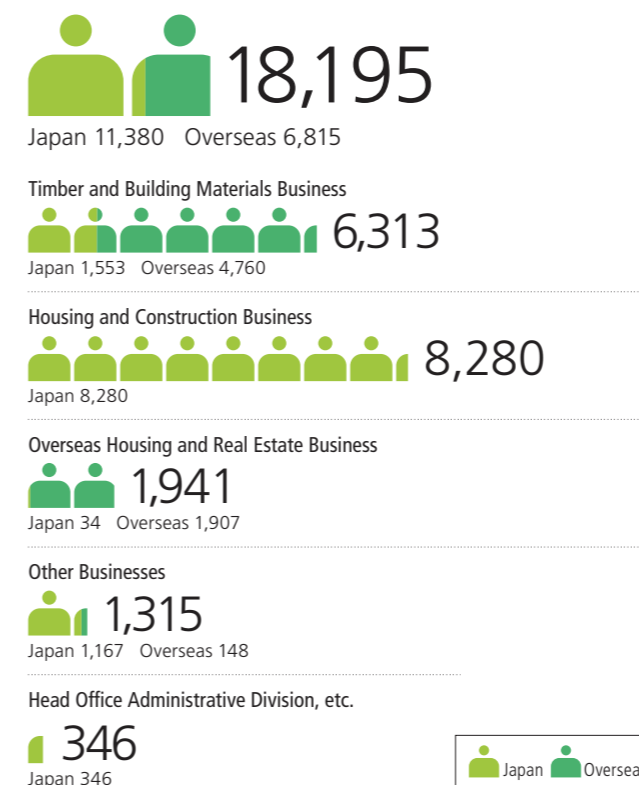
Composition by Segment*

(Year ended March 31, 2018)



Number of Employees*

(As of March 31, 2018)



*Composition by segment and number of employees were calculated using the new segments

Contents

Highlights (For the year ended March 31, 2018)	2
Our History	4
Beliefs ingrained in our Corporate Philosophy and Our Values	8
Message from the Chairman	10
Interview with the President	12
Sumitomo Forestry Group's Value Creation Process	18
ESG Underpins Our Business Foundation	20
Governance	22
At a Glance	32
Business Outline	33
Sustainability	47
Financial Section	65
Sumitomo Forestry Group Overview	101
Organization Chart	104
Stock Information	105

Editorial Policy

Sumitomo Forestry's Integrated Report conveys to shareholders and investors and all stakeholders information about yearly performance and medium- to long-term initiatives for corporate value enhancement. It is issued with the aim of sparking opportunities for further dialogue. The International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC) and the "Guidance for Collaborative Value Creation" formulated in May 2017 by Japan's Ministry of Economy, Trade and Industry were used as references in the editing of this report.



Reporting Period

April 1, 2017 to March 31, 2018 (Fiscal 2017)

* The report also includes some activities from outside the reporting period.

Scope of Reporting

Sumitomo Forestry Co., Ltd. and Group companies

Third-Party Assurance regarding ESG Information

With the aim of ensuring the appropriateness and objectivity of non-financial information disclosed, some environmental and social performance indicators that are disclosed on the Sumitomo Forestry CSR website have been assured by a third-party assurance provider, KPMG AZSA Sustainability Co., Ltd. Please refer to the Company's CSR website to view the independent third-party assurance report.

<http://sfc.jp/english/information/society/index.html>

Our History

Over the course of the Sumitomo Forestry Group's history, we have continued to achieve growth by pursuing the possibilities of trees, based on the Sumitomo's Business Spirit of fairness, integrity, and sound management. And we engaging in management from a long-term perspective without being swayed by short-term profits.

1691 Company Founded

The Sumitomo family opened the Besshi Copper Mine in present-day Niihama, Ehime Prefecture in 1691. The Sumitomo Forestry Group's origins can be traced back to the management of the forest surrounding the copper mine. Timber for charcoal essential to copper smelting and wood used for tunnel support posts were sourced from the forest, as were building materials for the homes of the workers.



Picture scroll depicting the Besshi Copper Mine in Iyo Province, present-day Ehime Prefecture (Sumitomo Historical Archives Collection)

1691

Company founded

1894

The Large-Scale Reforestation Plan created

1894 The Large-Scale Reforestation Plan and the Beginnings of Sustainable Forestry

In the late 19th century, the forests surrounding the Besshi Copper Mine were in danger of being devastated after a long period of excessive logging and smoke pollution. The then manager of the mine, Teigo Iba, believed that "allowing this land to be degraded while moving forward with business made possible by its fruits runs counter to the proper course of our relationship with nature. We must return all the mountains of Besshi to their verdant state." With this belief, he launched The Large-Scale Reforestation Plan in 1894 to restore the forests that had been lost. Through a process of trial and error, and by implementing large scale planting efforts of more than two million trees per year, the mountains were eventually returned to a state of rich greenery.



Teigo Iba (Sumitomo Historical Archives Collection)



1956 Started the timber import business

Sumitomo Forestry established

1948 1955

Toho Norin Co., Ltd. and Shikoku Ringyo Co., Ltd. merged to form Sumitomo Forestry Co., Ltd. and established a nationwide network to procure and sell domestic timber



1970 Established PT. Kutai Timber Indonesia (KTI), in Indonesia and started full-scale building materials manufacturing business focused on plywood



1986 Medium density fiberboard (MDF) production plant ramps up operations at Nelson Pine Industries Ltd. (NPIL), established in New Zealand

Listed on the First Section of the Tokyo Stock Exchange



1975 Started the custom-built detached housing business

1975

1986

1990

1991



1991 Established Tsukuba Research Institute to integrate R&D in the fields of building materials, housing, and resources

2003

2003 Started housing business in the United States (Seattle, Washington)



2005

Developed wooden beam rahmen structure method (the Big-Frame construction method), a first in Japan

2007



2007 Started elderly care business

2008

2008 Started housing business in Australia



2011



©Tully's Coffee Itami



2011 Started MOCCA (timber solutions) business Started environmental energy business

2016



2016 Acquired roughly 31,000 ha of forest in New Zealand, increasing total forest managed and owned in the country to about 36,000 ha

2017

2018

W350 Plan

In February 2018, Sumitomo Forestry announced its W350 Plan. The plan targets construction of a 350-meter-tall wooden high-rise building by 2041, which will mark the 350th year since the company's founding. Sumitomo Forestry envisions research and technological developments in the fields of resources, materials and architecture in order to realize this concept.

We strives to bring about innovation that encourages a sustainable cycle for timber utilization and forestry management, and realize a vision to "Change Cities into Forests" where people, trees, and diverse plant and animal life can coexist with the planet.

Through the W350 Plan, The Sumitomo Forestry Group will contribute to broadening the possibilities for wooden architecture, and the realization of a sustainable society.



Image provided by Sumitomo Forestry / Nikken Sekkei



Mount Besshi devastated the impact of mining operations during the Meiji era (Sumitomo Historical Archives Collection)



Mount Besshi today (Ehime)

Beliefs ingrained in our Corporate Philosophy and Our Values

– The roles of our Corporate Philosophy and Our Values –
Sharing ideals and taking action based on Sumitomo’s Business Spirit.

In 2001 at the start of the 21st century, the Sumitomo Forestry Group employed about 9,400 people across 61 Group companies, while sales totaled around ¥680 billion. Over the last 17 years since then, these figures have roughly grown two-fold to about 18,200 employees at 140 Group companies for sales of approximately ¥1,200 billion in 2018. During this time, the situation in Japan and overseas changed dramatically, so much that the meaning of the existence of corporations must be made clearer than ever before if we are to realize a sustainable society.

In order for our Group to target further business growth going forward, it is crucial that we understand the views and values of our employees in Japan and overseas who come from different backgrounds. This is where our Corporate Philosophy and Our Values serve to connect all officers and employees in the Sumitomo Forestry Group with a common approach. Moreover, society today demands an even greater sense of ethics when carrying out our business activities, which is why we further clarify our stance with the establishment of our Code of Conduct.

Our Corporate Philosophy is a guide for defining the significance of pursuing our business, while Our Values set the frame of mind that all employees should adopt. In a sense, these two internal documents provide grounding for our employees.

Our Group Corporate Philosophy clearly states how we embrace Sumitomo’s Business Spirit, through which we conduct business that is beneficial to society based on the principles of integrity and sound management. Sumitomo’s Business Spirit represents the business approach and knowledge inherited from the Sumitomo Group’s long history and passed down to each generation as the Sumitomo’s DNA.

We respect our predecessors who made history before us and aim to expand and further develop our business in a sustainable manner for the next generation by incorporating new concepts and flexibly responding to the changing times. All of our employees comprehend the essential beliefs ingrained in the words of our Corporate Philosophy and Our Values and will continue to draw upon them in their work and actions.

< Sumitomo’s Business Spirit >

The source of Sumitomo’s Business Spirit is the *Monjuin Shiigaki*, a document written by Masatomo Sumitomo that describes how a merchant should conduct business. Its precepts were later put into plain language and adopted by the Sumitomo family as key points for doing business.

Corporate Philosophy

The Sumitomo Forestry Group utilizes wood as a healthy and environmentally friendly natural resource to provide a diverse range of lifestyle-related services that contribute to the realization of a sustainable and prosperous society. All our efforts are based on Sumitomo’s Business Spirit, which places prime importance on fairness and integrity for the good of society.

■ Our Corporate Philosophy represents our company’s meaning of existence, mission, and fundamental values, and clearly states how the Sumitomo Forestry Group embraces Sumitomo’s Business Spirit.

Our Values

We provide high-quality products and services that bring joy to our customers. We create new businesses that lead to happiness for generations to come with a fresh perspective.

We promote a free and open-minded corporate culture that respects diversity.

We set and strive to achieve ambitious goals through ongoing effort.

We do work that wins us the trust of society with fair and honest conduct.

■ The Our Values are basic guidelines focused on items for each and every employee regarding how individuals should think and act.

Sumitomo Forestry Group Code of Conduct

Purpose and scope of application

Based on its Corporate Philosophy and Our Values, the Sumitomo Forestry Group shall manage its operations, including the supply chain, in accordance with this Code of Conduct.

Fair and transparent corporate activities

1. Strict adherence to laws and regulations 2. Prevention of corruption 3. Fair business transactions 4. Fair accounting procedures 5. Communication with stakeholders 6. Maintaining confidentiality 7. Information security 8. Relationships with companies we do business with 9. Protection of intellectual property rights 10. Protection of personal information 11. Responsible advertising/promotional efforts 12. Healthy relationship with the government 13. Stance on organized crime 14. Establishment of a whistleblowing mechanism

Ethical conduct

15. Avoidance of a conflict of interest 16. Prohibition of misappropriation of company assets 17. Prohibition of insider trading 18. Appropriate gift giving and entertainment 19. Prohibition of political or religious activities

A respectful, healthy workplace

20. Respect for human rights 21. Prohibition of discrimination and the promotion of diversity 22. Prohibition of forced labor and child labor 23. Freedom of association and collective bargaining rights 24. Appropriate working hours and wages 25. Work/life balance 26. Occupational health and safety 27. Human resources development 28. Prohibition of harassment 29. Protection of privacy

Business activities that respect society and the environment

30. Customer satisfaction and safety 31. Co-existence with the environment 32. Contribution to the local community

➡ Sumitomo Forestry Group Code of Conduct <http://sfc.jp/english/corporate/policies/code.html>



As a variety of environmental issues, such as climate change-induced extreme weather, are being actualized in the global environment, efforts to create a sustainable society are progressing on a global scale.

Aside from adoption of the Paris Agreement in 2015, a historic accord that creates a framework related to cutting greenhouse gas emissions, the United Nations also adopted the Sustainable Development Goals (SDGs). These are the expression of the determination of the international community to recognize and work together to address these urgent issues facing mankind that are caused mainly by economic activities.

Contribution to society and the global environment through their businesses is an important theme that enterprises cannot avoid for targeting sustainable growth.

The Sumitomo Forestry Group's business originated from commencement of the Besshi Copper Mine and management of the surrounding forests in 1691. Furthermore, in 1894, we launched the Large-Scale Reforestation Plan to restore forests that had been devastated.

Trees are a resource that can be renewed through a cycle of planting, growing, and harvesting them. Forests also provide a variety of functional public benefits, such as the absorption and fixation of atmospheric carbon dioxide, preservation of biodiversity, support for water resources, and promoting the preservation of soil.

Since the Group's founding, we have expanded our business while protecting forests and taking care of the natural environment. And, we will pass along the corporate DNA that we have inherited through the Large-Scale Reforestation Plan to the next generation enduringly.

We are globally promoting business cycles that involve accelerating the utilization of timber, revitalizing the forestry business, and programs that expand healthy forests. Maximizing the power of trees and demonstrating the sustainability of wood by stepping up our initiatives is our social mission.

We will continue to challenge ourselves to contribute to sustainable growth and the realization of a sustainable society with a strong commitment to our mission.

Ryu Yano
Chairman and Representative Director

Clearly identifying risks and issues across all Sumitomo Forestry Group divisions, and connecting them to our business strategies going forward

Akira Ichikawa
President and Representative Director

Business Results and Forecast for the Current Period

Growth mainly in the Overseas Housing and Real Estate Business, primarily focused in the US, drove our financial performance in fiscal 2017. We also focused on strengthening profitability in the Timber and Building Materials Business, while investing resources in our energy-related and elderly care businesses. The more diversified income generated by our business portfolio resulted in net sales rising 9.8% year on year to ¥1,222.0 billion, though recurring income was flat at ¥57.9 billion. Excluding actuarial differences in accounting for retirement benefits (below, “actuarial differences”), recurring income rose 5.1% year on year from ¥52.9 billion to ¥55.6 billion. Profit attributable to owners of the parent declined 12.7% to ¥30.1 billion, reflecting lower profits from domestic operations along with higher profits from non-controlling interests related to the expansion of our overseas operations.

In fiscal 2018, we are forecasting net sales of ¥1,310.0 billion, recurring income of ¥57.5 billion, profit attributable to owners of the parent of ¥31.5 billion, and return on equity (ROE) of 10.0%. This puts us on course to achieve all four performance targets set out in the Medium-Term Management Plan. However, these forecasts do not factor in the effect of actuarial differences. Excluding these impacts, we currently expect to post an increase in recurring income in fiscal 2018 for the ninth consecutive year since fiscal 2010.

< Fiscal 2018 Forecasts vs. Plan Targets >

Four performance targets	Fiscal 2018 forecasts	Medium-Term Management Plan targets
Net sales	¥1,310.0 billion	¥1,170.0 billion
Recurring income	¥57.5 billion	¥55.0 billion
Profit attributable to owners of the parent	¥31.5 billion	¥31.5 billion
ROE	10.0%	10.0% or higher

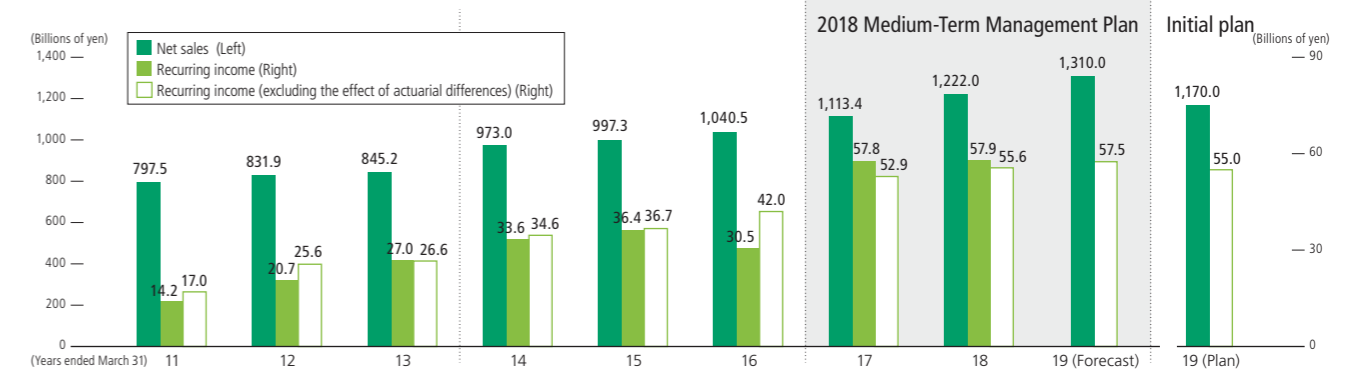
Fiscal 2018 is the final year of the Sumitomo Forestry Group’s 2018 Medium-Term Management Plan (below “Medium-Term Management Plan”). Under this current plan, we are making progress building robust bases in Japan and overseas to support the next stage of the Group’s growth. We are also steadily expanding our business domains.

Our overall performance to date is in line with the plan, despite significant changes in the business environment surrounding the Group. Under the situation of sluggish growth in the number of housing starts in the domestic housing market, customers’ housing needs are becoming increasingly diversified in line with lifestyle changes. The importance placed on the social responsibilities of companies has become more significant than ever before, such as addressing climate change and the Sustainable Development Goals (SDGs).

Whatever the future holds, our mission will be to create distinctive value and continue growing by accurately responding to the needs of society and people.

➔ See the Addressing Climate Change on page 54 for details.

< Earnings Trends >



Topics Actuarial Differences in Accounting for Retirement Benefits

Actuarial differences arise due to the accounting standard that applies to employee severance payments and company pensions. Companies adopting the standard are required to recognize in each year’s accounts any difference between estimates and actual results in terms of the amounts of retirement expense liabilities and pension fund investment returns, or else to amortize amounts over several years. The Group policy is to recognize such differences as an SG&A expense in the year they arise.

Risks and Opportunities for the Sumitomo Forestry Group

To promote sustainable growth of the Group, it is important that we recognize risks and related issues and take any required countermeasures quickly. The shrinkage of the Japanese housing market due to social factors, most notably the falling population and rise in elderly households, poses a risk not only to our Housing and Construction Business, but also our Timber and Building Materials Business. Even if business conditions remain challenging going forward, we aim to secure a steady stream of orders for custom-built detached houses by supplying high-value-added products and services. We will also strive to expand our overall Housing and Construction Business by investing resources in sectors with growth potential such as housing renovations, rental apartments and the MOCCA (Timber Solutions) business.

From a social perspective, the Group's Housing and Construction Business plays a broad role in supporting regional economies. The houses and other products and services that we supply in conjunction with our business partners and affiliates positively affect the lives of many people that use them. Through these businesses, we will not only improve our profits, but also contribute to the creation of more sustainable local economies.

One of the major characteristics of the Sumitomo Forestry Group is our wide-range development of upstream, midstream and downstream businesses using our knowledge of wood and related technical expertise. At the same time, there is considerable scope for more interdivisional collaboration and creating related synergy gains; this is one area where we must reinforce our efforts. We plan to maximize profits by utilizing the strengths of our fully integrated operations from manufacture to sales in our timber and building materials distribution and overseas manufacturing businesses, while also pursuing gains from greater Group collaboration in the Overseas Housing and Real Estate Business.



Interior concept image

W350 Plan
Wooden High-Rise Building
(Exterior concept image)



Images provided by Sumitomo Forestry / Nikken Sekkei

Topics W350 Plan

This Wooden High-Rise Building will have a height of 350 meters, with 70 floors above ground. The amount of timber to be used is approximately 185,000 m³, equivalent to the amount used for approximately 8,000 custom-built detached houses built by Sumitomo Forestry. Wooden buildings provide a pleasant space for people and a habitat for living creatures such as birds and insects, contributing to the biodiversity of cities and changing cities into forests.



With demand for renewable resources growing in Japan and around the world, the Group has an advantageous situation due to our ties to wood-related closed-loop supply chains. We are looking to harness our collective resources to bolster our efforts in this area as part of generating future growth.

Intercompany alliances and innovation are playing a vital role in the evolution of the Sumitomo Forestry Group. The capital and business alliance to which we agreed with Kumagai Gumi Co., Ltd. in November 2017 does not have a short-term focus. Rather, it is an initiative targeting a better future for both companies. We are looking at specific collaboration across various business sectors. For instance, we are working together in technical development concept research for the W350 Plan to construct a wooden high-rise building by 2041 and other structural development plans, such as the W70 Plan to develop the structural materials needed to construct wooden buildings of up to 70 meters in height.

Investment Plans and Financial Strategy

* The figures listed for the fiscal year ended March 31, 2018 are after application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.

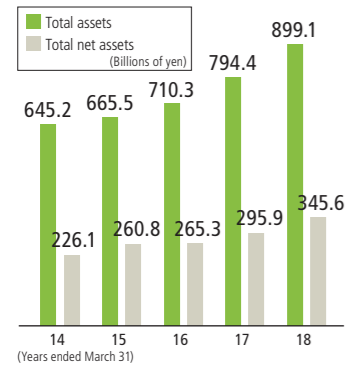
A financial strategy with a long-term perspective is also essential in realizing sustainable growth. While the timing of investments implies some short-term variability, we have set a financial goal over the medium and long term of keeping our debt-equity ratio (DER) no higher than 0.5 times and raising the shareholders' equity ratio to at least 40%. As of March 31, 2018, the DER was 0.7 times and the shareholders' equity ratio was 34.7%. We will continue working towards attaining these financial targets.

Under the current Medium-Term Management Plan, we plan to invest a total of ¥150.0 billion over three years into overseas, resource and environment-related businesses, as well as some existing operations in Japan and the Other Businesses segment. The total investment in the first two years of the plan was ¥157.0 billion. This figure includes: ¥46.0 billion to acquire housing business assets in the United States and Australia; ¥46.0 billion to acquire forests in New Zealand, and to invest in wood biomass power generation and other resource and environment-related assets; and ¥30.0 billion invested in domestic and existing operations. Separately, we have initiated the capital and business alliance with Kumagai Gumi. Although we have already invested more than we targeted in the plan, we will consider further growth investments going forward based on the potential and social significance of each business.

< Investment Trends >



< Total Assets and Total Net Assets >



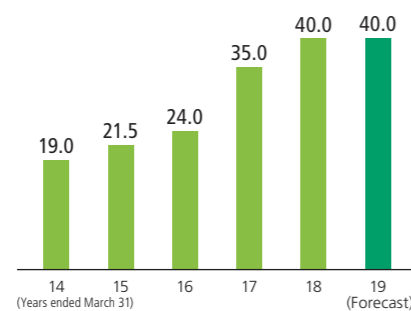
Reflecting these investments, total assets were ¥899.1 billion at the end of March 2018, an increase of 13% from a year earlier. The major contributing factors were real estate for sale owned by our overseas spec homes business, purchase of investment securities, and an increase in fixed assets. Reflecting the appropriation of earnings, shareholders' equity at the end of this term was ¥311.6 billion, an increase of 13% compared with a year earlier.

The basic rationale supporting the Group's financial strategy is to work to improve financial strength while increasing profitability through continuous growth investments. Going forward, we will strive to strike a good balance while targeting increases in both shareholders' equity and ROE.

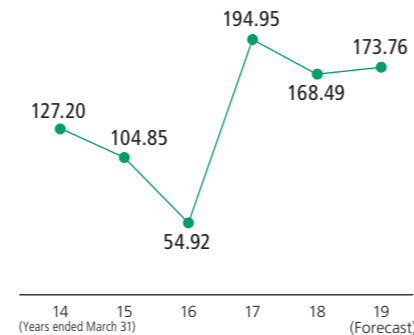
Shareholder Returns

Providing returns to all shareholders is one of our most important management tasks at Sumitomo Forestry. Our basic policy is to pay out stable dividends on an ongoing basis. Looking ahead, we will aim to meet the expectations of shareholders, based on what we view as an appropriate balance between our financial position and growth investment. Annual dividends increased by ¥5 to ¥40 per share in fiscal 2017. In fiscal 2018, we expect to pay ¥40 per share in annual dividend, including interim and year-end dividends of ¥20 per share each.

< Annual Dividend per Share > (Yen)



< Net Income per Share > (Yen)



Topics Inventory Management

Land holdings (for properties under construction or in process of sale) are an essential part of the Group's development of the housing business in Japan and overseas. Land was worth about 20% of total assets, at ¥194.2 billion. In the United States, where the Group is developing the housing business based on sales of freehold houses that include a parcel of land, we also have purchased land on a large scale for property development and construction. As a result, our land holdings in the United States comprise about 70% of the above figure. While variation in land values is a risk factor, we take multiple steps to mitigate and minimize it by maintaining risk control and management systems. Investments in real estate are subject to a ceiling set in line with the consolidated balance sheet (net assets). Other controls include having an executive officer who is responsible for North American operations based in Texas, and ensuring that asset purchases above a certain value require the approval of the Board of Directors.

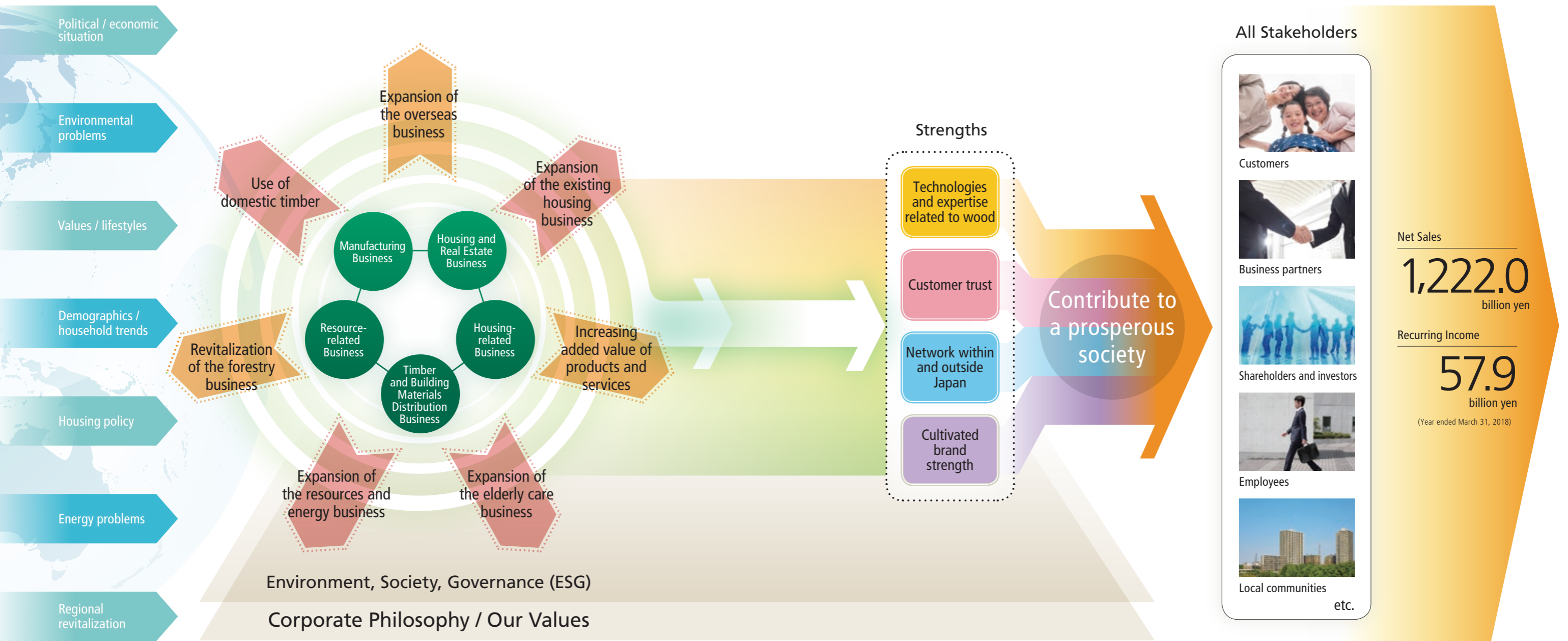
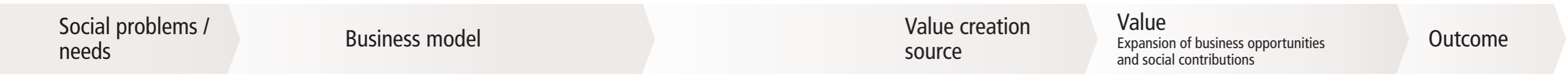
To Our Stakeholders

At the Sumitomo Forestry Group, we develop business with respect for the diverse views of the people with whom we work, as well as a shared Corporate Philosophy. The foundation of our Corporate Philosophy is the Sumitomo Business Spirit, in which we benefit society by conducting business by placing emphasis on the principles of integrity and sound management. Based on this way of thinking, the Group has consistently worked to develop numerous businesses that use timber as a renewable resource, keeping in line with the demands of the times. With increased interest in recent years in ESG (environmental, social and governance) and CSR (corporate social responsibility) issues, along with the SDGs (Sustainable Development Goals), we continue to recognize our role in society and the importance of conducting business sustainably for the long term.

Even in times of change, the Sumitomo Forestry Group will work to actualize resolutions to various issues while contributing to the creation of a prosperous society. With our Corporate Philosophy and Our Values providing grounding for our enterprise, we always strive to expand and develop our business while acting in ways that win public trust. We appreciate the continued understanding and support of all stakeholders.

Akira Ichikawa
President and Representative Director





➔ See the Financial Section on page 65

We at the Sumitomo Forestry Group are engaged in various business activities pivoting on trees. The Sumitomo Forestry Group has accumulated technologies and expertise related to wood over more than 320 years since our foundation. We use these and demonstrate our unique strengths of customer trust, a network within and outside of Japan and cultivated brand strength, and we will continue to contribute to the realization of a sustainable and prosperous society through all services related to people's lifestyles.

Integrated Approach to Business and CSR

Contributing to the realization of a prosperous and sustainable society through its business is an integral part of the Sumitomo Forestry Group's Corporate Philosophy. Going beyond individual activities, Sumitomo Forestry integrates its CSR and business activities with the aim of increasing the corporate value of the entire Group. We recognize the role expected of us by society and will continue

putting into practice our corporate philosophy from the standpoint of stakeholders in our business, with the aim of sustaining growth for the Group while providing value to society.

E Environment

As a renewable resource, trees absorb and fixate carbon dioxide in the atmosphere, and thanks to their low impact on the environment throughout their life cycle as a natural material, trees are able to support the creation of a sustainable society with their outstanding inherent environmental qualities. We contributed to the global environment through our business activities centered on trees.

➔ See the Sustainability section on page 47 for details.

S Social

On developing operations globally, we emphasize communication with stakeholders to sincerely understand their expectations and requests and to also gauge the potential direct and indirect influence of our broad business scope, from upstream to downstream operations, centered on trees.

G Governance

Under our Corporate Philosophy, we state that we conduct business that is beneficial to society based on the principles of integrity and sound management. We strive to ensure transparency in management, appropriate and lawful business operations, and swift decision-making, business execution and information disclosure. Through these efforts, we are further enhancing corporate governance in order to raise corporate value.

➔ See the Corporate Governance section on page 24 for details.

CSR Risk Checks by the Executive Committee

At Sumitomo Forestry, the Executive Committee, which deliberates important matters, conducts CSR risk checks to address environmental and social aspects. As corporate social responsibility becomes increasingly important, the Company has formulated the Sumitomo Forestry Group Code of Conduct, and is committed to practicing corporate management in accordance with the Corporate Philosophy and Our Values, including the supply chain, for all 32 items related to "Fair and transparent corporate activities," "Ethical conduct," "A respectful, health workplace," and "Business activities that respect society and the environment." By conducting multifaceted evaluations, including evaluating non-financial matters in the Executive Committee, the Company will connect evaluations to sustainable business management while continuing to proactively advance CSR management throughout the entire Group.

Sumitomo Forestry Group's CSR Material Issues

The Sumitomo Forestry Group undertakes effective CSR activities, by first identifying its CSR material issues and addressing both social and environmental issues through quantitative management on an individual business level with a focus on related granular issues.

In light of recent changes in the social landscape, in March 2015, the Sumitomo Forestry Group designated the material issues, noted on the right column, it will focus efforts toward realizing a sustainable society, having referred to the social issues highlighted by ISO 26000, the United Nations Global Compact, and SDGs, in addition to their relevance to key SRI evaluation criteria.

➔ See the Initiatives to Address CSR Material Issues on page 48 for details.

CSR Material Issues

1. Continue to Procure Wood and Materials that Take Sustainability and Biodiversity into Consideration
2. Promote the Reduction of the Environmental Impact of Our Business Activities
3. Promote Development of Workplaces Where Diverse Personnel Can Work with Vigor and Enthusiasm, Demonstrating Their Abilities and Individuality
4. Strengthen and Promote Risk Management and Compliance Mechanisms
5. Promote the Development and Sale of Products and Services that are Safe, Reliable and Environmentally Conscious

PDCA Management Using Evaluation Criteria (KPIs)

In fiscal 2015, we implemented our Mid-Term CSR Management Plan with fiscal 2020 targets for each of our CSR material issues.

Each Group company and division is given a CSR budget associated with its business with numerical targets for each fiscal year. Progress on and achievement of these targets is reflected in the business's performance metrics and management evaluations.

Through the steady implementation of the PDCA cycle, we aim to promote CSR management that is better integrated with our businesses.



Initiatives to Achieve SDGs

Endorsing SDGs

The Sustainable Development Goals (SDGs) adopted by the United Nations in 2015 are based on the Millennium Development Goals (MDGs) that were adopted in 2000. SDGs consist of 17 goals with 169 specific targets for countries and regions to address related to poverty, inequality, education, the environment and other issues. The ultimate aim is to create a better world.

As a corporate group engaging in business on a global basis, the Sumitomo Forestry Group supports these goals and will continue to contribute through various activities that take the relationship between business activities and CSR material issues into consideration.



Promotion Structure

In fiscal 2018, we established the Sustainability Committee, and are managing progress on the Mid-Term CSR Management Plan, which incorporates business strategies that contribute to achieving SDGs.

➔ See the Establishment of a Sustainability Committee section on page 27 for details.

Promoting an Understanding of SDGs

We have reviewed the contributions to achieving SDGs through the Group's CSR material issues and the Mid-Term CSR Management Plan, and have implemented workshop-style training programs and other initiatives to promote an understanding of SDGs. In fiscal 2018, each business division and research institute will examine how its businesses and technologies contribute to achieving SDGs, and will aim to formulate specific targets.

Participation in the United Nations Global Compact

The ten principles of the United Nations Global Compact are based on globally established agreements, including the Universal Declaration of Human Rights and the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work. They incorporate support of and respect for the protection of human rights and the eradication of forced labor and child labor. In December 2008, we formally signed the United Nations Global Compact to declare our support for its principles.





Directors

* Representative Director ** Outside Director

<p>Akihisa Fukuda Director</p> <p>Apr. 1981 Joined the Company Apr. 2009 General Manager of Corporate Planning Department Jun. 2010 Executive Officer Apr. 2011 Managing Executive Officer (current position) Jun. 2014 Director (current position) Oct. 2015 Divisional Manager of Timber and Building Materials Division (current position)</p>	<p>Ken Wada Director</p> <p>Jul. 1983 Joined the Company Jun. 2008 Executive Officer Apr. 2010 Managing Executive Officer Jun. 2011 Director (current position) Apr. 2014 Senior Managing Executive Officer (current position) Jun. 2017 Divisional Manager of Housing Division Apr. 2017 Overseeing of Environment and Resources Division Overseeing of Lifestyle Service Division (current position)</p>	<p>Shigeru Sasabe Director*</p> <p>Apr. 1977 Joined the Company Jun. 2008 Executive Officer Apr. 2010 Managing Executive Officer Jun. 2010 Director Apr. 2012 Divisional Manager of Lifestyle Service Division Apr. 2014 Senior Managing Executive Officer Divisional Manager of Overseas Business Division (current position) Apr. 2016 Representative Director (current position) Executive Vice President and Executive Officer (current position) Apr. 2018 Divisional Manager of Overseas Housing and Real Estate Division (current position) Overseeing of Environment and Resources Division (current position)</p>	<p>Junko Hirakawa Director**</p> <p>Apr. 1973 Registered as Attorney at Law admitted in Japan Feb. 1979 Registered as Attorney at Law admitted in the State of New York, U.S.A. Oct. 1983 Partner of Yuasa and Hara Jul. 1997 Established Partner of Hirakawa, Sato & Kobayashi (currently City-Yuwa Partners) Feb. 2003 Partner of City-Yuwa Partners (current position) Jun. 2011 Outside Director of Tokyo Financial Exchange Inc. (current position) Jun. 2012 Outside Statutory Auditor of the Company Jun. 2014 Outside Director of the Company (current position) Jun. 2015 Outside Director of Hitachi Construction Machinery Co., Ltd. (current position)</p>	<p>Ryu Yano Chairman of the Board*</p> <p>Apr. 1963 Joined the Company Dec. 1988 Director Jun. 1992 Managing Director Jun. 1995 Representative Director (current position) Senior Managing Director Apr. 1999 President/Director Jun. 2002 President and Executive Officer Apr. 2010 Chairman of the Board (current position)</p>	<p>Akira Ichikawa President / Director*</p> <p>Apr. 1978 Joined the Company Jun. 2007 Executive Officer Jun. 2008 Director Apr. 2010 Managing Executive Officer Representative Director (current position) President/Director (current position) President and Executive Officer (current position)</p>	<p>Izumi Yamashita Director**</p> <p>Jul. 1971 Joined the Bank of Japan Apr. 1998 Director-General of Financial Markets Department, Bank of Japan Mar. 2002 General Manager of Financial Marketing Division, Accenture Japan Ltd Apr. 2003 Executive Director of Japan Post Apr. 2005 Deputy Governor of Japan Post Oct. 2007 President, CEO, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd. Jun. 2012 Chairman, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd. Jun. 2014 Outside Statutory Auditor of Yokogawa Electric Corporation (current position) Jun. 2015 Outside Director of AEON Bank, Ltd. (current position) Jun. 2016 Outside Director of the Company (current position)</p>	<p>Tatsuru Satoh Director*</p> <p>Apr. 1978 Joined the Company Jun. 2012 Executive Officer Apr. 2013 Managing Executive Officer Jun. 2013 Director Apr. 2016 Senior Managing Executive Officer Apr. 2018 Representative Director (current position) Executive Vice President and Executive Officer (current position)</p>	<p>Toshiro Mitsuyoshi Director</p> <p>Apr. 1985 Joined the Company Jun. 2010 Executive Officer Apr. 2011 Managing Executive Officer Divisional Manager of Overseas Business Division Apr. 2014 Deputy Divisional Manager of Housing Division Jun. 2014 Director (current position) Apr. 2015 President / Representative Director of Sumitomo Forestry Home Tech Co., Ltd. Apr. 2017 Divisional Manager of Housing Division Apr. 2018 Senior Managing Executive Officer (current position) Divisional Manager of Housing and Construction Division (current position)</p>	<p>Tatsumi Kawata Director</p> <p>Apr. 1986 Joined the Company Apr. 2012 General Manager of Personnel Department Apr. 2013 General Manager of Personnel Department Apr. 2014 General Manager of Workstyle Diversification Department Apr. 2014 General Manager of Corporate Planning Department Jun. 2016 Executive Officer Apr. 2017 Managing Executive Officer (current position) Jun. 2018 Director (current position)</p>
--	---	---	---	--	--	--	--	---	--

Statutory Auditors

* Outside Statutory Auditor

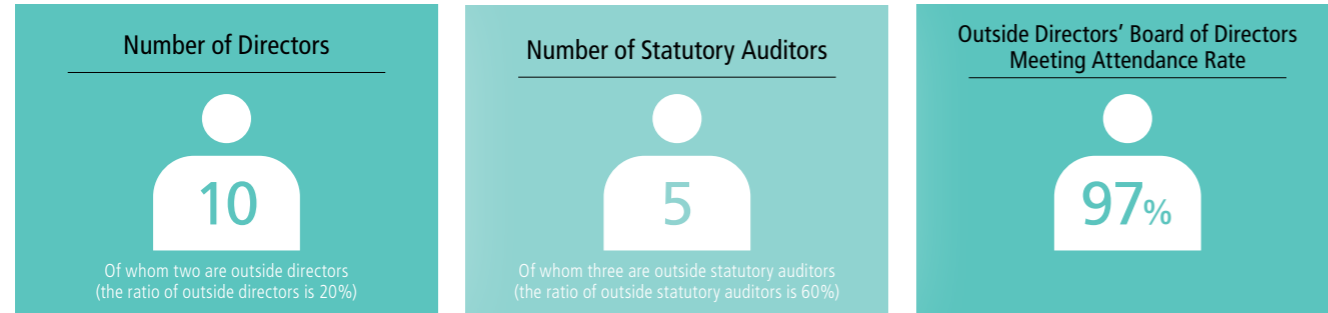
Executive Officers

* Doubles as Director and Executive Officer

<p>Hitoshi Hayano Senior Statutory Auditor (full-time)</p> <p>Noriaki Toi Statutory Auditor (full-time)</p> <p>Yoshitsugu Minagawa Statutory Auditor*</p> <p>Yoshimasa Tetsu Statutory Auditor*</p> <p>Makoto Matsuo Statutory Auditor*</p>	<p>Akira Ichikawa President and Executive Officer*</p> <p>Shigeru Sasabe Executive Vice President and Executive Officer*</p> <p>Overseeing Environment and Resources Division and General Manager of Overseas Housing and Real Estate Division</p> <p>Tatsuru Satoh Executive Vice President and Executive Officer*</p> <p>In charge of General Administration, Personnel, Information Systems, Intellectual Property, Internal Audit, and Tsukuba Research Institute</p>	<p>Ken Wada Senior Managing Executive Officer*</p> <p>Overseeing Lifestyle Service Division, and in charge of TOP (Tokyo Olympics Paralympics) 2020, Secretary, External Relations</p> <p>Toshiro Mitsuyoshi Senior Managing Executive Officer*</p> <p>In charge of Tohoku Reconstruction Support, Divisional Manager of Housing and Construction Division</p> <p>Akihisa Fukuda Managing Executive Officer*</p> <p>Divisional Manager of Timber and Building Materials Division</p>	<p>Tatsumi Kawata Managing Executive Officer*</p> <p>In charge of Corporate Planning, Finance, Corporate Communications and CSR</p> <p>Kunihiko Takagiri Managing Executive Officer</p> <p>President / Representative Director of Sumitomo Forestry Residential Co., Ltd.</p> <p>Akira Sekimoto Managing Executive Officer</p> <p>Divisional Manager of Environment and Resources Division</p>	<p>Kanpei Tokunaga Managing Executive Officer</p> <p>President and Representative Director of Sumitomo Forestry Home Tech Co., Ltd.</p> <p>Atsushi Kawamura Managing Executive Officer</p> <p>In charge of North American Business, and Deputy Divisional Manager of Overseas Housing and Real Estate Division</p> <p>Takahisa Higaki Managing Executive Officer</p> <p>Divisional Manager of Lifestyle Service Division</p>	<p>Ryoji Machino Executive Officer</p> <p>President and Representative Director of Sumitomo Forestry Crest Co., Ltd.</p> <p>Masayuki Tabuse Executive Officer</p> <p>Deputy Divisional Manager of Timber and Building Materials Division</p> <p>Akio Numazaki Executive Officer</p> <p>Deputy Divisional Manager of Housing and Construction Division (Overseeing of Construction Materials Development, Construction Management, Quality Control and Customer Relationship)</p>	<p>Nobuyuki Katayama Executive Officer</p> <p>Director and Senior Managing Executive Officer of Sumitomo Forestry Home Tech Co., Ltd.</p> <p>Junko Saishu Executive Officer</p> <p>In charge of work style reform and Women's Empowerment and General Manager of Personnel Department Workstyle Diversification Department</p> <p>Koichi Shimizu Executive Officer</p> <p>General Manager of Information Systems Department</p>	<p>Ikuro Takahashi Executive Officer</p> <p>Deputy Divisional Manager of Housing and Construction Division (Human Resources Development, Real Estate and Market Development, Technology and Product Development, Design Management) and General Manager of Marketing and Promotion Department</p> <p>Kazutaka Horita Executive Officer</p> <p>Deputy Divisional Manager of Timber and Building Materials Division and General Manager of Manufacturing Department</p>
--	--	---	---	---	---	--	---

Corporate Governance

Corporate Governance



Organizational Structure	Company with a Board of Directors and a Board of Statutory Auditors
Number of Independent Directors and Auditors	5
Number of Board of Directors Meetings	15 (fiscal 2017)
Adoption of the Executive Officer System	Yes
Nomination and Remuneration Advisory Committee	Yes
Accounting Auditor	Ernst & Young ShinNihon LLC
Sumitomo Forestry Basic Policy on Corporate Governance	http://sfc.jp/english/corporate/corporate_governance.html

contribute to the realization of a sustainable and prosperous society. All our efforts are based on Sumitomo's Business Spirit, which places prime importance on fairness and integrity for the good of society." By further enhancing and strengthening its corporate governance through these efforts, the Company aims to continuously increase its corporate value and conduct management that lives up to expectations of various stakeholders around the Group.

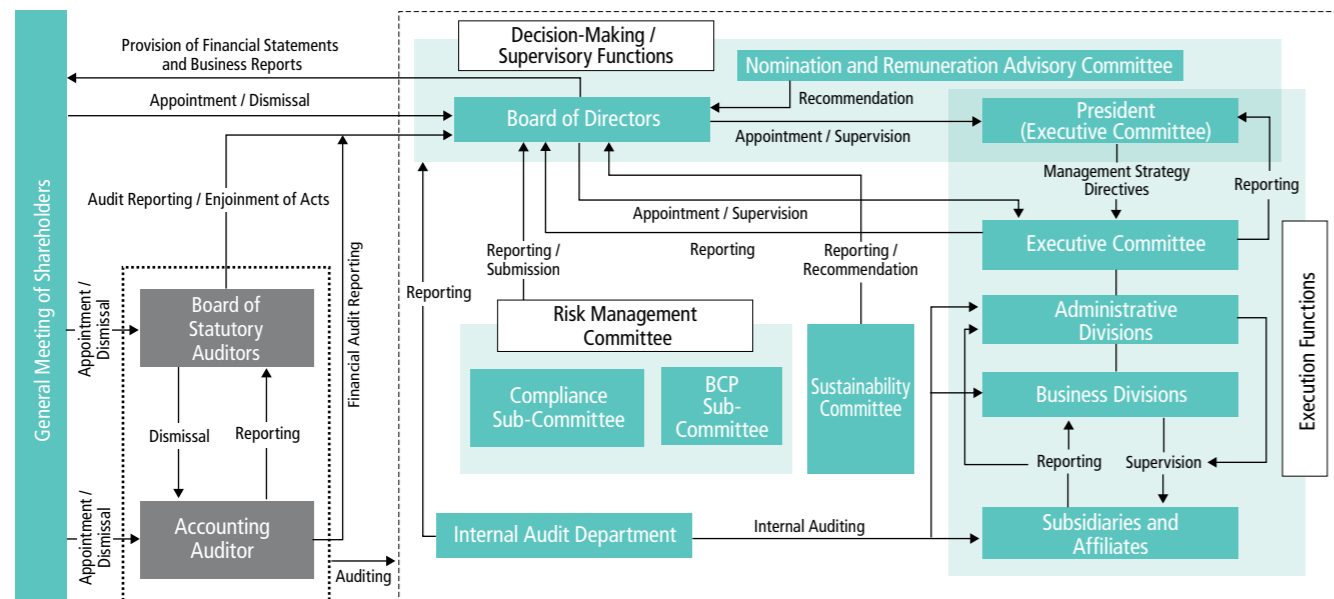
Corporate Governance System

The Company has adopted the structure of a company with a board of statutory auditors and has a Board of Directors comprising 10 directors (9 male and 1 female), including 2 Outside Directors (1 male and 1 female), and a Board of Statutory Auditors comprising 5 statutory auditors (5 male), including 3 Outside Statutory Auditors (3 male). Under this organizational structure, we have introduced an executive officer system to separate decision-making and supervisory functions from execution functions.

Fundamental Policy

Sumitomo Forestry Co., Ltd. seeks to ensure management transparency as well as appropriateness and legality of its business and strives to promote expeditious decision-making and business execution under the Sumitomo Forestry Group's Corporate Philosophy, "The Sumitomo Forestry Group utilizes wood as a healthy and environmentally friendly natural resource to provide a diverse range of lifestyle-related services that

Corporate Governance System



Board of Directors and Executive Committee

The Board of Directors usually meets once a month, making decisions on important issues, checking up on performance and other matters, and carrying out its supervisory functions. The Executive Committee, an advisory body for the president, holds a meeting twice a month, in principle, and is attended by those

directors who also serve as executive officers, as well as the full-time statutory auditors. In fiscal 2017, the Board of Directors met 15 times and the Executive Committee 25 times. Directors and statutory auditors strive to maintain a Board of Directors meeting attendance rate of at least 75%.

Analysis/Evaluation and its Results of Effectiveness of the Board of Directors

In fiscal 2017, the effectiveness of the Board of Directors was evaluated through discussions at Board of Directors meetings that were based on self-analyses of each Board members and an exchange of opinions with outside directors and outside auditors.

Prior explanations of agenda items and opportunities to visit Japanese and overseas operations to enliven discussions at Board of Directors meetings enabled the Company to maintain effective support systems for outside directors. Furthermore, thanks to active discussions that harness the directors' wide range of experiences and specialties, and new opportunities for discussions with outside directors regarding mid- to long-term business strategies, which was cited as an area for improvement in the fiscal 2016 effectiveness evaluation, overall, the Company believes that the Board of Directors is functioning effectively.

On the other hand, some expressed the opinion that there is a greater need for discussion regarding defensive governance (risk management, the enhancement of internal controls, etc.) to sustain many new investments being made for growth, as well as a need to further enrich discussions regarding mid- to long-term business strategy. The Company will continue to work on improving these areas to further enhance the effectiveness of the Board of Directors.

Statutory Audit System

Each statutory auditor audits the directors' execution of duties utilizing its deep insights and diverse perspectives they have acquired from their various backgrounds. As assistants to the statutory auditors, nine auditing inspectors, who double as senior managers of major departments, are assigned particularly to enhance the function of audits from a practical perspective. Under this system, the statutory auditors attend important meetings such as Board of Directors meetings and Executive Committee meetings, and are able to obtain accurate information regarding the managerial decision-making process at appropriate times. To enhance the effectiveness of audits, the statutory auditors strive to cooperate with the accounting auditor as well as Internal Audit Department, receive reports regularly from the divisions responsible for risk management

and compliance, accounting and labor, and monitor and verify that internal controls are functioning effectively. The statutory auditors are also provided with opportunities to express their opinions regarding the directors' execution of operations whenever needed. In addition, the Group Board of Statutory Auditors, attended by the Company's full-time statutory auditors and the statutory auditors of major subsidiaries, convenes regularly in an effort to strengthen the monitoring functions regarding the status of execution of Group

Reasons for Appointment as Outside Director and Statutory Auditor

Name	Reason for appointment
Junko Hirakawa Assumed office in June 2014 (Reappointed in June 2016 and June 2018)	As an attorney, she has practical knowledge of corporate law in Japan and abroad, and has been judged to have been playing an appropriate role in strengthening the Company's corporate governance by, among other things, making recommendations to management from an expert's perspective.
Izumi Yamashita Assumed office in June 2016 (Reappointed in June 2018)	Since he has abundant experience in the financial industry and deep insight as a business manager, the Company believes that he is playing an appropriate role in strengthening the Company's corporate governance by, among other things, making recommendations to management.
Yoshitsugu Minagawa Assumed office in June 2016	Since he has abundant experience and deep insight on forestry administration as well as the agricultural, forestry and fishing sectors, the Company believes that he is utilizing these factors in auditing duties.
Yoshimasa Tetsu Assumed office in June 2018	As a certified public accountant, he has a high level of specialized knowledge and a wealth of experience in financial and accounting matters, which we have determined can be utilized in the Company's audit operations.
Makoto Matsuo Assumed office in June 2018	As a lawyer with extensive experience in corporate legal affairs both in Japan and abroad, he is expected to appropriately execute the Company's audit operations with his specialized perspective.

Attendance of Outside Officers at Board Meetings (fiscal 2017)

Position and Name	Board of Directors Meetings (convened 15 times)		Board of Statutory Auditors Meetings (convened 14 times)	
	Number of meetings attended	Attendance rate	Number of meetings attended	Attendance rate
Director: Junko Hirakawa	15	100%	—	—
Director: Izumi Yamashita	14	93%	—	—
Statutory Auditor: Satoshi Teramoto	13	87%	13	93%
Statutory Auditor: Katsuhide Kurasaka	15	100%	14	100%
Statutory Auditor: Yoshitsugu Minagawa	14	93%	14	100%

management. Furthermore, in line with the monthly Board of Statutory Auditors meeting, opportunities are provided for the assigned executive officers to explain matters discussed at the Executive Committee meeting so that all statutory auditors and Outside Directors can understand important matters in detail. The statutory auditors and representative directors also exchange opinions regularly. This system ensures that the statutory auditors can provide adequate monitoring functions of the directors' execution of operations from the perspective of shareholders.

In fiscal 2017, the Board of Statutory Auditors met 14 times and Group Board of Statutory Auditors 6 times.

Nomination and Remuneration Advisory Committee

The Nomination and Remuneration Advisory Committee has been established as an advisory body to the Board of Directors to ensure transparency and fairness when the Board selects director and statutory auditor candidates and executive officers, and when it determines remuneration for directors and executive officers. The committee provides opinions when the board is making these decisions. The committee is comprised of the chairman of the board, the president and all of the Outside Officers (2 Outside Directors and 3 Outside Statutory Auditors) so that the majority of members are Outside Officers. An Outside Director serves as the Committee chair.

Cooperation between Statutory Auditors, Accounting Auditors and the Internal Audit Department

Statutory auditors monitor the independence of the accounting auditor and comprehensively verify the appropriateness of financial reports, accounting policies, accounting methods and other matters with reference to fair accounting standards, referring to opinions from the accounting auditor. When creating audit reports, statutory auditors and the accounting auditor hold meetings and exchange information as necessary to facilitate smooth and effective audits. The Internal Audit Department is in charge of conducting internal audits and collaborates with statutory auditors to audit the appropriateness and lawfulness of daily business operations of the entire Group. Upon completion of an audit, the Internal Audit Department submits audit reports to the president, assigned executive officers and statutory auditors and shares information with them.

Appointment of Outside Directors and Outside Statutory Auditors

The Company has appointed 2 Outside Directors, Junko Hirakawa and Izumi Yamashita. The Company also has

appointed 3 Outside Statutory Auditors, Yoshitsugu Minagawa, Yoshimasa Tetsu and Makoto Matsuo. Neither the two Outside Directors nor the three Outside Statutory Auditors have any capital, personal, transactional or other relationships with the Sumitomo Forestry Group that would constitute a conflict of interest.

Executive Remuneration

Remuneration for directors is comprised of three different types: monthly remuneration and restricted stocks as basic remuneration, and a bonus as performance-linked remuneration. Remuneration for directors is set within an amount by a resolution at the Ordinary General Meeting of Shareholders and the total amount is calculated with consideration to the level of consolidated recurring income and other management indicators.

Monthly Remuneration
At the 76th Ordinary General Meeting of Shareholders held on June 24, 2016, passage of a resolution set remuneration at up to ¥40 million per month (including an amount up to ¥5 million per month for Outside Directors).
Restricted Stock
At the 78th Ordinary General Meeting of Shareholders held on June 22, 2018, in lieu of stock-based compensation stock options, the implementation of a remuneration system allowing the allotment of restricted stocks was approved. The limit of the monetary remuneration credit to allot these restricted shares was set at no more than ¥100 million annually at the 78th Ordinary General Meeting of Shareholders held on June 22, 2018. In addition, with this resolution, excluding those that have already been issued, remuneration of stock-based compensation stock options in the form of share options was abolished.
Bonuses
At the annual Ordinary General Meeting of Shareholders, a set amount is approved.

Remuneration is not made as employees or compensation for the performance of other duties. In addition, at the 65th Ordinary General Meeting of Shareholders held on June 29, 2005, the Company abolished the executive retirement bonus. We reference the results of a third-party assessment of executive remuneration at Japanese companies to ensure the objectivity and fairness of executive remuneration and set an appropriate level of remuneration.

(Auditor Remuneration)

Auditor remuneration is comprised of only basic remuneration, remuneration for auditors is set within an amount approved by the Ordinary General Meeting of Shareholders and determined upon consultation with the auditor. The remuneration is paid monthly in fixed amounts.

Monthly remuneration of statutory auditors was set at up to ¥8 million per month as decided upon at the 74th Ordinary General Meeting of Shareholders held on June 20, 2014.

Remuneration (fiscal 2017) (Millions of yen)

	Total Remuneration	Total Remuneration by Type		
		Monthly Remuneration	Stock-based Compensation Stock Options	Bonuses
Directors (8)	515	335	34	146
Statutory Auditors (2)	45	45	—	—
Outside Officers (5)	55	55	—	—

System to Ensure Management Transparency

(Basic Policy on Disclosure)

To increase transparency in management, we actively disclose not only the information required to be disclosed by various laws and regulations, but also other items deemed useful to shareholders and investors, actively and in a swift and fair manner.

(Initiatives to Encourage Execution of Voting Rights)

The Company sends out notices three weeks prior to the

Establishment of a Sustainability Committee

Sumitomo Forestry established a Sustainability Committee in fiscal 2018 in response to increased demand for medium- to long-term initiatives regarding Environment, Social, and Governance (ESG) and the disclosure of such information. The Sustainability Committee is comprised of executive officers and directors, as well as general managers, with the President and Executive Officer acting as the committee chairman. At committee meetings held four times a year, committee members start with confirming the operational status of the corporate philosophy, Our Values, and the Code of Conduct as well as the effectiveness of monitoring, along with formulation and promotion of initiatives that address medium- to long-term ESG issues which concern Sumitomo Forestry Group's sustainability. The meetings also manage progress of the Medium-Term CSR Management Plan, which incorporates business strategies that contribute to achieving the UN Sustainable Development Goals.

General Meeting of Shareholders and avoids dates when many companies hold their meetings so that a greater number of shareholders can participate.

In addition, shareholders can use the Internet, cell phones and other electronic means to exercise their voting rights. We also make use of the electronic proxy voting platform for institutional investors operated by ICJ, Inc. for proxy voting.

(Disclosure of a Wide Range of Information)

On the Company's website, we release a wide range of information related to our investor relations (IR) activities, including securities reports (Japanese only), notices of shareholder meetings and subsequent resolutions, financial results, earnings presentation materials, and monthly order information.

(IR Activities)

The Company is enhancing its IR activities to communicate its management vision, the state of operations, financial position and other information timely and clearly with shareholders and investors. As a means to directly communicate with shareholders and investors, the Company holds earnings presentations twice a year and telephone conferences twice a year for securities analysts and institutional investors in Japan. For overseas investors, the Company visits locations in Europe, the United States and Asia and holds individual meetings continuously. For individual investors, the Company regularly participates in joint company presentations and IR forums.

Internal Controls System (Risk Management and Compliance)

Establishment of Internal Controls System

The Company has adopted a basic policy on the establishment of an internal controls system at the Board of Directors' meeting as well as Our Values to embody our corporate philosophy, summarizing the Code of Conduct that all officers and employees of the Group should follow, and has established a system to secure the soundness of our business in accordance with the Companies Act.

Risk Management System

To strengthen the risk management system for the entire Group, the Company has formulated the Risk Management Basic Regulations*. Accordingly, the President and Executive Officer of Sumitomo Forestry has been appointed as the highest authority on risk management for the Sumitomo Forestry Group. The Basic Regulations also comprehensively encompass risks with society, environment, and economic aspects. The

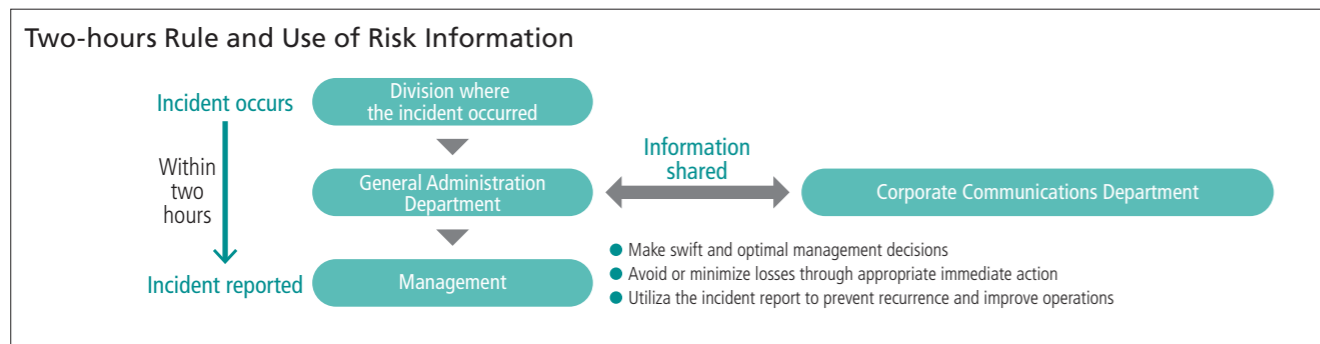
Company has established the Risk Management Committee, which is chaired by the President and Executive Officer and comprised of all other executive officers. Each executive officer identifies and analyzes manageable risks in their respective field and formulates action plans. The committee meets regularly once every quarter to share and discuss findings and results. At the committee, directors who concurrently serve as executive officers also attend, and the results are reported to the Board of Directors and mechanisms are improved to reflect the findings in business execution. Established under the umbrella of the Risk Management Committee, the Compliance Sub-Committee and the Business Continuity Plan (BCP) Sub-Committee are comprised of the general manager of the General Administration Department, who serves as committee chairman, and the staff in charge of risk management, including those of the departments supervising subsidiaries. These sub-committees work to enhance the effectiveness of risk management pertaining to Group-wide risks, namely, compliance risks related to core business and business interruption. In fiscal 2017, the Risk Management Committee convened four times, the Compliance Sub-Committee twice, and the BCP Sub-Committee four times, and the Board of Directors received reports from them four times. In fiscal 2018, in order to properly address the transformation of risks that

encompass the Group, Sumitomo Forestry will strengthen the risk management system by reviewing manageable risks and continuously making improvements on focus risks selected at the beginning of the period.

*In fiscal 2017, the Risk Management Basic Regulations were revised as the CSR & Risk Management Basic Regulations. The original Risk Management Committee was also restructured as the CSR & Risk Management Committee with the intention of strengthening the system from a CSR perspective and promoting management of CSR. However, in fiscal 2018, the regulations and the committee returned to their original names in line with the establishment of the Sustainability Committee.

(Rapidly Identifying and Responding to Risk)

In addition to the normal reporting line, we operate a two-hours rule system designed to rapidly and accurately relay information to the management via the headquarters' risk management division in the event of an emergency situation that may cause a serious impact on Company management. This allows us to make swift and optimal management decisions and take immediate action so as to avoid or minimize losses. The information thus reported is also used to compile case studies, which are shared to prevent recurrences of the same incident and improve business operation. When a major issue arises, the information is shared with the Corporate Communications Department and disclosed to stakeholders in a timely and appropriate manner.



Compliance Promotion System

The Compliance Sub-Committee responds to compliance risk across the Group. The subcommittee has set Group standards, including management systems and tools for legal compliance with the Construction Business Act and other laws and regulations, and efficiently responds to compliance risk. The sub-committee was convened twice in fiscal 2017 and undertook ongoing improvement of the compliance system. Specific steps included continuing Group-wide initiatives from the previous fiscal year of conducting simultaneous inspections of risks regarding legal and regulatory requirements, such as permits and licenses business. Moreover, at a compliance seminar to which external experts were invited as instructors,

the Group provided opportunities for individuals in charge of compliance at each company, including subsidiaries, to keep up with up-to-date knowledge, improve their skill levels, work on the same level as others, and develop a shared awareness of risk. These activities of the sub-committee are reported quarterly to the Board of Directors, putting a system in place to reflect the findings in business execution. The activities are also reported to the Statutory Auditors and the Internal Audit Department monthly. Critical Group-wide matters and risk information are shared with the statutory auditors of each Group company through the Group Board of Statutory Auditors. We maintain a compliance promotion framework through an approach on and off the business execution line.

(Internal Audits)

Sumitomo Forestry's Internal Audit Department operations encompass a scope of around 200 business sites including subsidiaries, and the department selects around 60 business sites to undergo internal auditing each year. These business sites are given priority and selected based on two perspectives: operational risks (performance, scale, business complexity) and risk control (management system for risks). The audits are conducted to verify the status of each business site's business execution, including compliance, and management

of administrative actions. The results of these assessments are reported to the president, executive officer in charge of internal audits and statutory auditors as well as managers, executive officers and directors in charge of the business sites being audited. In the case that audit findings are made, the Internal Audit Department verifies that improvements are being implemented at the business site by requesting written reports and implementing quarterly follow-up audits in line with laws and internal regulations. These actions are reported to the president and executive officer in charge of internal audits.

Business Continuity Management

System for Managing Business Continuity

Sumitomo Forestry has established the BCP Sub-Committee to promote initiatives based on the business continuity plan (BCP), and to address risks such as major natural disasters and outbreaks of new strains of influenza, which could interrupt operations, are extremely difficult for a company to prevent on its own, and can have serious impacts on headquarters functions. Because Group companies are important parts of the supply chain for one another's businesses, each company works to increase the overall Group's resiliency, and tackles issues with the aim of improving business continuity.

In fiscal 2017, Sumitomo Forestry held four BCP Sub-Committee meetings. These meetings included a review of critical initial responses in the event of powerful earthquakes, including those that occur underneath the Tokyo metropolitan area, which were confirmed as adequate. Various drills and training programs were planned and implemented.



BCP simulation training sessions

earthquake as well as rules for reporting to supervisors in their divisions. All Group companies in Japan have introduced safety confirmation systems linked to weather information, in addition to the emergency contact networks within the organization in order to obtain as much information as possible about the safety of employees before communication lines become congested and restrictions are placed on outgoing communications. These initiatives allow safety confirmations to be made via multiple routes. Furthermore, safety confirmation drills are conducted at domestic Group companies every year. In fiscal 2017, a total of 13,835 people participated in these drills.

(Disaster Prevention and Mitigation)

All workplaces have been stocked with standard emergency supplies based on the minimum stock for each workplace, and in preparation of a situation following a major earthquake in which employees are unable to return home and must stay in the office, or must walk a long distance to return home. In particular, at business sites in major cities (Tokyo metropolitan area, Osaka, Nagoya) where a large number of people are expected to be unable to return home, three days of worth of emergency supplies have been stockpiled.

Also, when selecting a new office or other business site, the headquarters disaster prevention staff are involved from the standpoint of disaster prevention and mitigation, in addition to cost and convenience. Also, we work to prevent and mitigate possible accidents in offices, such as preventing office equipment from falling over and keeping large multi-function printers set on casters from moving around.

Furthermore, in order to protect and preserve data, we take measures such as keeping data backups at locations far removed from data centers.

(BCP Simulation Training)

To overcome the chaos immediately following a large-scale earthquake and to transition quickly to action ensuring business continuity, it is vitally important that the people in charge can initially respond and make decisions according to the situation

Ensuring Employee Safety and Continuation of Company Operations

The Sumitomo Forestry Group has distributed a portable risk response card to all Group employees in Japan. The card contains instructions to follow in the event of a major

at hand. For that reason, the Sumitomo Forestry Group has implemented BCP Large Scale Earthquake Countermeasures Simulation Training for the persons in charge at each domestic Group company since fiscal 2011. In this training, participants experience a simulated earthquake "crisis," and acquire an awareness of the issues by being prompted to make immediate decisions again and again based on tough hypothetical scenarios. In addition, at the time of the training, responsible persons from Group companies who are located nearby meet up to share their awareness of risk and enhance their ability to collaborate during emergencies. More than 510 people have participated in this training to date.

Furthermore, systems have been put in place for situations in which employees have difficulty getting to work that allow important business operations, such as payment of salaries and payments to business parties, to be carried out from their home or other remote locations while maintaining a high level of security. Simulation drills for this are also conducted every year.

■ Initiatives towards Supply Chain Business Continuity Initiatives

In readiness for the potential disruption of its Housing Business supply chain following a major disaster, Sumitomo

Forestry shares the specifications and processes for property construction along with site progress status and other information with business partners, including component makers and building contractors. By enabling advanced procurement of materials and production, the Company is striving to reduce the risk of a disruption to operations.

We also review suppliers for building and construction materials and others with regard to business continuity issues, including whether they have planned alternative supply routes in the event of a disaster.

Going forward, we will make rules for suppliers to provide us with crisis management reports in the event of an earthquake or other natural disaster, or an accident such as a fire occurring at a supplier.

■ Maintaining Customer Service

Sumitomo Forestry has set up call centers in Tokyo and Fukuoka that are able to provide 24-hour after-sales services, developing a mechanism whereby either call center can back up the functions of the other call center in the event of a disaster. By managing information for each base through a unified emergency system, the Company can share disaster information pertaining to owners nationwide, enabling a quick response to requests for repairs.

on a repeated basis. We also require all Group employees with access to our intranet (including temporary and part-time employees) to take an e-learning course on information security every year.

With respect to the technological aspects of information security, the Group has encrypted all the data on computers that are taken outside the Company and restricts which data can be copied from its computers.

■ Information Security Management System

Under the supervision of the Executive Officer in charge of information systems, the General Manager of the Information Systems Department promotes information security measures for the Sumitomo Forestry Group, such as formulating and managing rules and regulations, planning and implementing technical measures, educating and training employees, and investigating accidents and implementing countermeasures.

Also, as the information security supervisor, the person responsible in each division provides guidance and manages the execution of that division's operations, and assigns an information security staff member to be the working-level

manager for the division's information security.

We also regularly hold the Affiliates IT Managers' Council, which is attended by those individuals responsible for divisions in charge of information systems at domestic Group companies. At the meeting, the council checks the content of the guidelines and promotes the introduction of security systems.

■ Initiatives to Strengthen Information Security

In recent years, information security threats have grown,

as shown by the increase in personal information leaks and targeted email attacks. As a countermeasure, the Sumitomo Forestry Group greatly increased investments in strengthening information security and developed multi-layered defense systems in fiscal 2017. All employees were given training on targeted email attacks as well.

The Security Information Department, which was set up in May 2016 at Sumitomo Forestry Information Systems Co., Ltd., is leading efforts to improve responses to employee inquiries primarily related to matters involving cyberattacks, and expand security training for all employees.

Intellectual Property Management

■ Intellectual Property Policy

Imitation and unauthorized use of trademarks and copyrights have become risks for corporate management. In order to maintain and increase business competitiveness, the Sumitomo Forestry Group strives to appropriately manage intellectual property rights. Such efforts include protecting rights in a timely manner according to the specific nature of the business, and handling other companies' intellectual property rights as necessary.

■ Systems for Managing Intellectual Property

Sumitomo Forestry established the Intellectual Property Department, staffed with a number of employees possessing patent attorney qualifications, as the department responsible for managing intellectual property. The Intellectual Property Department educates and raises the awareness among employees about intellectual property, provides legal consultation about infringing upon the intellectual property rights of others and vice versa, helps with concluding various agreements concerning intellectual property rights, assists in the creation of intellectual property rights at the Tsukuba Research Institute and in business divisions, as well as files applications for, and protects the rights for intellectual property that has been created.

■ Initiatives for Intellectual Property

(Intellectual Property Education)

The Intellectual Property Department conducts classroom training for all Group employees who can access the intranet, for the purpose of systematic acquisition of knowledge and basic conduct related to the handling of intellectual property from the perspective of compliance and risk management. Each year since fiscal 2012, a compliance-focused e-learning program for all Group employees has been conducted using the intranet.

In fiscal 2017, the Company held eight study sessions on intellectual property for the Tsukuba Research Institute and employees in charge of R&D at business divisions and subsidiaries in an effort to ensure thorough compliance and risk management.

(Education through Company Intranet)

Sumitomo Forestry has set up a Company intranet site called Intellectual Property Farm. The site provides Sumitomo Forestry Group employees with a fundamental grounding in intellectual property as well as a simple explanation about trademark rights that employees ought to understand when conducting business activities. The Company also uses the site to post information on the latest topics concerning intellectual property.

Information Security

■ Information Security Policy

To ensure the confidentiality, integrity and availability of its information systems with regard to recent increasing threats to information security, the Sumitomo Forestry Group has been planning improvements to security levels that maintain the regulation and technology aspects of information security in a mutually complementary manner. Based on the recognition that the protection of customer information in particular is of utmost importance, we continue to conduct employee training to ensure the rules are widely understood, and verify their levels of awareness.

In terms of rules, we have formulated the Sumitomo Forestry Group Information Asset Protection Guidelines covering domestic Group companies, and prepared a checklist based on these guidelines. Each year, the people in charge of the information systems divisions at each Group company check the information security level. In fiscal 2012, we also formulated guidelines for overseas Group companies. With respect to educating employees about information security, the Information Security Department established in fiscal 2016 takes a central role in promoting awareness and providing in-house training

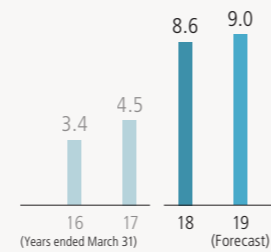
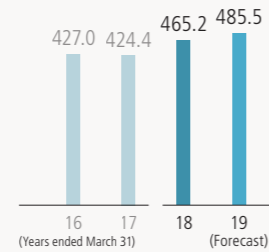
At a Glance

Net Sales (Billions of yen)*3

Recurring Income (Billions of yen)*3

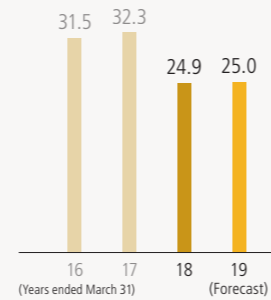
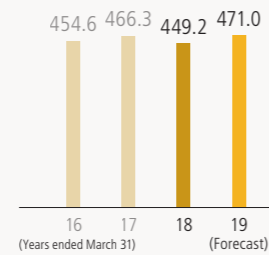
Timber and Building Materials Business*1*2

We operate a distribution business that sources high-quality timber and building materials from Japan and overseas for sale to customers, and we manufacture building materials and other products. This segment also focuses on overseas sales of Group company products.



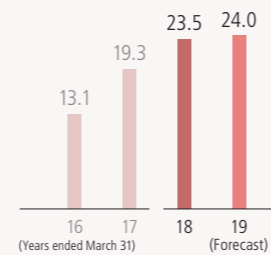
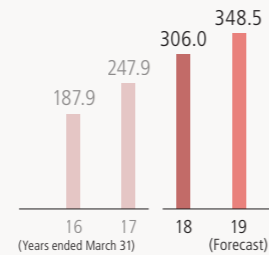
Housing and Construction Business*1

In addition to the custom-built detached housing business, we operate a wide range of housing-related businesses. These include the renovation business, apartment business, spec homes business, landscaping business, MOCCA (timber solutions) business, and stock housing business, as well as real estate brokerage and management, and renovation and resale of used houses.



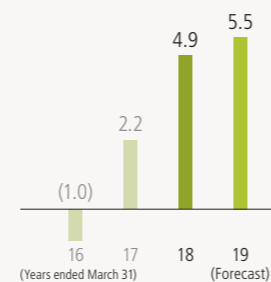
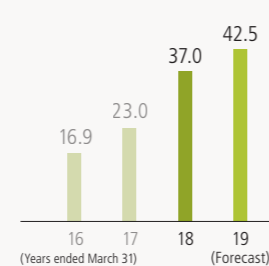
Overseas Housing and Real Estate Business*1*2

We are developing the overseas housing and real estate business primarily in the Pacific Rim, including the United States, Oceania and Southeast Asia.



Other Businesses

We operate the overseas forestation business, the wood biomass power generation business, the private-pay elderly care facilities business, and lease business, as well as various service businesses including the insurance agency business mainly for our housing business customers. We also undertake contracted civil engineering and construction work, and develop information systems for each Group company.



*1 Business segments were renamed in April 2018 as follows: (1) from "Housing" to "Housing and Construction" and (2) from "Overseas" to "Overseas Housing and Real Estate." The Overseas Manufacturing Business (previously included in the Overseas Business) was also reclassified as part of the Timber and Building Materials Business.

*2 Net sales and recurring income for the year ended March 31, 2017 and earlier periods are stated using the old segment classification.

*3 Net sales and recurring income include inter-segment transfers.

Business Outline

The Sumitomo Forestry Group is building its own value chain as a wood professional. Through utilizing wood that is friendly to people and the environment, we are engaged in a diverse range of businesses, extending from forestry management in Japan and overseas to procurement, distribution, manufacturing and processing in a global network, and even providing services related to the lives of people, including housing construction.

We aim to achieve sustainable growth through the recycling-oriented business based on continuing to plant, grow and harvest trees.



Upstream (forest management)

Midstream (distribution / processing)

Downstream (consumer services)

Growing trees

Linking society to wood

Utilizing wood in housing and living



Environment and Resources Business



Area of Company-owned forests (Domestic) **47,977** ha
(As of April 1, 2018)

Area of Company-owned or managed Forests Overseas
(As of March 31, 2018)
Approx. 230 thousand ha

Timber and Building Materials Distribution Business



Volume of plantation timber, timber from certified forests and Japanese timber handled at overseas distribution bases
(Fiscal 2017)
1,163 thousand m³

Manufacturing Business



Total production volume at overseas manufacturing subsidiaries (Total of board or construction materials products)
(Fiscal 2017)
1,224 thousand m³

Custom-Built Detached Housing Business



The number of houses completed (Domestic)
(Fiscal 2017)
7,556 units

Overseas Housing and Real Estate Business



The number of units sold (Overseas)
(Fiscal 2017)
9,223 units

Wood Biomass Power Generation Business



Power generation capacity (Total in operation and planning)
(As of end of July 2018)
Approx. 177 MW

Elderly Care Business



Private-pay elderly care facilities operated (As of end of July 2018)
Sumirin Fill Care Co., Ltd. **16** facilities Sumirin Care Life Co., Ltd. **3** facilities

Growing Trees



■ Environment and Resources Business ■

◆ Domestic Forestry

The forests planted after WWII across Japan have matured and reached the harvesting period, and the sustainable forestry is required more than before, in which new trees are planted to replace harvested timber. Sumitomo Forestry owns a total of 47,977 ha of forests in Japan (approximately 1/800th of the country's land area), all of which are certified by the Sustainable Green Ecosystem Council (SGEC). Sustainable forest management by the Group also includes efforts to conserve biodiversity.

Initiatives towards Sustainable Growth

As plantations have reached the harvesting period, securing reliable supplies of the seedlings needed for reforestation is becoming an integral issue due to the expectation that the use of domestic timber is promoted in tandem with advancing clear-cut logging. Given the importance of systematic planting after forests have been harvested, we have set up a production system for saplings, such as Japanese cedar and larch trees, at five facilities in Japan. Growing conditions at these sites are optimized using greenhouse technology so that we can produce seedlings throughout the year.

We are investing in tower yarder forestry logging equipment to improve the safety and efficiency of forestry operations in steep mountainous areas and other high-performance machinery. In cutting-edge R&D, we are developing special assistance suits to reduce physical loads for forestry workers and trialing fast-growth species for tree-planting programs.

The Domestic Forestry Business is a foundation of our business that constitutes the roots of the Sumitomo Forestry Group. Using the expertise and experience we have developed from managing the forests we own, we are working to help revitalize local economies and the domestic forestry sector along with promoting sustainable business in the future. Initiatives include efforts to develop forest-based asset management businesses for the public and private sector.



Timberland in New Zealand

◆ Overseas Forestation

We are developing our business to manage around 230,000 ha of plantation forests located in Indonesia, Papua New Guinea and New Zealand, including forests certified as sustainable by the FSC or other independent bodies. These are eco-friendly operations that pay attention to the needs of local communities and preserve biodiversity. Diminishing forest covered worldwide and stricter restrictions on logging of natural forests are expected to reduce the supply of natural forest timber. By supplying plantation timber from sustainable sources, we expect the Overseas Forestation Business to generate profits over the long term.

Most of our managed forests in New Zealand are populated with radiata pine, a tree that produces uniformly high-grade timber that is good for processing. We expect strong demand for this timber to translate into steady profits in the future. We have also built an integrated group supply chain to utilize the timber as a raw material for the supply of medium-density fiberboard (MDF) and laminated veneer lumber (LVL) made in our factory in New Zealand.

(Utilizing Wood in Housing and Living)

■ Wood Biomass Power Generation Business ■

Japan's market for renewable energy has been growing since the introduction of feed-in tariffs (FIT) in 2012, which establish a fixed price for the purchase of energy from renewable sources. A private-sector think tank forecasts this market will be worth ¥1 trillion by fiscal 2030.

The Sumitomo Forestry Group is developing wood biomass power generation projects in several parts of Japan that use fuels such as wood chips made from waste building materials or unused timber from forests.

The procurement process for unused timber from forests can also help to stimulate local forestry operations by maintaining woodlands near the power plant, thus enhancing the social significance of the business due to its contribution to the local economy.

The businesses derive an advantage in terms of reliable fuel supplies by utilizing the distribution network developed in the Group's Timber and Building Materials Business. We are continuing to expand the scale of this business. In fiscal 2018, we expect our wood biomass power plants to generate a total of 200 MW of renewable power (based on confirmed projects).



Hachinohe Biomass Power Plant

	Kawasaki	Mombetsu	Tomakomai	Hachinohe	Kanda
Start of operation	February 2011	December 2016	April 2017	April 2018	June 2021 (planned)
Investment ratio	34%	51%	20%	52%	41.5%
Power generation capacity (MW)	33	50	6.2	12.4	75
Fuel	Waste wood materials from construction, others (discarded pallets, pruned branches)	Unused timber from forests, others (PKS, coal)	Unused timber from forests	Unused timber from forests, other (PKS)	Wood pellets, others (PKS, unused timber from forests)

Linking Society to Wood



■ Timber and Building Materials Distribution Business ■

Based on a global network built up over years of developing operations worldwide, the Timber and Building Materials Distribution Business sources stable supplies of high-quality timber from properly managed forests. As the No. 1 share company in the domestic timber and building materials distribution markets, we provide total solutions for customer needs.

Initiatives towards Sustainable Growth

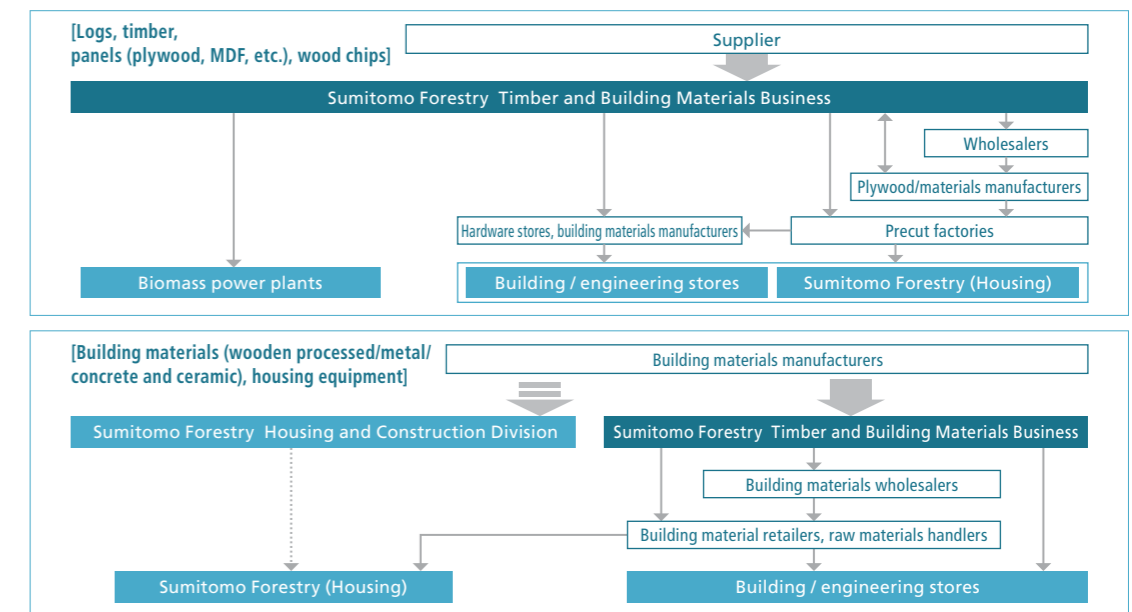
Amid future projections of shrinkage in the market for new housing construction, the business environment is evolving as demand grows for materials with non-residential building applications. Responding to this ongoing shift is a critical issue faced by our Timber and Building Materials Distribution Business.

Under these conditions, we are focusing on initiatives such as the sale of “Kigurumi FR,” a pure laminated engineered wood with one-hour fire resistance that is used as a structural material in non-residential building applications. We have established the Wooden Construction Development Department to develop systems to integrate materials sales with the undertaking of construction. In recent years, as the renewable energy market in Japan has grown, we have utilized the Group’s procurement network to expand supplies of wood chips as fuel for biomass power generation plants. We also continue to increase exports of domestic timber which has matured and reached the harvesting period to promote greater use of it.

Our overseas distribution operations are administered from Singapore. The business mainly focuses on selling timber and building materials to countries in Southeast Asia. In October 2017, we entered a capital tie-up and business alliance with An Cuong Wood-Working JSC, Vietnam’s leading manufacturing and distribution company for interior building materials. This capital and business alliance established a consolidated system from materials procurement through to housing construction in Vietnam, which has huge growth potential. In New Zealand, we established a sustainable business cycle spanning forestation, logging and distribution, and we also export logs from the forests we own and manage in New Zealand to markets across Asia. We are aiming to continue expanding this business.

➔ See the Initiatives towards Sustainable Procurement on page 56 for details.

Main Commercial Logistics Flowchart



■ Manufacturing Business ■

The Group’s manufacturing operations in Japan produce furniture and fixtures, floor materials and equipment for use in constructing houses and facilities. Overseas, our production bases in Southeast Asia, Oceania and North America make varied building materials such as medium-density fiberboard (MDF), particleboard, and kitchen cabinets that we supply to markets worldwide. The international market for wood products such as MDF and particleboard is becoming more competitive as supply expands, making it increasingly important to develop differentiated, value-added products that cater to user requirements. To expand profits further, the key challenge is to reinforce the business base by formulating a unified Group strategy while developing personnel with high-level expertise in manufacturing technology.

In fiscal 2018, we reformed the structure of our organization, integrating overseas manufacturing operations with the sales operations of the timber and building materials business and our domestic manufacturing operations to unify production technology and factory management approaches across the Group. Going forward, in addition to targeting a stable system of production, we will work to reduce costs significantly while developing and commercializing high-value-added products. Based on a more integrated production and sales system, we aim to promote sharing of information and unify hitherto separate product development and marketing activities.

The Manufacturing Business is still developed from a long-term perspective not limited by the composition of our existing operations, our aim remains to strengthen value chains for the Group’s manufacturing operations and build enterprise value.



Plant of Nelson Pine Industries Ltd.

Utilizing Wood in Housing and Living



■ Custom-Built Detached Housing Business ■

In 1975, taking advantage of buoyant housing demand as people and industries flocked to urban areas, we entered the Custom-Built Detached Housing Business to supply high-quality wooden homes, by utilizing the Group's wealth of wood-related knowledge and networks. This has since developed into a core business as we continue to supply high-quality houses based on advanced technology and superior designs.

With our specially-developed systems and technology, we pursue improved efficiency of design and construction processes, along with responding to customers' demands at various sites through meticulous construction in line with their living circumstances. We conduct an overall inspection of the business from different angles such as product, service and cost. Even amid shifts in market demand and customer needs, we will be addressing to build a system that consistently achieves annual sales around the 9,000-house level by aiming boost our share.

Initiatives towards Sustainable Growth

We construct most of our houses using either the Big-Frame (BF) construction method that uses a wooden-beam Rahmen structure or the Multi-Balance (MB) construction method, an evolved iteration of the wooden post-and-beam construction. Both original approaches enable us to satisfy a variety of customer needs by allowing flexible floor plan design.

We are also aiming to provide customers with their ideal living space by using our cultivated know-how and a wealth of ideas, such as proposing designs that respond to lifestyles for dual-income families or people with hobby-related needs, and "Forest Selection BF" products in which customers can choose from 1,000 prepared floor plans. We work to provide a wide range of customers with a comfortable living environment in their ideal home, whether they are first-time home buyers, people looking to buy a block of land to build a property, or somebody wanting a luxury home with a high-class design sense.

Attention has recently focused on smart houses that not only use appliances and installed equipment to control internal settings or save energy, but also perform well in aspects such as fire prevention, anti-theft, and security. We are speeding up research into high-performance residences that enhance convenience with AI or IoT technologies. This includes an initiative to commercialize security services that can protect a home from natural disasters using sensing technology.



Forest Maison apartment housing (exterior)

■ Apartment Business ■ ■ Residential Property Development (Spec Homes Business) ■

Using our in-depth knowledge of how best to use wood based on technical expertise and original construction methods, we offer designs for attractive apartments with specifications that are tailored to residents' needs. Led by urban areas, demand for apartment construction is expected to be steady in Japan going forward. In April 2018, we established branch offices in Tokyo, Nagoya and Osaka staffed with specially trained salespeople to focus on gaining more orders for apartments and other properties that incorporate rental housing.

In addition to management of rental housing developments through a stronger partnership with our group rental management company, we are also developing proposals for long-term management support using non-residential properties such as childcare and elderly care facilities and stores, as well as differentiated plans that consider property usage from the perspective of both owners and residents. Going forward, we will continue to work to secure orders and expand business by accurately assessing market needs.

As for residential property development, the Group's spec home operations construct approximately 300 high-quality detached houses for sale per year, based on technology and know-how accumulated in Group businesses such as custom-built housing and landscaping. In the future, we aim for townscape development that delivers a rich local community environment by supporting biodiversity for a closer bond between residents and nature.

■ Landscaping Business ■

The Group's landscaping business operations are mainly focused on residential properties and environmental greenery projects.

In residential greening, we offer a range of services from planning and design to the installation and maintenance of exterior and outdoor facilities. In environmental landscaping, we can provide total support for the design, construction and maintenance of parks or office buildings and other urban spaces. We also offer landscaping consulting services.

In addition to carrying out the creation of green spaces, we also select local saplings, wild plants, cultivated plants, and safely-introduced non-native plants for various parts of the project after considering ecological, genetic, and other impacts on the area. Plants for greening that are considerate of biodiversity are what we call "Harmonic Plants."

The Group has constructed built-for-sale residential property within a park environment at the "Forest Garden Hadano" (Kanagawa Prefecture) complex. In March 2018, this was one of the first custom-built housing developments to gain ABINC* certification.



Environmental landscaping (Mitsui Sumitomo Insurance Surugadai Bldg. with adjacent "ECOM (eco + communication)" space)

* The certification system managed by the Association for Business Innovation in harmony with Nature and Community (ABINC) provides independent verification that a company is working to keep people and nature in harmony through initiatives to conserve biodiversity.



Renovation of a traditional Japanese-style house

■ Existing Homes Business ■

As Japan's housing stock has risen to around 60 million homes while the number of households is roughly 52 million, the Japanese government is promoting policies to make use of established housing and ensure the "formation of housing stock of good quality." Societal awareness is significant regarding the eco-friendly business of passing homes to the next generation, as housing stock, a form of social capital, is being appropriately evaluated as an asset; thus we believe this market has the potential to expand in scale.

Leveraging the Group's original know-how and technology, we are developing various businesses that aim to maximize the value of existing homes: home renovation, resale of renovated properties, real estate brokerage, and management of condominiums and apartments.

In home renovation business, we differentiate our offerings from those of other firms by using our advanced technical expertise in seismic resistance and retrofitting technology and through proposals of comfortable spaces with wood accents. The ratio of orders received from owners of Sumitomo Forestry houses and general customers is split evenly. In addition, we renovate around 300 traditional Japanese-style homes each year to enable ancestral homes to be retained in the family; renovating these rare wooden structures makes a contribution to inheritance of Japan's culture. Based on these various initiatives, we aim to grow annual sales to ¥100.0 billion over the next five years.

* The Sumitomo Forestry Group's definition of a traditional Japanese-style house is a house built before the current Building Standards Law came into effect in 1950.



Joint booth at May 2018 trade fair

Topics Renovation

Sumitomo Forestry Home Tech Co., Ltd. is strengthening its presence in the non-residential renovation sector, and through the business alliance with Kumagai Gumi, realized a collaboration with K&E Co., Ltd., which is a subsidiary of Kumagai Gumi.

K&E Co., Ltd. is a specialist in renovation projects that involve exterior or common areas. By combining their skills with our expertise in wooden interior design, we aim to grow our orders for large-scale building renovation projects, including hotels, condominiums, and commercial complexes.

Topics Existing Home Renovation (Resale of Renovated Homes)

We have started in the vacation rental business as one approach to developing the Group's renovation business. In a part of Osaka city, which has been designated as a National Strategic Special Zone, we are managing vacant units in rental condominiums as authorized vacation rental facilities. This helps address a social issue to service the demand for accommodation from overseas visitors to Japan.



Annex at Senri Rehabilitation Hospital

■ MOCCA (Timber Solutions) Business ■

Amid rising interest in using wooden materials in buildings of medium and large scale, we are working to expand this business in the non-residential sector, including for facilities for educational or commercial use. The enactment of the Act on Promotion of Use of Wood in Public Buildings in 2010 has spurred development of varieties of fire-resistant engineered wood, with more buildings incorporating materials such as CLT*1. Overseas, where the use of wood is steadily growing in consideration of climate change and other environmental issues, many high-rise structures have been constructed using wood.

We continue to increase opportunities to provide spaces that make use of the qualities of wood in buildings. Projects undertaken in fiscal 2017 included the annex of the Senri Rehabilitation Hospital (Osaka Prefecture), an observation space included in a new building for the Nagasaki Prefectural Government, and a dormitory at Besshi Junior High School in the city of Niihama (Ehime Prefecture). Wood will also be used in the construction of the stadiums and sporting facilities for the 2020 Tokyo Olympic and Paralympic Games. The Sumitomo Forestry Group has been chosen to manufacture and install the wooden materials for the roof covering the grandstands in the New National Stadium in Tokyo.

Going forward, through the MOCCA (Timber Solutions) Business, we will continue to hand down the culture of wood while seeking to reinvigorate Japan's forestry industry and contribute to the creation of employment opportunities based on greater utilization of domestic timber.

*1 Cross-Laminated Timber (CLT) is a type of engineered wood product made from layers of solid-sawn dried timber. As in plywood, each layer is oriented so that the grain runs perpendicular to that of the adjacent layer.

■ Elderly Care Business ■

We apply technology and know-how gained in the Group's housing and related businesses to generate synergies in the management of elderly care facilities. Providing peace of mind to residents via all aspects of facility management, we strive to create conditions for healthy living.

Sumirin Fill Care Co., Ltd. operates 16 private elderly care facilities and three elderly day-care service centers, mostly in the Greater Tokyo area. Based on the self-support concept, the company has introduced advanced ICT systems to help monitor the health and movements of facility residents.

City of Kobe-based Sumirin Care Life Co., Ltd. operates three large-scale private elderly care facilities and seven in-home nursing care service centers. The elderly care services are tailored to residents' needs, from giving support for healthy independent living to provision of advanced medical support in partnership with medical institutions. The company plans to open Japan's largest*2 development for elderly residents by combining living support services in 2020; *Elegano Nishinomiya* (Hyogo Prefecture) will contain a total of 309 units.

With Japan facing a multitude of social issues associated with the advent of a super-aging society, we will continue to focus on contributing to society through the elderly care business.



Elegano Nishinomiya exterior concept image

*2 According to data published in May 2017 by the Senior Housing Association on its information system for serviced accommodation for the elderly

Utilizing Wood in Housing and Living



■ Overseas Housing and Real Estate Business ■

◆ United States / Australia

The Group's housing business has been developed with local partners based in the United States and Australia, focusing primarily on detached houses built using wooden frames as the main market. Growing populations mean that demand for housing is expected to continue rising in both these countries. We will continue to target these markets, with sales primarily focused on detached houses.

While our United States operations consist entirely of spec homes, in Australia, these account for about 20–30% of local sales. We undertake spec home developments on a joint basis with experienced partners with an excellent knowledge of local conditions because such projects require large-scale land purchases in advance. We monitor market pricing and interest rate trends continuously. To minimize the risk of inventory asset write-downs, we also set a ceiling on investments to manage the balance, and any investments above a designated amount, such as purchasing land, must be approved by the Sumitomo Forestry Board of Directors.



Street view of houses sold by Gehan Homes Group (United States)

Initiatives towards Sustainable Growth

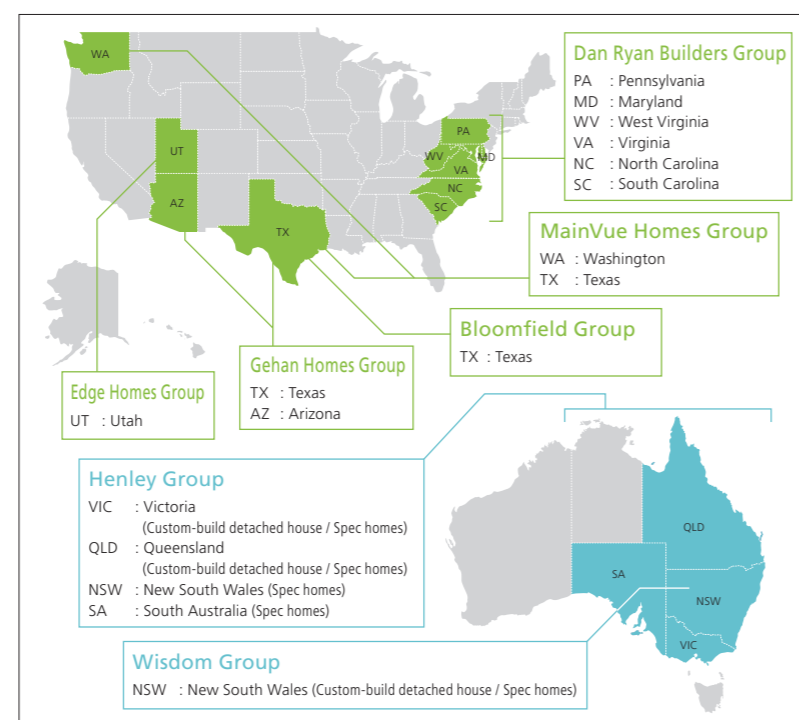
Housing is a business with strong local characteristics due to changing climates and lifestyle habits at sites. Therefore, in terms of operations, we treat the autonomy of partners in the business with the utmost respect.

We place strong emphasis on finding business partners with a matching management stance and related policies. Based on trust, we focus on trying to create synergies by exploiting the Group's total capabilities. Going forward, we will make further progress in areas such as the sharing of operating platforms and construction and design know-how; development of shared services; use of standardized materials and related specifications; and joint materials procurement.

We are also working to develop organizational systems and strengthen governance by assigning directors and employees to our business partners, and deploying an executive officer in charge of North American operations.

We have also begun a new initiative of applying greenery technology originally developed in Japan to our built-for-sale housing development projects to enhance the attractiveness of these properties. We also aim to promptly generate profits via active involvement in exterior services such as landscaping.

Group Business Areas

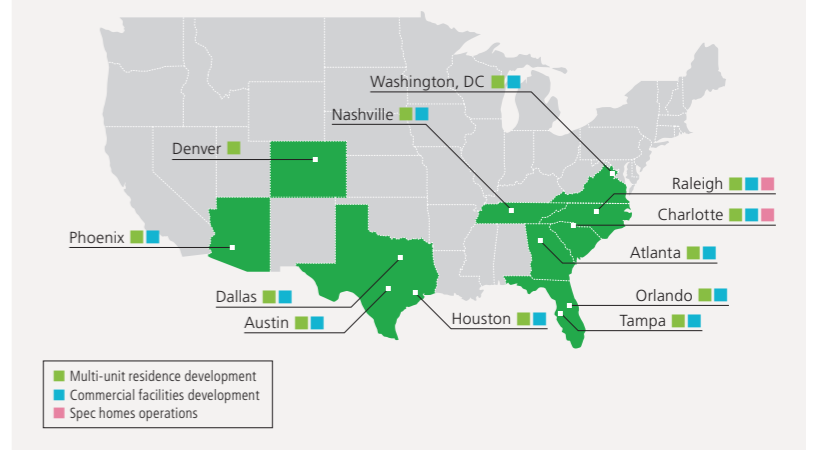


Crescent Communities development

Topics Crescent Communities II, LLC

In July 2018, the Group acquired the operations of Crescent Communities, LLC, a real estate management firm based in Charlotte, North Carolina, USA. This acquisition recognizes the strong growth potential in the United States market for apartments and other rental housing, in which the company performs well. It also diversifies the business base in the United States by augmenting the flow-based spec home business via expansion of stock-based businesses such as apartments.

Crescent Communities Business Areas





Luxury condominium development (Thailand)

◆ Southeast Asia

The Group is engaged in joint development of condominiums for sale with other companies in Hong Kong, Vietnam and Thailand. Business development in all three of these markets is based on stable prospects of growth in demand over the medium and long term.

Further, we announced our first housing development in Indonesia in November 2017. Although most housing in the region is built using reinforced concrete, in line with local custom, with this project we intend to exhibit our strength by utilizing our design expertise and knowledge of creating attractive interiors using wood. Our partner in the project is PT. Summarecon Agung Tbk, a leading Indonesian listed real estate developer. Continuing on from the United States and Australia, we are striving for growth via the development of housing-related business in Southeast Asia. Housing demand in Asia is strong due to rapid development of infrastructure, growing populations and increasing income levels. We aim to minimize business risk through regional diversification, while also contributing to the development of the living environment in Southeast Asia.



Residential property (Indonesia)



Sustainability

Initiatives to Address CSR Material Issues

Material Issue 1

Continue to Procure Wood and Materials that Take Sustainability and Biodiversity into Consideration

Fundamental Policy

The world's forests continue to decrease in size as a consequence of illegal deforestation and the indiscriminate conversion of farmland to boost production of commodities such as palm oil, soybeans, or beef. In light of these developments, some countries are proceeding to introduce laws and strengthen regulations to eliminate illegally logged timber from the market. Therefore, we predict the implementation of stronger policies globally. Meanwhile, in Japan, maintenance of forests has halted in part because of an aging and declining forestry workforce, and there are growing concerns about some forests becoming devastated.

Amid this situation, the Group is promoting sustainable forest management and procurement of wood both in Japan and overseas, along with positioning conserving biodiversity as one of our key CSR themes.

Current awareness of issues and basic strategies	Evaluation metrics	Fiscal 2017 target	Fiscal 2017 results	Fiscal 2018 target	Fiscal 2020 target figures	Relevant SDGs	
Environmentally responsible society	Percentage of imported timber from certified forests among all imported timber sold	11.0%	12.8%	12.0%	12.0%	 	
	Volume of domestic timber exported	100,000 m ³	120,000 m ³	183,000 m ³	200,000 m ³		
	Volume of plantation timber, timber from certified forests, and Japanese timber handled at overseas distribution bases	964,000 m ³	1,163,000 m ³	626,000 m ³	783,000 m ³		
	Volume of wood chips used for fuel	861,000 m ³	847,000 m ³	1,316,000 m ³	800,000 m ³ (1,380,000 m ³) ^{*1}		
	Volume of timber from certified forests (SGEC timber) handled at domestic distribution bases	60,000 m ³	78,000 m ³	68,000 m ³	85,000 m ³		
	Volume of unused wood in domestic timber	200,000 tons	286,000 tons	236,000 tons	185,000 tons (236,000 tons) ^{*1}		
	Percentage of Japanese timber used for new custom-built detached housing in the housing business	Multi-balance construction method	72%	71%	71%		75%
		Big-frame construction method	51%	50%	50%		55%
	Percentage of reviews conducted for suppliers who handle directly imported timber and wood products with verified legal compliance (Timber and wood product department)		100%	100%	100%		100%
	Establish forestry management that enables conservation of biodiversity, and evaluate value as natural capital	Percentage of SGEC-certified managed forests in newly acquired forests managed by the Group	100%	100%	100%		100%
Number of native species planted at new detached housing sites		35,000 trees / year	31,248 trees / year	36,000 trees / year	210,000 trees / Total of 6 years		

*1 Targets at the time of deciding the Medium-Term CSR Management Plan. Given the results for fiscal 2017, the targets were revised to be within () in April 2018

Material Issue 2

Promote the Reduction of the Environmental Impact of Our Business Activities

Fundamental Policy

As the impact of climate change becomes more apparent worldwide, companies are being asked to reduce their greenhouse gas emissions and adopt energy-saving measures to combat global warming.

In consideration of the impact of our activities on the environment, the Group is engaged in activities that take steps towards reducing greenhouse gas emissions and combating climate change, such as encouraging thoroughgoing energy-saving activities and the use of renewable energies.

In the Housing and Construction Business, we are targeting a ZEH (net zero-energy house) proliferation rate of 80% in fiscal 2020. Furthermore, we are promoting the reduction, reuse, and recycling of industrial waste in order to reduce our environmental impact and use resources effectively.

Current awareness of issues and basic strategies	Evaluation metrics	Fiscal 2017 target	Fiscal 2017 results	Fiscal 2018 target	Fiscal 2020 target figures	Relevant SDGs		
Low-carbon society	Office segment (consolidated companies inside and outside Japan)	Change in CO ₂ emissions compared to fiscal 2013	7.2% reduction Total emissions 32,887t-CO ₂	10.1% reduction Total emissions 31,871t-CO ₂	11.4% reduction Total emissions 31,407t-CO ₂	More than ^{*3} 7% reduction (More than 16% reduction)	 	
			Sumitomo Forestry (offices in Japan)	13.3% reduction	18.7% reduction	19.4% reduction		-
			Affiliated companies in Japan (offices)	1.3% reduction	4.6% reduction	1.8% reduction		-
			Affiliated companies overseas (offices)	3.4% increase	14.0% increase	3.0% reduction		-
	Reduce CO ₂ emissions by the Group	Change in CO ₂ emissions per production volume compared to the previous year	Kutai Timber Indonesia (Indonesia)	0.9% reduction	10.8% reduction	0.8% increase	Reduction of more than 1% average intensity per year for fiscal 2015 – 2020	
			Vina Eco Board (Vietnam)	7.4% reduction	38.0% increase	23.9% reduction		
			AST Indonesia (Indonesia)	8.5% reduction	9.0% increase	4.1% reduction		
			Nelson Pine Industries (New Zealand)	2.7% increase	5.8% reduction	23.7% increase		
			Rimba Partikel Indonesia (Indonesia)	10.1% reduction	9.6% reduction	0.5% reduction		
Reduce CO ₂ emissions outside the Group (products, service recipients)	Percentage of Green Smart houses in new custom-built detached housing (Number of Green Smart houses at order placement / total number of houses ordered)	70.0%	69.4%	73.0%	More than 80.0%			
	Percentage of Green Smart ZEH-type houses in new custombuilt detached housing (Number of Green Smart ZEH-type houses at time construction started / total number of construction starts) ^{*1}	35.0%	30.1%	45.0% (order base)	More than 80% (order base)			
Recycling-oriented society	Achieve zero emissions					 		
	Recycling rate at new housing construction sites	92.0%	92.5%	93.9%	98.0%			
	Recycling rate at remodeling sites	79.4%	76.2%	77.6%	80.0%			
Reduce volume of industrial waste generated	Reduction in industrial waste generated at new construction sites compared to fiscal 2013	26.0% reduction	15.5% reduction	20.6% reduction	30% reduction			
	Change in industrial waste per unit of sales ^{*2} compared to fiscal 2014	3.5% reduction	5.2% increase	1.9% increase	Reduction of more than 2%			

*1 The calculation method for these indicators differs from the company's popularized results displayed on the Sumitomo Forestry ZEH website (<http://sfc.jp/ie/lineup/smart/zeh/>)

*2 Per unit of in-house sales at domestic manufacturing plants




*3 Targets at the time of deciding the Medium-Term CSR Management Plan. Given the results for fiscal 2017, the targets were revised to be within () in April 2018

Initiatives to Address CSR Material Issues

Material Issue 3 Promote Development of Workplaces Where Diverse Personnel Can Work with Vigor and Enthusiasm, Demonstrating Their Abilities and Individuality

Fundamental Policy

The Sumitomo Forestry Group makes no distinctions based on gender, age, nationality, race, religion or disability, and is advancing maintenance of a safe and healthy workplace in which highly motivated employees can display their abilities. In addition, we are conducting initiatives aimed at providing opportunities for female employees, such as issuing the "Sumitomo Forestry Group's Declaration on Empowering Women" to the entire Group under the name of the President.

Current awareness of issues and basic strategies	Evaluation metrics	Fiscal 2017 target	Fiscal 2017 results	Fiscal 2018 target	Fiscal 2020 target figures	Relevant SDGs	
Promote fair employment and treatment	Ratio of female employees in management positions	Sumitomo Forestry	3.3%	3.2%	More than 3.8%	More than 5.0%	  
		Domestic subsidiaries	-	4.6%	-	-	
	Ratio of female employees	Sumitomo Forestry	20.0%	20.4%	More than 20.0%	More than 20.0%	
		Domestic subsidiaries	-	31.6%	-	-	
	Ratio of employees with disabilities *1	Sumitomo Forestry	2.2%	2.26%	More than 2.2%	More than *4 2.0% (More than 2.2%)	
		Domestic subsidiaries	2.0%	1.75%	Company targets		
Promote work-life balance	Number of paid leave days used	Sumitomo Forestry	10 days	9 days	More than 10 days	More than 10 days	
		Domestic subsidiaries	Company targets	43.9%	Company targets	More than 50%	
	Hours worked overtime (Reduction in average overtime hours compared to fiscal 2013)	Sumitomo Forestry	-14.8%	-20.7%	-25.2%	-30%	
Strengthen occupational health and safety	Number of occupational injuries in Company-owned forests*2	Sumitomo Forestry	0	1	0	0	
	Number of occupational injuries at new construction sites*3	Sumitomo Forestry	0	9	0	0	
	Number of occupational injuries in other situations*3	Domestic subsidiaries	Company targets	2	Company targets	0	

*1 Results as of June 2017

*2 Number of occupational injuries among sub-contractors at workplaces in Company-owned forests

*3 Number of cases eligible for work compensation benefits under the Industrial Accident Compensation Insurance Act

*4 Targets at the time of deciding the Medium-Term CSR Management Plan. Given the results for fiscal 2017, the targets were revised to be within () in April 2018

Material Issue 4 Strengthen and Promote Risk Management and Compliance Mechanisms

Fundamental Policy


The Sumitomo Forestry Group is working to reinforce the mechanism for managing business risks by constantly managing prioritized risks through the Risk Management Committee.

Current awareness of issues and basic strategies	Evaluation metrics	Fiscal 2017 target	Fiscal 2017 results	Fiscal 2018 target	Fiscal 2020 target figures	Relevant SDGs
Strengthening the Risk Management System	-	Confirm the state of progress for 41 prioritized risk items at the quarterly CSR & Risk Management Committee	Addressed targeted risk items and shared case studies where risks materialized at monthly meetings of the Executive Committee	Confirm the state of progress for 45 prioritized risk items at the quarterly CSR & Risk Management Committee	Manage prioritized risk items through the Risk Management Committee	-

Material Issue 5 Promoting the Development and Sale of Products and Services that Are Safe, Reliable and Environmentally Conscious

Fundamental Policy

Sumitomo Forestry believes that popularizing durable, high-quality houses as social assets plays an important role in creating a prosperous society. In addition, Sumitomo Forestry actively promotes the use of the Excellent Long-Term Housing Certification and the Japanese Housing Performance Indication System for customers' peace of mind and safety and to enhance property value.

Current awareness of issues and basic strategies	Evaluation metrics	Fiscal 2017 target	Fiscal 2017 results	Fiscal 2018 target	Fiscal 2020 target figures	Relevant SDGs
Improve safety and quality	Ratio of design performance evaluations implemented for new custom-built detached houses	More than 90.0%	98.9%	More than 99.0%	More than *1 90.0% (More than 99.0%)	  
	Ratio of construction performance evaluations implemented for new custom-built detached houses	More than 90.0%	97.9%	More than 99.0%	More than *1 90.0% (More than 99.0%)	
	Ratio of houses certified as Excellent Long-Term Housing for new custom-built detached houses	More than 90.0%	93.3%	More than 97.0%	More than *1 90.0% (More than 97.0%)	
Improve communication with customers	Pass rate for after-sales maintenance advisors and housing inspectors (all persons at Sumitomo Forestry Home Tech Co., Ltd. in charge of maintenance)	100.0%	100.0%	100.0%	100.0%	
	Ratio of design performance evaluations implemented for custom-built detached housing	83.0%	83.0%	85.0%	90.0%	

*1 Targets at the time of deciding the Medium-Term CSR Management Plan. Given the results for fiscal 2017, the targets were revised to be within () in April 2018

Environmental Management Structure

The Group has established the Sumitomo Forestry Group Environmental Policy. Under this policy, all manner of business processes and product lifecycles, including product development, design, production, materials procurement, distribution, waste management and services, are managed in a way to facilitate the creation of a sustainable society.

Furthermore, "Co-existence with the environment" is an article of the Sumitomo Forestry Group Code of Conduct, which incorporates not only Group businesses, but supply chains as well. The Group clarifies its position on promoting initiatives towards the environment with all parties, including business partners and associated companies.

Sumitomo Forestry Group Environmental Policy

Through our experience nurturing forests since our founding, Sumitomo Forestry Group has learned to appreciate the wonders of wood and the importance of nature. As a corporate entity with a close affinity to nature, we will pursue business activities that balance both environmental and economic interests and contribute to a sustainable society.

1. Develop business operations centered on wood and forests

We will cultivate forests and their ability to preserve and enhance the rich ecosystem to protect biodiversity, actively utilize timber resources and create new corporate value.

2. Develop and offer environmentally conscious products and services

We will develop and sell products and services that are environmentally conscious throughout the entire product lifecycle.

3. Minimize and improve environmental impact

To minimize and improve environmental impact, we will employ procurement practices that prevent environmental pollution and climate change and promote the effective utilization of natural resources.

4. Ensure strict legal compliance

We will adhere to all environmental laws, rules and regulations, global standards, voluntary standards and accords with stakeholders.

5. Make continual improvements to our environmental management system

We will accurately assess environment-related risks associated with our business activities and, with a medium-to-long-term outlook, set and work to fulfill yearly environment goals. In addition, we will regularly evaluate our environmental management system and make continual improvements.

6. Promote environmental education

We will provide environmental education for all parties involved in the Sumitomo Forestry Group's business operations and encourage voluntary environmental efforts.

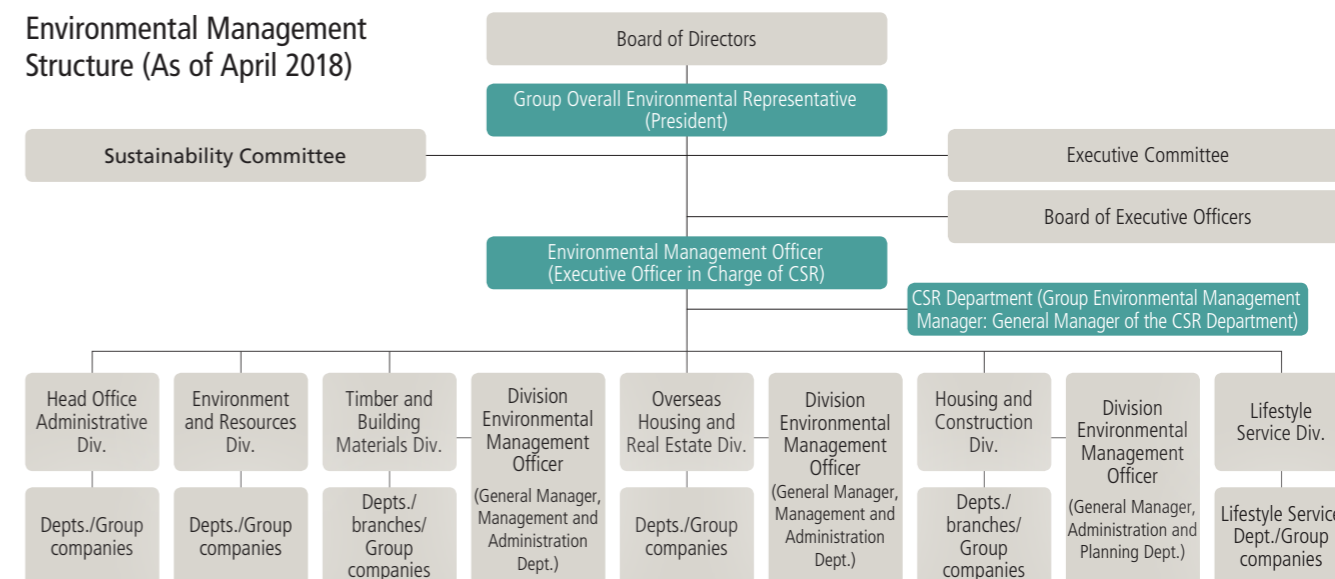
7. Pursue active communication

We will actively disclose information about our environmental policies and initiatives and pursue activities that convey the wonders of trees and forests and the importance of nature.

Environmental Management Structure

The Sumitomo Forestry Group has put in place an environmental management structure with top management in charge of environmental management. Beneath the Group Overall Environmental Representative, there are the Executive in Charge of CSR and the General Manager of the CSR Department. Regular checks on the progress of environmental activities advanced by divisions and departments within the Group and related issues are conducted against the "CSR budget," which sets forth numerical targets for each fiscal year, to raise the effectiveness of those activities.

Environmental Management Structure (As of April 2018)



ISO 14001 Certification Status

Sumitomo Forestry acquired ISO 14001 certification for its entire custom-built detached housing business in fiscal 1997 ahead of other players in the housing industry. Certification was subsequently acquired for other operations, with all departments and divisions in the Company achieving integrated ISO 14001 certification in fiscal 2002. The scope of certified Group companies has been extended to businesses with a substantial impact on the environment, and five Group companies are integrated in Japan. In addition, 6 Group companies are proceeding with certification overseas, with a focus on manufacturing companies. As of April 2018, 85.2% of consolidated organizations (Net sales basis) have received certification.

Domestic companies within the registration scope of ISO 14001 certifications are periodically audited by external certification bodies. In fiscal 2017, 36 departments and divisions at 6 companies underwent transition assessment surveillance for the new standard ISO 14001:2015 (JISQ14001:2015), and were approved to register for transition to the new standard. Overseas manufacturing factories proceeded with the transition process for the new standard in the same way as the domestic companies, and successfully completed the transition in April 2018.

In addition to reviews conducted by external certification bodies, internal environmental audits are periodically carried out by employees (i.e., internal environmental auditors) who have passed an exam upon completion of an in-house training course to become internal environmental auditors.

Sumitomo Forestry Group ISO 14001 Certification Status (As of April 2018)

Company Name	Date of Certification	
Expanded Domestic Group Certification	Sumitomo Forestry (excluding overseas)	August 2002 ^{*1}
	Sumitomo Forestry Landscaping Co., Ltd.	November 2002 ^{*2}
	Sumitomo Forestry Crest Co., Ltd.	September 2003 ^{*2}
	Sumitomo Forestry Home Tech Co., Ltd.	March 2013 ^{*2}
	Japan Bio Energy Co., Ltd.	August 2014 ^{*2}
	Sumirin Agro-Products Co., Ltd.* ³	August 2017 ^{*2}
PT. Kutai Timber Indonesia (KTI)	July 2001	
Nelson Pine Industries Ltd. (NPIL)	July 2003	
PT. Rimba Partikel Indonesia (RPI)	October 2005	
PT. AST Indonesia (ASTI)	January 2007	
Vina Eco Board Co., Ltd. (VECO)	March 2014	
PAN ASIA PACKING LTD.	April 2017	

^{*1} Certification was acquired by departments and divisions from 1997 before integrated certification was acquired for the entire Company

^{*2} Acquired by inclusion in Sumitomo Forestry's scope of registration

^{*3} Sumitomo Forestry Landscaping Co., Ltd. (Currently)

Addressing Climate Change

In December 2015, COP21 (2015 United Nations Climate Change Conference) negotiated and adopted the Paris Agreement, the new framework for addressing climate change starting in the year 2020. The global aim of the agreement, which entered into force in November 2016, is to maintain global average temperature levels that do not rise more than 2°C from what they were before the Industrial Revolution.

Setting SBT

(Science Based Targets)

Science Based Targets (SBT) are long-term greenhouse gas (GHG) emission reduction targets that fall in line with the worldwide objective of limiting global warming to well below 2°C. In Japan, the Ministry of the Environment encourages initiatives that adopt SBT as a means of evaluating corporate GHG reduction target levels.

Sumitomo Forestry Group declared in June 2017 that it would set SBT under the SBT initiative*¹ and establish new GHG reduction targets for the entire Group. Subsequently, those targets were officially approved as SBT in July 2018. The new SBT for the Sumitomo Forestry Group are as follows.

- ① Scope 1 and 2*²: Total 21% reduction (Target Year 2030; Base Year 2017)
- ② Scope 3*²: Total 16% reduction in categories 1*³ and 11*³ (Target Year 2030; Base Year 2017)

Based on these SBT as a long-term reduction target, we intend to be even more proactive in reducing our GHG emissions and implementing climate change measures, such as in-depth energy-saving initiatives and encouraging the use of renewable energies.



- *1: The SBT initiative was established in 2015 by four organizations (UNGC, CDP, WRI, and WWF) for the purpose of promoting GHG emission reduction targets based on scientific data in order to keep global warming to below 2°C compared to pre-industrial levels.
- *2: Scope 1: Direct GHG emissions of a company, including those from fuel consumption. For example, the use of gasoline for company vehicles
Scope 2: Indirect GHG emissions (including CH₄ and N₂O) from purchased electricity and heating. For example, electricity used by offices
Scope 3: GHG emissions occurring in the supply chain. For example, any of the 15 categories of supply chain emissions, such as at the time of raw material manufacturing or when using sold products
- *3: Category 1 (in Scope 3): GHG emissions when harvesting, manufacturing, or transporting purchased (or acquired) goods and services.
Category 11 (in Scope 3): GHG emissions when using sold goods and services.

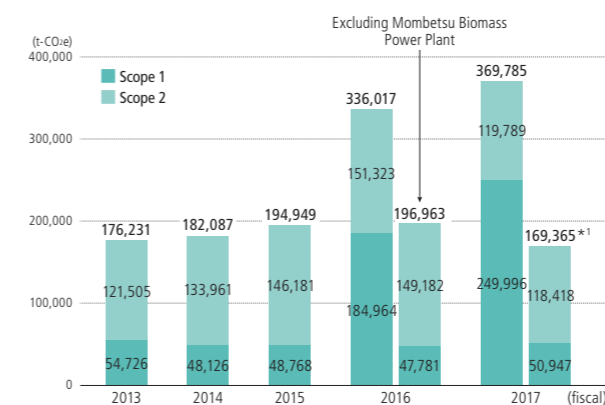
Obtaining greenhouse gas emissions data based on the GHG Protocol

Since 2012, we have endeavored to obtain quantitative data for each scope that conforms to the GHG Protocol, the widely used global GHG measurement standard.

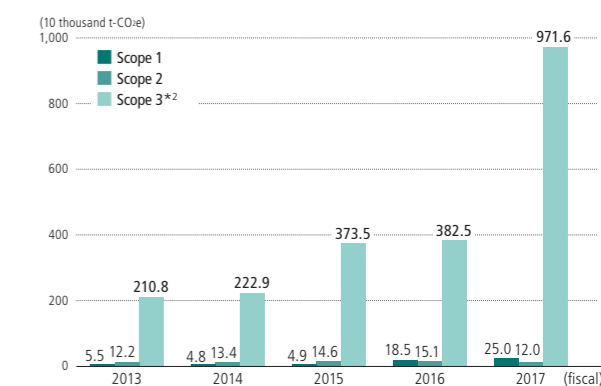
The Group made an entry into the biomass power generation business in 2011 and in December 2016 commenced operations at the Mombetsu Biomass Power Plant (consolidated subsidiary). While the plant's main fuel source is unused carbon-neutral timber from forests, coal is used as a supplementary fuel to ensure smooth operation and maintenance. Accordingly, total CO₂ emissions for Scopes 1 and 2 in fiscal 2017 for the Sumitomo Forestry Group increased 10.0% year on year to 369,785 t-CO₂e.

Of the total for Scope 1 and 2, overseas plants emitted 29.7%, while domestic plants and the power generation business accounted for 56.4%. We started measuring Scope 3 emissions in fiscal 2013 and in fiscal 2017 the amount came to 9.716 million t-CO₂e.

CO₂ emissions for Scopes 1 and 2



CO₂ emissions for Scopes 1, 2, and 3



- *1 Excluding the numeric data for the biomass power generation businesses in Mombetsu and Hachinohe, as well as Alpine MDF Industries Pty Ltd. due to sale of all shares.
*2 From fiscal 2015 onwards we expanded the range of our measurements in Scope 3 from three categories to 15.
From fiscal 2017 onwards we expanded the range of our measurements in Scope 3 from domestic emissions only to those emitted by the entire Sumitomo Forestry Group.

Carbon stock in forests

Trees absorb CO₂ and fix carbon as they grow. The Group owns and manages forests in Japan and overseas; the total amount of carbon stock* by company-owned forests in Japan in fiscal 2017 was 13.06 million t-CO₂ (up 0.52 million t-CO₂ YoY) and by plantation areas overseas it was 7.83 million t-CO₂ (up 7,763 t-CO₂).

*The volume of carbon accumulated through absorption of CO₂ by forests. The volume accumulated in forests is estimated with a formula that multiplies various coefficients for different tree types, including bulk density and carbon content ratio. Note that we exclude large forests purchased during the fiscal period subject to the estimate because we are unable to ascertain how much carbon increased over the 12 months prior. For Japan, our carbon stock estimate covers both natural forests and plantations, but for overseas it only includes plantations. The amount of carbon stock for Japan is as of the end of the fiscal year. For overseas, it is as of the end of the calendar year.

Participating in the Japan Climate Change Initiative

Sumitomo Forestry is a founding member of the Japan Climate Initiative, a network of companies, local governments, and NGOs that further the dissemination and exchange of information in aiming to realize a carbon-free society. The Japan Climate Initiative is managed by CDP Worldwide-Japan, the World Wide Fund for Nature in Japan (WWF Japan), and the Renewable Energy Institute. We will continue to leverage the information obtained through our participation in the Japan Climate Initiative to actively promote climate change measures, including larger issues that would be difficult for the Group to resolve on its own.

➔ CO₂ emission reduction main targets and results on Page 49

Initiatives Towards Sustainable Procurement

The Group has established the Sumitomo Forestry Group Procurement Policy in order to sustainably procure timber. This policy calls for social and environmental considerations, such as providing fair opportunities when selecting suppliers and the sustainability of procured products. In 2015, this policy was revised, and its scope of coverage was expanded beyond timber to include building materials such as metals, ceramics and plastic products.

Furthermore, we revised our previous timber procurement standards and reorganized them as the Timber Procurement Management Regulations and Due Diligence Manual in March 2018.

The Sumitomo Forestry Group Procurement Policy (Excerpt)

The Sumitomo Forestry Group utilizes wood as a renewable natural resource in its business operations. To contribute to a sustainable society, we are committed to procurement activities that take into account economic, environmental and societal interests and comply with the following policy:

1. Procurement based on legal and highly reliable supply chains
2. Procurement based on fair opportunity and competition
3. Procurement of sustainable timber and wood products
4. Communication

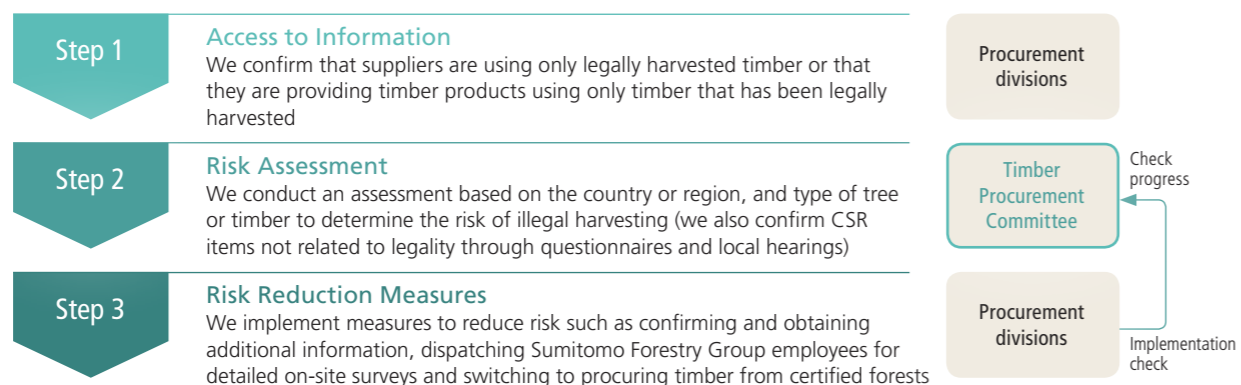
Promotion System of Timber Procurement Management

Sumitomo Forestry Group established the Timber Procurement Committee, comprising managers from departments in charge of timber procurement. The committee confirms the status of timber procurement and discusses issues related to Group-wide timber procurement, including procurement standards and risk assessments for illegal logging.

Initiatives for Enabling Sustainable Timber Procurement

< Due Diligence for Timber Procurement >

Based on The Sumitomo Forestry Group Procurement Policy, the Group conducts due diligence to verify the legality of our timber procurement. Each division that procures timber reports to the Timber Procurement Committee on the progress with this due diligence, and works to promote continual improvement in the supply chain.



* In addition, issues other than legality are verified via questionnaires and/or interviews

Step 1: We use information to confirm that the supplier can only supply legally-harvested timber or wood products made from legally-harvested timber. (Key items verified: supplier name, address, whether supplier has received approvals, etc., name and quantity of product to be procured, species of tree in product and logging site, main buyers, etc.)

Step 2: For the information in Step 1 above, illegal logging risk assessments are conducted for each country, region, tree species and timber type.

Step 3: As additional measures for wood and timber products other than those evaluated as "low risk" in Step 2 above, we implement countermeasures to reduce risk, including confirming and acquiring additional information, performing local traceability investigations, and switching to procurement of materials from certified forests.

Consideration for Human Rights, Labor, Biodiversity Conservation, and Local Communities

The following items are checked through supplier surveys and local interviews for the products that are being procured:

- Whether the rights of workers and local inhabitants are abused in the area where we procure the products and their raw materials from. If this is the case, whether suppliers check their logging practices take place with consideration for these rights.
- Whether high conservation value forests are included in the area where we procure the products and their raw materials from. If this is the case, whether suppliers check their logging practices with consideration to forests with high conservation value.

Results of Due Diligence on Suppliers

In fiscal 2017, three Timber Procurement Committee meetings were held, and we confirmed legality and sent questionnaire surveys to 106 suppliers. We conduct checks of all new suppliers, while we perform checks on existing suppliers once every two years.

CSR Material Issues	Evaluation metrics	Fiscal 2016 results	Fiscal 2017 results	Fiscal 2020 target
Continue to Procure Wood and Materials that Take Sustainability and Biodiversity into Consideration	Percentage of reviews conducted for suppliers who handle directly imported timber and wood products with verified legal compliance (%)	100%	100%	100%

Promoting the Widespread Use of Timber from Certified Forests

The Sumitomo Forestry Group is working to build a reliable supply chain with our suppliers. As one of the goals of the Mid-Term CSR Management Plan, we are aiming to increase the volume of timber from certified forests that is handled. Having obtained CoC Certification* on our own, we provide certified materials to the market and consumers.

CSR Material Issues	Evaluation metrics	Fiscal 2016 results	Fiscal 2017 results	Fiscal 2020 target
Continue to Procure Wood and Materials that Take Sustainability and Biodiversity into Consideration	Percentage of imported timber from certified forests among all imported timber sold (%)	10.9%	12.8%	12.0%
	Volume of plantation timber, timber from certified forests, and Japanese timber handled at overseas distribution bases (1,000 m ³)	812	1,163	783
	Volume of timber from certified forests (SGEC timber) handled at domestic distribution bases (1,000 m ³)	68	78	85

*CoC (Chain of Custody) certification ... A system designed for businesses involved in the process of processing and distributing forest products. A product can be labeled with a certification mark if, in each process of processing and distribution, it is ascertained that the forest products are harvested from certified forests (certified timber), it is verified that the risk assessments of non-certified materials are being conducted, and all businesses involved in the series of processes have received CoC certification.

Communication with Suppliers in the Housing and Construction Business / Business Partner Evaluation

We evaluate corporate overview, quality, cost, delivery period, environmental response and services every year for companies that we procure from in the Housing and Construction Business (suppliers excluding on-site equipment manufacturers, pre-cut factories, building material operators and frame centers). We provide feedback from the evaluation results as a way to play a role in bettering our suppliers. As a part of the evaluation process, we regularly perform audits of suppliers' factories.

Name/scale	Fiscal 2017 result
Evaluation and Feedback Based on the Supplier Evaluation Standards	Response Rate: 81.7% of main business partners

Response to the Clean Wood Act

In May 2017, Japan implemented the "Act on Promotion of Use and Distribution of Legally-Harvested Wood and Wood Products," commonly known as the "Clean Wood Act." This law aims to encourage the use of timber made from trees harvested in conformity with the laws and ordinances of Japan and other countries of origin, and to form markets that exclude illegally-logged wood leading to environmental destruction.

On November 22, 2017, Sumitomo Forestry's Timber & Building Materials Division, which imports and sells timber, was the

first company in Japan to be registered as a Type 1 timber-related operator. Subsequently, on February 20, 2018, Sumitomo Forestry Wood Products Co., Ltd. was registered as Type 1 and Type 2 timber-related operator (procurement and sales of timber). Also, Sumitomo Forestry's Housing and Construction Division was registered as a Type 2 timber-related operator (construction) on March 16, 2018, while Sumitomo Forestry Crest Co., Ltd. was registered as a Type 2 timber-related operator on May 9, 2018. The Sumitomo Forestry Group as a whole is working to procure timber in compliance with all laws and in a sustainable manner.

Stakeholder Relations

The Sumitomo Forestry Group takes advantage of various opportunities to communicate with stakeholders from a clear understanding of its role and purpose as a member of society. Through its business activities, the Sumitomo Forestry Group strives to meet the expectations and demands of a variety of stakeholders to build positive relationships.

1 Customers

Our customers are surrounded by widespread social and environmental change. Amidst the diversification of peoples' needs, perspectives, and lifestyles, the Sumitomo Forestry Group remains committed to providing high-quality products and services that bring joy to our customers, in line with Our Values. In addition, the Group is enforcing initiatives related to safety and quality issues and formulating risk mitigation. The Group is also linking further progress to the creation of new business opportunities and customer satisfaction by promptly addressing social and environmental change through sustainable improvements.

Main responsibilities		Communication methods	
Provide safe and high-quality products and services Disclose information in a timely and proper fashion, report responsibility Understand stakeholder requests and needs through communication and improve satisfaction		Sumitomo Forestry Call Centers Customer satisfaction surveys Website, mass media, etc. Exhibitions and other events	
Ratio of houses certified as Excellent Long-Term Housing for new custom-built detached houses	Pass rate for after-sales maintenance advisors and housing inspectors*	Number of inquiries handled by call centers	Percentage of customers who responded "I would recommend Sumitomo Forestry homes"
93.3%	100.0%	126,106	86.9%

* All persons at Sumitomo Forestry Home Tech Co., Ltd. in charge of maintenance

2 Business Partners

As stipulated by the Sumitomo Forestry Group Timber Procurement Policy, we proactively work toward the sustainable procurement of timber globally. While working and communicating with business partners and suppliers, we make every effort to engage in fair and open procurement activities with the preservation, growing, and planting of forest resources and the promotion of effective application of limited natural resources, including positive utilization of timber from certified forests. We aim to reinforce our business foundation by building and maintaining healthy relationships based on mutual development.

Main responsibilities		Communication methods	
Build fair and open business relationships Improve occupational health and safety Strict compliance with laws and regulations		Purchasing and procurement activities Hold safety conferences, safety patrols, and building contractor meetings Hold research conferences and information exchange events Evaluate suppliers (surveys and on-site visits)	
Volume of plantation timber, timber from certified forests and Japanese timber handled at overseas distribution bases	Volume of wood chips used for fuel	Volume of unused wood in domestic (Japan) timber	Percentage of reviews conducted for suppliers who handle directly imported timber and wood products with verified legal compliance
1,163 thousand m ³	847 thousand m ³	286 thousand tons	100.0%

3 Shareholders and Investors

With the aim of maintaining and strengthening the trust of capital markets, the Sumitomo Forestry Group makes every effort to fulfill its reporting responsibility to shareholders and investors so its share price reflects an accurate assessment of its corporate value. Through the timely and transparent disclosure of a wide range of information, including non-financial aspects, we aim for further understanding of our management policies, strategies and business plans. At the same time, we feed back the opinions and requests of investors and other stakeholders to management, facilitating the creation of measures to improve corporate value and sustain growth.

Main responsibilities	Communication methods
Timely and appropriate information disclosure Information transparency and reporting responsibility Appropriate shareholder returns	General Meeting of Shareholders, results briefings, and individual investor briefings Individual meetings with analysts and institutional investors Disseminate information through the website, shareholder communications, briefing materials, and other relevant materials Responses to SRI and other evaluations and research organizations

Return on equity (ROE)

10.3%

Individual meetings with institutional investors and analysts in Japan and overseas

173 meetings

Guiding overseas investors around a Sumitomo Forestry Group-owned forest



4 Employees and Their Families

The Sumitomo Forestry Group is engaged in measures that enhance respect for diversity and human rights, promote the creation of open work environments free of discrimination, ensure safety in the workplace, consider work-life balance, and reduce long work hours with the aim of providing workplaces where employees are motivated and lead fulfilling lifestyles. Along with removing risks to employees by undertaking initiatives to resolve related issues, we intend to carry out one of Our Values, "We promote a free and open-minded corporate culture that respects diversity," and foster a group of employees who are always willing to take on new challenges.

Main responsibilities		Communication methods	
Provide and maintain a work environment where human rights are respected and employees can work under safe and healthy conditions without discrimination Promote measures and systems that enhance work-life balance		Conduct employee awareness surveys Family Open Day Informal Management Committee comprised of both labor and management members Publication of internal newsletter and operation of the intranet	

Hours of overtime work (compared with fiscal 2013) (non-consolidated basis)

20.7% reduction

Number of hours each employee took part in in-house training on average per year (non-consolidated basis)

13.1 hours

Annual training cost per employee (non-consolidated basis)

¥100 thousand

Percentage of employees who have joined the labor union (non-consolidated basis)

100.0%

5 Regional Communities

As written in our policies, the Sumitomo Forestry Group proactively fosters business activities in regions that revitalize local economies and promote employment, thereby operating in harmony with local communities. We aim to advance business development in each country and region by providing more insight into the Group through regional community engagement, cooperation and information disclosure. At the same time, we will continue to create both economic and social value for regional communities through business activities.

Main responsibilities	Communication methods
Help solve social problems Reduce environmental impact in business Preserve the natural environment and biodiversity	Help form communities through social contributions Contribute to the environment and society through collaboration with NPOs/NGOs Volunteers for planting and forest development Supporting employee volunteer activities

Cost of social contribution activities

Approx. **¥189** million

Amount of donations related to social contributions

Approx. **¥215** million

Employees participate in a forest development volunteer activity



Diversity (Fair Employment and Benefits that Respect Diversity)

Equal opportunity and diversity in employee hiring and compensation practices are respected based on international standards for the human rights of people from all walks of life. These principles are set out in the Sumitomo Forestry Group's Code of Conduct Guidebook.

Activities for Diverse Talent Acquisition

In its recruitment activities, the Group emphasizes the ambition and volition of the applicant, and does not differentiate selection processes according to academic background or gender. At Group companies outside Japan, the employment of local staff is actively promoted, and talented personnel are employed and promoted to management positions, irrespective of race or gender.

As for the disciplinary punishment and dismissal of employees, if there has been a compliance violation, the employee will be dealt with appropriately in accordance with Employment Regulations. Unfair dismissals are not allowed.

Recently, talent acquisition has been recognized as one of the major issue for management in Japan, triggered mainly by a low birth rate and aging population. At Sumitomo Forestry, our policy on hiring and compensation is properly reflected in our recruitment activities and in our Workstyle Diversification Department, an independent organization within the Personnel Department that supports the activities of our diverse workforce, including female staff, re-employed retirees, and employees with disabilities.

Employment and Promotion of Women (Non-Consolidated)

	2013	2014	2015	2016	2017
Ratio of female employees* ¹	17.8%	18.8%	19.4%	20.0%	20.4%
Ratio of female employees in management positions* ¹	1.9%	2.2%	2.6%	2.8%	3.2%
Ratio of newly graduated female recruits* ²	23.8%	29.0%	26.8%	22.8%	18.0%

*¹ Retroactively re-calculated based on enrolled personnel as of March 31 of each year
*² Calculated based on the number of employees as of April 1 each year

Status of Female Recruitment / Employment (Domestic Subsidiaries)

	2013	2014	2015	2016	2017
Ratio of female employees	29.5%	29.6%	30.4%	30.7%	31.6%
Ratio of female employees in management positions	3.2%	3.6%	4.0%	4.2%	4.6%
Ratio of newly graduated female recruits	36.5%	36.1%	48.0%	40.3%	40.2%

Employment of Persons with Disabilities (Non-Consolidated)

	2013	2014	2015	2016	2017
Ratio of employees with disabilities	2.18%	2.24%	2.12%	2.12%	2.26%

*Fiscal 2017 calculation includes special subsidiary company "Sumirin Wood Peace Co., Ltd."
*Calculated based on the number of people enrolled as of June 1 in each fiscal year

Number of re-employed retirees

2013	2014	2015	2016	2017
28	43	34	46	50

Work-Life Balance

We recognize diverse working styles and undertake a number of initiatives with the aim of creating a workplace where each and every employee can find satisfaction in what they do, remain healthy physically and mentally, and lead a fulfilling private life.

Initiatives to Reduce Long Working Hours

In fiscal 2017, we overhauled our personnel system and have since been placing greater importance on preventing long working hours and encouraging productivity improvements. Some initiatives include a switch to a system where overtime hours worked are actually counted (as opposed to our previous deemed working hours system), the launch of flex-time and work interval systems, and the roll-out of an hourly productivity assessment system. We recognize that long working hours pose a significant business risk; if such a situation is left ignored, it will likely lead to occupational accidents and damage the reputation of our brand, and ultimately lead to future labor shortages.

Workstyle Enhancement Committees have been set up at branches of the Housing & Construction Business Division to implement initiatives to reduce long working hours. Additionally, for work system and operational flow reforms that are difficult to tackle at the branch level, the Long Working Hours Mitigation Committee was set up within the division to lead the campaign to reduce long working hours by making systems improvement proposals.

The 6th Next Generation Law Action Plan (Fiscal 2015 to 2018)

Sumitomo Forestry formulates and implements action plans for supporting employees who are raising families, in accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children (Next Generation Law).

- 1 Host seminars themed on workstyle reforms in order to foster a work environment that actively involves female employees who are raising children.
- 2 Hold "Family Open Days" to create a pleasant work environment for all employees to execute their talent.
- 3 Establish a system in which male employees and their seniors can discuss using childcare support programs as a means of promoting paternal involvement in childcare. Also, disclose the participation status of childcare-related programs on the Company's intranet.

Telecommuting System

We offer a telecommuting system to all employees (excluding new graduates who have been at the Company less than three years and newly hired employees yet to pass six months at the Company). There are no limitations on how long an employee may telecommute and most users utilize the system for childcare or nursing care reasons, or to avoid long commuting times.

With the objective of further promoting diverse working styles, we continue to expand the use of this system by explaining its details and personally recommending it to employees who seek consultation about childcare or working styles.

Encouraging Different Systems for Paid Leave

We encourage employees to take planned paid leave of more than 10 days every year, including so-called "refresh" leave and summer holiday leave. The average number of paid leave days used in fiscal 2017 was 9.0, up from 6.9 the previous year.

Also, employees who work at our housing business branches, which are closed on Tuesdays and Wednesdays, find it difficult to take leave to participate in family activities because they often need to meet with customers on Saturdays and Sundays. We therefore offer "Family Friendly Day Leave" to such employees. Under this system, they can take one Saturday or Sunday off every month to spend time with their family or engage in their favorite pastime.

Human Resource Development

Based on the concepts of autonomy and support in human resource development, Sumitomo Forestry endeavors to train personnel who contribute to the realization of its corporate philosophy by nurturing a corporate culture that is open and inclusive, developing employees who are highly motivated and proud to work at Sumitomo Forestry.

Moreover, we believe it is our mission to pass along to the next generation the carpentry techniques that can be applied in a majority of situations, such as wooden houses, renovation work, and large-scale wooden structures. We are concentrating on the development of human resources with these valuable skills.

Development of the Sumitomo Forestry Business Institute

The Sumitomo Forestry Business Institute, which was created in fiscal 2011, has been a center for skills development with an emphasis on self-initiative, while transitioning from a system based on training for each level for all positions to one focused more on self-development and selective training, based on the concept of "Supporting Motivated People." We also provide an e-learning curriculum that domestic Group employees can use to learn on their own.

Number of Employees Attending Main Training Programs (FY 2017)

Training program	Number of people attending (non-consolidated)	Number of people attending (Group companies)
Training for specific levels (11 courses)	904	145
Selective training (23 courses)	83	30
Self-development training (37 courses)	366	10
e-learning (6 mandatory courses)	4,906	4,737

Hours of Training Courses Taken and Training-Related Costs (Non-Consolidated)

	2013	2014	2015	2016	2017
Hours of training courses taken per employee	7.5	6.8	9.3	9.4	13.1
Spending on training per employee (¥ thousand)	91	91	91	100	100

Preserving Traditional Building Techniques for Wooden Houses

The Sumitomo Forestry School of Professional Building Techniques is an educational institution certified by the Governor of Chiba Prefecture, and was founded by the Company in 1988 as an in-house training center. Through a one-year training curriculum, the school provides training for new employees at Sumitomo Forestry Home Engineering Co., Ltd. who aspire to work in carpentry. In terms of construction-related subjects, students study classroom-based subjects such as an introduction to building, structures, drawing, methods of construction, materials and supervision, as well as practical subjects, including tool operation and maintenance, the traditional technique of marking timber with sumi ink and a carpenter's square, as well as processing, safety work, model-based practical training, demonstration-based practical training and computing. By the end of their training, the students aim to obtain Grade 2 Carpenter Skills Certification.

After training, graduates are assigned to places all around Japan, and after a few years, We give them the opportunity to return to the school for 7–10 days of refresher training.

In fiscal 2017, the school welcomed 67 new enrollments, including carpenters employed at partner companies, and 66 students graduated. In fiscal 2018, the school had another 69 new enrollments.



Learning building methods



Gauging Environmental Risks









We recognize that changes in the environment, such as climate change or biodiversity, may have an impact on our business activities. We therefore collect relevant information, conduct analyses when necessary, and make use of the results in business risk assessments. Depending on the degree of risk, each department decides on specific measures and assessment indicators for risks that arise in day-to-day operations and delivers a progress report every quarter to the Risk Management Committee, while for longer-term risks, countermeasures are formulated by the Sustainability Committee.

Risk Topics		
Risks Related to Climate Change	Natural Disasters	Damage from a major earthquake, wind, flood, or other destructive natural element could result in cost increases arising from interrupted operations at facilities or verification of safety in our housing products, delays in the completion of construction contracts, or other events. A significant increase in costs caused by a natural disaster could influence the Group's operating results and financial position.
	Mandatory GHG Emission Reduction Targets	As global efforts to reduce greenhouse gas (GHG) emissions become more substantive, it is possible that the reduction of GHG emissions by companies becomes mandatory in countries or regions where we have Group company offices. Failing to meet reduction targets poses the risk of an increase in business costs because of the need to purchase carbon emission credits.
	Environmental Response in Products and Services	Following amendments to energy-saving standards in fiscal 2013, demand is expected to increase for ZEH (zero-energy houses) and LCCM (Life Cycle Carbon Minus) houses, which are capable of reducing CO ₂ emissions to below zero over their lifetime. Failing to quickly respond in terms of product development means the Sumitomo Forestry Group could see its market share shrink. Moreover, in the event of significant climate change, there exists the risk of having to change housing specifications or provide after-sales services to ensure houses are properly equipped to meet these standards.
	Change in Suppliers and Impact on Company-owned Forest Management	Given that timber is our main material and the source of our products, depletion of timber resources or change in vegetation as a result of climate change may mean that Sumitomo Forestry will be forced to change suppliers if restrictions are put in place. At the forests the Group owns or manages, forest conservation, tree growth, and vegetation may also be impacted by climate change such as changes to average temperature and annual rainfall, as well as storm and flood damage or changes in ecosystems.
	Energy Supply Shortages	Operations at our Group's plants that use hydroelectric power could come to a halt if dam levels fall as a result of less rainfall and hydroelectric power transmission is suspended.
	Impact on Financing	There is a growing tendency for rating agencies and institutional investors to assess the climate change initiatives of companies in terms of their corporate rating or ESG investments. If a financial institution attaches environment-related conditions to its lending terms, such as the implementation of an environmental assessment or other such climate change initiatives, and if Sumitomo Forestry Group fails to satisfy such conditions on time, its financing may be affected.

Risk Topics		
Risks Related to Biodiversity	Tighter Laws and Regulations	As laws and regulations designed to prevent a decline in biodiversity are enacted and tightened, it is assumed that in our businesses, in addition to management of Company-owned forests and the procurement and purchasing of timber, we are required to engage in revegetation efforts within and around building sites. Compliance risks will arise if we fail to appropriately address the requirements of these laws and regulations.
	Reputational Damage	If Sumitomo Forestry neglects to uphold its obligations in an appropriate manner and operates using illegally logged timber, the Company's reputation may be damaged and earnings, such as sales, would be directly affected.
	Changes in Timber Quality or Volume	Trees make up one part of the ecosystem and if changes in biodiversity affect the quality and volume of timber, we may have to switch suppliers. Forest conservation, tree growth, and vegetation may also be affected in areas that are managed and owned by Sumitomo Forestry, and in Group-owned forests.
	Impact on Financing	There is a growing tendency for rating agencies and institutional investors to assess the climate change initiatives of companies in terms of their corporate rating or ESG investments. If a financial institution attaches environment-related conditions to its lending terms, such as the implementation of an environmental assessment or other such climate change initiatives, and if Sumitomo Forestry Group fails to satisfy such conditions on time, its financing may be affected.
Risks Related to Illegal Logging of Forests	Tighter Laws and Regulations	Laws and regulations on illegal logging of forests continue to tighten around the world. Compliance risks and the likelihood of action for damages will arise if the Group fails to appropriately uphold lawful logging and procurement practices.
	Reputational Damage	If Sumitomo Forestry neglects to uphold its obligations in an appropriate manner and operates using illegally logged timber, the Company's reputation may be damaged and earnings, such as sales, would be directly affected.

Financial Section*

External Commendations

 FTSE4Good	<p>The FTSE4Good Global Index is a stock market index of the index provider FTSE, a joint venture between the UK's Financial Times and London Stock Exchange. We have been included in this index since 2004.</p>	 FTSE Blossom Japan	<p>Sumitomo Forestry is a composite stock in all three passively managed ESG indexes (FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index, and MSCI Japan Empowering Women Index), selected by the Government Pension Investment Fund (GPIF).</p>
 MS-SRI	<p>We have been included in the Morningstar Socially Responsible Investment Index (MS-SRI) since September 2008. Morningstar Japan selects for inclusion in the index 150 publicly listed Japanese companies that have been evaluated as possessing outstanding social credentials. The MS-SRI is Japan's first socially responsible investment share index.</p>	 MSCI	<p>*The inclusion of Sumitomo Forestry in any MSCI Index, and the use of MSCI logos, trademarks, service marks or index names on websites do not constitute a sponsorship, endorsement or promotion of Sumitomo Forestry by MSCI or any of its affiliates. The MSCI Indexes are the exclusive property of MSCI. MSCI and the MSCI Index names and logos are trademarks or service marks of MSCI or its affiliates.</p>
 ROBECOSAM Sustainability Award Bronze Class 2018	<p>We were awarded the Bronze Class commendation for the third consecutive year in the Sustainability Yearbook 2018, a CSR rating by RobecoSAM, in addition to being selected as one of the world's most sustainable companies for the 11th straight year in the Home Building Industry Sector.</p>	 2018 健康経営銘柄 Health and Productivity	<p>We have been selected in the 2018 Health & Productivity Stock Selection by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange in recognition of our strategic initiatives on employee health from a management perspective for the second time and after a two-year absence. We have also been chosen as a Certified Health and Productivity Management Organization (in the large company category) for the second year running.</p>
 CDP A LIST 2017 CLIMATE	<p>CDP is one of the world's leading SRI evaluation bodies, and scores companies on their greenhouse gas emissions and climate change strategies. Sumitomo Forestry was selected for the second year running as a Climate Change A List company by CDP, its highest ranking. Of the companies selected for the A List in 2017, there were 112 global firms and 13 Japanese companies, including Sumitomo Forestry.</p>	 2018 健康経営優良法人 Health and Productivity ホワイト500	

* From the beginning of the fiscal year ending March 31, 2019, the Sumitomo Forestry Group applies the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc., and a portion of figures listed for the fiscal year ended March 31, 2018 have been reclassified.

	Millions of yen										
(Years ended March 31)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operating Results:											
Net sales	¥1,221,998	¥1,113,364	¥1,040,524	¥997,256	¥972,968	¥845,184	¥831,870	¥797,493	¥723,923	¥823,810	¥861,357
Gross profit	219,315	204,138	183,134	169,492	160,162	141,436	136,873	132,568	124,269	133,493	135,277
Selling, general and administrative expenses	166,294	150,149	153,041	135,498	126,747	116,105	117,682	118,330	114,522	126,656	128,041
Operating income	53,021	53,989	30,093	33,994	33,415	25,330	19,191	14,238	9,747	6,837	7,235
Recurring income	57,865	57,841	30,507	36,424	33,567	26,981	20,714	14,206	9,465	6,160	7,659
Profit attributable to owners of the parent / Net income	30,135	34,532	9,727	18,572	22,531	15,923	9,271	5,175	2,377	1,028	1,115
Recurring Income (excluding actuarial differences)	55,574	52,860	42,038	36,681	34,586	26,630	25,631	16,998	7,101	11,159	12,192
Financial Position:											
Total assets	¥ 899,120	¥ 794,360	¥ 710,318	¥665,538	¥645,197	¥547,973	¥503,496	¥489,417	¥469,738	¥427,738	¥450,730
Working capital*1	209,506	190,386	178,215	158,110	120,725	91,335	94,509	89,665	88,338	81,700	64,156
Interest-bearing debt	200,630	163,817	119,069	103,369	92,975	69,229	67,923	69,229	66,786	49,127	25,816
Total net assets	345,639	295,857	265,257	260,782	226,078	193,250	169,335	163,110	162,930	156,192	173,089
Cash Flows:											
Cash flows from operating activities	¥ 13,732	¥ 40,337	¥ 45,705	¥ 14,709	¥ 54,057	¥ 45,910	¥ 26,873	¥ 17,515	¥ 37,239	¥ (8,161)	¥ 26,106
Cash flows from investment activities	(46,250)	(62,350)	(9,972)	(23,575)	(10,476)	(28,662)	(32,903)	(13,247)	(19,117)	(29,062)	(17,587)
Cash flows from financing activities	25,156	14,267	1,813	(17,286)	8,511	(5,305)	(5,622)	372	11,546	24,196	(4,262)
Cash and cash equivalents at the end of the year	125,555	132,707	141,265	103,296	128,343	75,658	63,839	75,582	71,662	40,730	54,475
Capital Investment:											
Tangible fixed assets*2	¥ 17,079	¥ 50,940	¥ 18,042	¥ 12,617	¥ 14,735	¥ 7,058	¥ 10,970	¥ 11,923	¥ 10,636	¥ 24,075	¥ 9,578
Intangible fixed assets	2,171	2,839	2,006	2,488	2,417	2,890	2,786	2,434	1,561	2,013	1,694
Others	1,302	349	400	282	252	343	194	215	395	150	222
Total	20,552	54,128	20,448	15,388	17,404	10,291	13,950	14,572	12,592	26,238	11,494
Depreciation and amortization	13,727	12,887	11,753	11,453	9,810	8,978	8,469	8,437	8,502	8,477	7,258
Yen											
Per Share Data:											
Profit attributable to owners of the parent / Net income	¥ 168.49	¥ 194.95	¥ 54.92	¥ 104.85	¥ 127.20	¥ 89.89	¥ 52.34	¥ 29.21	¥ 13.42	¥ 5.80	¥ 6.29
Net assets	1,719.05	1,552.04	1,374.47	1,387.39	1,234.53	1,086.68	954.81	919.54	917.82	880.94	975.99
Cash dividends	40.0	35.0	24.0	21.5	19.0	17.0	15.0	15.0	15.0	15.0	15.0
%											
Financial Ratios:											
Gross profit margin	17.9	18.3	17.6	17.0	16.5	16.7	16.5	16.6	17.2	16.2	15.7
Operating income margin	4.3	4.8	2.9	3.4	3.4	3.0	2.3	1.8	1.3	0.8	0.8
Recurring income margin	4.7	5.2	2.9	3.7	3.4	3.2	2.5	1.8	1.3	0.7	0.9
Return on assets (ROA)*3	6.8	7.7	4.4	5.6	5.6	5.1	4.2	3.0	2.1	1.4	1.6
Return on equity (ROE)*3	10.3	13.3	4.0	8.0	11.0	8.8	5.6	3.2	1.5	0.6	0.6
Equity ratio	34.7	34.6	34.3	36.9	33.9	35.1	33.6	33.3	34.6	36.5	38.4
Interest-bearing debt ratio*4	39.2	37.3	32.8	29.6	29.8	26.5	28.7	29.8	29.1	23.9	13.0
Current ratio	158.8	158.8	156.9	154.1	137.0	133.1	137.1	136.8	140.3	141.6	127.6
Interest coverage ratio (times)*5	9.6	27.1	43.1	12.6	44.2	34.9	20.0	13.7	31.8	-	17.9

*1. Working capital = Current assets – Current liabilities

*2. From the fiscal year ended March 31, 2009, accounting standards for lease transactions were changed and, accordingly, leased assets are included in property, plant and equipment.

*3. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

*4. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

*5. Interest coverage ratio (times) = Cash flows from operating activities / Interest payments

Market Overview

In fiscal 2017, ended March 31, 2018, the global economy continued a mild recovery overall, with the United States economy performing well along with economic recoveries in Asia. The Japanese economy also enjoyed a modest recovery, despite some weakness in personal consumption and the housing market.

In the domestic housing market, despite low interest rates on mortgages, the number of new housing starts decreased 2.8% year on year to 946,000, due to a trend towards protracted negotiations as well as a pause in the rental housing market, which had been performing well against the backdrop of the revision to the inheritance tax system in 2015 and other factors. The number of new housing starts by owner-occupiers fell 3.3% to 282,000.

Consolidated Operating Results

1 Net Sales and Orders Received

Net sales rose 9.8% year on year to ¥1,221,998 million. The Sumitomo Forestry Group worked to improve the profitability of the custom-built detached housing business and Timber and Building Materials Business, while also proactively investing management resources to expand the Overseas Business, and focusing efforts on the Environment and Resources Business including in the Wood Biomass Power Generation Business to diversify revenue streams. The amount of orders for custom-built detached houses rose 0.6% to ¥290,326 million, reflecting an increase in the number of orders despite the decline in unit prices.

2 Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 10.8% year on year to ¥166,294 million. The main increase in SG&A expenses was due to the consolidation of the Edge Homes Group and Bloomfield Homes Group. Excluding actuarial differences arising from accounting for retirement benefits, SG&A expenses rose 8.7% to ¥168,585 million.

3 Operating Income, Recurring Income

Operating income declined 1.8% year on year to ¥53,021 million, and recurring income was parallel with the previous year at ¥57,865 million. Although the number of custom-built detached houses decreased, overall earnings were on par with the previous fiscal year due to factors including income through the passage of time and the steady growth in the existing Overseas Housing Business and contributions to earnings from the Edge Homes Group and Bloomfield Homes Group. Earnings on a core business basis excluding actuarial differences also increased, rising 3.5% at the operating level to ¥50,730 million, and 5.1% at the recurring level to ¥55,574 million.

4 Profit Attributable to Owners of the Parent

Profit attributable to owners of the parent decreased 12.7% year on year to ¥30,135 million. This mainly reflected factors such as the decline in profits in domestic operations, which more than offset the increases in profits in businesses such as the Overseas Housing Business and the Wood Biomass Power Generation Business.

Segment Results

Note: Net sales for each segment include intersegment sales and transfers. Segment income refers to recurring income.

1 Timber and Building Materials Business

Net sales in the Timber and Building Materials Business rose 2.6% year on year to ¥435,508 million, while recurring income rose 25.3% to ¥5,583 million.

In the Domestic Timber and Building Materials Distribution Business, results were strong owing to expanded sales of *KIKORIN-PLYWOOD*, an environmentally-friendly plywood made from certified forest timber and plantation timber, and efforts made to strengthen relationships with trading partners, despite an increase in materials costs resulting from higher global timber demand, the depreciation of the yen and other factors. Additionally, to develop diverse revenue streams, we focused on increasing the volume of fuel wood for power generation we handle, expanding sales of Kigurumi FR, a fire-resistant material made of pure laminated lumber, and increasing exports of domestic materials.

In the Domestic Timber and Building Materials Distribution Business, we worked on improving profitability through efforts to expand sales of stairway and floor materials, which are products that set us apart from our competitors.

In the Overseas Distribution Business, we focused on expanding sales primarily in Southeast Asia, centered on our regional headquarters in Singapore. We also concluded a capital and business tie-up agreement with an interior construction materials company in Vietnam, and began efforts aiming to expand our sales channels in Vietnam and other areas where housing demand is expected to grow.

2 Housing Business

Net sales in the Housing Business decreased 3.7% year on year to ¥449,201 million, and recurring income declined 22.9% to ¥24,945 million.

Custom-Built Detached Housing Business

In the Custom-Built Detached Housing Business, we worked to promote sales of housing using our original Big-Frame Construction (BF) method, which offers high earthquake resistance and excellent design flexibility, as well as to expand orders and maximize customer satisfaction through efforts such as providing products to meet diverse customer needs with respect to specifications and other requirements. Despite these efforts, however, results were lackluster, mainly as a result of a decrease in the number of completed and delivered units, in conjunction with sluggish orders in the previous fiscal year. On the product side, we launched The Forest BF, which offers various room spaces with customizable ceiling heights and large openings utilizing innovative technology, and Forest Selection BF, exclusive products that can be selected from plans that are more discriminating from the standpoint of comfortable living based on the know-how we cultivated from our roughly 300,000 Sumitomo Forestry custom-built wooden detached homes.

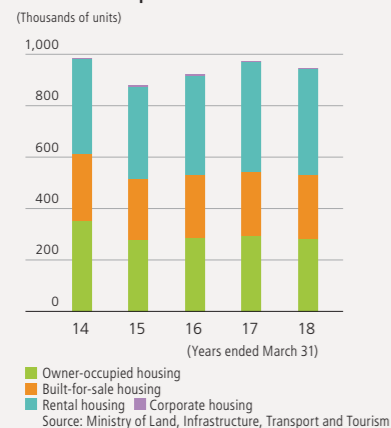
Apartment Business

In our Apartment Business, we worked to expand orders for apartments using our original Wall Frame (WF) method, which allows for greater customization of floor plans and more adaptability to tenant needs by supporting the building frame with big columns (large cross-sectional laminated columns). However, results were lackluster due to the slowdown in the rental housing market.

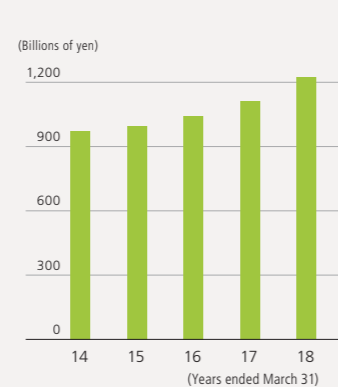
Renovation Business

In the Renovation Business, we worked to expand orders of earthquake resistance renovations utilizing advanced

Number of New Housing Starts in Japan



Net Sales



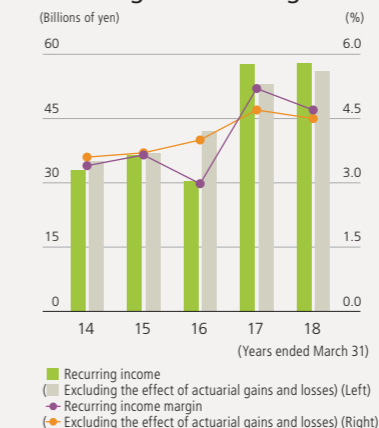
Amount of Orders Received



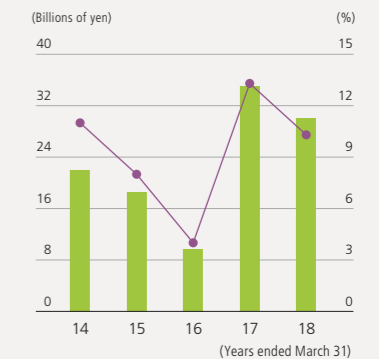
SG&A Expenses and SG&A Expenses Ratio



Recurring Income and Recurring Income Margin



Profit Attributable to Owners of the Parent and ROE



technologies such as our original seismic-resistance, seismic-vibration damper construction methods and also focused on uncovering demand in conjunction with the provision of patrol and inspection services for owners who have lived in Sumitomo Forestry's custom-built wooden detached homes for many years. As a result, business results were strong.

MOCCA (timber solutions) Business

In the MOCCA (timber solutions) Business, adoption of wood construction and wood materials in public buildings utilizing domestic materials has increased, and in the year under review we completed construction of a junior high school dormitory and a new wing of a rehabilitation hospital. We also worked to expand the market for wood construction and wood materials, including completing construction of an office building utilizing the cross-laminated timber (CLT), a wood material that offers high performance in terms of earthquake and fire resistance.

Other Initiatives

In addition to the above, as the preparation of lodging facilities to meet diversifying lodging needs has become an urgent task with the rapid increase in foreign tourists to Japan, we concluded a business tie-up agreement with another company and began operating existing rental condominiums as lodging facilities, utilizing the special vacation rental zoning system under the National Strategic Special Zone Act.

3 Overseas Business

Net sales in the Overseas Business jumped 42.4% year on year to ¥352,897 million, and recurring income rose 37.2% to ¥26,491 million.

In the Manufacturing Business, results were strong owing to favorable sales in New Zealand of medium-density

Housing Business

(Years ended March 31)		2015	2016	2017	2018
Orders					
Custom-Built Detached Housing	(¥ million)	¥290,203	¥297,490	¥288,458	¥290,326
	(Units)	7,804	7,730	7,427	7,608
Apartment	(¥ million)	¥ 21,790	¥ 22,967	¥ 22,540	¥ 17,195
	(Units)	1,486	1,523	1,519	948
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 55,887	¥ 63,604	¥ 63,202	¥ 63,315
Sales					
Custom-Built Detached Housing	(¥ million)	¥313,396	¥299,837	¥306,307	¥288,582
	(Units)	8,743	7,962	8,098	7,556
Apartment	(¥ million)	¥ 13,569	¥ 20,514	¥ 22,125	¥ 20,114
	(Units)	1,014	1,324	1,551	1,353
Detached Spec Homes	(¥ million)	¥ 10,174	¥ 11,606	¥ 11,206	¥ 12,360
	(Units)	272	303	292	308
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 56,656	¥ 61,724	¥ 61,245	¥ 62,700

fiberboard (MDF) to Japan and of laminated veneer lumber (LVL) within New Zealand and to Australia, along with other factors.

In Indonesia, the volume of particle board sales grew, but results were lackluster mainly due to stagnation of plywood profits resulting from higher timber prices and other factors.

In the Housing and Real Estate Business, results improved significantly, due to the year on year increase in the number of units delivered by our existing local affiliates against the backdrop of robust housing markets in the United States and Australia, making Bloomfield Homes Group (which was previously an equity-method affiliate), a consolidated subsidiary in May 2017, and other factors. Additionally, in Southeast Asia, we worked to enhance the earnings base of our overseas business by extending our business domain to expand our Housing and Real Estate Business, including launching the Detached Spec Homes Business in Indonesia and the Condominium business in Thailand.

4 Other Businesses

In addition to these businesses, the Sumitomo Forestry Group engages in the wood biomass power generation business, an overseas forestation business, the management of private-pay elderly care facilities, a wide range of service business for residential customers (including non-life insurance agency services), the manufacture and sale of farming and gardening supplies and contracted civil engineering and construction work.

The wood biomass power generation business, in Mombetsu City, Hokkaido, which was launched in December 2016, posted strong results.

Net sales in the Other Businesses jumped 61.0% year on year to ¥37,007 million, and recurring income rose 122.0% to ¥4,934 million.

Segment Performance Highlights

(Years ended March 31)	Millions of yen			
	2017	2018	Change	Percent of change
Net Sales	¥1,113,364	¥1,221,998	+ 108,634	+ 9.8%
Timber and Building Materials Business	424,440	435,508	+ 11,068	+ 2.6%
Housing Business	466,298	449,201	- 17,097	- 3.7%
Overseas Business	247,890	352,897	+ 105,007	+ 42.4%
Other Businesses	22,979	37,007	+ 14,028	+ 61.0%
Adjustments	(48,243)	(52,615)	- 4,372	—
Recurring Income	¥ 57,841	¥ 57,865	+ 24	+ 0.0%
Timber and Building Materials Business	4,456	5,583	+ 1,127	+ 25.3%
Housing Business	32,349	24,945	- 7,404	- 22.9%
Overseas Business	19,310	26,491	+ 7,181	+ 37.2%
Other Businesses	2,223	4,934	+ 2,711	+ 122.0%
Adjustments	(497)	(4,088)	- 3,591	—

* Net sales include intersegment sales and transfers.

Net sales and recurring income adjustments include net sales and selling, general and administrative expenses at the Administrative Division that cannot be allocated to specific businesses.

Net Sales and Recurring Income of Main Subsidiaries

(Millions of yen)

Timber and Building Materials Business

(Years ended March 31)	Net Sales		Recurring Income	
	2017	2018	2017	2018
Sumitomo Forestry Crest Co., Ltd.	¥ 35,911	¥ 34,125	¥ 647	¥ 123

Housing Business

(Years ended March 31)	Net Sales		Recurring Income	
	2017	2018	2017	2018
Sumitomo Forestry Residential Co., Ltd.	¥ 24,355	¥ 26,159	¥ 1,097	¥ 1,363
Sumitomo Forestry Home Service Co., Ltd.	6,590	7,108	738	770
Sumitomo Forestry Landscaping Co., Ltd.	28,593	26,904	1,734	1,288
Sumitomo Forestry Home Tech Co., Ltd.	64,680	66,274	2,240	2,913

Overseas Business

(Years ended December 31)	Net Sales		Recurring Income	
	2016	2017	2016	2017
Overseas Subsidiaries*1				
PT. Kutai Timber Indonesia (Indonesia)*2	¥ 11,833	¥ 12,735	¥ 219	¥ 143
Nelson Pine Industries Ltd. (New Zealand)*2	16,217	17,539	2,390	3,157
Housing Business in U.S.	122,338	219,421	12,026	25,625
Housing Business in Australia	73,106	86,742	5,913	6,934

*1 Figures for overseas subsidiaries have been translated into Japanese yen at the following rates:

	US\$	AU\$	NZ\$
2016/12:	108.74	80.83	75.72
2017/12:	112.19	86.01	79.73

*2 Overseas Manufacturing Business has been transferred to Timber and Building Materials Division at the beginning of December 31, 2018.

Financial Position and Cash Flow

1 Financial Position

Total assets were ¥899,120 million as of March 31, 2018, an increase of ¥104,760 million compared to March 31, 2017. The rise was mainly attributable to an increase in inventories due to expansion of the Overseas Housing and Real Estate Business as well as an increase in investment securities resulting from the acquisition of equity-method affiliate shares. Liabilities increased ¥54,978 million year on year to ¥553,481 million due to such factors as the issuance of corporate bonds to fund capital investment, acquisitions and other such expenditures.

Net assets totaled ¥345,639 million, and the equity ratio was 34.7%.

2 Cash Flow

Cash and cash equivalents at March 31, 2018, stood at ¥125,555 million, a decrease of ¥7,152 million from the end of the previous fiscal year.

A summary of cash flows in fiscal 2017 is presented below.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥13,732 million. Income before income taxes of ¥58,538 million was offset by cash outflows due to an increase in inventories associated with the expansion of the Overseas Housing and Real Estate Business.

Cash flows from investment activities

Net cash used in investment activities totaled ¥46,250 million. This was primarily due to the acquisition of ownership stakes in equity-method affiliates in Japan and the United States.

Cash flows from financing activities

Net cash provided by financing activities totaled ¥25,156 million. Cash outflows due to the dividend payments and repayment of long-term debt were offset by cash inflows due to the issuance of corporate bonds and the issuance of new shares through third-party allotment.

3 Capital Expenditures (Capital Investment)

Capital expenditures declined by 62.0% from ¥54,128 million in the previous fiscal year to ¥20,552 million in the fiscal year under review. Investment in tangible fixed assets amounted to ¥17,079 million, while investment in intangible fixed assets amounted to ¥2,171 million. Major investments included ¥6,445 million for model homes inside and outside Japan, ¥4,047 million related to the construction of paid nursing care facilities, and ¥2,470 million related to software.

Business Risk

1 Housing Market Trends

The Sumitomo Forestry Group business results are heavily reliant on housing market trends. Changes in the following business conditions may cause a significant decline in housing orders, which could impact the Group's business results and financial position.

1. Economic Cyclical Changes

An economic slump or deterioration in the economic outlook, or a consequential worsening of the employment situation and decline in personal consumption, could affect the Group's operating results and financial position by weakening demand for housing purchases.

2. Interest Rate Fluctuations

Interest rate increases, particularly rises in long-term interest rates, can have an adverse effect on demand as they cause an increase in total payments for customers purchasing detached housing, many of whom take out loans for the purchase, and for customers who build apartment buildings to use their land more effectively. However, the anticipation of interest rate rises can induce a temporary surge in home purchases, as consumers seek to avoid high loan costs.

3. Land Price Fluctuations

A sharp rise in land prices can negatively impact consumers' inclination to purchase land on which to build housing. Conversely, a steep drop in land prices is a form of asset deflation and can reduce demand for home reconstruction. Consequently, both substantial rises and falls in land prices may impact the Group's operating results and financial position.

4. Tax System and Housing-Related Policy Changes

In the future, the scheduled increase in the rate of the consumption tax has the potential to induce surge demand in housing purchases and thus temporarily increase housing demand. However, this could later invite a sharp reactive decline. Moreover, changes to housing-related policies such as tax breaks associated with housing loans and subsidy programs could affect the motivation for customers to buy housing, impacting the Group's operating results and financial position.

2 Statutory Changes

Laws and regulations surrounding the housing and construction business include the Personal Information Protection Act, Building Standards Law, Construction Industry Law, Registered Architect Law, Building Lots and Building Transaction Business Law, Urban Planning Law, National Land Use Planning Law, Housing Quality Assurance Law, and Waste Disposal and Public Cleaning Law (law concerning procedures for waste disposal and site cleanup). The Sumitomo Forestry Group diligently conforms to all laws and regulations while recognizing that the abolition, revision, or adoption of laws and regulations can substantially influence the Group's operating results and financial position.

3 Competition

The Sumitomo Forestry Group is engaged in various businesses, including timber and building materials and housing and construction. In each of these businesses, we must compete with other companies. For that reason, failure to gain an advantage over our competitors in terms of the quality, price, sales, etc., of our products and services could negatively impact the Group's operating results and financial position.

4 Capitalization and Investment Strategy

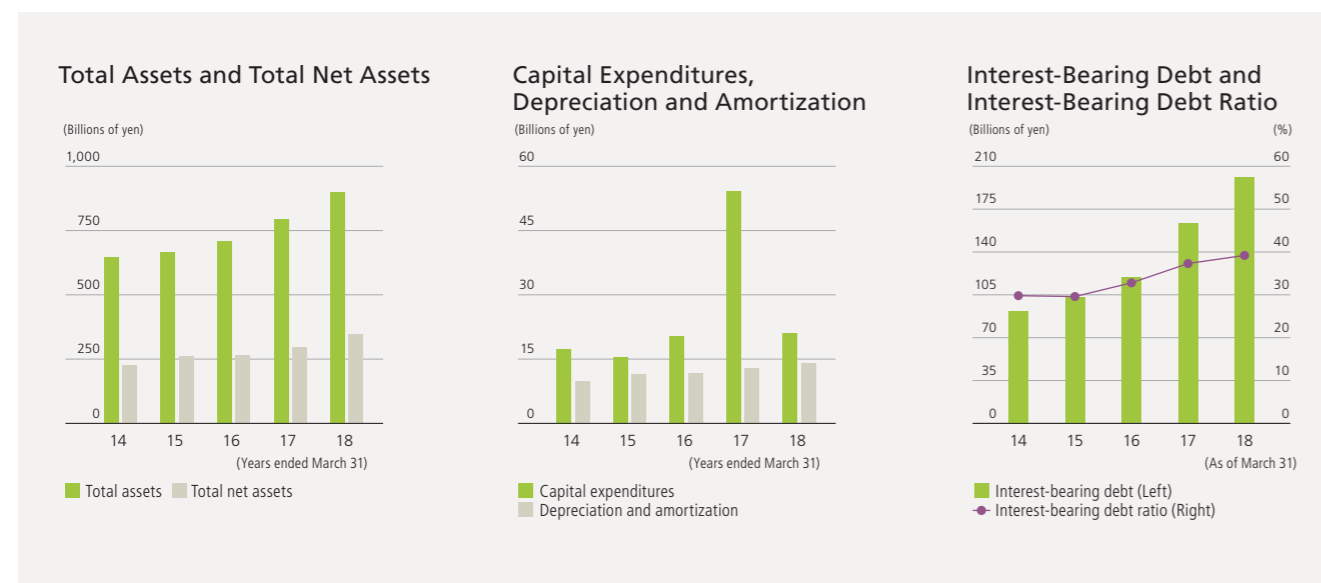
We invest in various businesses, so if profits and return on investment do not go as planned due to factors such as changes in the business environment or a downturn/stagnation in the performance of our investments or business partners, it could result in partial or total loss of our investment or the necessity of additional contribution of funds. Moreover, we may not be able to proceed with withdrawal from operations or restructuring according to our desired timing or methods due to factors such as the management policies of our partners or the low liquidity of the investment. In such cases there could be a negative impact on the Group's operating results and financial position.

5 Timber and Building Materials Market Conditions

A decline in prices for timber and building materials reduces the sales of the timber and building materials distribution business. On the other hand, a steep increase in prices for timber and building materials or higher prices for other building materials can lead to higher materials costs for the housing business, which could impact Group results. Fluctuations in the prices for other raw materials, such as oil, can directly or indirectly affect raw materials prices and influence the Group's operating results and financial position.

6 Exchange Rate Fluctuations

The Group is taking measures to reduce the foreign exchange risks attendant on foreign currency-denominated imports through foreign exchange contracts and other means. However, greater than expected exchange rate fluctuations may occur. Also, there is a chance that fluctuations in the exchange rates of currencies of settlement may impact subsidiaries that sell and manufacture timber and construction materials overseas, impacting the Group's operating results and financial position.



7 Product Quality Assurance

The Group endeavors to ensure complete quality control with respect to its products, housing, and all aspects of its operations. However, serious quality issues arising from unforeseen circumstances may impact the Group's operating results and financial position.

8 Overseas Business Activities

The Group conducts various business activities overseas and engages in business transactions, such as product transactions, with various business partners overseas. Consequently, as is the case with domestic Japanese operations, laws and regulations, economic and social conditions, and consumer trends in the foreign countries in which the Group conducts business can influence the Group's operating results and financial position.

9 Retirement Benefit Obligations

A significant deterioration in the investment performance of the Group's pension assets or the necessity to revise assumptions for pension actuarial calculations could entail an increase in pension assets or increase the costs associated with pension accounts, potentially impacting the Group's operating results and financial position.

10 Stock Market

Volatile stock price fluctuations could cause the Group to book valuation losses on its securities holdings, thereby negatively impacting its operating results and financial position.

11 Natural Disasters

Damage from a major earthquake, wind, flood, or other destructive natural element could result in cost increases arising from interrupted operations at facilities or verification of safety in our housing products, delays in the completion of construction contracts, or other events. A significant increase in costs by a natural disaster could influence the Group's operating results and financial position.

12 Information Security

The Group makes every possible effort to ensure the proper and secure management of the large volume of customer information it holds, through establishing necessary rules and systems and conducting extensive education and training of executives and employees. Despite such precautions, customer information could leak out due to a computer system breach by a malicious third party, the theft of recording media holding such information, a human error by an executive or an employee or contracted worker, an accident, or other causes. In such cases, the Group could face customer claims for compensatory damages and lose the trust of customers and the market, which could affect the Group's operating results and financial position.

13 Environmental Risk

If serious accidents, disasters, or damages occur due to environmental problems such as abnormal weather events due to climate change, changes in water resources, or loss of biodiversity, changes in legal regulations in Japan or overseas to address such events could lead to penalties, compensation payments, or necessary costs associated with resolving environmental problems that could affect the Group's operating results and financial position.

14 Decline in the Value of Assets under Management

In the event that a marked deterioration in market conditions leads to a decline in the value of Group assets under management, such as real estate holdings and products, valuation losses could be incurred and assets could be written down due to impairment, which could influence the Group's operating results and financial position.

15 Provision of Credit to Business Partners

The Group extends credit to business partners in the form of trade receivables, etc., and meticulously manages the credit it extends, including by setting appropriate limits for credit losses to avoid credit risk exposure. Nevertheless, it is still possible the Group will be exposed to credit risk. The Group also sets reserves for credit losses based on rational estimates, but it is possible that the actual losses incurred will surpass the allocated reserves. As these measures do not ensure complete avoidance of exposure to credit risk, credit risk could still potentially influence the Group's operating results and financial position.

16 Litigation Risk

As the Group is engaged in a range of business activities in Japan and overseas, it is possible that said activities could be subject to litigation and/or a dispute. In the event that these activities become subject to litigation, the Group's operating results and financial position could be influenced.

17 Fundraising Risk

The Group conducts fundraising, such as borrowing from financial institutions, and as such there is the possibility that fundraising costs may increase or fundraising itself could be restricted due to changes in the economic environment or lower credit ratings. In this event, the Group's operating results and financial position could be impacted.

Note: Statements in this report with respect to matters in the future are forward-looking statements deemed logical by the Group as of the date of the production of this report.

Consolidated Balance Sheet

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2018 and 2017

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Current assets:			
Cash and time deposits (Notes 7, 12, 16)	¥ 105,865	¥111,506	\$ 998,724
Marketable securities (Notes 5, 12, 16)	5,010	6,500	47,263
Receivables—			
Notes and accounts, trade (Notes 7, 16, 17)	135,642	123,454	1,279,645
Loans and other (Notes 7, 16)	57,350	76,349	541,037
Inventories—			
Finished goods, logs and lumber	26,474	24,013	249,750
Costs on uncompleted construction contracts (Note 7)	25,322	23,934	238,884
Real estate for sale (Note 7)	55,751	48,291	525,950
Real estate for sale in process (Note 7)	138,457	80,389	1,306,202
Deferred tax assets (Note 9)	6,531	7,001	61,610
Other current assets (Note 7)	16,042	13,391	151,343
Allowance for doubtful accounts	(343)	(438)	(3,234)
Total current assets	572,101	514,390	5,397,175
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 7, 8, 19)	34,216	30,597	322,793
Buildings and structures (Notes 7, 8, 19)	78,307	63,411	738,746
Machinery, equipment and vehicles (Notes 7, 8)	91,215	87,807	860,519
Timber	37,135	37,546	350,330
Construction in progress (Note 7)	2,700	6,013	25,468
Leased assets	10,728	10,724	101,208
	254,301	236,098	2,399,064
Less accumulated depreciation	(101,188)	(90,300)	(954,604)
Net property, plant and equipment	153,113	145,798	1,444,460
Intangible assets, net of amortization:			
Goodwill	15,762	11,065	148,701
Other intangible assets	13,309	12,421	125,552
Total intangible assets	29,071	23,486	274,253
Investments and other assets:			
Investment securities (Notes 5, 7, 16)	131,470	91,806	1,240,284
Long-term loans and receivables	4,809	6,100	45,366
Deferred tax assets (Notes 7, 9)	3,279	3,276	30,936
Asset for retirement benefits (Note 18)	138	142	1,303
Other assets (Note 7)	12,141	11,725	114,542
Allowance for doubtful accounts	(2,440)	(2,362)	(23,019)
Total investments and other assets	149,398	110,686	1,409,412
Total assets	¥ 903,682	¥794,360	\$8,525,300

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Current liabilities:			
Payables—			
Notes and accounts, trade (Notes 16, 17)	¥181,853	¥182,491	\$1,715,594
Other	19,078	14,787	179,985
Short-term loans payable (Notes 6, 7)	35,664	30,232	336,450
Current portion of convertible bonds (Note 6)	20,000	—	188,679
Current portion of long-term loans payable (Notes 6, 7, 16, 17)	4,827	6,876	45,535
Current portion of lease obligation (Note 6)	1,100	1,628	10,378
Advances received from customers	55,037	52,179	519,220
Accrued income taxes	4,830	5,511	45,564
Accrued employees' bonuses	11,708	11,139	110,448
Accrued directors and corporate auditors' bonuses	146	146	1,377
Other current liabilities (Notes 9, 23)	23,284	19,015	219,665
Total current liabilities	357,527	324,004	3,372,895
Long-term liabilities:			
Bonds issued (Notes 6, 16)	50,000	20,000	471,698
Convertible bonds (Note 6)	—	20,000	—
Long-term loans payable (Notes 6, 7, 16, 17)	84,374	81,818	795,980
Long-term lease obligation (Note 6)	4,666	3,264	44,020
Deferred tax liabilities (Note 9)	17,003	11,695	160,404
Liability for retirement benefits (Note 18)	16,723	18,732	157,766
Other long-term liabilities (Note 23)	27,750	18,990	261,791
Total long-term liabilities	200,516	174,499	1,891,659
Contingent liabilities (Note 15)			
Net assets:			
Shareholders' equity (Note 13):			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 182,607,739 shares in 2018 and 177,410,239 shares in 2017	32,672	27,672	308,227
Capital surplus	23,637	18,637	222,994
Retained earnings	219,562	196,511	2,071,337
Treasury stock: 1,323,737 shares in 2018 and 281,970 shares in 2017	(2,333)	(280)	(22,008)
Total shareholders' equity	273,538	242,541	2,580,550
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	33,258	25,896	313,753
Deferred gain (loss) on hedges	(221)	(80)	(2,085)
Translation adjustments	5,053	6,874	47,670
Retirement benefits liability adjustments	9	(320)	83
Total accumulated other comprehensive income	38,099	32,370	359,421
Subscription rights to shares	129	82	1,220
Non-controlling interests	33,873	20,864	319,555
Total net assets	345,639	295,857	3,260,745
Total liabilities and net assets	¥903,682	¥794,360	\$8,525,300
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets	¥1,719.05	¥1,552.04	\$16.22

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Net sales (Note 20)	¥1,221,998	¥1,113,364	\$11,528,280
Cost of sales	1,002,683	909,225	9,459,273
Gross profit	219,315	204,138	2,069,007
Selling, general and administrative expenses (Note 11)	166,294	150,149	1,568,810
Operating income	53,021	53,989	500,197
Other income (expenses):			
Interest and dividends income	1,885	1,896	17,786
Interest expense	(1,387)	(1,560)	(13,087)
Equity in earnings (losses) of affiliates	3,026	3,053	28,549
Gain on sales of investment securities (Note 5)	132	96	1,247
Gain on step acquisition	6,464	—	60,985
Impairment loss (Note 8)	(5,727)	(30)	(54,032)
Gain on liquidation of subsidiaries and affiliates	—	152	—
Gain on sales of shares of subsidiaries and affiliates	—	481	—
Other gains (losses), net (Notes 5, 10)	1,124	446	10,605
Total	5,518	4,534	52,053
Income before income taxes	58,538	58,523	552,250
Income taxes (Note 9):			
Current	16,846	15,652	158,927
Deferred	3,060	2,640	28,866
Total	19,906	18,292	187,793
Profit	38,632	40,230	364,457
Profit attributable to non-controlling interests	8,497	5,699	80,162
Profit attributable to owners of parent	¥ 30,135	¥ 34,532	\$ 284,295
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Profit attributable to owners of parent (Note 21)			
Basic	¥168.49	¥194.95	\$1.59
Diluted	158.82	183.76	1.50
Cash dividends	40.00	35.00	0.38

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Profit	¥38,632	¥40,230	\$364,457
Other comprehensive income (Note 22):			
Unrealized gain (loss) on available-for-sale securities	7,694	9,634	72,586
Deferred gain (loss) on hedges	(141)	(22)	(1,327)
Translation adjustments	(756)	350	(7,131)
Share of other comprehensive income of affiliates accounted for by the equity method	(883)	(196)	(8,332)
Total other comprehensive income	5,914	9,766	55,795
Comprehensive income	¥44,547	¥49,997	\$420,253
Total comprehensive income attributable to:			
Owners of the parent	¥35,864	¥44,470	\$338,336
Non-controlling interests	8,683	5,527	81,916

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen				
	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	
Balance at April 1, 2017	¥27,672	¥18,637	¥196,511	¥ (280)	¥242,541
Changes during the period:					
Issuance of new shares	5,000	5,000			10,000
Cash dividends (¥40.00 per share)			(7,085)		(7,085)
Profit attributable to owners of parent			30,135		30,135
Purchases of treasury stock				(2,053)	(2,053)
Disposal of treasury stock		0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests		0			0
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	5,000	5,000	23,050	(2,053)	30,998
Balance at March 31, 2018	¥32,672	¥23,637	¥219,562	¥(2,333)	¥273,538

	Millions of yen							
	Accumulated other comprehensive income				Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments				
Balance at April 1, 2016	¥16,270	¥(58)	¥6,497	¥(276)	¥22,432	¥36	¥21,761	¥265,257
Changes during the period:								
Cash dividends (¥35.00 per share)								(4,782)
Profit attributable to owners of parent								34,532
Purchases of treasury stock								(2)
Change in ownership interest of parent due to transactions with non-controlling interests								(8,234)
Change of scope of equity method								—
Net changes in items other than shareholders' equity	9,627	(22)	377	(44)	9,938	46	(897)	9,087
Total changes during the period	9,627	(22)	377	(44)	9,938	46	(897)	30,600
Balance at March 31, 2017	¥25,896	¥(80)	¥6,874	¥(320)	¥32,370	¥82	¥20,864	¥295,857

See accompanying notes to consolidated financial statements.

	Millions of yen							
	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets	
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments				Total accumulated other comprehensive income
Balance at April 1, 2017	¥25,896	¥ (80)	¥ 6,874	¥(320)	¥ 82	¥20,864	¥295,857	
Changes during the period:								
Issuance of new shares							10,000	
Cash dividends (¥40.00 per share)							(7,085)	
Profit attributable to owners of parent							30,135	
Purchases of treasury stock							(2,053)	
Disposal of treasury stock							0	
Change in ownership interest of parent due to transactions with non-controlling interests							0	
Change of scope of equity method							—	
Net changes in items other than shareholders' equity	7,361	(141)	(1,821)	329	48	13,009	18,785	
Total changes during the period	7,361	(141)	(1,821)	329	48	13,009	49,782	
Balance at March 31, 2018	¥33,258	¥(221)	¥ 5,053	¥ 9	¥129	¥33,873	¥345,639	

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 4)				
	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	
Balance at April 1, 2017	\$261,057	\$175,821	\$1,853,882	\$ (2,641)	\$2,288,119
Changes during the period:					
Issuance of new shares	47,170	47,170			94,340
Cash dividends (\$0.38 per share)			(66,841)		(66,841)
Profit attributable to owners of parent			284,295		284,295
Purchases of treasury stock				(19,367)	(19,367)
Disposal of treasury stock		0		0	1
Change in ownership interest of parent due to transactions with non-controlling interests		3			3
Change of scope of equity method					—
Net changes in items other than shareholders' equity	47,170	47,173	217,454	(19,367)	292,430
Total changes during the period	47,170	47,173	217,454	(19,367)	292,430
Balance at March 31, 2018	\$308,227	\$222,994	\$2,071,337	\$(22,008)	\$2,580,550

	Thousands of U.S. dollars (Note 4)							
	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets	
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments				Total accumulated other comprehensive income
Balance at April 1, 2017	\$244,306	\$ (758)	\$ 64,850	\$(3,018)	\$305,380	\$ 771	\$196,830	\$2,791,101
Changes during the period:								
Issuance of new shares								94,340
Cash dividends (\$0.38 per share)								(66,841)
Profit attributable to owners of parent								284,295
Purchases of treasury stock								(19,367)
Disposal of treasury stock								1
Change in ownership interest of parent due to transactions with non-controlling interests								3
Change of scope of equity method								—
Net changes in items other than shareholders' equity	69,447	(1,327)	(17,180)	3,101	54,041	449	122,724	177,214
Total changes during the period	69,447	(1,327)	(17,180)	3,101	54,041	449	122,724	469,645
Balance at March 31, 2018	\$313,753	\$(2,085)	\$ 47,670	\$ 83	\$359,421	\$1,220	\$319,555	\$3,260,745

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	
Balance at April 1, 2016	¥27,672	¥26,872	¥166,762	¥(278)	¥221,028
Changes during the period:					
Cash dividends (¥35.00 per share)			(4,782)		(4,782)
Profit attributable to owners of parent			34,532		34,532
Purchases of treasury stock				(2)	(2)
Change in ownership interest of parent due to transactions with non-controlling interests		(8,234)			(8,234)
Change of scope of equity method					—
Net changes in items other than shareholders' equity		(8,234)	29,749	(2)	21,512
Total changes during the period	—	(8,234)	29,749	(2)	21,512
Balance at March 31, 2017	¥27,672	¥18,637	¥196,511	¥(280)	¥242,541

Consolidated Statement of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥ 58,538	¥ 58,523	\$ 552,250
Adjustments—			
Depreciation and amortization	13,727	12,887	129,497
Impairment loss	5,727	30	54,032
Amortization of goodwill	5,448	2,274	51,400
Net changes in allowance for doubtful accounts	92	48	866
Net changes in liability for retirement benefits	(2,621)	(5,117)	(24,724)
Interest and dividends income	(1,885)	(1,896)	(17,786)
Interest expense	1,387	1,560	13,087
Equity in losses (earnings) of affiliates	(3,026)	(3,053)	(28,549)
Losses (gains) on sales of marketable securities and investment securities, net	(108)	(88)	(1,024)
Losses on devaluation of marketable securities and investment securities	—	1	—
Gain on step acquisition	(6,464)	—	(60,985)
Losses (gains) on disposal and sales of fixed assets, net	172	8	1,625
Change in assets and liabilities:			
Notes and accounts receivable, trade	(12,017)	2,986	(113,368)
Inventories	(38,473)	(16,920)	(362,953)
Other current assets	4,447	307	41,948
Notes and accounts payable, trade	752	5,027	7,092
Advances received from customers	2,779	(1,415)	26,219
Other current liabilities	(62)	862	(586)
Other	2,095	(576)	19,760
Total	30,507	55,449	287,803
Interest and dividends income received	3,948	4,778	37,249
Interest paid	(1,438)	(1,488)	(13,562)
Income taxes paid, net	(19,286)	(18,402)	(181,945)
Net cash provided by operating activities	13,732	40,337	129,545
Cash flows from investment activities:			
Payments into time deposits	(20,526)	(20,830)	(193,642)
Proceeds from withdrawal of time deposits	35,514	11,759	335,034
Decrease (increase) in short-term loans receivable	391	3,408	3,684
Payments for purchases of fixed assets	(14,827)	(48,946)	(139,877)
Proceeds from sales of fixed assets	3,275	4,480	30,894
Payments for purchases of intangible assets	(2,183)	(2,556)	(20,595)
Payments for purchases of investment securities	(42,710)	(3,994)	(402,925)
Proceeds from sales and redemption of investment securities	3,507	386	33,087
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(7,661)	(7,585)	(72,275)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	3,087	—
Payments for long-term loans receivable	(148)	(853)	(1,401)
Repayments of long-term loans receivable	1,070	106	10,097
Other	(1,950)	(813)	(18,400)
Net cash used in investment activities	(46,250)	(62,350)	(436,319)
Cash flows from financing activities:			
Increase (decrease) in short-term loans payable	3,973	12,774	37,477
Payments of lease obligations	(2,096)	(2,404)	(19,776)
Proceeds from long-term loans payable	13,560	16,490	127,922
Repayments of long-term loans payable	(20,665)	(5,886)	(194,951)
Proceeds from issuance of bonds	30,000	20,000	283,019
Redemption of bonds	—	(5,000)	—
Proceeds from issuance of stock	10,000	—	94,340
Dividends paid	(7,085)	(4,782)	(66,841)
Dividends paid to non-controlling shareholders	(4,838)	(2,550)	(45,645)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(1)	(14,750)	(5)
Other	2,308	375	21,778
Net cash provided by financing activities	25,156	14,267	237,317
Effect of exchange rate changes on cash and cash equivalents	(307)	(811)	(2,900)
Net increase (decrease) in cash and cash equivalents	(7,670)	(8,558)	(72,356)
Cash and cash equivalents at the beginning of the year	132,707	141,265	1,251,949
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	518	—	4,886
Cash and cash equivalents at the end of the year (Note 12)	¥125,555	¥132,707	\$1,184,479

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2018 and 2017

Financial Section

1. Nature of Operations

Sumitomo Forestry Co., Ltd. (the “Company”) and its affiliated companies (together, the “Group”) are involved in various business activities related to wood and houses, with timberland operations serving as the foundation of its business. Specifically, the Group’s operations encompass forest management as well as timber and building materials-related operations, including procurement, manufacture and sale of timber and building materials; housing-related operations, including construction, maintenance, renovation and landscaping of custom-built and other homes and sale and brokerage of real estate; operations in overseas countries, including manufacture and sale of timber and building materials, sale of spec homes and construction of detached houses; and other businesses, including biomass power generation, an overseas forestation business, private-pay elderly care facilities, insurance agent business and civil engineering/construction work.

2. Basis of Presenting Consolidated Financial Statements

The Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

Effective April 1, 2008, the Company adopted the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No. 18).”

In accordance with PITF No. 18, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries (together, the “Companies”) are prepared on the basis of accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the Notes to Consolidated Financial Statements include information which is not required under Japanese GAAP but is presented herein as additional information.

As permitted under the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen are rounded in the consolidated financial statements. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes thereto do not necessarily agree with the sum of the individual amounts.

As of March 31, 2018, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 110 and 29 (103 and

29 in 2017), respectively.

Shinko Care Life Co., Ltd., SFA MF Holdings, LLC, Edge Saddlebrook, LLC and Ridgeview Development LLC, whose shares have been newly acquired, are included in the scope of consolidation from the fiscal year ended March 31, 2018. Additionally, Bloomfield Homes, L.P. and one other company and Creekstone Development LLC, which were equity-method affiliates in the previous fiscal year, because of additional acquisition of shares, are now included in the scope of consolidation, at the same time, no longer included as equity-method affiliates.

CC-SFA MF Atherton, LLC, Kumagai Gumi Co., Ltd. and Grand Star Co., Ltd., whose shares have been newly acquired, are included as equity-method affiliates from the fiscal year ended March 31, 2018.

The account closing date of the Company’s domestic consolidated subsidiaries is mainly March 31, and the account closing date of the Company’s consolidated foreign subsidiaries is mainly December 31. Additionally, necessary adjustments are made to the consolidated financial statements to reflect any significant transactions from the next day of the closing date to March 31 in each subsidiary.

3. Summary of Significant Accounting Policies

(a) Basis of consolidation and investments in affiliates

The consolidated financial statements include the accounts of the Company and those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

The material difference between the cost and underlying net equity of investments in consolidated subsidiaries is deferred and amortized within twenty years. Immaterial differences are expensed when incurred.

Investments in affiliates (15 to 50 percent-owned companies except subsidiaries) in which the ability to exercise significant influence exists are stated at cost plus equity in undistributed earnings (losses). Net consolidated income includes the Company’s share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits.

(b) Translation of foreign currency transactions and accounts

Current and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

The Company translates the revenue and expense accounts of the foreign consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of net assets, are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets are translated at their historical rates.

(c) Statement of cash flows

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are near enough to maturity that they present only an insignificant risk of changes in value.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts is stated based on the default ratio sustained over a specific period in the past and the estimated uncollectible amount based on the analysis of certain individual accounts, including probable bad debts and claims in bankruptcy.

This amount is considered sufficient to cover possible losses on collection.

(e) Accrued employees' bonuses

Accrued employees' bonuses are provided based on estimated bonuses to be paid to employees, which are to be charged to income in the current year.

(f) Accrued directors' and corporate auditors' bonuses

Accrued directors' and corporate auditors' bonuses are provided for payments of bonuses to directors and corporate auditors based on an estimated amount.

(g) Warranty reserve for completed construction

A warranty reserve is provided for repair costs which may be required for completed construction. The reserve is estimated based on past experience and future estimates.

The balance of the reserves at March 31, 2018, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥3,595 million (\$33,919 thousand).

(h) Accrued employees' retirement benefits

Accrued retirement benefits and prepaid pension costs for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Unrecognized actuarial gains (losses) and unrecognized prior service cost are charged to income, with minor exceptions, in the fiscal year in which they arise.

(i) Accrued retirement benefits to directors and corporate auditors

Accrued retirement benefits to directors and corporate auditors of certain subsidiaries are provided based on the amount required for at year-end in accordance with established internal policies.

The balance of these reserves at March 31, 2018, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥112 million (\$1,060 thousand).

(j) Marketable securities and investments

Marketable securities and investments are classified and accounted for, depending on management's intent, as follows:

i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and ii) marketable available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets.

Non-marketable available-for-sale securities are carried at cost.

The Company determines cost of securities sold by the moving average method.

(k) Derivatives

Derivatives are carried at fair value with changes in unrealized gain or loss charged or credited to profit or loss, except for those which meet the criteria for hedge accounting.

(l) Inventories

Finished goods, logs and lumber are stated at moving average cost.

Real estate for sale, construction projects in progress and real estate for sale in process are stated at cost, which is determined by the specific identification method.

The amount on the balance sheet is calculated using a write-down method based on the decrease in profitability.

The Company recognized ¥270 million (\$2,546 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2018.

(m) Property, plant and equipment

Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance, repairs, minor renewals and improvements are charged to income. In the Company and its domestic consolidated subsidiaries, depreciation is computed, with minor exceptions, by the declining balance method at rates based on the estimated useful lives of the assets according to general class, type of construction and use. In its foreign consolidated subsidiaries, depreciation is computed by the straight-line method, with minor exceptions. In the case of retirement or disposal, the difference between the net book value and salvage or sales proceeds is charged or credited to income.

"Timber" consists of mature timber and growing timber in natural forests, purchased forests and planted forests.

(n) Intangible assets

Amortization of intangible assets is computed by the straight-line method. Internal use software costs are amortized by the straight-line method over the estimated useful life of 5 years.

(o) Impairment of fixed assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, the amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in the consolidated statements of income. The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets.

(p) Hedge accounting

i) Hedge accounting method

The deferred hedge accounting method is applied.

The allocation method is applied to foreign exchange hedging transactions. The exceptional method is used for interest rate swaps in case they satisfy the requirements for the exceptional method.

ii) Hedging method

Foreign exchange forward contracts and foreign currency swaps are utilized to mitigate foreign exchange risks. Interest rate swap transactions are utilized to mitigate interest rate risks.

iii) Scope of hedging

Certain transactions, including planned transactions and borrowings exposed to interest rate fluctuation risk, etc., in accordance with policies laid out in management regulations.

iv) Hedge effectiveness evaluation method

The Companies believe foreign exchange forward contracts and foreign currency swaps to be highly effective as hedging instruments and the exceptional method is used for interest rate swaps; therefore, effectiveness evaluation is not carried out.

(q) Amortization method and period of goodwill

Goodwill is amortized using the straight-line method over its estimated useful life, up to a maximum of 20 years. Insignificant amounts are charged to income when incurred.

(r) Revenue recognition

Sales are generally recognized at the time the goods are delivered to the customers.

Contract revenues, representing revenues from custom-built houses, are recorded by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. The Companies account for short-term construction contracts, etc., by the completed-contract-method.

(s) Income taxes

The Companies accrue income taxes based on taxable income. The Companies include many items for financial reporting purposes which, in the case of expenses, are not currently deductible and, in the case of income, are not currently taxable.

Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(t) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(u) Appropriations of retained earnings

Appropriations of retained earnings reflected in the accompanying consolidated financial statements are recorded upon approval by shareholders as required under Japanese law.

(v) Earnings per share of common stock

The computation of profit attributable to owners of parent per share and cash dividends per share is based on the average number of shares outstanding during each period.

(w) Finalization of provisional accounting treatment of business combinations

The revised purchase price allocation arising from the finalization of provisional accounting treatment is reflected on the consolidated financial statements for the period in which the business combination occurs.

Provisional accounting treatment had been applied to the business combination involving the Edge Homes Group (Edge Utah HoldCo, LLC and 17 other companies) that was conducted on February 9, 2017 (U.S. date) in the previous fiscal year, but it has been finalized in the fiscal year ended March 31, 2018.

As a result, certain accounts in the consolidated financial statements and figures as of March 31, 2017 in notes 9, 20 and 21 reflect the revision of the initially allocated amounts of the purchase price. See Note 25 for further details.

(x) Accounting standards issued but not yet effective

(Implementation Guidance on Tax Effect Accounting and Implementation Guidance on Recoverability of Deferred Tax Assets)

On February 16, 2018, the Accounting Standards Board of Japan (the "ASBJ") issued "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28) and "Implementation Guidance on Recoverability of Deferred Tax Assets" (revised 2018) (ASBJ Guidance No. 26).

i) Overview

The accounting treatment for taxable temporary differences related to investments in subsidiaries when an entity prepares separate financial statements was modified. In addition, the accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1 was clarified.

ii) Scheduled date of adoption

The Company expects to adopt the implementation guidance from the beginning of the fiscal year ending March 31, 2019.

iii) Impact of the adoption of implementation guidance

The Company is currently evaluating the effect of the adoption of this implementation guidance on its consolidated financial statements.

(Accounting Standard and Implementation Guidance on Revenue Recognition)

On March 30, 2018, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

i) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

ii) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

iii) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

4. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥106 =US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2018. This translation should not be construed as a representation that the yen amounts actually represent, have been or could be converted into, U.S. dollars.

5. Securities

(a) The carrying amounts and estimated fair value of the securities classified as available-for-sale and held-to-maturity at March 31, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated fair value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥28,374	¥47,871	¥(223)	¥76,022
Debt securities	—	—	—	—
Other	5,000	—	—	5,000

(Change in deferred tax assets and deferred tax liabilities due to reduction in corporate income tax rate)

On December 22, 2017, the Tax Cuts and Jobs Act was enacted in the United States, effectively lowering the federal corporate income tax rate effective for the periods beginning on or after January 1, 2018.

Consequently, the federal corporate income tax rate applicable to the Company's consolidated subsidiaries in the U.S. was reduced from 35% to 21%.

As a result, as of and for the year ended March 31, 2018, net deferred tax liabilities have decreased by ¥885 million (\$8,349 thousand) and income taxes-deferred have decreased by ¥879 million (\$8,289 thousand).

10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loss on foreign exchange	¥ (188)	¥ (47)	\$ (1,773)
Gain on sales of property, plant and equipment	62	193	581
Loss on sales of property, plant and equipment	(82)	(37)	(777)
Loss on disposal of property, plant and equipment	(151)	(164)	(1,429)
Other, net	1,484	501	14,003
	¥1,124	¥ 446	\$10,605

11. Selling, General and Administrative Expenses

The components of "Selling, General and Administrative Expenses" for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Salaries and allowances	¥56,357	¥51,274	\$531,666
Provision for employees' bonuses	9,203	9,021	86,817
Provision for directors' and corporate auditors' bonuses	146	146	1,377
Retirement benefit expenses	717	(1,990)	6,768
Provision for directors' and corporate auditors' retirement benefits	25	13	231
Allowance for doubtful accounts	5	69	50
Provision for warranty reserve for completed construction	884	2,178	8,338

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2018 and 2017 were ¥1,977 million (\$18,648 thousand) and ¥1,866 million, respectively.

12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and time deposits	¥105,865	¥111,506	\$ 998,724
Short-term investments	5,000	6,500	47,170
Cash equivalents included in short-term loans receivable	15,000	30,000	141,507
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(310)	(15,299)	(2,921)
Cash and cash equivalents	¥125,555	¥132,707	\$1,184,479

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net expenditure for acquisition of shares for the year ended March 31, 2018 were mainly as follows:

Bloomfield Homes, L.P. and one other company

	Millions of yen		Thousands of U.S. dollars
	2018	2018	2018
Current assets	¥29,064		\$274,184
Non-current assets	1,215		11,462
Goodwill	7,223		68,138
Current liabilities	(4,390)		(41,418)
Long-term liabilities	(9,567)		(90,256)
Non-controlling interests	(5,799)		(54,708)
Translation adjustments	646		6,095
Gain on step acquisition	(6,464)		(60,985)
Previously held equity interest before obtaining control	(7,831)		(73,881)
Acquisition cost	4,095		38,631
Cash and cash equivalents	—		—
Net expenditure for acquisition of shares	¥ 4,095		\$ 38,631

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net expenditure for acquisition of shares for the year ended March 31, 2017 were mainly as follows:

Edge Utah HoldCo, LLC and 17 other companies

	Millions of yen
	2017
Current assets	¥14,160
Non-current assets	2,853
Goodwill	3,894
Current liabilities	(7,193)
Long-term liabilities	(4,905)
Non-controlling interests	(1,474)
Acquisition cost	7,334
Accounts payable	(72)
Cash and cash equivalents	(832)
Net expenditure for acquisition of shares	¥ 6,430

13. Shareholders' Equity

The Japanese Corporate Law ("the Law") enforced on May 1, 2006 provides that an amount equivalent to 10% of cash dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends. Legal reserve and additional paid-in capital may be reversed without limitation and no further appropriation is required when the sum of legal reserve and additional paid-in capital equals 25% of the common stock.

The Law also provides that the common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of shareholders.

The balances of the legal reserve of the Company at March 31, 2018 and 2017, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$26,954 thousand) and ¥2,857 million, respectively.

Year-end dividends are approved by shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Law.

14. Finance Leases

(Lessee)

Depreciation costs of finance lease transactions that do not transfer ownership are calculated based on the straight-line method over the lease periods of the leased assets, with no residual value of the assets at the end of the lease periods.

Disclosure of information concerning lease transaction as lessor has been omitted, due to insignificance of disclosure of such information in the consolidated financial statements.

15. Contingent Liabilities

Contingent liabilities as at March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Guarantee on loans from financial institutions:			
Guarantees of housing loans to customers	¥28,970	¥33,820	\$273,306
Kawasaki Biomass Electric Power Co., Ltd.	472	656	4,453
MOS Lumber Products Co., Ltd.	41	16	391
Total	¥29,484	¥34,493	\$278,149

16. Financial Instruments

(a) Policy for financial instruments

The Companies invest temporary cash surplus in financial assets with high degrees of safety and mainly use bank loans and bonds in order to raise funds. Furthermore, the Companies use derivative transactions to mitigate the risk of currency exchange rates related to normal foreign currency-denominated transactions and the risk of interest rate fluctuation related to interest payment for loans, and do not conduct them for speculative purposes.

(b) Details of financial instruments and related risk

Trade receivables are exposed to customer's credit risk. Short-term loans receivable are mainly used for a repurchase agreement that has a contract with a financial institution with a rating of more than a certain level, and therefore credit risk is insignificant. Short-term investment securities are mainly negotiable deposit certificates subject to settlement in the short term. Investment securities are mainly bonds for held-to-maturity and equities of customers and suppliers of the Companies and those are exposed to market price fluctuation risk. Almost all trade payables have payment due dates within one year. Loans payable and bonds are mainly used for operating capital expenses and capital investment. Although loans with floating rate interest are exposed to market risk of interest rate fluctuation, the Companies use derivative transactions (interest rate swaps) for hedging a part of such loans. Derivative transactions include forward foreign currency exchange contracts and currency swaps to mitigate market risk of fluctuation in foreign currency exchange rates related to foreign currency-denominated transactions and interest rate swaps to mitigate market risk of interest rate fluctuation related to interest payments for loans.

(c) Risk management for financial instruments

(Credit risk management)

The Companies review due date and receivable balance of each customer in accordance with the Credit Management Guideline. In addition, the Companies monitor credit standing of principal customers at least once a year.

(Risk management of foreign currency exchange rate fluctuation and interest rate fluctuation)

With respect to investment securities, the Companies regularly monitor prices and the issuer's financial status. Except for held-to-maturity bonds, the Companies constantly review investment strategy by taking the market situation and relationship with issuers into consideration. Derivative transactions are executed and managed in accordance with internal rules and policies by the responsible section of each Group Company, and the status of derivative positions is reported regularly to the Board of Directors.

The Companies believe that market risk relating to derivative instruments is very low since the contracts entered into are spread among highly creditworthy financial institutions both in Japan and abroad.

(Risk management of liquidity risk that the Companies cannot meet their contractual obligation in full on maturity dates)

The Finance Department of the Company manages liquidity risk by establishing and revising a cash flow plan based on reports from each section.

(d) Supplementary explanation of items relating to the fair values of financial instruments

The fair values of financial instruments include market prices or reasonably estimated values if there are no market prices. Because estimation of fair values incorporates variable factors, adopting different assumptions can change the values.

(e) Fair value of financial instruments

Fair values of financial instruments were as follows. Items for which fair values are extremely difficult to establish are not included in the following table.

	Millions of yen		
	2018		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥105,865	¥105,865	¥ —
Receivables—Notes and accounts, trade	127,387	127,387	—
Marketable securities and investment securities:			
Held-to-maturity	1,768	1,824	55
Shares in affiliates	33,498	32,015	(1,483)
Available-for-sale	81,022	81,022	—
Total	¥349,540	¥348,113	¥(1,427)
Payables—notes and accounts, trade	¥181,853	¥181,853	¥ —
Bonds issued	50,000	49,907	(93)
Long-term loans payable*	89,201	88,451	(749)
Total	¥321,054	¥320,211	¥ (842)
Derivatives**:			
Hedge accounting not applied	¥ 322	¥ 322	¥ —
Hedge accounting applied	(319)	(319)	—
Total	¥ 3	¥ 3	¥ —

	Millions of yen		
	2017		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥111,506	¥111,506	¥ —
Receivables—Notes and accounts, trade	119,274	119,274	—
Marketable securities and investment securities:			
Held-to-maturity	1,765	1,838	74
Available-for-sale	71,711	71,711	—
Receivables—Loans and other	45,902	45,902	—
Total	¥350,157	¥350,231	¥ 74
Payables—Notes and accounts, trade	¥182,491	¥182,491	¥ —
Long-term loans payable*	88,694	88,135	(558)
Total	¥271,185	¥270,627	¥(558)
Derivatives**:			
Hedge accounting not applied	¥ 127	¥ 127	¥ —
Hedge accounting applied	(116)	(116)	—
Total	¥ 11	¥ 11	¥ —

	Thousands of U.S. dollars		
	2018		
	Carrying amount	Fair value	Difference
Cash and time deposits	\$ 998,724	\$ 998,724	\$ —
Receivables—Notes and accounts, trade	1,201,765	1,201,765	—
Marketable securities and investment securities:			
Held-to-maturity	16,682	17,204	522
Shares in affiliates	316,018	302,031	(13,987)
Available-for-sale	764,361	764,361	—
Total	\$3,297,550	\$3,284,085	\$ (13,465)
Payables—Notes and accounts, trade	\$1,715,594	\$1,715,594	\$ —
Bonds issued	471,698	470,822	(876)
Long-term loans payable*	841,515	834,444	(7,070)
Total	\$3,028,807	\$3,020,860	\$ (7,947)
Derivatives**:			
Hedge accounting not applied	\$ 3,034	\$ 3,034	\$ —
Hedge accounting applied	(3,006)	(3,006)	—
Total	\$ 28	\$ 28	\$ —

* Long-term loans payable include the current portion.

** Assets and liabilities from derivatives transactions are shown in the net amount. If the total is negative, the amount is shown in brackets.

Notes:

1. Method of estimating the fair values of financial instruments and items relating to securities and derivative transactions

(1) Assets

(Cash and time deposits, Receivables—Notes and accounts, trade)

Because these are settled in the short term, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(Marketable securities and Investment securities)

The fair values of equity securities, including shares in affiliates, are based on market prices. The fair values of debt securities are based on market prices or quoted prices obtained from financial institutions. For negotiable deposit certificates, the book value is almost the same as the market value because of their short maturities.

(2) Liabilities

(Payables—Notes and accounts, trade)

Because these are settled in the short term, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(Bonds issued)

The fair values of bonds issued are based on market prices.

(Long-term loans payable)

The fair values of long-term loans payable with floating interest rates approximate book values because the interest rate of long-term loans payable reflects market interest rate quickly and the Company's credit standing has not changed significantly since implementing the loans. Therefore, relevant book values are used. The fair values of long-term loans payable with fixed interest rates are principally estimated by discounting based on estimated interest rates if similar new loans were implemented.

(3) Derivative transactions

See Note 17.

2. Financial instruments whose fair values are extremely difficult to determine

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unlisted equity securities	¥ 5,051	¥ 4,932	\$ 47,654
Investment in affiliates	15,140	19,898	142,831

3. The redemption schedule for monetary claims and held-to-maturity debt securities after the consolidated balance sheet date

	Millions of yen			
	2018			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	¥104,907	¥ —	¥ —	¥ —
Receivables—Notes and accounts, trade	127,387	—	—	—
Marketable securities and Investment securities:				
Government bonds	10	1,356	406	—
Other	5,000	—	—	—
Total	¥237,304	¥1,356	¥406	¥—

	Millions of yen			
	2017			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	¥110,431	¥ —	¥ —	¥ —
Receivables—Notes and accounts, trade	119,274	—	—	—
Marketable securities and Investment securities:				
Government bonds	—	1,168	597	—
Other	6,500	—	—	—
Receivables—Loans and other	45,902	—	—	—
Total	¥282,107	¥1,168	¥597	¥—

	Thousands of U.S. dollars			
	2018			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	\$ 989,689	\$ —	\$ —	\$ —
Receivables—Notes and accounts, trade	1,201,765	—	—	—
Marketable securities and Investment securities:				
Government bonds	94	12,792	3,830	—
Other	47,170	—	—	—
Total	\$2,238,718	\$12,792	\$3,830	\$—

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2018 and 2017 were as follows:

	Millions of yen			
	2018			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,580	¥ —	¥ 37	¥ 37
Sell (U.S. dollar)	5,639	—	280	280
Sell (Euro)	4	—	(0)	(0)
Currency swap contracts:				
Pay U.S. dollar / receive Yen	1,020	—	(5)	(5)
Total	¥8,243	¥ —	¥312	¥312
Interest rate swap contracts:				
Pay fixed / receive variable	¥1,627	¥441	¥ 10	¥ 10
Total	¥1,627	¥441	¥ 10	¥ 10

	Millions of yen			
	2017			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥ 1,703	¥137	¥ 95	¥ 95
Sell (U.S. dollar)	5,588	—	26	26
Sell (Euro)	5	—	(0)	(0)
Sell (Australian dollar)	2,116	—	32	32
Buy (U.S. dollar)	29	—	1	1
Currency swap contracts:				
Pay U.S. dollar / receive Yen	1,020	127	(36)	(36)
Total	¥10,460	¥264	¥117	¥117
Interest rate swap contracts:				
Pay fixed / receive variable	¥ 1,677	¥699	¥ 10	¥ 10
Total	¥ 1,677	¥699	¥ 10	¥ 10

	Thousands of U.S. dollars			
	2018			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	\$14,910	\$ —	\$ 351	\$ 351
Sell (U.S. dollar)	53,195	—	2,640	2,640
Sell (Euro)	36	—	(0)	(0)
Currency swap contracts:				
Pay U.S. dollar / receive Yen	9,620	—	(47)	(47)
Total	\$77,760	\$ —	\$2,943	\$2,943
Interest rate swap contracts:				
Pay fixed / receive variable	\$15,351	\$4,158	\$ 91	\$ 91
Total	\$15,351	\$4,158	\$ 91	\$ 91

Note: The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

Derivative transactions to which hedge accounting is applied at March 31, 2018 and 2017 were as follows:

Millions of yen				
2018				
Hedged item	Contract amount	Contract amount due after one year	Fair value	
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)	Accounts payable, trade	¥ 4,459	¥ —	¥ (5)
Sell (Euro)	Accounts payable, trade	2,325	—	12
Buy (U.S. dollar)	Accounts payable, trade	13,819	—	(227)
Buy (Euro)	Accounts payable, trade	5,802	—	(99)
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable, trade	31	—	*
Buy (U.S. dollar)	Accounts payable, trade	417	—	*
Buy (Euro)	Accounts payable, trade	257	—	*
Total		¥27,110	¥ —	¥(319)
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	¥ 4,466	¥1,198	*
Total		¥ 4,466	¥1,198	¥ —
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term loans payable	¥ 2,859	¥2,859	*
Total		¥ 2,859	¥2,859	¥ —

Millions of yen				
2017				
Hedged item	Contract amount	Contract amount due after one year	Fair value	
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)	Accounts payable, trade	¥ 3,260	¥ —	¥ 16
Sell (Euro)	Accounts payable, trade	2,133	—	12
Buy (U.S. dollar)	Accounts payable, trade	8,509	—	(80)
Buy (Euro)	Accounts payable, trade	5,368	—	(64)
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable, trade	9	—	*
Buy (U.S. dollar)	Accounts payable, trade	320	—	*
Buy (Euro)	Accounts payable, trade	18	—	*
Total		¥19,616	¥ —	¥(116)
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	¥ 4,615	¥1,558	*
Total		¥ 4,615	¥1,558	¥ —
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term loans payable	¥ 2,859	¥2,859	*
Total		¥ 2,859	¥2,859	¥ —

Thousands of U.S. dollars				
2018				
Hedged item	Contract amount	Contract amount due after one year	Fair value	
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)	Accounts payable, trade	\$ 42,068	\$ —	\$ (46)
Sell (Euro)	Accounts payable, trade	21,931	—	118
Buy (U.S. dollar)	Accounts payable, trade	130,364	—	(2,141)
Buy (Euro)	Accounts payable, trade	54,737	—	(936)
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable, trade	291	—	*
Buy (U.S. dollar)	Accounts payable, trade	3,933	—	*
Buy (Euro)	Accounts payable, trade	2,426	—	*
Total		\$255,752	\$ —	\$(3,006)
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	\$ 42,132	\$11,303	*
Total		\$ 42,132	\$11,303	\$ —
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term loans payable	\$ 26,975	\$26,975	*
Total		\$ 26,975	\$26,975	\$ —

* Derivative transactions that meet certain hedging criteria, regarding forward foreign currency exchange contracts, or interest rate swap contracts, are treated in combination with the hedged items; trade accounts receivable, trade accounts payable or long-term loans payable, the fair values of these derivatives are included in those of the hedged items.

Note: The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

18. Employees' Retirement Benefits and Pension Plans

The Company and most of its consolidated subsidiaries have either funded or unfunded defined benefit plans and/or defined contribution plans. Certain domestic consolidated subsidiaries have a Smaller Enterprise Retirement Allowance Mutual Aid Plan.

The Company and its consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans, annuity payment plans, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities.

In certain cases, special retirement benefits may be paid to employees.

The changes in the retirement benefit obligation for the years ended March 31, 2018 and 2017 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥72,478	¥75,916	\$683,753
Service cost	3,324	3,598	31,354
Interest cost	573	416	5,409
Actuarial gain and loss	(2,055)	(5,036)	(19,388)
Retirement benefits paid	(2,075)	(1,915)	(19,573)
Prior service cost	6	(1)	58
Decrease due to transition to defined contribution pension plan	—	(222)	—
Decrease due to change from the principle method to the simplified method	—	(307)	—
Other	(27)	29	(258)
Balance at the end of the year	¥72,224	¥72,478	\$681,355

The changes in plan assets for the years ended March 31, 2018 and 2017 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥54,885	¥53,024	\$517,786
Expected return on plan assets	1,372	1,485	12,945
Actuarial gain and loss	236	(115)	2,227
Contributions	2,186	2,156	20,625
Retirement benefits paid	(1,726)	(1,665)	(16,288)
Balance at the end of the year	¥56,953	¥54,885	\$537,295

The changes in the liability for retirement benefits, which were calculated by the simplified method for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the year	¥ 998	¥ 752	\$ 9,416
Retirement benefit expense	245	189	2,310
Retirement benefits paid	(113)	(137)	(1,066)
Contributions	(73)	(73)	(685)
Increase due to newly consolidated subsidiary	258	—	2,437
Increase due to change from the principle method to the simplified method	—	269	—
Other	(1)	(2)	(7)
Balance at the end of the year	¥1,315	¥ 998	\$12,404

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2018 and 2017 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligation	¥ 68,314	¥ 69,186	\$ 644,469
Plan assets at fair value	(57,615)	(55,495)	(543,539)
	10,699	13,691	100,930
Unfunded retirement benefit obligation	5,887	4,900	55,533
Net liability for retirement benefits in the balance sheet	¥ 16,585	¥ 18,591	\$ 156,464
Liability for retirement benefits	¥ 16,723	¥ 18,732	\$ 157,766
Asset for retirement benefits	(138)	(142)	(1,303)
Net liability for retirement benefits in the balance sheet	¥ 16,585	¥ 18,591	\$ 156,464

The components of retirement benefit expense for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 3,324	¥ 3,598	\$ 31,354
Interest cost	573	416	5,409
Expected return on plan assets	(1,372)	(1,485)	(12,945)
Amortization of actuarial gain and loss	(2,291)	(4,922)	(21,614)
Amortization of prior service cost	6	(1)	58
Retirement benefit expense under the simplified method	245	189	2,310
Other	0	0	3
Retirement benefit expense	¥ 485	¥(2,203)	\$ 4,575
Gain on transition to defined contribution pension plan	¥ —	¥ (38)	\$ —

The fair value of plan assets, by major category, as percentages of total plan assets as of March 31, 2018 and 2017 were as follows:

	2018	2017
	Bonds	46%
Stocks	25%	23%
General account	13%	14%
Other	15%	11%
Total	100%	100%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	2018	2017
Discount rates	0.000%–0.961%	0.000%–1.044%
Expected rates of return plan assets	2.5%	2.8%
Expected rate of salary increase (point based plan)	5.5%	5.5%

Contributions to defined contribution retirement benefit plans of the Company and its consolidated subsidiaries were ¥1,089 million (\$10,276 thousand) and ¥1,010 million for the years ended March 31, 2018 and 2017, respectively.

19. Investment Property

The Company and some of its consolidated subsidiaries hold some rental properties such as rental condominiums in Tokyo and other areas. The net income for the investment properties for the years ended March 31, 2018 and 2017 was ¥532 million (\$5,019 thousand) and ¥513 million, respectively. The income is recognized in net sales and the expense is principally charged to cost of sales. The amounts recognized in the consolidated balance sheets and fair values related to investment properties were as follows:

Millions of yen				Thousands of U.S. dollars	
	Carrying amount	Fair value	Carrying amount	Fair value	
2017	Increase/ (Decrease)	2018	2018	2018	2018
¥11,816	¥1,454	¥13,270	¥12,517	\$125,185	\$118,086

The main components of net change in carrying amount above included an increase of ¥1,554 million (\$14,660 thousand) due to acquisitions of real estate, an increase of ¥61 million (\$574 thousand) due to change in the use of property from in-house use to rental use and a decrease of ¥156 million (\$1,469 thousand) due to depreciation for the year ended March 31, 2018.

Additionally, fair value is evaluated mainly by third-party appraisers.

20. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance. The Group's operations are based on the comprehensive strategies for products and services planned by each division. Accordingly, the Company is classified into three segments (Timber and Building Materials, Housing, and Overseas) based on division and identified by products, services and geographical areas:

Timber and Building Materials: purchase, manufacture, processing and sale, etc., of timber and building materials

Housing: construction, maintenance and renovation of detached houses and apartment buildings, sale of interior goods, sale of spec homes, leasing, management, purchase and sale and brokerage of real estate, house exterior fixtures, landscaping works contracting, urban greening works, CAD, site surveys, etc.

Overseas: manufacture and sale of timber and building materials, sale of spec homes, and construction of detached houses, etc., in overseas markets

Other: biomass power generation business, overseas forestation business, private-pay elderly care facilities business, insurance agency business, farming and gardening material manufacturing and sales business, and contracted civil engineering/construction work, etc.

Millions of yen								
As of/Year Ended March 31, 2018	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥413,224	¥448,623	¥335,390	¥1,197,237	¥ 23,663	¥1,220,899	¥ 1,098	¥1,221,998
Inter-segment transfers	22,284	578	17,507	40,369	13,345	53,713	(53,713)	—
Total	435,508	449,201	352,897	1,237,605	37,007	1,274,613	(52,615)	1,221,998
Segment income (loss)	5,583	24,945	26,491	57,019	4,934	61,953	(4,088)	57,865
Segment assets	157,448	144,066	277,903	579,417	132,064	711,481	192,201	903,682
Other items:								
Depreciation and amortization	962	4,611	4,531	10,105	2,771	12,876	851	13,727
Amortization of goodwill	—	—	5,280	5,280	168	5,448	—	5,448
Interest income	37	42	189	268	150	418	27	445
Interest expense	320	427	1,741	2,488	252	2,740	(1,353)	1,387
Equity in earnings (losses) of affiliates	(49)	(1)	1,843	1,793	1,233	3,026	0	3,026
Investments in affiliates	797	2	11,656	12,455	34,133	46,588	(9)	46,580
Increase in tangible and intangible fixed assets	707	7,085	6,409	14,202	3,746	17,947	2,605	20,552

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,098 million (\$10,362 thousand) of administration department profit.
 2. Adjustments for segment income and loss include ¥706 million (\$6,656 thousand) of elimination of inter-segment income and loss, ¥2,291 million (\$21,614 thousand) of retirement benefits liability adjustments (gain), and ¥5,673 million (\$53,522 thousand) of corporate general administration expense, which are not allocable to the reportable segments.
 3. Adjustments for segment assets include ¥10,549 million (\$99,521 thousand) of inter-segment eliminations, and ¥202,750 million (\$1,912,738 thousand) of corporate assets, which are not allocable to the reportable assets.

Millions of yen								
As of/Year Ended March 31, 2017	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥402,605	¥464,720	¥232,017	¥1,099,342	¥12,728	¥1,112,070	¥ 1,294	¥1,113,364
Inter-segment transfers	21,835	1,578	15,873	39,286	10,251	49,537	(49,537)	—
Total	424,440	466,298	247,890	1,138,628	22,979	1,161,607	(48,243)	1,113,364
Segment income (loss)	4,456	32,349	19,310	56,116	2,223	58,338	(497)	57,841
Segment assets	144,382	144,108	228,409	516,899	79,977	596,876	197,483	794,360
Other items:								
Depreciation and amortization	906	5,136	4,370	10,412	1,630	12,042	845	12,887
Amortization of goodwill	—	—	2,274	2,274	—	2,274	—	2,274
Interest income	26	45	268	339	139	479	54	533
Interest expense	378	543	1,817	2,738	190	2,928	(1,368)	1,560
Equity in earnings (losses) of affiliates	(1,142)	(1)	3,657	2,514	539	3,053	0	3,053
Investments in affiliates	579	3	15,862	16,444	625	17,069	(9)	17,060
Increase in tangible and intangible fixed assets	947	4,482	7,261	12,690	39,455	52,145	1,983	54,128

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,294 million of administration department profit.
 2. Adjustments for segment income and loss include ¥453 million of elimination of inter-segment income and loss, ¥4,981 million of retirement benefits liability adjustments (gain), and ¥5,025 million of corporate general administration expense, which are not allocable to the reportable segments.
 3. Adjustments for segment assets include ¥11,290 million of inter-segment eliminations, and ¥208,773 million of corporate assets, which are not allocable to the reportable assets.

Thousands of U.S. dollars								
As of/Year Ended March 31, 2018	Timber and Building Materials	Housing	Overseas	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	\$3,898,343	\$4,232,290	\$3,164,052	\$11,294,686	\$ 223,232	\$11,517,918	\$ 10,362	\$11,528,280
Inter-segment transfers	210,222	5,453	165,162	380,837	125,892	506,729	(506,729)	—
Total	4,108,565	4,237,743	3,329,214	11,675,522	349,124	12,024,646	(496,367)	11,528,280
Segment income (loss)	52,674	235,330	249,914	537,919	46,543	584,462	(38,564)	545,898
Segment assets	1,485,356	1,359,118	2,621,724	5,466,198	1,245,884	6,712,083	1,813,217	8,525,300
Other items:								
Depreciation and amortization	9,079	43,502	42,745	95,326	26,142	121,468	8,029	129,497
Amortization of goodwill	—	—	49,810	49,810	1,589	51,400	—	51,400
Interest income	349	401	1,780	2,530	1,418	3,948	251	4,199
Interest expense	3,022	4,026	16,426	23,474	2,377	25,851	(12,764)	13,087
Equity in earnings (losses) of affiliates	(464)	(13)	17,389	16,912	11,633	28,545	4	28,549
Investments in affiliates	7,517	15	109,966	117,498	322,012	439,510	(80)	439,429
Increase in tangible and intangible fixed assets	6,674	66,840	60,463	133,978	35,337	169,314	24,576	193,890

(Related information)

(1) Products and services information

Millions of yen				
Year Ended March 31, 2018	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥443,793	¥757,360	¥20,845	¥1,221,998

Millions of yen				
Year Ended March 31, 2017	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥438,995	¥663,630	¥10,739	¥1,113,364

Thousands of U.S. dollars				
Year Ended March 31, 2018	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$4,186,724	\$7,144,908	\$196,648	\$11,528,280

(2) Geographic area information

Sales information by geographic area was as follows:

Millions of yen				
Year Ended March 31, 2018	Japan	North America	Other Area	Total
	¥870,641	¥227,017	¥124,340	¥1,221,998

Note: ¥226,671 million of North America total due to the United States

Year Ended March 31, 2017	Millions of yen			
	Japan	North America	Other Area	Total
	¥871,458	¥130,750	¥111,157	¥1,113,364

Note: ¥130,214 million of North America total due to the United States

Year Ended March 31, 2018	Thousands of U.S. dollars			
	Japan	North America	Other Area	Total
	\$8,213,590	\$2,141,668	\$1,173,022	\$11,528,280

Note: \$2,138,408 thousand of North America total due to the United States

Information of property, plant and equipment by geographical areas was as follows:

As of March 31, 2018	Millions of yen			
	Japan	Oceania	Other Area	Total
	¥94,382	¥47,684	¥11,047	¥153,113

Note: ¥39,215 million of Oceania total due to New Zealand

As of March 31, 2017	Millions of yen			
	Japan	Oceania	Other Area	Total
	¥78,195	¥48,846	¥18,757	¥145,798

Note: ¥40,617 million of Oceania total due to New Zealand

As of March 31, 2018	Thousands of U.S. dollars			
	Japan	Oceania	Other Area	Total
	\$890,392	\$449,847	\$104,220	\$1,444,460

Note: \$369,956 thousand of Oceania total due to New Zealand

(3) Customer information

Customer information has been omitted since sales and contract revenues from no single customer exceeded 10% of consolidated net sales.

(Information of loss on impairment of fixed assets)

Year Ended March 31, 2018	Millions of yen					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Loss on impairment of fixed assets	¥—	¥—	¥5,727	¥—	¥—	¥5,727

Year Ended March 31, 2017	Millions of yen					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Loss on impairment of fixed assets	¥30	¥—	¥—	¥—	¥—	¥30

Year Ended March 31, 2018	Thousands of U.S. dollars					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Loss on impairment of fixed assets	\$—	\$—	\$54,032	\$—	\$—	\$54,032

(Amortization and balance of goodwill)

As of/Year Ended March 31, 2018	Millions of yen					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Amortization of goodwill	¥—	¥—	¥ 5,280	¥ 168	¥—	¥ 5,448
Balance of goodwill	—	—	12,898	2,864	—	15,762

As of/Year Ended March 31, 2017	Millions of yen					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Amortization of goodwill	¥—	¥—	¥ 2,274	¥—	¥—	¥ 2,274
Balance of goodwill	—	—	11,065	—	—	11,065

As of/Year Ended March 31, 2018	Thousands of U.S. dollars					Total
	Timber and Building Materials	Housing	Overseas	Other	Elimination and/or Corporate	
Amortization of goodwill	\$—	\$—	\$ 49,810	\$ 1,589	\$—	\$ 51,400
Balance of goodwill	—	—	121,684	27,018	—	148,701

21. Amounts per Share

(a) Basic and diluted profit attributable to owners of parent per share
Details on the computation of net income per share and net income per share fully diluted as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Profit attributable to owners of parent per share—Basic:			
Profit attributable to owners of parent	¥ 30,135	¥ 34,532	\$284,295
Income not available to common stockholders	—	—	—
Profit attributable to owners of parent available to common stockholders	30,135	34,532	284,295
Weighted average number of shares issued	178,859,807	177,129,048	—
Profit attributable to owners of parent per share fully diluted—Diluted:			
Adjusted profit attributable to owners of parent	—	—	—
Common shares increase	10,889,784	10,784,027	—
(Convertible bonds with stock acquisition rights)	(10,785,741)	(10,719,837)	—
(Subscription rights to shares)	(104,043)	(64,190)	—

(b) Net assets per share

Details on the computation of net assets per share as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net assets per share:			
Total net assets	¥ 345,639	¥ 295,857	\$3,260,745
Amounts deducted from total net assets:	34,002	20,946	320,775
(Subscription rights to shares)	(129)	(82)	(1,220)
(Non-controlling interests)	(33,873)	(20,864)	(319,555)
Net assets attributable to shares of common stock	311,637	274,911	2,939,970
The number of shares of common stock used for the calculation of net assets per share	181,284,002	177,128,269	—

22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrealized gain (loss) on available-for-sale securities:			
Amount incurred during the year	¥11,260	¥13,804	\$106,230
Reclassification adjustments for gains and losses included in net income	(110)	(87)	(1,038)
Amount before tax effect	11,150	13,717	105,192
Tax effect	(3,456)	(4,083)	(32,607)
Unrealized gain (loss) on available-for-sale securities	7,694	9,634	72,586
Deferred gain (loss) on hedges:			
Amount incurred during the year	(203)	(34)	(1,913)
Reclassification adjustments for gains and losses included in net income	—	3	—
Amount before tax effect	(203)	(32)	(1,913)
Tax effect	62	10	586
Deferred gain (loss) on hedges	(141)	(22)	(1,327)
Translation adjustments:			
Amount incurred during the year	(756)	748	(7,131)
Reclassification adjustments for gains and losses included in net income	—	(398)	—
Amount before tax effect	(756)	350	(7,131)
Tax effect	—	—	—
Translation adjustments	(756)	350	(7,131)
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	(186)	(162)	(1,751)
Reclassification adjustments for gains and losses included in net income	(698)	(34)	(6,581)
Share of other comprehensive income of affiliates accounted for by the equity method	(883)	(196)	(8,332)
Total other comprehensive income	¥ 5,914	¥ 9,766	\$ 55,795

23. Asset Retirement Obligations

In accordance with exhibition contracts at housing exhibition sites and tenancy contracts for offices, the Company and certain subsidiaries are obligated to remove leasehold improvements attached to these housing exhibitions and offices and return the property to its original state after vacating the premises.

The asset retirement obligations are determined and discounted to their present value using the discount rates ranging from 0.00% to 2.15% and the anticipated future useful lives ranging from 5 years to 49 years.

The changes in the asset retirement obligations for the years ended March 31, 2018 and 2017 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of the year	¥1,488	¥1,406	\$14,039
Liability incurred for assets acquired	104	116	985
Accretion expense	10	10	96
Liabilities settled	(96)	(44)	(906)
Balance at end of the year	¥1,507	¥1,488	\$14,214

24. Related Party Transactions

Principal transactions between the Company, the Company's consolidated subsidiaries and their related parties for the year ended March 31, 2018 were summarized as follows:

2018			Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Name	Title	Transactions	Amounts	Amounts	Balance at the end of the year	Balance at the end of the year
Noriaki Toi	Corporate auditor of the Company	Sales of housing	¥20	\$186	¥21	\$201

Notes: 1. The price for sales of housing was determined based on the same terms as third party transactions.
2. The transaction amounts do not include consumption tax while balance at the end of the year includes consumption tax.

There are no items to be disclosed for the year ended March 31, 2017.

25. Business Combination

Acquisition of shares of subsidiaries (Finalization of provisional accounting treatment of business combination involving Edge Homes Group)

Provisional accounting treatment had been applied to the business combination involving the Edge Homes Group (Edge Utah HoldCo, LLC and 17 other companies) that was conducted on February 9, 2017 (U.S. date) in the previous fiscal year, but it has been finalized in the fiscal year ended March 31, 2018. In conjunction with the finalization of this provisional accounting treatment, an important adjustment has been made to the initial purchase price allocation. As a result, the provisionally calculated goodwill in the amount of ¥5,018 million (\$47,337 thousand) decreased by ¥1,124 million (\$10,604 thousand) to ¥3,894 million (\$36,733 thousand) with the finalization of the accounting treatment, and it will be amortized by the straight-line method over three years. The decrease in goodwill is due to a ¥72 million (\$678 thousand) adjustment of the purchase price as well as a ¥42 million (\$401 thousand) increase in real estate for sale, a ¥633 million (\$5,971 thousand) increase in real estate for sale in process, a ¥1,192 million (\$11,242 thousand) increase in other intangible assets, a ¥159 million (\$1,497 thousand) increase in deferred tax liabilities and a ¥513 million (\$4,835 thousand) increase in non-controlling interests.

(Acquisition of additional shares of Bloomfield Homes, L.P. and one other company)

The Company acquired additional shares of Bloomfield Homes, L.P. and one other company, which were equity-method affiliates, through its U.S. subsidiary, Sumitomo Forestry America, Inc., to make them its subsidiaries.

1. Summary of the business combination

(1) Name of the acquiree and business description
Name of the acquiree: Bloomfield Homes, L.P. and one other company
Description of business: Building and sales of homes

(2) Main reason for implementing the business combination
Since its acquisition of an equity interest in the acquiree in June 2013, the Company has developed a good partnership with Bloomfield Homes, L.P. and one other company and has successfully expanded the scale of its businesses. The Company has made them subsidiaries in order to deepen its involvement in their businesses, and to achieve long-term profit expansion.

(3) Date of the business combination
May 2, 2017 (U.S. date)

(4) Legal form of the business combination
Acquisition of shares for a cash consideration

(5) Name of the merged entity
No change in name

(6) Ratio of voting rights acquired
Equity interest held by the Company before acquisition 50%
Equity interest to be acquired 15%
Equity interest to be held by the Company after acquisition 65%

(7) Main reasons for determining the acquirer
The Company's consolidated subsidiary, Sumitomo Forestry America, Inc., has acquired the shares for a cash consideration.

2. Period for which the business results of the acquiree are included in the consolidated financial statements of the Company

From April 1, 2017 to December 31, 2017
Operational results of the acquiree from January 1, 2017 to March 31, 2017 were recorded as equity in earnings (losses) of affiliates as the transaction was deemed to have been completed on April 1, 2017.

3. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisitions: ¥13,650 million (\$128,772 thousand)
Costs incurred additionally for acquisition ¥ 4,095 million (\$ 38,631 thousand)
Acquisition cost: ¥17,745 million (\$167,403 thousand)

4. Description and amount of primary acquisition-related costs

Advisory fee: ¥3 million (\$31 thousand)

5. Difference of total cost of acquisition and individual acquisition costs

Gain on step acquisition: ¥6,464 million (\$60,985 thousand)

6. Amount of goodwill, reason for recognition, and amortization method and period

(1) Amount of goodwill
¥7,223 million (\$68,138 thousand)

(2) Reason for recognition
The acquisition cost exceeded the fair value of net assets acquired at the date of business combination.

(3) Amortization method and period
Straight-line amortization over 3 years

7. Assets acquired and liabilities assumed at the date of business combination

See Note 12.

8. Estimated impact on the consolidated statement of income in the year ended March 31, 2018, assuming that the business combination was concluded on April 1, 2017, and the method of calculation

	Millions of yen	Thousands of U.S. dollars
Sales	¥10,168	\$95,926
Recurring income	958	9,034
Net income	322	3,034

(Method by which estimated amounts were calculated)

The estimated amounts were calculated based on the difference between financial information on sales and income calculated on the assumption that the business combination was concluded at the beginning of the year ended March 31, 2018 and financial information on sales and income contained in the consolidated statement of income of the acquiring company.

The estimated amounts of the impact have not been audited.

26. Stock Option Plan

1. Stock option expenses per accounts for the years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Selling, general and administrative expenses	¥48	¥46	\$449

2. Description of stock options

(1) Description of stock options

	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Individuals covered by the plan	Directors of the Company: 8 Executive officers of the Company: 11 Total: 19	Directors of the Company: 8 Executive officers of the Company: 13 Total: 21	Directors of the Company: 8 Executive officers of the Company: 12 Total: 20
Number of stock options granted by class of share (Note)	Common stock: 38,800 shares	Common stock: 41,400 shares	Common stock: 38,500 shares
Grant date	August 20, 2015	August 19, 2016	August 18, 2017
Vesting conditions	No provisions	No provisions	No provisions
Eligible service period	No provisions	No provisions	No provisions
Exercise period	From August 21, 2015 to August 20, 2035	From August 20, 2016 to August 19, 2036	From August 19, 2017 to August 18, 2037

Note: Converted into the number of equivalent shares.

(2) Volume and changes in stock options

The number of stock options is converted into the number of equivalent shares.

1) Number of stock options

Year Ended March 31, 2018	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Unvested stock options			
As of March 31, 2017	—	—	—
Granted	—	—	38,500
Forfeited	—	—	—
Vested	—	—	38,500
Unvested	—	—	—
Vested stock options			
As of March 31, 2017	38,800	41,400	—
Vested	—	—	38,500
Exercised	—	—	—
Forfeited	—	—	—
Unexercised	38,800	41,400	38,500

2) Unit price information

Year Ended March 31, 2018	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price when exercised	—	—	—
Fair unit value on the grant date	¥1,233	¥1,092	¥1,256

3. Method for estimating a fair unit price for stock options

The method used to estimate a fair unit price for the Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type) as of the end of the current fiscal year is described below.

(1) Valuation technique used: Black-Scholes model

(2) Principal parameters and estimation method used

Year Ended March 31, 2018	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Stock price volatility (Note 1)	33.18%
Expected remaining period (Note 2)	11.5 years
Expected dividends per share (Note 3)	¥35 (\$0.33)
Risk-free rate (Note 4)	0.114%

Notes: 1. Stock price volatility was computed by the actual stock prices of the Company during the period from February 17, 2006 to August 18, 2017.
2. Expected remaining period was estimated based on the assumption that the options are exercised in the middle of the exercise period.
3. The expected dividends per share was calculated at the actual amount for the year ended March 31, 2017.
4. The risk-free rate was the yield on Japanese government bonds for the period that corresponds to the expected remaining period.

4. Method for estimating the number of vested stock options

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been forfeited is reflected.

27. Subsequent Events

(Business combination through acquisition)

At the board meeting of the Company held on April 27, 2018, a resolution was passed to acquire all interests in the new company taking over the business of US-based Crescent Communities, LLC through the consolidated subsidiary Sumitomo Forestry America, Inc. The Company intends to make it a consolidated subsidiary.

1. Summary of the business combination

(1) Name of the acquiree and business description

Name of the acquiree: TBD

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

(2) Main reason for implementing the business combination

In July 2017, the Group began developing apartments in North Carolina in the United States of America as a joint venture with Crescent Communities, LLC. Given the existing good partnership with Crescent Communities, LLC, the Group has decided to acquire all interests in the new company for the purpose of business diversification and stabilization of earnings.

(3) Date of the business combination

June 30, 2018 (as planned)

(4) Legal form of the business combination

Acquisition of shares for a cash consideration

(5) Ratio of voting rights acquired

100%

(6) Main reasons for determining the acquirer

Sumitomo Forestry America, Inc., the Company's consolidated subsidiary, is going to acquire the shares for a cash consideration.

2. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisition	Cash	¥39,300 million (\$371,000 thousand)
Acquisition cost		¥39,300 million (\$371,000 thousand)

Note: The amount above is provisional as of the date the agreement was signed. The actual amount may vary depending on any value adjustment.

3. Amount of goodwill, reason for its recognition, and amortization method and period

Not yet determined.

(Introduction of a remuneration plan through shares with restriction on transfer)

At the board meeting held on May 11, 2018, the Company revised its executive remuneration plans and resolved to introduce a remuneration plan (the "Plan") through shares with restriction on transfer. The Plan was approved at the 78th Annual General Meeting of Shareholders held on June 22, 2018.

1. Purpose of the Plan implementation

As part of the revision of its executive remuneration plans, the Company proposed to introduce a remuneration plan through which shares

with restriction on transfer will be allotted to Directors (excluding Outside Directors), in order to give them incentives to strive to increase the medium- and long-term corporate value of the Company, at the same time as realizing a prompt sharing of value with the Company's shareholders by having such Directors hold shares from the time of an allotment, as compared to the stock acquisition rights designed as stock-based compensation stock options.

2. Outline of the Plan

(1) Allotment of and payment for the shares with restriction on transfer
The Company will, pursuant to the resolution of the board meeting, provide to Directors (excluding Outside Directors) monetary compensation receivables within ¥100,000,000 per year, as remuneration in order to conduct an allotment of shares with restriction on transfer. Each Director will accept an allotment of shares with restriction on transfer by providing all of such monetary compensation receivables as a contribution in kind.

The amount to be paid in for shares with restriction on transfer will be determined by the board of directors, based on the closing price of the common shares of the Company quoted on the Tokyo Stock Exchange as of the business day immediately preceding the date of resolution of the board meeting concerning issuance or disposition of such shares (if no transaction is executed on such date, then the closing price quoted as of the immediately preceding trading day), of which the amount shall be within the scope that will not be particularly beneficial to Directors who will accept such shares with restriction on transfer.

With respect to provision of the monetary compensation receivables, such shall be made on condition that Directors of the Company have agreed to the contribution in kind stated above and that Directors have concluded an agreement on an allotment of shares with restriction on transfer containing the contents set forth in (3) below.

(2) Total number of the shares with restriction on transfer

The maximum number of shares with restriction on transfer to be allotted to Directors (excluding Outside Directors) during the period of one year commencing on the date of the relevant annual general meeting of shareholders pertaining to each fiscal year shall be 350,000 shares.

Notwithstanding the foregoing, if a share split (including an allotment of the common shares of the Company without contribution) or a reverse share split of the common shares of the Company is conducted, or in the event of arising of any other equivalent case which requires an adjustment of the total number of shares with restriction on transfer to be allotted, the Company may make an appropriate adjustment to such total number of shares with restriction on transfer within the reasonable scope.

(3) Outline of the agreement on allotment of shares with restriction on transfer

Upon an allotment of shares with restriction on transfer, the Company and Directors who will receive the allotment of shares with restriction on transfer shall conclude an agreement on the allotment of shares with restriction on transfer (the "Allotment Agreement") containing the following provisions, pursuant to the resolution of the board meeting.

- Details of restriction on transfer

Directors who have received an allotment of shares with restriction on transfer may not assign, provide as collateral or otherwise dispose of such shares with restriction on transfer to a third party for a period of 30 years ("Restriction Period").

- Treatment upon retirement

If any Director who has received an allotment of shares with restriction on transfer retires from the post of both Director and Executive Officer of the Company on or prior to the day immediately preceding the date of the first annual general meeting of shareholders of the Company arriving on or after the commencement date of the Restriction Period, the Company shall automatically acquire shares with restriction on transfer allotted to such Director ("Allotted Shares") without consideration, except for the case of expiry of term of office, death or where there is any other reason deemed justifiable by the board of directors.

- Removal of restriction on transfer

On condition that Directors who has received an allotment of shares with restriction on transfer continues to be in the office of either Director or Executive Officer of the Company during the period commencing on the date of commencement of the Restriction Period until the date of the first annual general meeting of shareholders of the Company arriving on or after the date of commencement of the Restriction Period, the Company shall remove the restriction on transfer in respect of all of the Allotted Shares as at the time of expiry of the Restriction Period. Notwithstanding the foregoing, if the relevant Director retires from the post of both Director and Executive Officer of the Company prior to the expiry of the Restriction Period due to expiry of term of office, death or any other reason deemed justifiable by the board of directors, the number of the Allotted Shares subject to removal of restriction on transfer and the timing of removal of restriction on transfer shall be adjusted in a reasonable manner and as required.

From among the Allotted Shares, should there be any of them with respect to which removal of restriction on transfer under the provisions of this item has not been made at the time of expiry of the Restriction Period, the Company shall automatically acquire them without consideration.

- Treatment at the time of entity conversion or the like

If a proposal concerning a merger agreement where the Company becomes the disappearing company, share exchange agreement or share transfer plan where the Company becomes the wholly-owned subsidiary, or any other proposal regarding entity conversion or the like is passed at the Company's general meeting of shareholders (or at the board of directors, where such entity conversion or the like does not require approval of the Company's general meeting of shareholders) during the Restriction Period, the Company shall, prior to the date of effectuation of such entity conversion or the like, remove the restriction on transfer for the number of the Allotted Shares reasonably determined considering the period from date of commencement of the Restriction Period until the date of approval of such entity conversion or the like, pursuant to the resolution of the board meeting.

In this case, the Company shall automatically acquire without consideration the Allotted Shares with respect to which the restriction on transfer still is not removed as at the time immediately after the removal of the restriction on transfer pursuant to the foregoing provision.

- Others provisions

In addition to the above, the method of manifestation of intention and notice under the Allotment Agreement, method of amendment of the Allotment Agreement and other matters determined by the board of directors shall be included in the Allotment Agreement.

<Reference Information>

The Company also plans to introduce a plan which shall be equivalent to the Plan, for the Company's Executive Officers (excluding Executive Officers who concurrently serve as Directors).

Independent Auditor's Report

The Board of Directors
Sumitomo Forestry Co., Ltd.

We have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 22, 2018
Tokyo, Japan

Sumitomo Forestry Group Overview

(As of July 31, 2018)

Domestic Group Overview

■ Sumitomo Forestry Crest Co., Ltd.	Manufacture and sale of various types of plywood, building components for housing, and adhesives, etc.
■ Sumitomo Forestry Wood Products Co., Ltd.	Procurement and sale of Japanese timber, management of forest, and forestry-related businesses
■ Sumirin Sash Co., Ltd.	Secondary processing and sale of aluminum sashes, exterior finishing
■ Sumikyo Wintec Co., Ltd.	Sale of door and window sashes for housing and low- and mid-rise buildings, and exterior finishing materials
■ Sumikyo Co., Ltd.	Secondary processing and sale of aluminum sashes, exterior finishing
■ Igeto Co., Ltd.	Sale of housing materials and equipment
■ Daiichisansho Co., Ltd.	Sale of housing materials and equipment, interior and exterior finishing
■ Nihei Co., Ltd.	Sale of housing materials and equipment, ancillary work
■ Home Eco Logistics Co., Ltd.	Distribution services for home building materials
■ Nichiha Fuji Tech Co., Ltd.	Manufacture and sale of ceramics and construction materials
■ Sumitomo Forestry Home Service Co., Ltd.	Sales agent for land and housing
■ Sumitomo Forestry Residential Co., Ltd.	Management of condominiums and apartments
■ Sumitomo Forestry Home Tech Co., Ltd.	Renovation and maintenance of Sumitomo Forestry's custom-built wooden detached homes and renovation of regular detached houses, stores and offices, as well as condominiums
■ Sumitomo Forestry Landscaping Co., Ltd.	Urban greening, landscaping for private residences, plant management, procurement and sale of trees and landscape materials, plant rental, production and sale of nursery compost, culture soil for gardening, etc.
■ Sumitomo Forestry Home Engineering Co., Ltd.	Construction and construction supervision of Sumitomo Forestry's custom-built wooden detached homes
■ Sumitomo Forestry Archi Techno Co., Ltd.	Design, production support, site and foundation surveys, analysis of foundation and application for housing performance evaluation for Sumitomo Forestry's custom-built wooden detached homes
■ Meikan Honchoshia PFI Co., Ltd.	Redevelopment of headquarters, etc., of Nagoya Port Authority
■ Japan Bio Energy Co., Ltd.	Intermediate processing of industrial waste products, and supply and sale of wood chips
■ Kawasaki Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Okhotsk Bio Energy Co., Ltd.	Supply and sale of wood chips
■ Mombetsu Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Michinoku Bio Energy Co., Ltd.	Supply and sale of wood chips
■ Hachinohe Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Tomakomai Biomass Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Sumitomo Forestry Information Systems Co., Ltd.	Development of computer systems, etc.
■ Sumirin Wood Peace Co., Ltd.	Bed log shiitake mushroom cultivation and sale, production and processing of timber and interior products, printing
■ Sumirin Enterprises Co., Ltd.	Various services for insurance agency, equipment leasing, office services, etc.
■ Sumirin Business Service Co., Ltd.	Staffing business, training, business contracting
■ Kawanokita Development Co., Ltd.	Management of the Takinomiya Country Club golf course
■ Sumirin Fill Care Co., Ltd.	Management of private-pay elderly care facilities, etc.
■ Sumirin Care Life Co., Ltd.	Management of private-pay elderly care facilities, home nursing care service
■ Kumagai Gumi Co., Ltd.	Construction and peripheral businesses

Overseas Group Overview

< Singapore >		
■ Sumitomo Forestry (Singapore) Ltd.		Import/export and wholesale of timber and building materials, oversight and participation in management of affiliates in Asia
< Hong Kong >		
■ 住林香港有限公司 SUMIRIN HONG KONG LIMITED		Management of affiliated companies in Hong Kong
■ 怡峰控股有限公司 Rainbow Alpha Holdings Limited		Development of condominium complexes
< China >		
■ 住友林業(大連)商貿有限公司 Sumitomo Forestry (Dalian) Ltd.		Import/export and wholesale of timber and building materials
■ 派爾剛聯合木製品(大連)有限公司 Paragon Wood Product (Dalian) Co., Ltd.		Design and construction of wooden housing, interior design and construction of housing and offices
■ 派爾剛木製品(上海)有限公司 Paragon Wood Product (Shanghai) Co., Ltd.		Interior design and construction of housing and offices, manufacturing, processing and sale of trusses
■ 大連住林信息技術服務有限公司 Dalian Sumirin Information Technology Service Co., Ltd.		Contracted CAD work and other business processing
■ 北京金隅裝飾工程有限公司 Beijing BBMG Decoration Engineering Co., Ltd.		Interior design and construction of housing and offices

< U.S.A. >		
■ Sumitomo Forestry America, Inc.		Oversight and participation in management of affiliated companies in U.S.A.
■ Canyon Creek Cabinet Company		Manufacture and sale of kitchen cabinets
■ Bloomfield Group ■ Bloomfield Homes, L.P.		Construction and sale of spec homes
■ Gehan Homes Group ■ Gehan Homes, Ltd.		Construction and sale of spec homes
■ MainVue Homes Group ■ MainVue Homes LLC		Construction and sale of spec homes
■ Dan Ryan Builders Group ■ DRB Enterprises, LLC		Construction and sale of spec homes
■ Edge Homes Group ■ Edge Utah HoldCo, LLC		Construction and sale of spec homes
■ Crescent Communities II, LLC		Multi-family housing development, commercial complex development, etc.
■ Mark III Properties, LLC		Land development



< Indonesia >		
■ PT. Sumitomo Forestry Indonesia		Import/export and wholesale of timber and building materials
■ PT. Mayangkara Tanaman Industri		Large-scale forestation
■ PT. Wana Subur Lestari		Large-scale forestation
■ PT. Kutai Timber Indonesia		Manufacture and sales of plywood, secondary processed plywood, processed timber products and particle board
■ PT. Rimba Partikel Indonesia		Manufacture and sale of particle board
■ PT. Sinar Rimba Pasifik		Manufacture and sale of wooden interior products
■ PT. AST Indonesia		Manufacture and sale of materials for musical instruments, speaker materials and wooden building materials
< Myanmar >		
■ Sumitomo Forestry (Singapore) Ltd. Yangon Branch		Import/export and wholesale of timber and building materials, collect information on overseas locations
■ MOS Lumber Products Co., Ltd.		Manufacture and sale of processed timber products
< Thailand >		
■ SF Holdings (Thailand) Co., Ltd.		Management of affiliated companies in Thailand
■ PAN ASIA PACKING LTD.		Procurement and sale of wooden packaging materials and wood products
< Vietnam >		
■ Sumitomo Forestry (Vietnam) Co., Ltd.		Import/export and wholesale of timber and building materials
■ Vina Eco Board Co., Ltd.		Manufacture and sale of particle board
< India >		
■ Sumitomo Forestry India Pvt. Ltd.		Import/export and wholesale of timber and building materials, etc.
■ Spacewood Furnishers Pvt. Ltd.		Manufacture and sale of wooden interior products

< Australia >		
■ Sumitomo Forestry Australia Pty Ltd.		Oversight and participation in management of affiliated companies in Australia; import / export and wholesale of timber and building materials
■ Henley Group ■ Henley Arch Pty Ltd. (Henley Arch Unit Trust)		Construction and sale of custom-built homes and spec homes
■ Wisdom Group ■ Wisdom Properties Group Pty Ltd.		Construction and sale of custom-built homes and spec homes
< New Zealand >		
■ Sumitomo Forestry NZ Ltd.		Management of affiliated companies in New Zealand
■ Nelson Pine Industries Ltd.		Manufacture and sale of medium-density fiberboard (MDF), veneer and laminated veneer lumber (LVL)
■ Tasman Pine Forests Ltd.		Large-scale forestation
< Papua New Guinea >		
■ Open Bay Timber Ltd.		Large-scale forestation

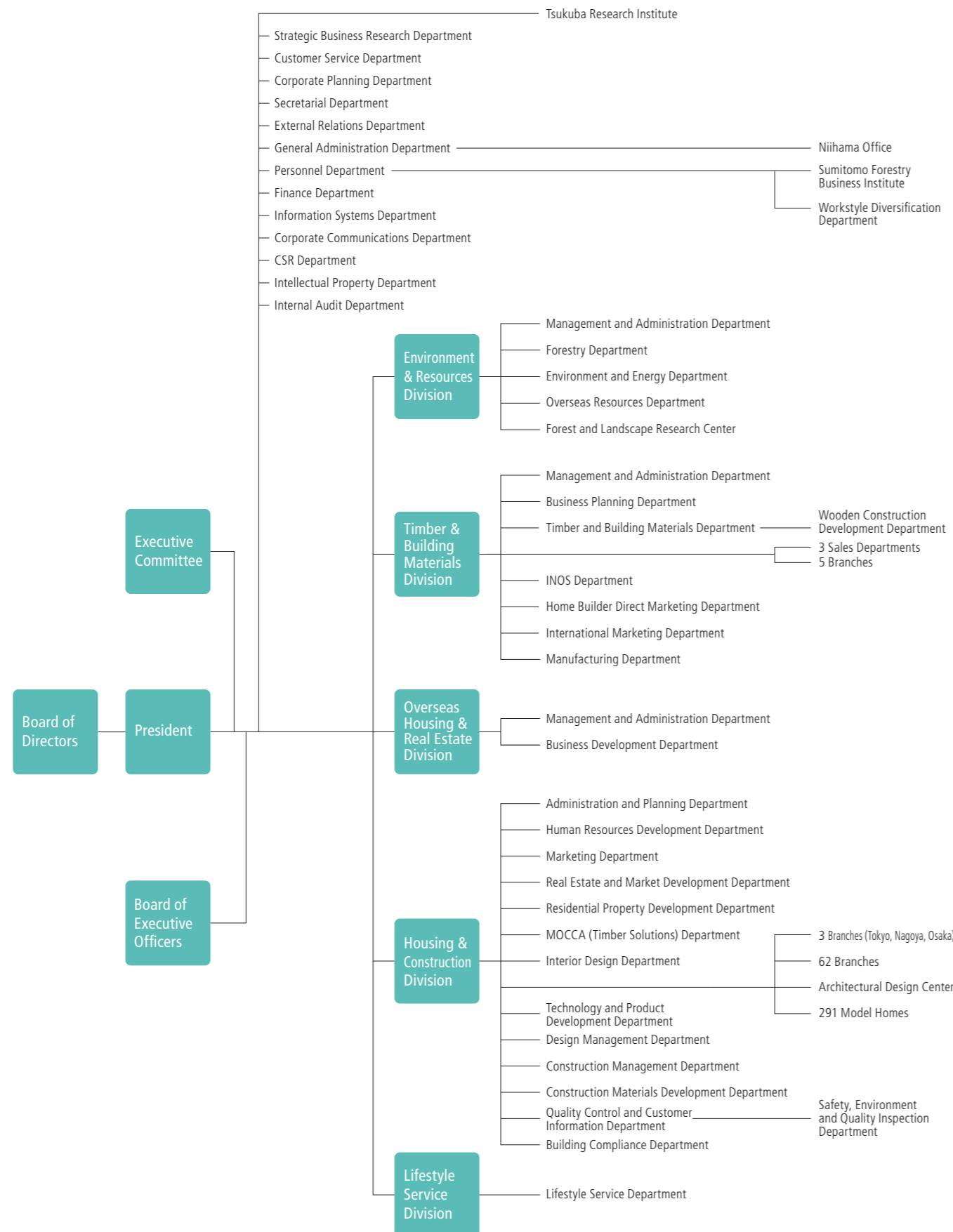
■ Timber and Building Materials Business
 ■ Overseas Housing and Real Estate Business
 ■ Other Businesses

Overseas Offices

- Vancouver Office (Canada)
- Amsterdam Office (Netherlands)
- Kota Kinabalu Office (Malaysia)

Organization Chart

(As of April 1, 2018)



Stock Information

Company Outline (As of March 31, 2018)

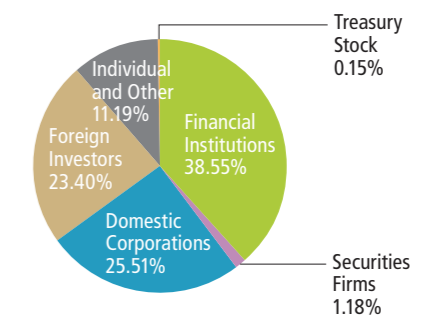
Company Name	Sumitomo Forestry Co., Ltd.
Founded	1691
Incorporated	1948
Paid-in Capital	¥32,672 million
Stock Exchange Listing	Tokyo
Total Number of Authorized Shares	400,000,000
Total Number of Shares Issued	182,607,739
Ordinary Shareholders' Meeting	June
Number of Shareholders	10,502
Head Office	Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Consolidated Subsidiaries	110 (Overseas 80)
Affiliated Companies	29 (Overseas 24)
Number of Employees (Consolidated)	18,195
Homepage	http://sfc.jp/english/
Independent Auditors	Ernst & Young ShinNihon LLC
Contact Information	Sumitomo Forestry Co., Ltd. Corporate Communications Department IR Team Tel : 81-3-3214-2270 Fax: 81-3-3214-2272

Major Shareholders (As of March 31, 2018)

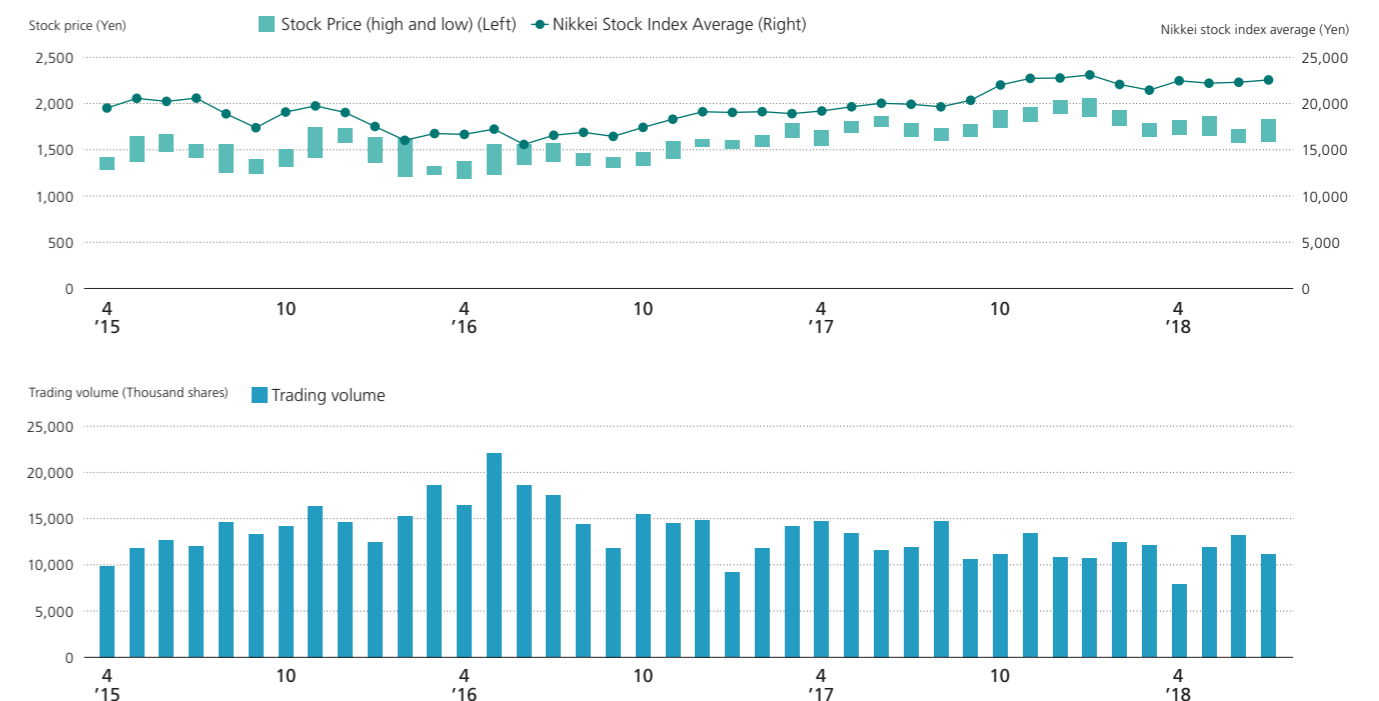
Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	10,419	5.7
Sumitomo Metal Mining Co., Ltd.	10,110	5.5
Japan Trustee Services Bank, Ltd. (trust account)	7,332	4.0
The Iyo Bank, Ltd.	5,849	3.2
Kumagai Gumi Co., Ltd.	5,197	2.8
Japan Trustee Services Bank, Ltd. (trust account 9)	4,442	2.4
Sumitomo Corporation	4,383	2.4
Sumitomo Life Insurance Company	4,227	2.3
The Hyakujushi Bank, Ltd.	4,197	2.3
Sumitomo Mitsui Banking Corporation	4,136	2.2

* Rounded down to the nearest thousand.
* The shareholding ratio is calculated by subtracting treasury stock from the total number of outstanding shares.

Breakdown of Shareholders (As of March 31, 2018)



Stock Price and Trading Volume



Why do people love trees? Probably because humans have co-existed with trees on earth for ages and we have become intimately aware of how extraordinary they are. Trees have a kindness about them. They produce oxygen that sustains life on earth and they give shade that blocks scorching sunlight. Trees have warmth. When you touch a tree, instead of heat being drawn away from your body, you feel warmth. And trees protect us. Harboring soft-skinned humans in their bounty, they shelter us from heat, cold, wind and rain. Beyond all this, trees are beautiful. Anyone who has spent time in a place filled with trees knows their strength to comfort and heal body and soul. Helping to keep the world thriving with the bounty of trees is our work. Trees are an invaluable resource, vital and intimately connected to life. No other work could bring such joy and happiness — that's how we at the Sumitomo Forestry Group feel when we consider the boundless importance of trees.

Our work is not only about using trees. It's about sustaining life on earth with trees. We plant trees, nurture their growth, and seek new ways to expand their potential. We strive to share the joy of living amongst the abundant gifts of trees with everyone on earth. Today there is growing awareness of the need for a sustainable society. The Sumitomo Forestry Group shares this commitment. Together, let's nurture growth that will thrive long into the future.

Happiness Grows from Trees
Sumitomo Forestry Group

