

Interview with the President

As we work toward reaching the goals of our new medium-term management plan, we will build an earnings portfolio that can respond to changes in the times, building an even stronger business base to achieve sustainable growth.

Akira Ichikawa
President and Representative Director



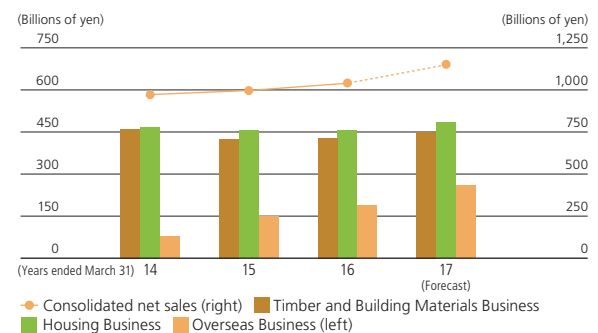
Fiscal 2015 (the fiscal year ended March 31, 2016) Consolidated Results

Net sales broke through ¥1,000 billion for the first time since our foundation, with recurring income exceeding ¥30.0 billion for the third consecutive year.

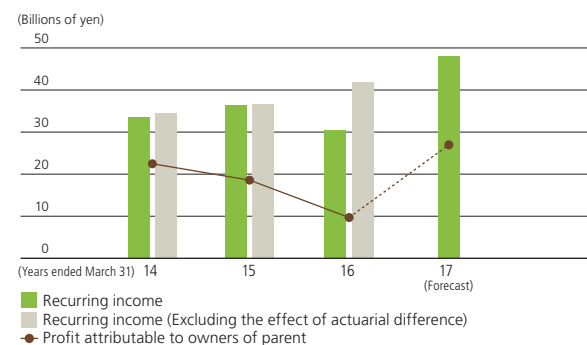
In fiscal 2015, the domestic economy continued on a gradual recovery, boosted by factors such as an improved employment situation and an increase in capital investment. While individual consumption showed signs of overall sluggishness, in the housing market, new housing starts turned to a recovery trend, increasing 4.6% year on year to 921,000 units. Of these, 284,000 were owner-occupied homes, a year on year increase of 2.2%. In the global economy, the United States showed strength, but with an economic slowdown in emerging countries, the recovery as a whole has been gradual.

Under these conditions, we worked to focus on improving profitability by providing better products and services in our mainstay domestic businesses, the Timber and Building Materials Business and the Custom-Built Detached Housing Business. We also boosted our business performance overall by expanding our Overseas Business through M&As and other efforts. As a result, consolidated net sales rose 4.3% year on year to ¥1,040.5 billion, surpassing the ¥1,000 billion threshold for the first time. Meanwhile, recurring income fell by 16.2% year on year to ¥30.5 billion, due to recording a single fiscal year lump-sum depreciation of ¥11.5 billion in expenses for actuarial difference in accounting for retirement benefits with the impact of lower market interest rates. Profit attributable to owners of parent was down 47.6% year on year to ¥9.7 billion. However, the Company secured recurring income to exceed ¥30.0 billion for the third consecutive year. Note

Consolidated Net Sales and Segment Sales



Recurring Income and Profit Attributable to Owners of Parent





Sumitomo Forestry's Tsukuba Research Institute (Sustainable Energy House)

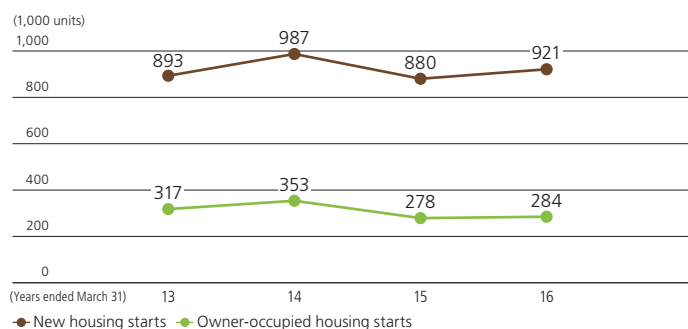
that, excluding the impact of actuarial losses, recurring income on a core business basis was ¥42.0 billion, a year on year increase of 14.6%.

In the Housing Business, we continued our efforts in the Custom-Built Detached Housing Business to enhance product and service proposal capabilities and meet the increasingly diverse and sophisticated needs of customers. These efforts included advancing our Grand Estate Design Project, which is focused on providing high-quality residences with outstanding designs, and expanding sales of homes using our proprietary Big-Frame (BF) construction method, which offers superior earthquake resistance and the ability to create large spaces. We also expanded our sales bases for rental housing in response to growing demand. Meanwhile, in the Renovation Business, we increased staff, focused on expanding orders through upfront promotion of the Group's advanced technological capabilities in areas such as earthquake-resistance and thermal insulation, and endeavored to expand the operations of the Housing Business overall.

In the Timber and Building Materials Business, we worked to improve profitability by focusing on products responding to market changes, such as fuel chips for biomass power generators. We also worked to increase sales of timber and building materials in Southeast Asia, where growth is expected, including the establishment of a local company in India. We also expanded our business overseas primarily in the Pacific Rim.

In the Overseas Business, earnings grew due to an increase in the number of houses sold, supported by firm housing markets in the United States and Australia. We also acquired an equity interest in a housing firm doing business in the eastern part of the United States, further expanding the scale of our business there.

Number of New Housing Starts in Japan



Big Columns, more than five times wider than ordinary posts, are used in the Big-Frame construction method

Fiscal 2016 (the fiscal year ending March 31, 2017) Consolidated Forecast

The Group forecasts new record income and profit, with increases in sales and income across all segments.

The domestic economy is expected to continue on a recovery track, but there are concerns about the impact on economic trends of the postponement of another hike in the consumption tax and other uncertainties. Meanwhile, we believe the global economy will also show gradual growth, based on a brisk U.S. economy, though there are concerns about the impact of slowing growth in China and a further drop in oil prices.

Under these circumstances, we aim to maintain our handling volume of domestic market share in the Timber and Building Materials Business, while also increasing our share in existing product fields. At the same time, we will strengthen our response to growth markets such as renovation materials and accelerate overseas development. In the Housing Business, we will strengthen our differentiation by



Grand Estate Design Project (The Tachikawa Model Home)

enhancing the product lineup while pursuing nationwide development of the Grand Estate Design Project for responding to customers' various preferences. Furthermore, we will strengthen product and technical capabilities, for example by expanding orders for renovations of classic and traditional Japanese-style homes while at the same time advancing effective sales strategies. In addition to this, we will work to reduce costs in all areas to raise our competitiveness, capturing share even in the midst of uncertain market conditions and building a highly profitable business base.



Sumitomo Forestry Group renovation of a traditional Japanese-style house



A house built by the Dan Ryan Builders Group, in which we acquired a stake in January 2016 (operates on the U.S. East Coast)

In our Overseas Business, our efforts are aimed at ensuring the stable operation of our factories and bolstering our sales of high-value-added products such as lightweight wooden board, as we work to improve profitability. In the Overseas Housing and Real Estate Business, we will keep a close watch over market trends in each area and push forward to expand scale by considering entry into new regions, as well as M&A opportunities. In addition, we will leverage experience in Japan to expand the Overseas Business through new initiatives including entry facilitated by the Landscaping Business, which involves activities such as planting and gardening in detached housing areas.

Through these and other efforts, we expect net sales in fiscal 2016 to increase 10.5% year on year, to ¥1,150.0 billion, with recurring income up by 57.3% year on year to ¥48.0 billion and profit attributable to owners of parent increasing by 177.6% year on year to ¥27.0 billion. These represent a new record-high income and profit, with increases in sales and income across all segments.

Sumitomo Forestry Group 2018 Medium-Term Management Plan

Promoting Change for a New Stage

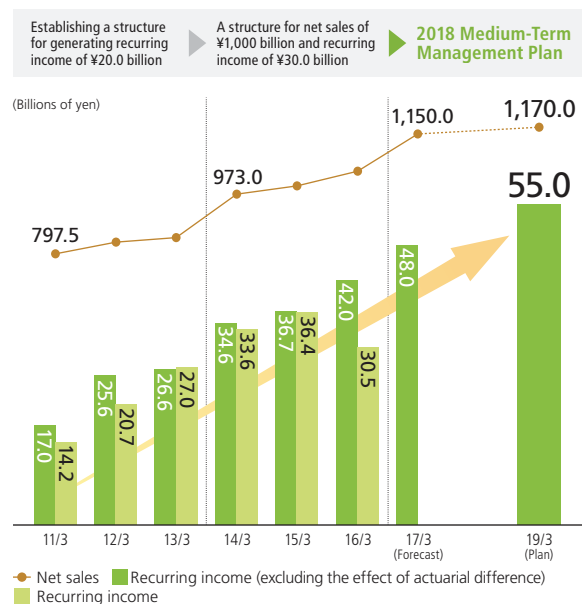
The Sumitomo Forestry Group has formulated a new three-year plan, the Sumitomo Forestry Group 2018 Medium-Term Management Plan, which establishes targets through the fiscal year ending March 31, 2019. The main theme of this medium-term management plan is "promoting change for a new stage." Its goal is to develop a business structure that allows for building a business base for sustainable growth, even in the midst of significant changes in the business environment in Japan and overseas.

Looking back over the past six years, in the three years between fiscal 2010 and fiscal 2012, we focused on creating a business structure capable of generating ¥20.0 billion in recurring income, primarily by reducing costs to improve profitability. In the following three-year period, we aimed to continue enhancing profitability while expanding the scale of our business, with the objective of building a business structure to support net sales in excess of ¥1,000 billion and ¥30.0 billion in recurring income. We believe we have largely achieved these targets, and plan to implement further reforms in anticipation of future growth.

Japan has entered the age of a matured society. Looking at the business environment from now on over the medium to long term, the birthrate will continue to fall and the population will age and decline. This era will be completely different from the past, where economic development was always assumed. We must therefore correctly anticipate changes and advance our business strategy.

➔ After steadily executing our plans to increase profitability and expand the scale of our business over the past six years, we are moving to a new growth stage.

Past Earnings Trends



For example, even if we cannot expect steady growth in the new housing market, we are projecting expansion in the renovation market. In earthquake-prone Japan, many homes do not meet the new earthquake resistance standard and as of 2013 there were still about 9 million homes with insufficient earthquake countermeasures. This means the seismic resistance ratio* for existing homes is only 82%. This is some distance from the government's goal of having 95% of existing homes seismic-resistance by 2020. In addition, to resolve the issue of more than about 8.2 million empty homes, renovation demand continues to rise. The Japanese housing market has entered an age of quality over quantity, against a backdrop of these social issues and customers' diversifying values. These trends will grow stronger going forward.

Moreover, looking overseas, population increases and economic growth continue, centered on Asia's emerging countries. Going forward, dramatic changes in the social environment are expected as lifestyle standards improve in emerging countries. In such an environment, it will not be possible to achieve growth by simply continuing with existing thoughts and values.

To respond flexibly to these market changes and achieve the objectives of the medium-term management plan, it is crucial that we change the Sumitomo Forestry Group's businesses and business portfolio.

Specifically, in the domestic Housing Business, we will expand the ratio of earnings from the Renovation Business and Apartment Business, which have promising markets, while maintaining the earnings scale in the Custom-Built Detached Housing Business, where the environment is severe. In addition, increasing the ratio of earnings from the Overseas Business, which is unaffected by the Japanese market environment, we will build an earnings structure with greater stability.

To do that, we will move forcefully to advance our business in line with the following three basic policies:

- (1) Pursuing a strategy that anticipates societal changes
- (2) Diversifying revenue sources in the global market
- (3) Transforming the value of wood

See the Feature section on pages 14–18 for details.

* Seismic resistance ratio: The number of houses with earthquake resistance meeting the current earthquake resistance standards introduced in 1981 versus the total number of houses (Ministry of Land, Infrastructure, Transport and Tourism 2013 estimate)

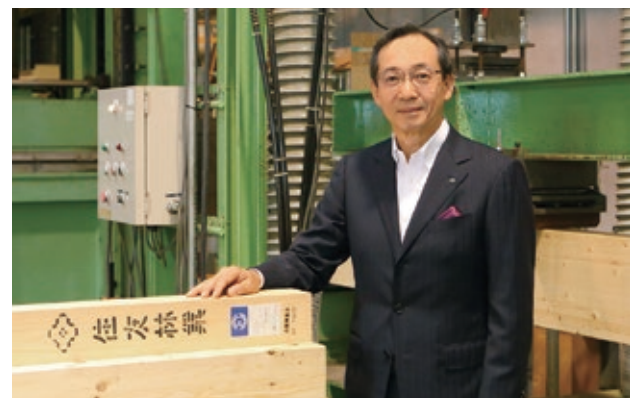
Pursuing a strategy that anticipates societal changes

Diversifying revenue sources in the global market

Sumitomo Forestry Group 2018 Medium-Term Management Plan

Transforming the value of wood

Over the next three years, we will build a stronger business base for sustainable growth by "Promoting Change for a New Stage"



Tsukuba Research Institute (wood material strength testing equipment)

Medium-Term Management Plan Numerical Targets

	Fiscal 2015 actual (year ending March 31, 2016)	Fiscal 2018 plan (year ending March 31, 2019)
Net sales	¥1,040.5 billion	¥1,170.0 billion
Recurring income	¥30.5 billion	¥55.0 billion
Net income attributable to owners of parent	¥9.7 billion	¥31.5 billion
Return on equity (ROE)	4.0%	10% or more

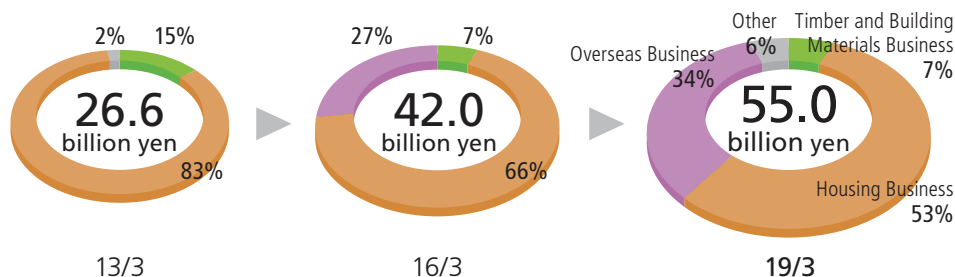
The aim is to achieve ¥1,170.0 billion in net sales and ¥55.0 billion in recurring income in fiscal 2018, the target year of the plan. The target for ROE will be to secure a return of 10% or more.

➔ Increase the ratio of overseas earnings further to achieve sustainable growth

Change in recurring income ratio by segment*1

*1 Ratios in the pie charts are computed based on recurring income by business segment (consolidated recurring income less adjustments and segment income deductions).

*2 The pie charts exclude actuarial difference.



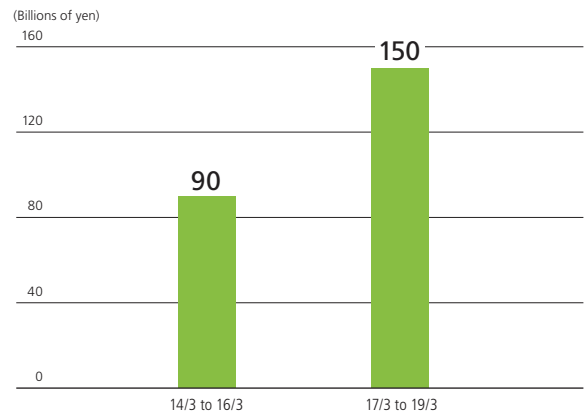
Shareholder Returns

We will work to provide ongoing, stable returns.

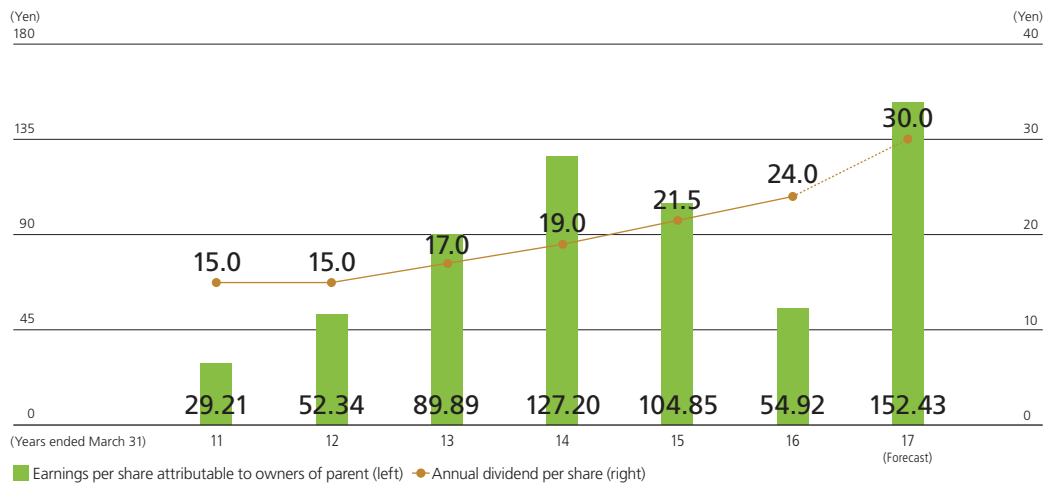
At Sumitomo Forestry, we consider providing returns to shareholders to be one of our most important management tasks. Our basic policy is to pay stable, ongoing returns that comprehensively take into account the balance between our business platform, financial condition, cash flow and other factors, while returning an appropriate level of returns in line with earnings. Based on this policy, in the fiscal year ended March 31, 2016, we paid ¥24 per share, an increase of ¥2.5 from the previous fiscal year. For the fiscal year ending March 31, 2017, we plan to increase the annual dividend by ¥6 to ¥30 per share.

Under the medium-term management plan which calls for raising earnings levels, we plan a record ¥150.0 billion in growth investment over the next three years, in addition to R&D investment. To do this, we will give comprehensive consideration for the cash generated by increased earnings in the balance between returns to shareholders and growth investment, and pay a stable dividend.

Investment Trends



Annual Dividend per Share and Earnings per Share Attributable to Owners of Parent



Approximately 31,000 hectares of timberland in New Zealand (purchased in June 2016)

To Our Stakeholders

We aim to maximize corporate value based on sustainable philosophies developed over more than 320 years.

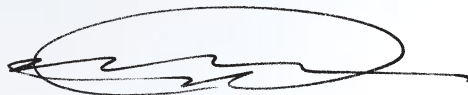
We aim to continue maximizing corporate value by achieving the goals in the Sumitomo Forestry Group 2018 Medium-Term Management Plan, a three-year plan that started from fiscal 2016.

Human resources are a driving force to steadily implement our business strategy to further raise corporate value. To maximize the individual abilities of all employees we expand the role of women as a matter of course, and consider it important to create a free and vigorous corporate climate that respects the diversity of all employees so they will feel motivated to work with passion. Based on that belief, the Sumitomo Forestry Group will actively work to change the mindsets of all of our employees as part of a reform to move up to the next growth stage.

Moreover, to strengthen the management base, it is also important to enhance corporate governance. From the fiscal year ending March 31, 2017, we have increased the number of Outside Directors from one to two. This will enhance independent and objective management supervision functions. In addition, we are striving to strengthen internal control and to apply appropriate risk management not only in Japan, but also in the Overseas Business, which we have continued expanding in recent years.

Furthermore, we also intend to fulfill our responsibilities as a corporate citizen through efforts to promote environmental preservation and legal and regulatory compliance, anticipating changes in the social environment and listening to input from our stakeholders. We will continue these initiatives and leverage the tree-related knowledge and technology we have accumulated as we promote our businesses around the world, aiming to contribute to the creation of affluent societies.

Over the more than 320 years since its founding, the Sumitomo Forestry Group has cultivated forests and trees, working as a corporate group to coexist with nature, based on our dedication to a sustainable philosophy. Today, our goal remains to engage in quality business activities in harmony with society and the environment. We hope that all of our stakeholders will continue to support us in this effort.



Akira Ichikawa
President and Representative Director

