

Publication of the Integrated Report

Until recently, the Sumitomo Forestry Group used the Annual Report as a tool to communicate information about its business activities and financial statements and the CSR Report (Digest) as a collection of information and data apart from financial data about its social contribution activities.

As we maximize the use of our management resources to promote changes in our businesses, we aim to create business value and long-term growth while addressing social issues. To better explain our activities, we decided to publish the Integrated Report as an incorporation of both financial and non-financial information.

I hope that this report will serve as a tool that furthers your understanding of the Sumitomo Forestry Group.

Akira Ichikawa
President and Representative Director



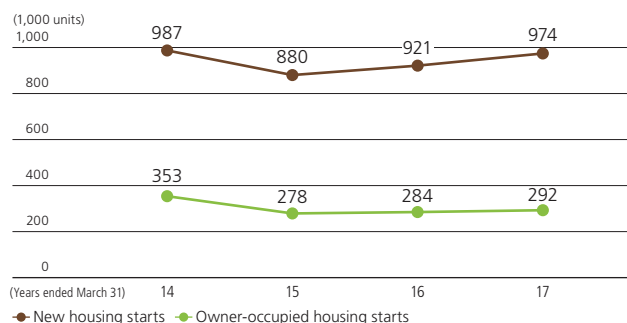
In fiscal 2016, net sales remained above ¥1,000.0 billion and recurring income surpassed ¥50.0 billion for the first time.

In fiscal 2016, the first year of the medium-term management plan, net sales increased 7.0% year on year to ¥1,113.4 billion, operating income climbed 79.4% to ¥54.0 billion and recurring income rose 89.6% to ¥57.8 billion, with profit attributable to owners of parent totaling ¥34.5 billion, an increase of 255.0%. These profit figures include ¥5.0 billion in actuarial differences in accounting for retirement benefits. Even after excluding this impact, recurring income was ¥52.9 billion, surpassing ¥50.0 billion for the first time ever, setting a new record high in profits.

By business, earnings power increased in the Timber and Building Materials Business and the domestic Custom-Built Detached Housing Business. In the Overseas Business, operational scale expanded on growth in the Overseas Housing and Real Estate Business. Moreover, we aggressively invested management resources in the overseas forestation business, the biomass power generation business, and the elderly care service business in a bid to diversify earnings sources. As a result, recurring income was higher than last year in all business segments.



Number of New Housing Starts in Japan



In fiscal 2017, we intend to make solid progress on the medium-term management plan with efforts to strengthen corporate governance and reform workstyles.

For the fiscal year ending March 31, 2018, we target consolidated net sales of ¥1,241.0 billion (up 11.5% year on year), recurring income of ¥52.5 billion (down 9.2%) and profit attributable to owners of parent of ¥33.0 billion (down 4.4%). Excluding the impact of actuarial differences, we anticipate flat growth in profits.

In the Housing Business, we are prioritizing efforts to boost order receipts by reassessing our business strategy, after orders languished last year for custom-built detached housing amid lackluster activity on the domestic market. More specifically, we are being more attentive to diverse customer needs, including for prices and specifications, for instance, by introducing The Forest BF as a product with more flexible room layouts, ceiling heights that can be chosen by the customer and new technologies enabling more open spaces than before.

In the Overseas Business, we expect to achieve ahead of schedule a target in our medium-term management plan for selling 8,000 homes in a year, thanks to the strong housing business in the United States and Australia. The housing markets in both countries are expected to continue expanding. The Sumitomo Forestry Group aims to accelerate organic growth by strengthening its responsiveness to these markets while reinforcing internal control systems and the corporate governance structure. In the Building Materials Manufacturing Business, we aim to expand the customer base, and will plan and propose products in tune with market demand.

In the Timber and Building Materials Business, we aim to expand our market share in the domestic distribution business and step up efforts in growth markets by expanding sales of wood chips for power generation and supplying building materials in non-housing markets, while working to develop business in new regions overseas.

In Other Businesses, we continue to expand the biomass power generation business, which has gained attention for its use of forest resources. Operations commenced at the Mombetsu Biomass Power Plant in December 2016 and at the Tomakomai Biomass Power Plant in April 2017, and they have begun to contribute to earnings. In the overseas forestation business, earnings have been steady at the timberland in New Zealand that we purchased in 2016, where the collective strengths of the Group have been focused on supplying raw materials for the MDF (medium density fiberboard) manufacturing business and selling logs to other countries. Including timberland in Papua New Guinea and Indonesia, the Sumitomo Forestry Group manages and owns a total of 230,000 hectares of timberland, and engages in sustainable forestation operations.

This fiscal year we are focusing our efforts on workstyle reforms and the creation of workplace environments where all employees can engage in highly motivated work while achieving a work-life balance. Apart from that, in July 2017, we revised our Basic Policy on Corporate Governance. We aim to enhance the dissemination of information and CSR activities, and reinforce the business risk management structure within the Company-wide governance structure.



Progress on the Medium-Term Management Plan

We are moving ahead on construction of a business foundation for **sustainable** growth through each business steadily implementing measures.

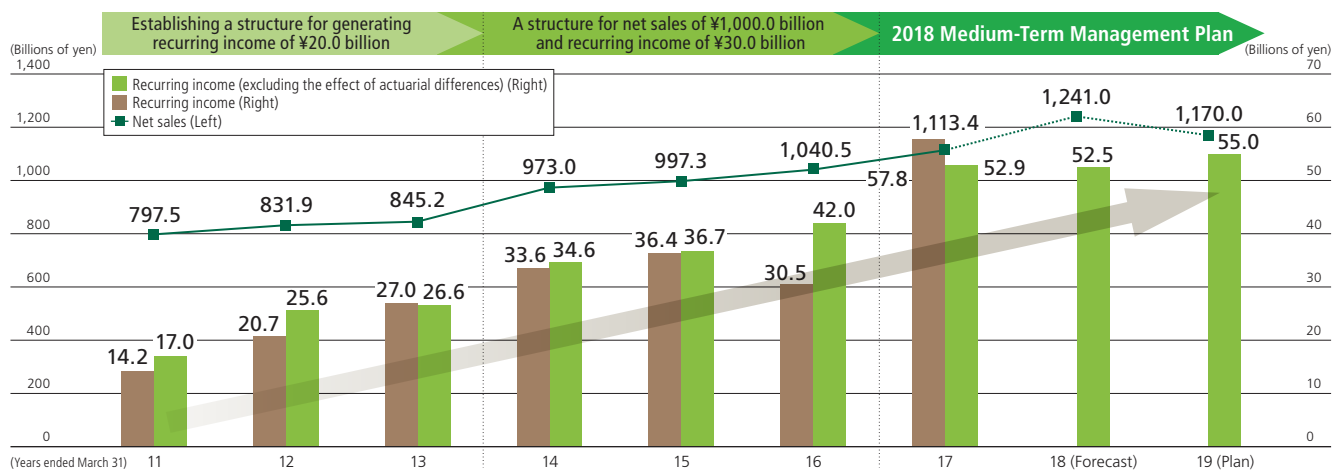
Consolidated Results

	(Billions of yen)			
(Consolidated)	16/3 results	17/3 results	18/3 forecast	19/3 plan
Net sales	1,040.5	1,113.4	1,241.0	1,170.0
Recurring income	42.0 (30.5)	52.9 (57.8)	52.5	55.0
Profit attributable to owners of parent	17.4 (9.7)	31.1 (34.5)	33.0	31.5
ROE	7.1% (4.0%)	12.0% (13.3%)	11.5%	10.0% or higher

* Figures in parentheses for 16/3 and 17/3 are based on financial results

We are solidifying our business foundation by “promoting change for a new stage” in accordance with our medium-term management plan. For fiscal 2018, management targets net sales of ¥1,170.0 billion, recurring income of ¥55.0 billion, profit attributable to owners of parent of ¥31.5 billion and ROE of 10% or higher. We expect to achieve our targets for net sales and profit attributable to owners of parent ahead of schedule in fiscal 2017. Looking beyond the achievement of numerical targets, however, we are striving to build a business structure that will ensure sustainable growth.

Earnings Trends





A timber yard at the Company-owned forest in Mombetsu, Hokkaido

In the domestic Housing Business, we aim to maintain and expand business scale despite forecasts that the market for newly built housing will shrink in tandem with the declining population in Japan. To achieve this goal, we need to bring about growth in the Apartment Business and the Renovation Business, as well as the Custom-Built Detached Housing Business, with marketing strategies that flexibly adapt to changes in the marketplace. Moreover, we will work to foster new profitable businesses with an eye on the future. As the value of timber and forests is reassessed domestically and globally, we will continue to concentrate on the MOCCA (timber solutions) Business, promoting the use of timber in the construction of non-residential buildings. A large number of local governments have made the revival of the forestry industry a pillar of their initiatives to revitalize local economies. At the national level as well, domestically produced timber is being increasingly used in the construction of public buildings. In this way, conditions are coming into place that will facilitate business, including cases where buildings are constructed from wood materials in various regions.

In the Overseas Business, we are promoting growth for each company in the Overseas Housing and Real Estate Business based on good relationships with partners that share our corporate philosophy. Depending on the region, climates and cultures can differ substantially, but by building housing and creating communities that respect the characteristics of the area, we will continue striving to develop abundant local communities. In addition, we aim to achieve further growth by generating synergies within the Group.

In Other Businesses, we plan to concentrate management resources in the business areas we expect to grow in the mid to long term, such as the forestation business, biomass power generation business, and elderly care service business. In the elderly care service business, our basic policy is to contribute to local communities by promoting business

that is closely connected to people’s lives. In the domestic forestry business, we offer consulting services backed by our expertise in sustainable forestry, gained from managing Company-owned forests, and we are building a reliable supply structure for seedlings for forestation, which have been in short supply nationwide. We contribute to regional revitalization by stimulating the domestic forestry industry.

Basic Policy
1

Pursuing a strategy that anticipates societal changes

Basic Policy
2

Diversifying revenue sources in the global market

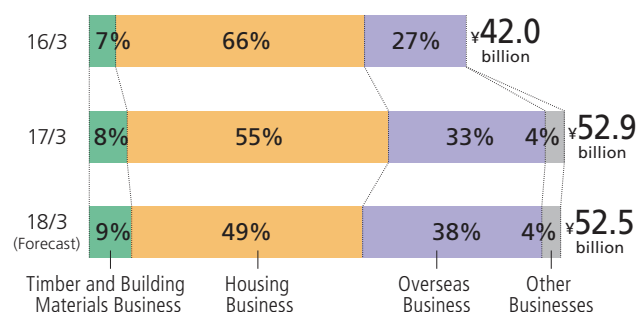
Basic Policy
3

Transforming the value of wood



A house from the Wisdom Group, an Australian Group company

Change in Recurring Income Ratio by Segment*1



*1 Ratios in the bar charts are computed based on recurring income by business segment (consolidated recurring income less adjustments and segment income deductions).
*2 Recurring income excludes actuarial losses.

Continuing to create value for society while aiming for long-term growth



Roughly 70% of Japan’s land area is taken up by forests. Japanese people have always lived in close proximity to trees. Since before CSR (corporate social responsibility) was even a concept, we have felt a responsibility for contributing to society through our business activities, developing operations that take advantage of the attractive qualities of wood as a raw material. Our business began with the procurement of timber for copper mines, and we have spread the forestry business through the repeated planting of trees, while branching out into high-value-added businesses in manufacturing and distribution. Further diversifying into the Housing Business, we have steadily expanded our scope of operations while remaining centered on trees, entering overseas housing markets and the energy field in recent years.

The Tsukuba Research Institute is an indispensable asset for improving the Sumitomo Forestry Group’s technologies and expanding the use of wood into new fields. Focusing on what only the Sumitomo Forestry Group can accomplish, having supported society together with trees and forests, we are uniquely positioned to create new value of wood and would like to generate value for society.

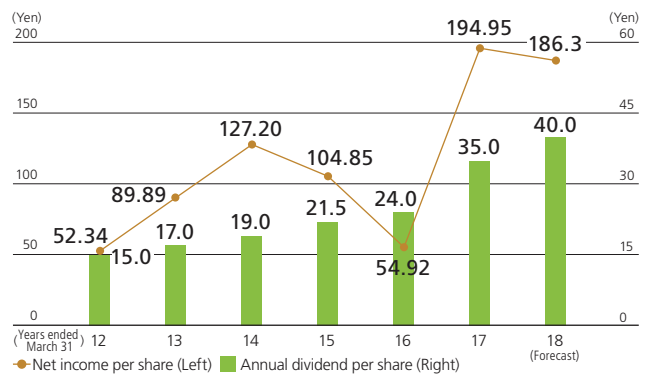


Intending to continue paying a steady dividend in accordance with profit levels

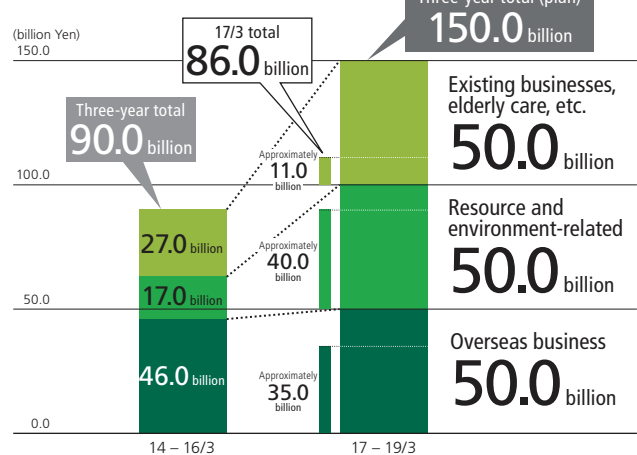
At Sumitomo Forestry, we consider providing returns to shareholders to be one of our most important management tasks. Our basic policy is to pay an appropriate level of stable, ongoing returns in line with earnings. Based on this policy, in the fiscal year ended March 31, 2017, we paid a dividend of ¥35 per share, an increase of ¥11 from the previous fiscal year and more than initially forecast. For the fiscal year ending March 31, 2018, we plan to increase the annual dividend to ¥40 per share for a sixth consecutive year of dividend hikes.

Over the three years of the medium-term management plan, we plan a record ¥150.0 billion in growth investment, in addition to R&D investment. Meanwhile, we will give comprehensive consideration for the balance between our business platform, financial condition, cash flow and other factors and continue to pay a stable dividend.

Net Income per Share and Annual Dividend per Share



Investment Trends



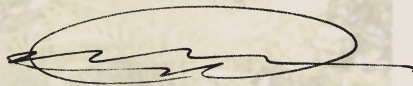
To Our Stakeholders

Sumitomo Forestry will respect diversity of human resources and continue to contribute to society.

In fiscal 2016, we created the 2018 Medium-Term Management Plan and we have been working toward the targets set forth in this plan. Since fiscal 2015, we have been making progress under our Mid-Term CSR Management Plan, reflecting CSR issues in management assessments and integrating CSR priorities with business activities. We have also embraced E (environment), S (social), and G (governance) as a concept in our operations, and will proactively communicate with stakeholders and continue to create value for society.

We intend to engage in high-quality business activities while striking a balance with the interests of people, society and the environment. At the same time, we will contribute to the creation of a future sustainable society through all types of services related to trees. We will also continue initiatives to foster a corporate culture where everyone respects one another and diverse ways of thinking, regardless of gender or nationality.

We ask for your continued understanding and support.



Akira Ichikawa
President and Representative Director

