

# Seeds for a Sustainable Society







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



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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.

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 sustainability report website have been assured by a third-party assurance provider, KPMG AZSA Sustainability Co., Ltd. Please refer to the Company's sustainability report website to view the independent third-party assurance report.

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

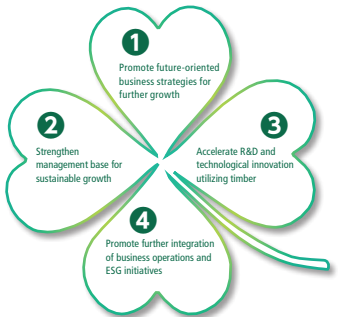


Picture scroll depicting the Besshi Copper Mine in Iyo Province, present-day Ehime Prefecture (Sumitomo Historical Archives Collection)

5-7

Our History

Introducing the history of the Sumitomo Forestry Group, which continues to grow by constantly pursuing the potential of "trees."



18-22

2021 Medium-Term Management Plan

We will explain the four basic policies stipulated in the 2021 Medium-Term Management Plan, which is three years from the fiscal 2019.



14-17

Message from the President

A message from President and Representative Director Akira Ichikawa including our vision and initiatives under the medium-term management plan.

46-51

Addressing Climate Change  
Initiatives towards Sustainable Procurement

We will explain about our greenhouse gas (GHG) emission reduction targets, response to TCFD, and commitment to sustainable timber procurement.



Reporting Period

April 1, 2018 to March 31, 2019 (Fiscal 2018)  
\* The report also includes some activities from outside the reporting period.

Scope of Reporting

Sumitomo Forestry Co., Ltd. and Group companies

Application of Accounting Standard for Revenue Recognition

From the fiscal year ending March 31, 2020, we will apply "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29). From this fiscal year, primarily in the Timber and Building Materials Business, for transactions where the Company's role in providing the product to the customer is fulfilled by an agent, sales are displayed as a net amount instead of transaction totals. In addition, in regard to construction contracts in the Housing and Construction Business and the Overseas Housing and Real Estate Business, revenue is recognized for all construction over a fixed period as performance obligations are fulfilled. For other details, please refer to our financial results documents.

<http://sfc.jp/english/ir/library/financial.html>

Financial

Net Sales 1,308.9 billion yen YoY change +7.1%	Operating Income 49.2 billion yen YoY change -7.1%	Recurring Income 51.4 billion yen YoY change -11.1%
Profit Attributable to Owners of the Parent 29.2 billion yen YoY change -3.2%	Net Income per Share 160.8 yen YoY change -7.7 yen	Dividend per Share 40.0 yen YoY change ±0.0 yen
Equity Ratio 32.8 % YoY change -1.9 points	ROE (Return on Equity) 9.3 % YoY change -1.0 point	ROA (Return on Assets) 5.5 % YoY change -1.3 points

Sustainability

Percentage of Reviews Conducted for Suppliers Who Handle Directly Imported Timber and Wood Products with Verified Legal Compliance 100%	Company-Managed and Owned Forests — Domestic — Approx. 48 thousand ha — Overseas — Approx. 230 thousand ha * As of March 31, 2019	Carbon Stock by Company-Owned Forests in Japan and Plantation Forests Overseas 20.48 million t-CO <sub>2</sub> * Carbon dioxide equivalent
Recycling Rate at Manufacturing Plants in Japan 99.1%	CO <sub>2</sub> Emissions Scope 1 (Direct emissions from the Group) 264,011 t-CO <sub>2</sub> e Scope 2 (Indirect emissions through purchased power and heating) 117,602 t-CO <sub>2</sub> e	Ratio of Houses Certified as Excellent Long-Term Housing for New Custom-Built Detached Houses 93.8%
Hours of overtime work 24.9% reduction * Compared to fiscal 2013 (non-consolidated)	Reduction in Industrial Waste Generated at New Construction Sites in Japan 31.9% reduction * Compared to fiscal 2013	Customer Satisfaction regarding Custom-Built Detached Houses According to Surveys Conducted When Owners Move In 96.1%



The Group's business begins in 1691 when the Besshi Copper Mine was opened.

Even today, the Group has inherited Sumitomo's Business Spirit which respects fairness, trust, and certainty, attentiveness toward wood, and a management approach with a long-term perspective.



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

Mount Besshi today

## 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.

### 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>

## Our History

**1691**  
Company founded

**1894**  
The Large-Scale Reforestation Plan created



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

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.

### 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 a maximum 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)



# Expand the wide range of business related to the tree in the global

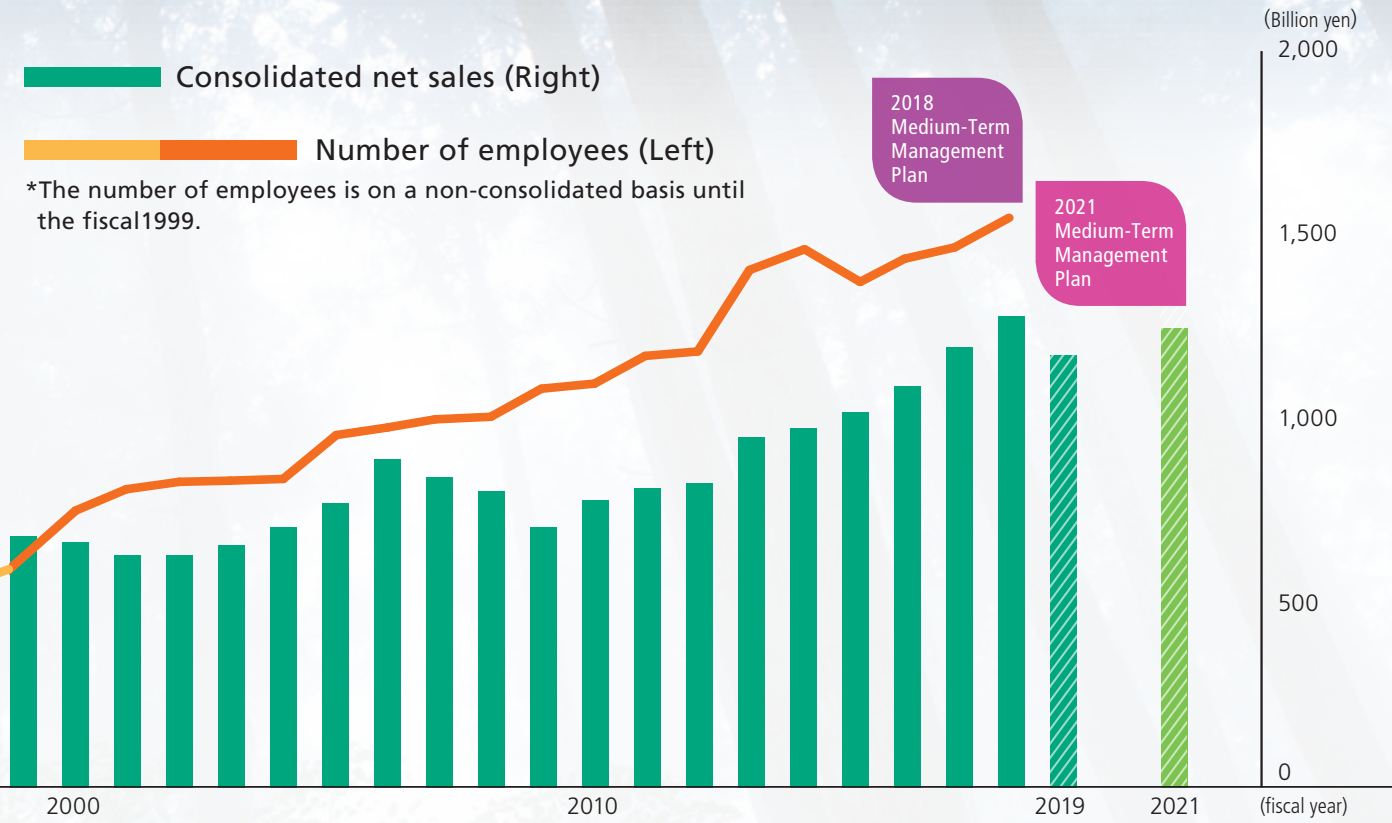
(Number of employees)



Consolidated net sales (Right)

Number of employees (Left)

\*The number of employees is on a non-consolidated basis until the fiscal1999.



1948

Sumitomo Forestry established

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

1956



Started the timber import business

1970



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

1975



Started the custom-built detached housing business in Japan

1986



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

1991



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

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



Started elderly care business

2008



Started housing business in Australia

2011



Started environmental energy business



Started MOCCA (Timber Solutions) business

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

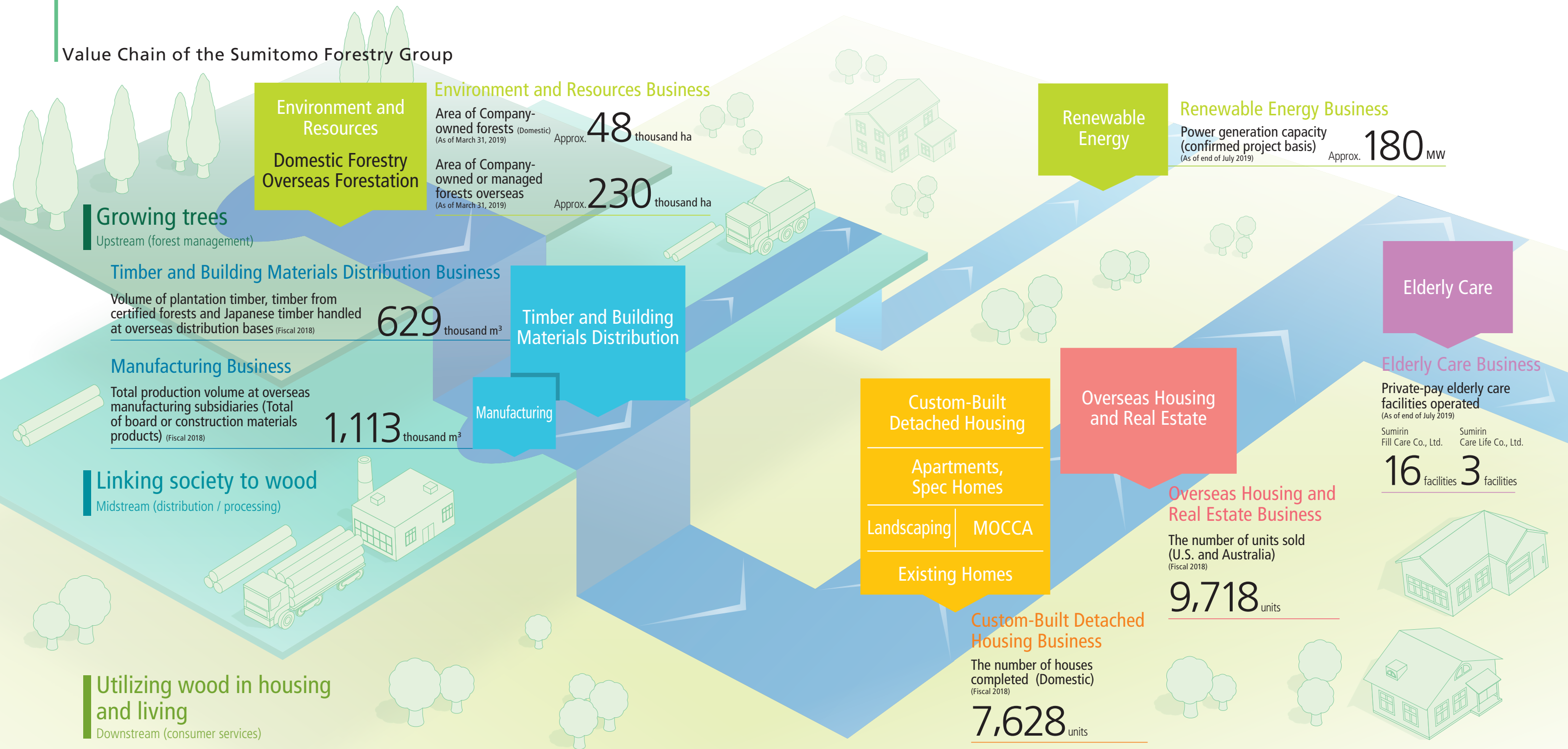
Capital and business alliance with Kumagai Gumi Co., Ltd.

2018

Started full-fledged real estate development business in the US



## Value Chain of the Sumitomo Forestry Group



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.

### ■ Integration of Business Operations and ESG Initiatives

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. The Sumitomo Forestry Group is promoting integration of business operations and ESG initiatives with the aim of increasing the corporate value of the entire Group. We recognize the role expected by society and will continue putting into practice our corporate philosophy from the standpoint of stakeholders in our business, while 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 37 for details.

### S Social

On developing operations globally, we emphasize communication with stakeholders, who influence each other indirectly and potentially direct our broad business from upstream to downstream operations centered on trees. Also we will continue to meet their expectations and requests.

### G Governance

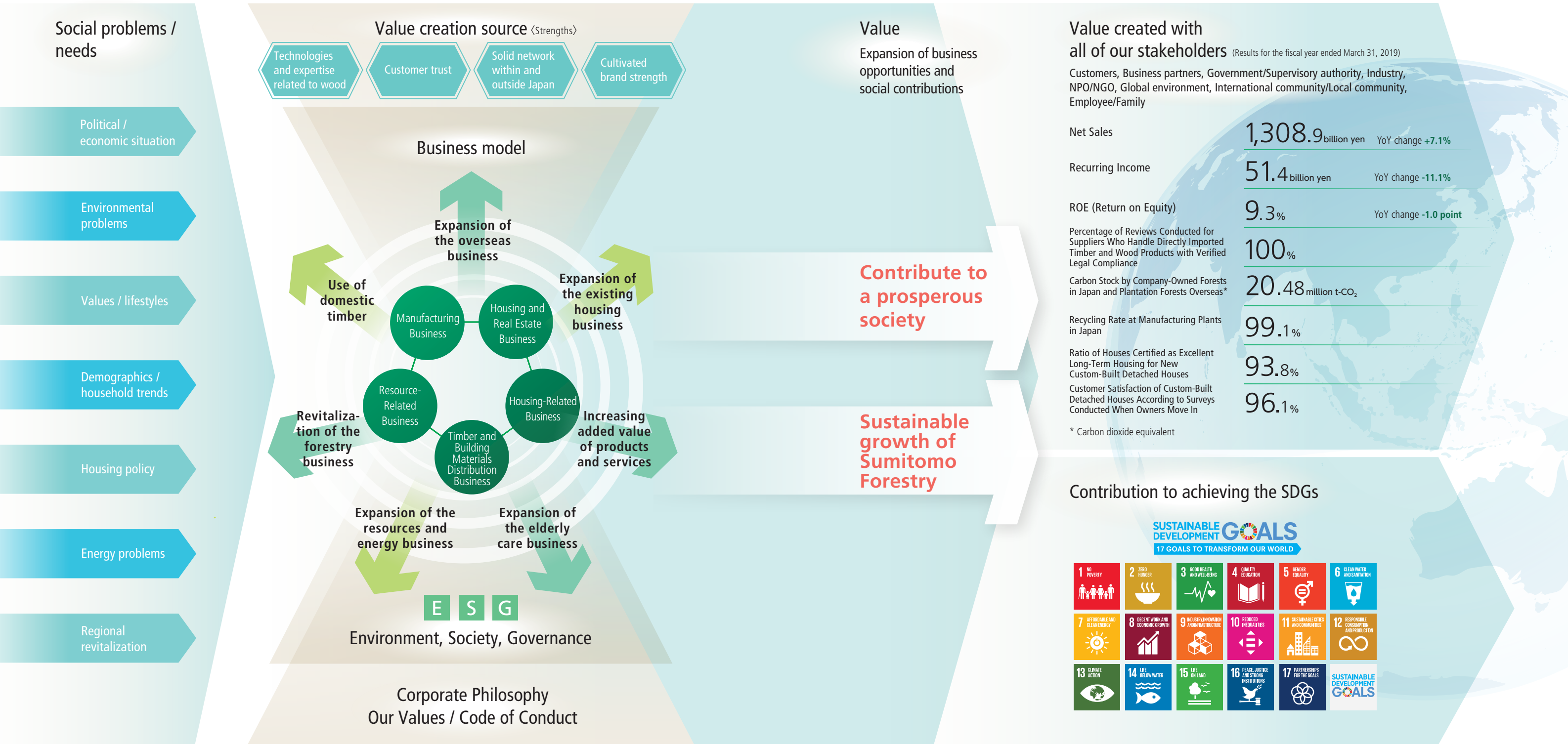
Under our Corporate Philosophy, we state that we conduct business that places prime importance on fairness and integrity for the good of society. We strive to ensure transparency in management, appropriate and lawful business operations, and swift decision-making, business execution and information disclosure.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

➡ See the Governance section on page 59 for details.



Sumitomo Forestry Group's Value Creation Process

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.







Various movements aiming to solve environmental and social issues have gathered momentum on a global scale, as seen in the entry into force of the United Nation's Sustainable Development Goals (SDGs), taking effect of the Paris Agreement on climate change, and penetration of signatories to the United Nations Global Compact. Around the world, the way people think and behave has changed dramatically, with more customers selecting to purchase environmentally friendly products and investors investing more in ESG themes.

Companies have a mission to contribute to the global environment and society through their business activities. In addition, they are expected to link their initiatives to address social issues to growth opportunities and sustained improvements in corporate value more than ever before.

Founded in 1691, the Sumitomo Forestry Group has a long history spanning over 320 years. In the long way to reach today beginning with the Sumitomo family's commencement of the Besshi Copper Mine and management of the surrounding forests, we have been developing our business by facing various issues, taking on challenges and overcoming adversity.

In 1894, we launched the Large-Scale Reforestation Plan to restore forests that had been devastated by smoke pollution from copper smelting. By planting trees over a wide range, the mountains were eventually returned to a state of rich greenery.

Forests provide a variety of functional public benefits, such as the absorption and fixation of carbon dioxide, the preservation of biodiversity, support for water resources, soil preservation and prevention of damage from landslides. Sustainable forestry, or the planting, managing, harvesting and use of trees and then planting them again, is essential for preserving forests and the benefits they generate for future generations. The Sumitomo Forestry Group has continued to pursue sustainable forestry with an eye on the long term.

Since its founding, Sumitomo Forestry has pursued a sustainable business model, and has become a corporate group with approximately 19,200 employees, 275 companies as the Group and annual sales of ¥1,300 billion. Our social responsibilities have also grown over time.

As globalization advances in various aspects, including culture and the economy, the business environment has changed in many ways, but the philosophy of the Sumitomo Forestry Group has stayed constant.

"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." We will continue to base our business activities on this corporate philosophy, and take on challenges to help improve the global environment for future generations through initiatives that only Sumitomo Forestry can undertake.

Ryu Yano  
Chairman and Representative Director

A handwritten signature in black ink, reading "Ryu Yano".





## To Our Stakeholders

At Sumitomo Forestry, we have continued to grow alongside the times while properly addressing the needs of our customers.

We have launched initiatives to create new businesses that support the future of our group and sustain growth under the Sumitomo Forestry Group's 2021 Medium-Term Management Plan, a three-year medium-term vision that began in April 2019. We are taking steps toward the next stage of growth by proceeding with strengthening earnings structures and building a stable financial base.

Based on the Large-Scale Reforestation Plan formulated in 1894 which worked on the restoration of the devastated forests, our Group's businesses have been undertaking the initiatives that aim to coexist with the environment and society as a matter of course before the word "ESG" even existed.

Today, the entire Group engages in sustainability management, and under the 2021 Medium-Term Management Plan, we are focusing on the unification between ESG initiatives and our businesses as one of the basic policies underpinning our growth strategy.

We aim to build a sustainable society and become a presence that is indispensable in that society people living. Through our business activities, we are proactively working to solve the increasingly diverse issues facing the environment and society. We appreciate the continued understanding and support of all stakeholders.

Akira Ichikawa  
President and Representative Director

### Review of 2018 Medium-Term Management Plan and Outlook for Fiscal 2019

Under the Sumitomo Forestry Group's 2018 Medium-Term Management Plan, a three-year plan that ended in fiscal 2018, the Company endeavored to change the business structure with the aim of sustainable growth. Over these three years, we invested a total of ¥244.3 billion, one of the largest investments the Company has ever made. As a result of these investments toward diversifying our earnings portfolio, the Overseas Housing and Real Estate Business has grown as a pillar of earnings in addition to the domestic business.

In fiscal 2018, net sales expanded 7.1% year on year to ¥1,308.9 billion, recurring income declined 11.1% to ¥51.4 billion, and profit attributable to owners of the parent decreased 3.2% to ¥29.2 billion. These profit figures include ¥3.4 billion in actuarial differences in accounting for retirement benefits that held down profits. Excluding this factor, recurring income would be ¥54.8 billion (down 1.3% YoY), around the same level as the previous year.

Through the 2018 Medium-Term Management Plan, we believe our initiatives have shown some results for building a structure able to steadily generate recurring income of ¥55.0 billion.

### < Fiscal 2019 Forecasts >

	(Billions of yen)		
	Fiscal 2018	Fiscal 2019 forecasts*	YoY change
Net sales	1,308.9	1,123.0	△ 14.2%
Recurring income (Excluding actuarial differences)	54.8	57.0	+3.9%
Recurring income	51.4	57.0	+10.8%
Profit attributable to owners of the parent	29.2	30.0	+2.9%

\* After application of "Accounting Standard for Revenue Recognition"

In fiscal 2019, Sumitomo Forestry is steadily implementing measures in step with the business environment in each region, promoting environmentally friendly housing and advancing non-residential construction in Japan, as well as aiming to enhance our product lineup to match changes in housing demand overseas. For fiscal 2019, we are forecasting net sales to decline 14.2% year on year to ¥1,123.0 billion, recurring income to increase 10.8% to ¥57.0 billion and profit attributable to owners of the parent to increase 2.9% to ¥30.0 billion. Compared with the previous fiscal year, we anticipate a decline in net sales due to the adoption of accounting standards related to revenue recognition in fiscal 2019. For reference, using the previous accounting standard, our forecast would be for net sales to increase 6.1% year on year to ¥1,389.0 billion.

### 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. As the impact of actuarial differences is hard to estimate, we do not factor it into our performance plans, including our Medium-Term Management Plan.



## Risks and Opportunities

Uncertainties have increased in the overseas business environment with trade friction between the U.S. and China, the U.K. exiting the European Union, and geopolitical risks in emerging countries and others.

In Japan, there are concerns that the economy will weaken after the 2020 Tokyo Olympics and Paralympics, in addition to the impact on the economy from the planned consumption tax hike. Changes in demographics are expected to lead to a decline in the supply of housing in the future. However, as the markets mature, we will be required to provide new value in the real quality of buildings in terms of our customers' strong focus on their homes. Moreover, new demand should emerge in accordance with developments in IT and the creation of a diverse sense of value.

In recent years, there has been an increase in social interest in certain aspects of a corporation that may have an impact on business sustainability, starting with initiatives related to environmental issues such as those that address climate change, corporate governance, diversity, and other non-financial aspects.

The Sumitomo Forestry Group is developing businesses in a broad range of fields related to wood, a renewable natural resource. We have created a unique value chain that pursues the potential of trees, from forestry management to the procurement, distribution and production of timber building materials, in addition to providing a diverse range of lifestyle-related services, such as housing construction and biomass power generation. Against the backdrop of permeation of the ESG and the SDGs, companies are expected to engage in business that helps to resolve social issues, and we intend to leverage our strengths in this environment.

## 2021 Medium-Term Management Plan

The Sumitomo Forestry Group has established the 2021 Medium-Term Management Plan with the aim of strengthening the management base and further growth of our business based on future-oriented business strategies. The Medium-Term Management Plan revolves around four basic policies, and targets net sales of ¥1,260.0 billion and recurring income of ¥85.0 billion in the final fiscal year of the plan.

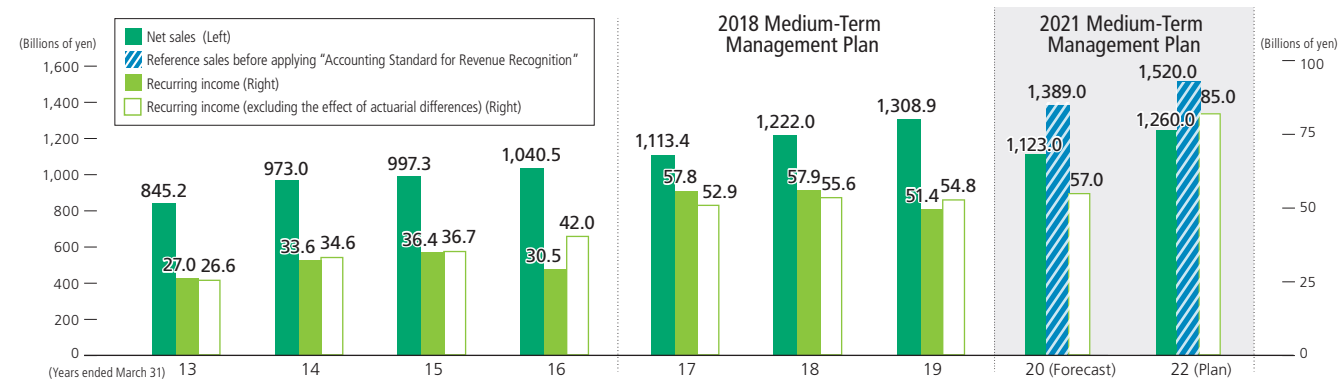
The Medium-Term Management Plan is focused on sustainable growth as a common goal. The Sumitomo Forestry Group places an emphasis on not only achieving numerical targets, but also developing strategies that always look to the future. We leverage the special qualities of each business in rapidly changing markets in Japan and around the world, and undertake value creation that connects to next-generation growth.

### Medium-Term Management Point 1

### Capital Policy

While expanding business scale, Sumitomo Forestry aims to reinforce its financial position for future growth. Under the Medium-Term Management Plan, the Company targets positive free cash flow over the total three years of the plan by realizing a steady return on the investments it

#### < Earnings Trends >

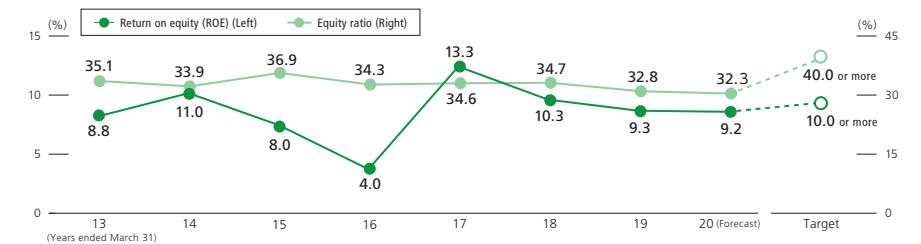


### Medium-Term Management Point 2

has made thus far. By working to enhance shareholders' equity, we aim to achieve ROE above 10%. In addition, we are improving financial discipline while setting a financial goal over the medium and long terms of keeping our debt-equity ratio no higher than 0.5 times and raising the shareholders' equity ratio to 40% or more.

Under the 2021 Medium-Term Management Plan, Sumitomo Forestry has budgeted ¥150.0 billion for investments, the same level as in the 2018 Medium-Term Management Plan. We effectively allocate funds for investments that contribute to the long-term improvement of corporate value, after thoroughly evaluating the balance between existing asset efficiency, financial conditions and cash flow.

We view returns to all shareholders as one of our most important management tasks at Sumitomo Forestry. Our basic policy is to pay out constant and stable dividends, at a level that corresponds to profits. Based on this policy, we plan to distribute interim and year-end dividends of ¥20 per share each in fiscal 2019, for a total annual dividend of ¥40 per share.



### Further Promotion of ESG

As our business domains and scale expand, we have focused more intently on strengthening corporate governance, our human resource strategy, and consideration for the environment. In order to take a unified approach to business and ESG, along with the new Medium-Term Management plan, the Sumitomo Forestry Group decided to increase the number of individual qualitative targets from 12 to 15 items as they relate to its five material issues.

The strength of a company is derived from the knowledge and experiences of diverse human resources and a shared value system. Sumitomo Forestry has been selected by the Ministry of Economy, Trade and Industry for inclusion in its New Diversity Management Selection 100 in FY2018. The Company aims to further improve its competitiveness with "strong individuals" and "strong organizations," putting every effort into workstyle reforms and human resource development, including the deployment of new information technology.

Moreover, we will thoroughly manage risks and reinforce corporate governance, including at affiliated companies in Japan and around the world. The ratio of overseas business in the Sumitomo Forestry Group's business portfolio has been on the rise, and we have been proceeding with dispatching directors to our companies around the world, refining our decision-making process, and rolling out internal control systems.

Furthermore, Sumitomo Forestry has obtained certification in Science Based Targets (SBT)\*1 to address climate change, and has declared its support for the Task Force on Climate-related Financial Disclosures (TCFD)\*2. We evaluate the impact that climate change may have on our operations, and reflect this assessment in our business strategies and risk management.

With a change in Japanese eras from Heisei to Reiwa, the issues that we should address have diversified along with changes in the social situation. With Sumitomo's Business Spirit, passed down from our predecessors and the knowledge we have amassed in trees as a driving force, we will make every effort to increase corporate value and ensure sustained growth into the future.

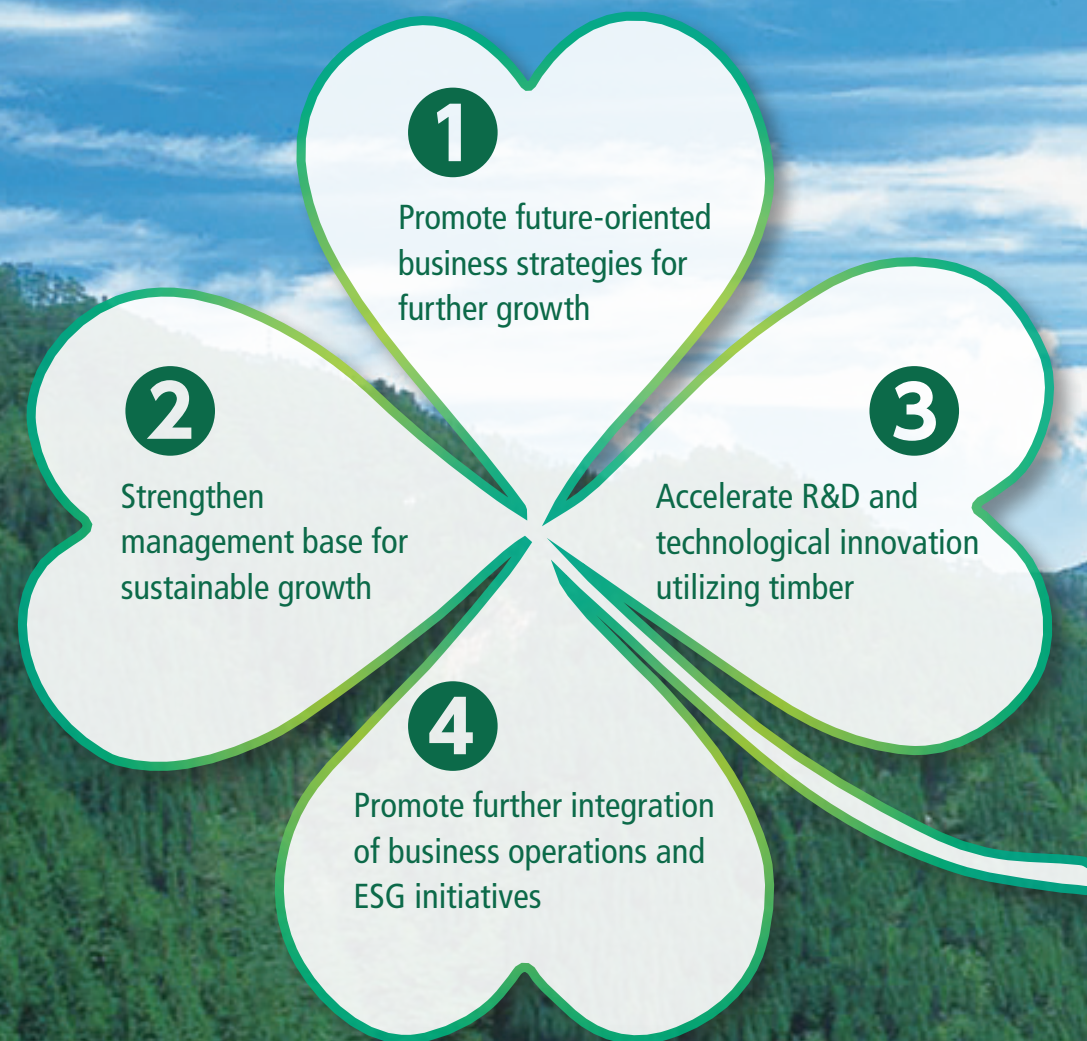
\*1 See SBT on page 46 for details. \*2 See TCFD on page 48 for details.





# Sumitomo Forestry Group 2021 Medium-Term Management Plan

(Fiscal 2019 to Fiscal 2021)



— Four Basic Policies —

## Promoting Creation and Growth of New Businesses Based on Future-Oriented Strategies

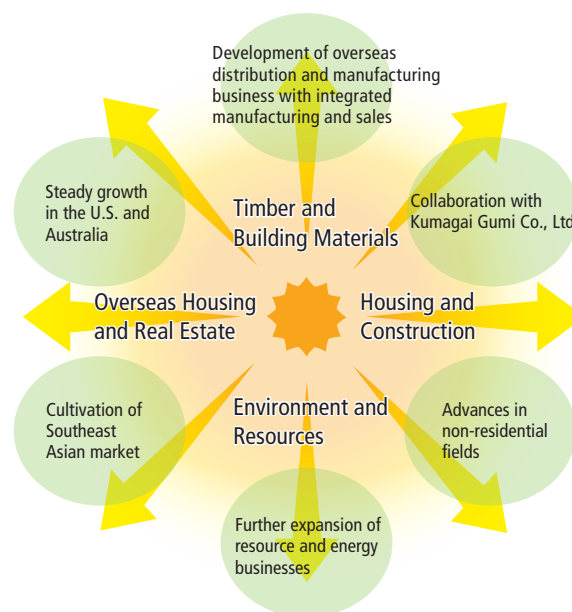
Under the 2018 Medium-Term Management Plan, the Sumitomo Forestry Group has worked to build a solid foundation, aiming to develop a business structure capable of achieving sustainable growth. We have also endeavored to reform our corporate culture while accurately identifying needs and changes of the times and have expanded our business domains both in Japan and overseas.

We recently established the Sumitomo Forestry Group 2021 Medium-Term Management Plan, which covers the three-year period beginning in fiscal 2019 (fiscal year ending March 31, 2020), to promote the creation and growth of new businesses based on future-oriented business strategies.

The Group will work on solving social problems in the midst of changing times and aim to strengthen our management base and move our businesses further into the future based on the four basic policies.



## Promote future-oriented business strategies for further growth

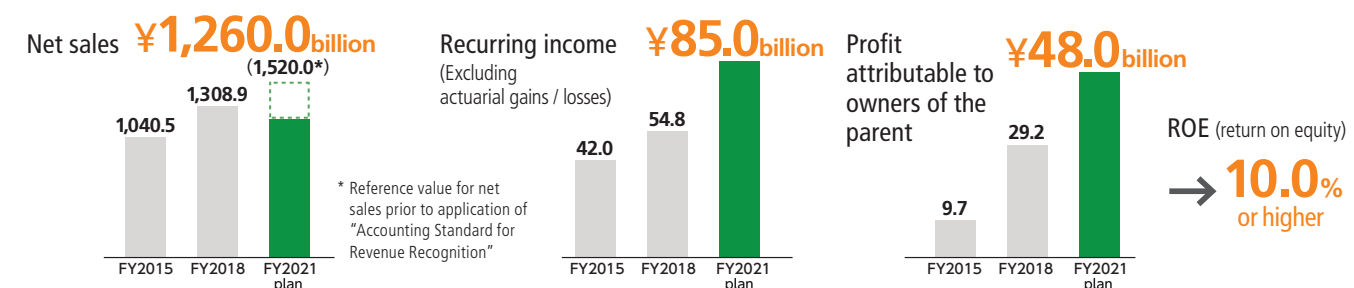


## Strengthen management base for sustainable growth

## Accelerate R&D and technological innovation utilizing timber



## Promote further integration of business operations and ESG initiatives



\* Figures after applying "Accounting Standard for Revenue Recognition"



## Timber and Building Materials Business

- Increased handling of biomass fuel material and domestic timber and strengthened sales for non-residential properties
- Capturing of global demand through capital and business tie-ups with leading overseas partners like An Cuong (Vietnam)
- Product development and expansion of sales through an integrated manufacturing and sales structure

### Overseas Distribution Business Recurring income

¥0.3billion (FY2018) → ¥1.4billion (FY2021)

### Overseas Manufacturing Business Recurring income

¥2.2billion (FY2018) → ¥3.8billion (FY2021)



## Overseas Housing and Real Estate Business

- Address wide-ranging customer needs, including single-family homes, townhouses, and condominiums
- Improve competitiveness through centralized purchasing of material and information sharing
- Expand business in Southeast Asia
- Promote transition from independent real estate development to joint business model with investors and pursue business efficiency while reducing risk

### Development of future annual sales structure

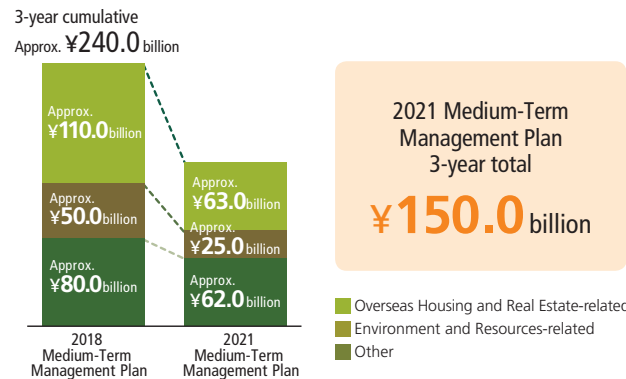
United States 10,000 units  
Australia 3,000 units

Crescent Communities, LLC  
Recurring income  
(FY2021) Approx. ¥1.5billion



## Investment Plan

Implement based on medium- to long-term business strategy, etc. while balancing with asset efficiency and operating cash flow.



## Returns to Shareholders

- Basic policy
- Provide continuous and stable dividends
  - Continue to provide an appropriate level of returns according to profit situation, considering growth investments, financial standing, etc. in a comprehensive manner

## Housing and Construction Business

- Promote unique structural development, including related businesses
- Provide safe, reliable, healthy, and earth-friendly housing
- Establish market position in apartment/wooden non-residential field
- Expand Renovation business

### Custom-built detached houses, spec homes, apartments Annual sales/construction

9,000 units (FY2021)

### MOCCA (Timber Solutions) business Orders received

¥10.0billion (FY2021)

### Renovation business Net sales

¥100.0billion (FY2021)



## Environment and Resources Business

- Increase Group presence in environment and resources field, which enjoys a high level of interest internationally
- Improve profitability of forestry business in Japan and overseas
- Expand area of managed/owned forests

### Total amount of renewable energy generated

\* Total in operation and planning

Approx. 180MW (FY2018)  
→ 300MW (FY2021)



## Other Businesses

- Expand elderly care services business
- Possibility for facility operation business expansion in commercial and lodging fields

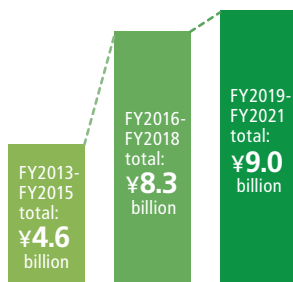
Aquagnis Taki (Mie)



## Research and Development

Engage in wide-ranging research and development to further increase added value through creation of innovative uses for timber.

3-year total for R&D investments ¥9.0billion



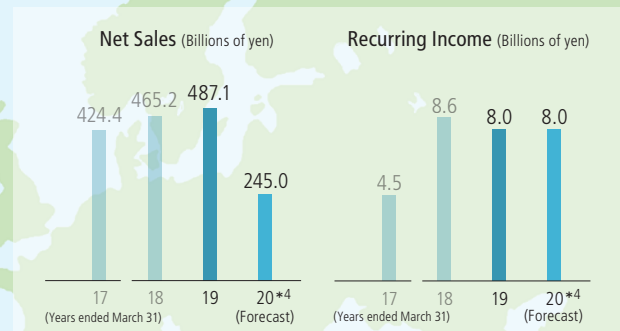
# Business Outline



## At a Glance

### Timber and Building Materials Business\*1

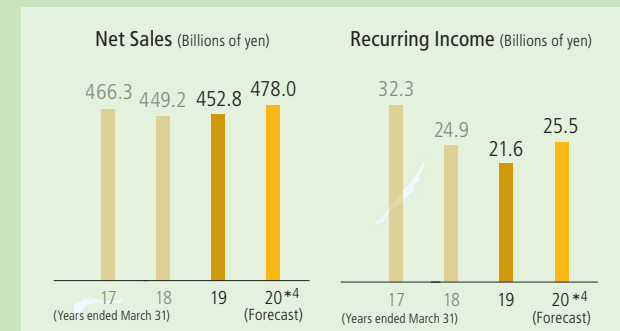
We operate a distribution business that sources high-quality timber and building materials from Japan and overseas for sale to customers, and we manufacture building materials and other products. This segment also focuses on overseas sales of Group company products.



6,699 Japan 1,582 / Overseas 5,117

### Housing and Construction Business\*2

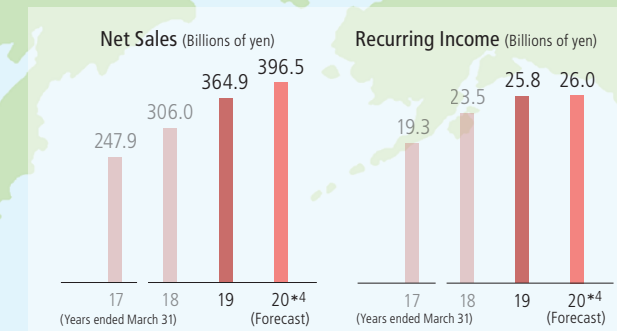
In addition to the custom-built detached housing business, we operate a wide range of housing-related businesses. These include the renovation business, apartment business, spec homes business, landscaping business, MOCCA (timber solutions) business, and stock housing business, as well as real estate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



8,660

### Overseas Housing and Real Estate Business\*1

We are developing the Overseas Housing and Real Estate Business primarily in the Pacific Rim, including the United States, Australia and Southeast Asia.



2,151 Japan 33 / Overseas 2,118

### Environment and Resources Business\*3

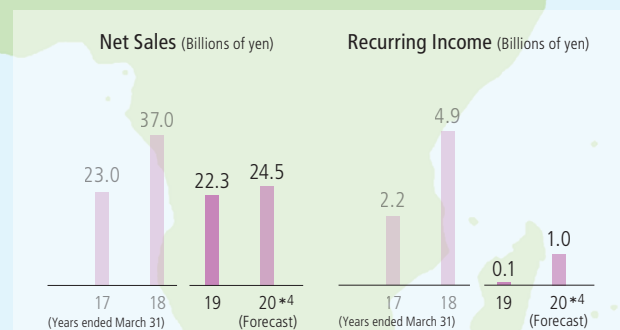
In addition to domestic forestry business and overseas forestation business in New Zealand and Southeast Asia, we conduct forest-based asset management business and power generation business in the field of renewable energy.



271\*5 Japan 113 / Overseas 158

### Other Businesses\*3

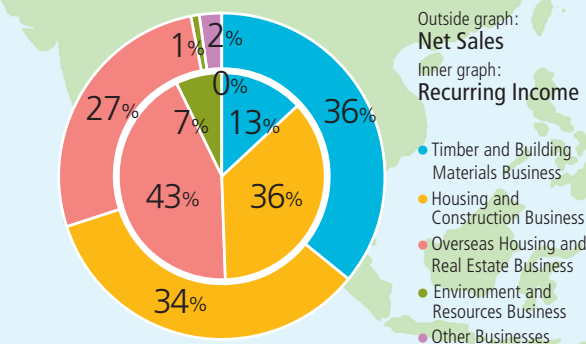
We are engaged in the private-pay elderly care facilities business and various service businesses including insurance agency business mainly for our housing business customers. We also undertake contracted civil engineering and construction work and develop information systems for each company in the Group.



1,070\*5

### Composition by Segment\*5

(Year ended March 31, 2019)

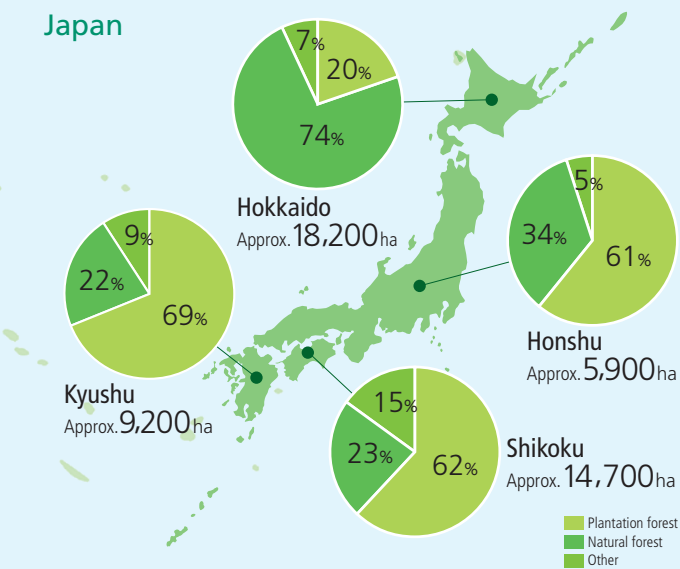


### Number of Employees (As of March 31, 2019)

19,159 Japan 11,766 / Overseas 7,393 (Head Office Administrative Division, etc. 308)

### Company-Managed and Owned Forests

(As of March 31, 2019)



### Overseas

Papua New Guinea : Approx.	31 thousand ha
New Zealand : Approx.	36 thousand ha
Indonesia : Approx.	162 thousand ha

Japan	Overseas
Approx. 48 thousand ha	Approx. 230 thousand ha

Sales and recurring income for each business include intersegment transactions.

\*1 From the fiscal year ended March 31, 2019, the segment name was changed from "Overseas Business" to "Overseas Housing and Real Estate Business," and "Overseas Manufacturing Business" was reclassified as part of "Timber and Building Materials Business." Net sales and recurring income for the year ended March 31, 2017 are the results of the classification before the change.

\*2 From the fiscal year ended March 31, 2019, the segment name was changed from "Housing Business" to "Housing and Construction Business."

\*3 In the fiscal year ending March 31, 2020, the "Environment and Resources Business" was transferred from "Other Businesses." In addition, sales and ordinary income in "Other Businesses" before the fiscal year ended March 31, 2018 are the results of the classification before the change.

\*4 Figures after applying "Accounting Standard for Revenue Recognition"

\*5 Reclassified and displayed by segment from the fiscal year ending March 31, 2020



# Growing Trees



Timberland in New Zealand

## Environment and Resources Business

The forests planted after WWII across Japan have matured and reached the harvesting period. In order to properly utilize the functional public benefit of forests, sustainable forestry is demanded more than before, in which new trees are planted to replace harvested timber. Sumitomo Forestry owns a total of approximately 48,000 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

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 in sustainable forest management, 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 also engaged in the improvement of forestry operations by introducing high-performance machinery such as tower yarder forestry logging equipment that makes it possible to further improve safety and efficiency for work in steep mountainous areas. 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.

## Overseas Forestation

We are developing our business to manage around 230 thousand 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 further 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.

Radiata pine, which populates our managed forests in New Zealand is a tree species that produces uniformly high-grade timber that is good for processing. Therefore, 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 harvested 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.

(FSC® license code: FSC-C 113957)

(Utilizing Wood in Housing and Living)

## Renewable Energy Business

In the field of renewable energy, the Sumitomo Forestry Group is focusing development particularly on the wood biomass power generation business, which uses fuel such as wood chips made from waste building materials or unused timber from forests\*.

The wood biomass power generation business helps to maintain woodlands near the power plant with a procurement process for unused timber from these forests. Therefore, as this process connects to revitalization of the forestry industry, the business has high social significance and can be expected to contribute to regional economies. In addition, a stable assurance of fuel that uses the procurement sources cultivated in the Group's Timber and Building Materials Business up until now will serve as an advantage in our business management.

The scale of the entire domestic market for biomass energy (which includes wood biomass) within the renewable energy market in Japan, 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.



Mombetsu Biomass Power Plant

We are trying to expand the scale of this business. By utilizing our management resources such as our knowledge, network, and other aspects, we expect our renewable energy capacity to generate a total of 300 MW (based on confirmed projects) in fiscal 2021.

\* Timber from forest thinnings and timber left unused because of undesirable bending and small diameters after logging can degrade forest environments if left alone, making it harder to manage forests and plant new trees.

### List of Wood Biomass Power Generation Plants

	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 (palm kernel shells, coal)	Unused timber from forests	Unused timber from forests, other (palm kernel shells)	Imported wood pellets, others (palm kernel shells, 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

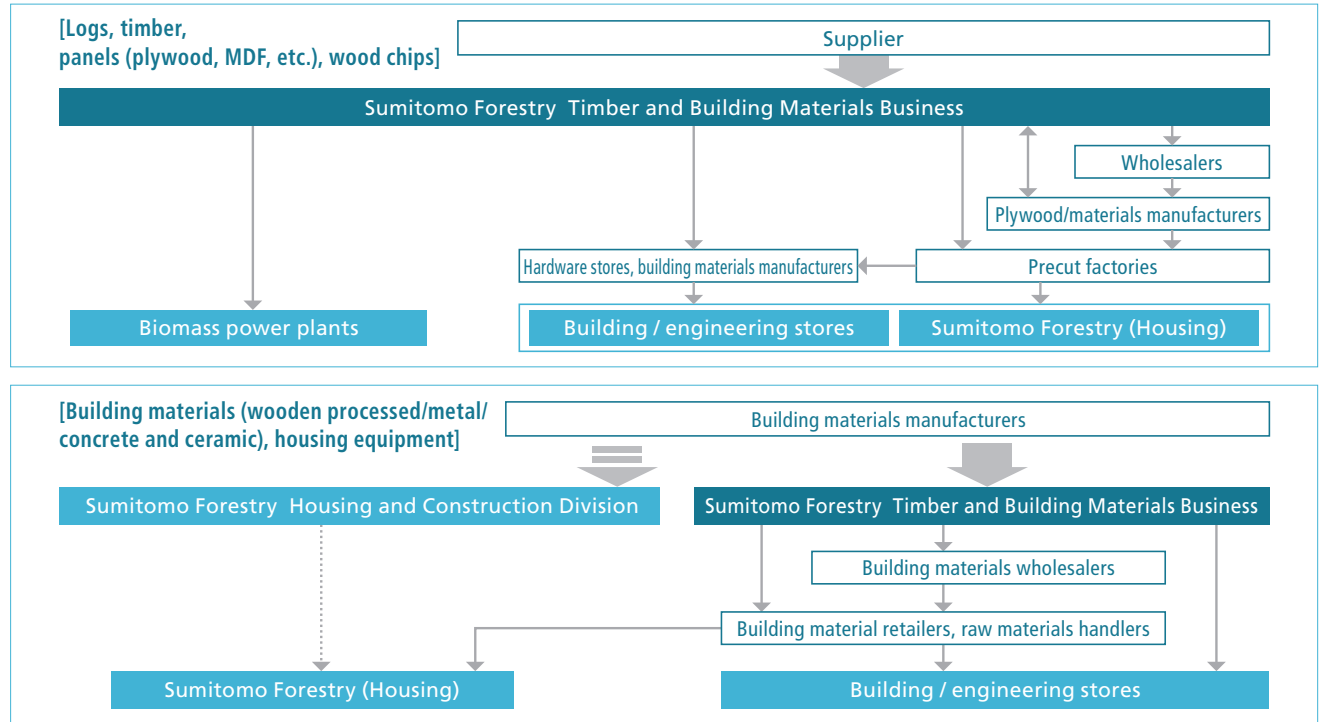
With the market for new housing construction expected to shrink, and demand increasing for materials with wooden non-residential building applications, responding to constantly changing market needs is one of our most important issues.

In the non-residential building structure field, Sumitomo Forestry has created an integrated system for selling materials and undertaking construction. We have been forwarding proposals for non-residential building structures using "Kigurumi FR," a pure laminated engineered wood with one-hour fire resistance that is used as a structural material in non-residential building applications. 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.

In overseas distribution operations, we established a sustainable business cycle in New Zealand, spanning forestation, logging and distribution, and we also export logs from the forests we own and manage in New Zealand to markets across Asia. From our administrative base in Singapore, we mainly focus on selling timber and building materials to countries in Southeast Asia. In Vietnam, which has huge growth potential, we have a business alliance with An Cuong Wood-Working JSC, Vietnam's leading manufacturing and distribution company for interior building materials. Through this business alliance, we established a consolidated system from materials procurement to housing construction and strive to expand business by developing technologies and introducing new products. We are also working toward further business expansion through initiatives that create diverse sources of earnings on the global market.

Main Commercial Logistics Flowchart



## Manufacturing Business

The Group's manufacturing operations in Japan produce furniture and fixtures, staircases, and wooden interior fittings. Overseas, we produce wooden board products such as plywood, medium-density fireboard (MDF) and particleboard and various building materials such as flooring, furniture and kitchen cabinets. We supply them all over the world including Japan.

In recent years, in the international market for wooden board products, competition has intensified as major manufacturers have expanded their facilities. As a result, the development of high-value-added products that cater to user requirements and marketing is more demanding than ever before.

For this reason, the Group has integrated its overseas and domestic manufacturing operations and sales operations of timber and building materials, and organized and improved each company's production technologies and factory management methods to ensure thorough cost reductions, and enhanced product development and marketing functions. We are also working to build a robust business base by developing personnel with high-level expertise in manufacturing technology. We will continue to build enterprise value and achieve sustainable growth over the medium and long terms.



Plant of Nelson Pine Industries Ltd. (New Zealand)

➡ See Initiatives towards Sustainable Procurement on page 49 for details.



# Utilizing Wood in Housing and Living



Building example of detached house

## 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. Since then, we have continued to provide high-quality housing through our high technological capabilities and excellent design proposal capabilities, and have grown this into our main business.

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. Guided by a commitment to putting customers first, we will supply safe, reliable and healthy homes that are environmentally friendly. By doing so, we will establish a system that achieves annual construction of 9,000 houses, a number that combines custom-built detached homes, spec homes, and apartments, with the aim of expanding our market 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.

In addition, there has been a strong need for long-lasting, high-quality homes that reflect full consideration of factors such as safety, durability, and environmental impact. In this environment, we have been promoting the widespread adoption of homes specified as ZEH (net zero-energy house) that reduce the annual energy consumption of each household. We supply living environments that are resilient to natural disasters and comfortable year-round.

People are thinking about housing in many more different ways than before as a result of changes in their values and lifestyles. We have developed ideal housing for our customers by using our cultivated know-how and a wealth of ideas. In the process, we are focused on meeting a variety of customer requests, ranging from the requests of first-time home buyers who are looking for their own first house, to those of double-income households and married couples who have finished raising their children and are seeking a residence for themselves.

Moreover, in the past few years, climate change has led to more frequent and severe natural disasters. Against this backdrop, people have been showing a greater interest in the safety of housing. Using the Internet of Things (IoT) and Information and Communication Technology (ICT), we are developing a new service that seeks to provide rapid support to customers who have been caught up in natural disasters. In the future, this service could be applied to areas such as the smart city concept. By making housing with new value-added features more widely available in society, we will contribute to the reliability and safety of as many customers as possible.

## 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. In April 2018, we established branch offices staffed with specially trained salespeople to engage in a broad range of marketing activities outside the custom-built detached housing field. In the management of the apartment business, we have been diversifying plans from the perspectives of both owners and residents, and supporting long-term stable management by strengthening our partnership with our group rental management company. Furthermore, in consulting operations for property use, we have been making broad proposals that encompass non-residential construction aside from apartments, such as childcare, healthcare, and elderly care facilities and stores. Looking ahead, we endeavor to provide strong business value in the field of asset utilization by leveraging our expertise in drawing out all the benefits of using wooden structures.

As for residential property development, the Group's spec homes operations construct approximately 300 high-quality detached houses for sale per year, based on technology and knowledge accumulated in Group businesses such as the Custom-Built Detached Housing Business and Landscaping Business. The Spec Homes business



Forest Maison apartment housing (exterior)

respects regional history, environment and culture, using harmony with nature in townscapes as a feature of the business. In considering all of these aspects of residences from location selection to space design, we aim to create towns where all who live there are happy.

## Landscaping Business

The landscaping business encompasses all aspects of "greenery," from general housing to urban spaces and the creation of communities with an emphasis on biodiversity.

In residential exterior landscaping, we offer a range of services from planning and design to the installation and maintenance of exterior and outdoor greenery in order to enhance the value of the residence. 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 for a variety of facilities, including factories and research centers. Amidst the focus on creating a sustainable society and environment, we are actively proposing environment and greenery certification systems that tie in to the evaluations of initiatives to greenify company-owned areas. The Group has come up with a low-cost technique for cleaning up oil-contaminated soil with little impact on the environment by utilizing the Burning Field®, Zoysia Japonica. This technique won a Good Design Award in 2018.

The landscaping market is projected to grow 2.0% annually



Residential exterior landscaping of a model home

until 2050\*. More notably, the greening of cities is regarded as a part of the foundation of society for people to live in harmony with nature, as green infrastructure that helps mitigate the heat-island effect while also reducing and mitigating disaster risk such as heavy rainfall. Through the landscaping business, as a part of a long-term growth industry, the Group will contribute to the realization of a sustainable and prosperous society using its technologies.

\* Ministry of the Environment's fiscal 2018 report on market and employment size projections for contract work in the environmental industry.



## Existing Homes Business

As Japan's housing stock has risen to around 62 million homes while the number of households is roughly 53 million, the Japanese government is promoting policies to make use of established housing and ensure the "formation of housing stock of good quality." The Group's existing homes business is an eco-friendly business that facilitates the effective utilization of housing stock as a properly evaluated good-quality asset. We aim to contribute to the realization of a sustainable society through home renovation, resale of renovated properties, real estate brokerage, and management of condominiums and apartments.

In the home renovation business, we differentiate our offerings from those of other firms by using our advanced technical expertise represented by seismic-resistance and seismic-vibration damper technologies and through proposals of comfortable spaces with wood accents. In addition to owners of Sumitomo Forestry's house, we offer renovation services for homes built by other companies and for commercial facilities. Roughly half of the sales in the home renovation business are related to properties built by other companies. Moreover, we renovate around 300 traditional Japanese-style houses\* each year; renovating these rare wooden structures



Sumitomo Forestry Group's original energy-absorbing dampers reduce the amount of shaking experienced by buildings during earthquakes

makes a contribution to the inheritance of Japan's culture. Based on these various initiatives, we aim to grow annual sales to ¥100.0 billion during the 2021 Medium-Term Management Plan.

\* 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.

### Topics Building Homes Resilient to Natural Disasters

Japan is among one of the few countries in the world that frequently experiences earthquakes. The country has also been experiencing damage from other natural disasters such as torrential downpours in recent years, making it more important for society to build homes that are more resilient to natural disasters, including seismic-resistant homes. Sumitomo Forestry's Tsukuba Research Institute and Sumitomo Forestry Home Tech Co., Ltd. are working together to develop home renovation technologies that enhance disaster prevention, including seismic reinforcement construction techniques. Leveraging these original construction techniques that we have developed, we contribute to the formation of high-quality housing stock by providing optimal techniques for reinforcing homes while fulfilling the demands of our customers.

### Topics Collaboration with Marui Group

In May 2019, Sumitomo Forestry signed a business agreement with Marui Group Co., Ltd. to comprehensively collaborate in the housing business field and invest in its subsidiary AIM CREATE Co., Ltd. Utilizing the know-how which AIM CREATE Co., Ltd. has in the planning, interior design and construction of commercial facilities, we strive to further increase business results by enhancing our ability to propose ideas for the interior renovation of non-residential properties.

## MOCCA (Timber Solutions) Business

Since the enforcement of the Act for Promotion of Use of Wood in Public Buildings in 2010, there is growing interest in wooden non-residential buildings, with an increase in the number of architectural cases. Overseas, many high-rise structures have been constructed using wood, and the use of wood is likely to gain further momentum in consideration of climate change and other environmental issues.

Using know-how related to wood that it has accumulated in



Nursery school (Nerima Ward, Tokyo)

## Elderly Care Business

We apply Group synergies in building construction technologies, accumulated in the Housing and Construction Business, and our expertise in living spaces to provide residential environments for the elderly so they may feel secure and live healthy lives.

Sumirin Fill Care Co., Ltd. operates 16 private-pay elderly care facilities, mainly in the Greater Tokyo area, under the themes of "the warmth of people and wood" and "elderly care services adopted for changing times." With the introduction of advanced systems that use ICT and the guidance of specialists in that field, the company is actively undertaking initiatives that use the latest technology for elderly care, such as launching the original service "Forest Life" which maintains and improves the living environment and health status of facility users.

Based in Kobe, Sumirin Care Life Co., Ltd. operates three large-scale private-pay elderly care facilities. The support services are tailored to elderly residents throughout all stages of their lives, from those who are healthy and independent to those who require advanced medical support, as well as an enriched system realized through partnerships with medical institutions and assignment of hospitable care workers. The company plans to open Japan's largest\* development for elderly residents that combines living support services

various businesses, as well as its technological and design prowess in the Housing and Construction Business, the Group is concentrating its efforts on expanding the MOCCA (Timber Solutions) business which promotes the use of wood in non-residential buildings, such as retail facilities, office buildings, and public structures. In the MOCCA (Timber Solutions) business, we are also engaged in construction of a new research building for the Tsukuba Research Institute, which is positioned as a waymark for realizing the vision to "Environmentally friendly and timber-utilizing cities" in the W350 Plan that was unveiled in 2018.

Going forward, with this business, we will continue to hand down the culture of wood while seeking to reinvigorate Japan's forestry industry and contribute to the realization of a sustainable society where the economy is in harmony with the environment.



Elegano Nishinomiya exterior concept image

in 2020. The facility, Elegano Nishinomiya (Hyogo Prefecture), will contain a total of 309 units.

Japan is facing social issues associated with the advent of a super-aging society, such as preparing living environments where the elderly can live with safety, the dilution of communities, and measures for dementia. The Group will contribute to realizing a society where each person can live a healthy and robust life by getting close to users and their families, connecting to regional societies and offering advanced and high-quality services.

\* According to data published in July 2019 by the Senior Housing Association on its information system for serviced accommodation for the elderly



Renovation of a traditional Japanese-style house



# Utilizing Wood in Housing and Living



Residential area in Texas

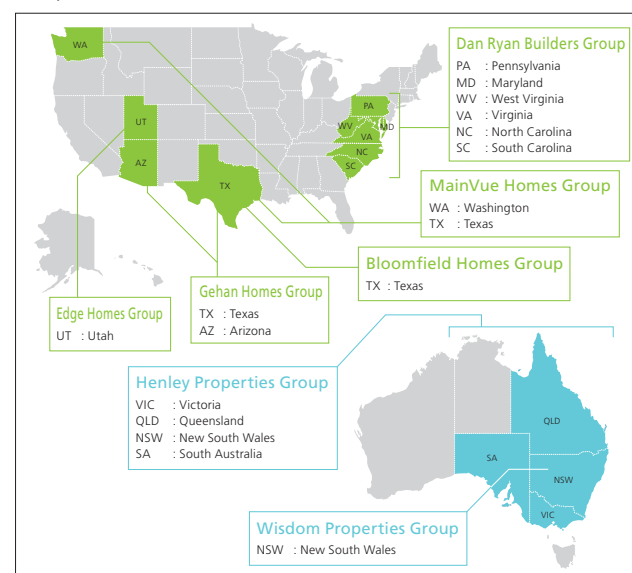
## Overseas Housing and Real Estate Business

### United States / Australia

In the Group's Overseas Housing and Real Estate Business, we have steadily expanded business scale by actively proceeding with new entry into promising growth markets. The United States and Australian housing markets mainly comprise of detached houses built using wooden frames. Both countries continue to experience an increase in population and constantly expanding housing demand. Going forward, we will accelerate sales of quality housing through companies with a wealth of experience rooted in those regions as a main target for actual demand in each area.

Starting from July 2018, we have been developing our real estate development business on the southeast coast of the United States with Crescent Communities, LLC. They develop multi-family housing and commercial and mixed-use complexes primarily with investors under a joint business model. This business model allows us to raise funding efficiency while diversifying risk. By facilitating growth in the real estate development business in addition to the house and land package business, we will undertake diversification of our revenue base in the United States.

Group Business Areas



### Initiatives towards Sustainable Growth

Housing is a business with strong local characteristics due to changing climates and lifestyle habits at sites. Therefore, we manage our business by using the knowledge and know-how of local partners and utilizing product value that match the regional needs of each area to the utmost extent.

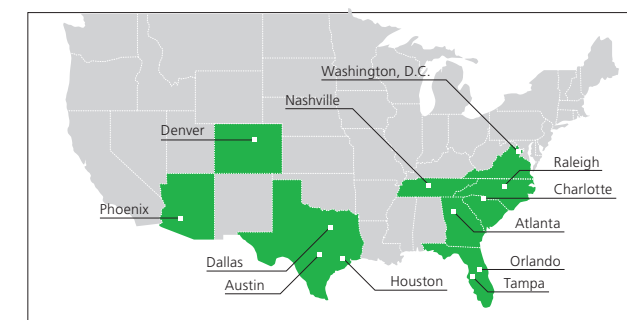
We focus on trying to create synergies that harness the Group's total capabilities. To this end, we are proceeding with initiatives that improve competitiveness by sharing information in addition to joint materials procurement. To accommodate diverse housing needs in recent years, we have also been enhancing our product lineup with offerings such as townhomes and condominiums.

There are risks involved in the investment into real estate for sale that are necessary for the business's sustainable development, such as a decline in land prices. At the Sumitomo Forestry Group, we perform regular checks on the monetary limits for investment on real estate for sale and the status of earnings that are tailored to the situation at each company. We are creating risk controls and minimizing risks by setting up management systems, such as strengthening auditing functions by having the executive officer who is responsible for North American operations stationed in Texas and ensuring that asset purchases above a certain value require the approval of the parent company's Board of Directors.



Crescent Communities development

Crescent Communities Business Areas



### Southeast Asia

The Group is engaged in joint development of condominiums for sale and the detached spec home business with local companies in Hong Kong, Vietnam, Indonesia, and Thailand. Business is being developed in all four of these markets based on actual demand alongside the regions' medium- to long-term economic growth. Continuing on from the United States and Australia, the Group is expanding its business fields into Southeast Asia, with a view to strengthening the earning base of the Overseas Housing and Real Estate Business.

In the Southeast Asia region, the Group demonstrates long-standing strength by utilizing our design expertise and knowledge of creating attractive interiors that are rich with the essence of wood. Housing demand is strong due to the rapid development of infrastructure, growing populations, and increasing income levels, thus we will use this opportunity for business. Along with striving to stabilize our business foundations, we also aim to contribute to the development of the living environment in Southeast Asia.



Luxury condominium development (Thailand)



# Seeking New Ways to Expand the Potential of Trees

## Topics

### W350 Plan

The W350 Plan is the Research Technology Development Concept for constructing a 350-meter-tall wooden high-rise building by 2041, which will mark the 350th year since the Company's founding. We strive to bring about innovation that encourages a sustainable cycle for timber utilization and forestry management, and realize a vision for "Environmentally friendly and timber-utilizing cities" where people, trees and diverse plant and animal life can coexist with the planet.

The Tsukuba Research Institute is constructing a new research building that implements the underlying technologies needed to realize the W350 Plan. It is scheduled for completion in 2019. Along with verifying and demonstrating new technologies, it is designed to incorporate innovations that enable a diverse range of workstyles everywhere. Designs that will help to improve intellectual productivity will also be examined.

Image provided by Sumitomo Forestry / Nikken Sekkei Ltd.



## Sustainability

### Research and Development (R&D)

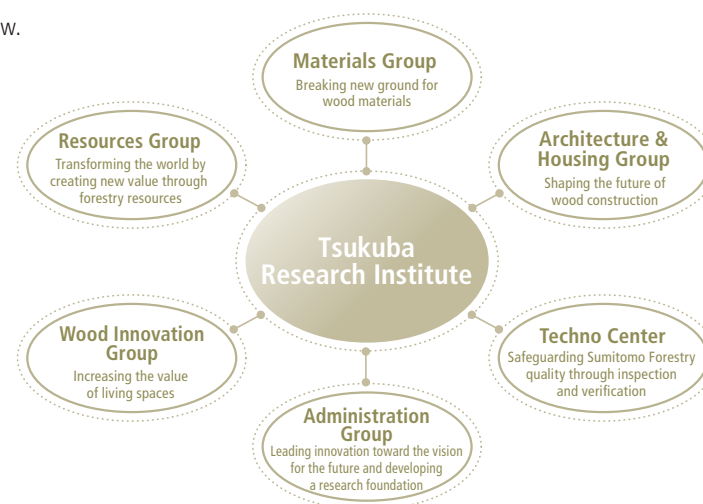
In order to enhance the potential of trees and their added value, it will be absolutely essential to continuously develop technologies. The Tsukuba Research Institute will serve as the driving force behind this effort. Ever since it was established in 1991, the Tsukuba Research Institute has supported the foundations of the Sumitomo Forestry Group. At present, it conducts two main types of R&D activities: (1) Corporate R&D, which seeks to create future technologies over the long term; and (2) Business-related R&D, which aims to boost earnings over the short and medium terms. The Tsukuba Research Institute is pushing ahead with these R&D activities through the six groups below.

The potential of trees is expected to provide important

solutions to a host of issues we face. These issues range from global environment to urban environment, living environment, and the mental and physical wellbeing of every individual. The Tsukuba Research Institute has produced various research achievements. The Group, through its business activities, will return the benefits derived from these R&D achievements to individuals and society as a whole. By doing so, the Group will contribute to the realization of a sustainable and prosperous society.



Exterior of the new research building



For more details on non-financial items, please refer to sustainability report: (<http://sfc.jp/english/information/society/index.html>)



## Sustainability

## Initiatives to Address Five Material Issues

In 2015, the Group established five CSR Material Issues and its specific strategies and targets, the Medium-Term CSR Management Plan, and implemented initiatives at each Group company and department within the target fiscal year 2020.

Under these circumstances, we have determined that it is necessary to further promote sustainability management in response to growing interest in ESG in society and changes in the business environment. In addition, the “Medium-Term Sustainability Targets as part of the Sumitomo Forestry Group 2021 Medium-Term Management Plan,” which incorporates sustainability strategies and CSR material issues, was newly formulated, and some of the five important material issues were also revised. The “Medium-Term Sustainability Targets” defines 15 qualitative targets based on contributions to the SDGs and five important material issues and indicators for evaluation (numerical targets) targeting FY2021.

Sustainability Report website the results of the former Medium-Term CSR Management Plan up to FY2018

➡ Please refer to the (<http://sfc.jp/english/information/society/index.html>).

### Material Issue 1







## Ongoing Timber and Materials Procurement that Considers Sustainability and Biodiversity

### Fundamental Policy

Sustainable forest management and timber procurement in Japan and overseas are positioned as important themes in sustainability management.

In recent years, there has been growing concern about deforestation, which is a cause of climate change and biodiversity loss. For sustainable

procurement, efforts that include social aspects such as human rights are required. The Group will continue to make further improvements and contribute to the resolution of social issues, such as stricter evaluation criteria for sustainable timber procurement.

Target	Specific steps based on issues and strategies	Indicators for evaluation (numerical targets)	FY2018 results	FY2019 target	FY2020 target	FY2021 target	Key related SDGs
Management forests while mitigating climate change and protecting biodiversity	Maintain and expand certified forest area	Domestic and overseas certified forest area (ha)	220,951ha	220,417ha	221,117ha	221,467ha	     
Expanding the utilization of sustainable forest resources	Expand seedling reforestation area in Japan and overseas	Area of forest plantation with in-house produced seedlings (ha)	6,055ha	6,553ha	7,487ha	7,920ha	
		Number of seedlings supplied	—	5.11 million seedlings	6.04 million seedlings	7.26 million seedlings	
	Increase volume of fuel wood chips and pellets handled	Volume of fuel wood chips and pellets handled (t)	—	1,188,010t	1,221,130t	1,363,930t	
		Volume of sustainable timber and wood products	85%	89%	93%	100%	
Building sustainable supply chains	Update CSR procurement survey form and formulate survey plan	Rate of certified timber (including per-certified timber) used as key structural materials	—	80%	100%	100%	
		Sustainability survey implementation rate in the supply chain of the domestic housing department	—	65%	75%	80%	
		Sustainability survey implementation rate at suppliers of imported wood products	100%	100%	100%	100%	

### Material Issue 2











## The Development and Sale of Reliable and Safe Products and Services that Consider the Environment and Society

### Fundamental Policy

We strive to develop and sell products and lifestyle-related services, such as housing, while ensuring the safety and security of our customers and creating a sustainable society.

Among them, the reduction of greenhouse gases emitted when living in a house greatly

contributes to reducing the environmental impact. By recommending ZEH (net zero-energy house) specification housing, we will reduce the energy consumption of each household and realize a sustainable and prosperous society while meeting customer needs.

Target	Specific steps based on issues and strategies	Indicators for evaluation (numerical targets)	FY2018 results	FY2019 target	FY2020 target	FY2021 target	Key related SDGs
Increasing environmentally conscious products and services * Including reducing greenhouse gas emissions towards creating a decarbonized society (SBT: Scope 3)		Rate of orders for ZEHs	38.0%	60.0%	80.0%	80.0%	     
	Promote energy-saving and standards for energy generation and conservation	Rate of orders for eco-friendly renovation	48.4%	50.0%	55.0%	60.0%	
		Sales of sash, glass wool, and solar power generation systems in the building material business (millions of yen)	¥22,723 million	¥23,119 million	¥23,568 million	¥24,040 million	
	Increase added value by carbon stock from use of timber	Carbon stock in wooden architecture in Japan (t-CO <sub>2</sub> )	192,536 t-CO <sub>2</sub>	190,676 t-CO <sub>2</sub>	190,164 t-CO <sub>2</sub>	199,509 t-CO <sub>2</sub>	
	Propose products utilizing local saplings and natural cycles	Rate of orders for eco-friendly products ((1) Local saplings (2) Permeable pavement materials (3) Wall greening (4) Rooftop greening (5) Biotopes (6) Use of recycled materials)	56.5%	58.0%	60.0%	63.0%	     
Creating an environment that considers biodiversity	Expand sales of local species	Number of local species sold (trees)	402,000 trees	450,000 trees	480,000 trees	500,000 trees	
Expanding businesses that contribute to resolving social issues	Increase the number of rooms through new facilities construction	Number of rooms for the private-pay elderly care facilities	1,457 rooms	1,457 rooms	1,890 rooms	2,014 rooms	
	Expand the Renewable Energy Business	Amount of electricity supplied in Renewable Energy Business (converted to number of households)	213,860 households	217,768 households	217,768 households	373,826 households	
Promoting sustainable and innovative technological development	Solve technical issues toward achieving the W350 Plan	Status of progress on W350 Plan	—	Establish basic concepts towards realization of the W30 Plan	Achieve the W30 Plan and build actual properties	Develop materials and implement basic designs towards realization of the W70 Plan	



## Initiatives to Address Five Material Issues

### Material Issue 3

## The Reduction of the Environmental Impact of Our Business Activities





### Fundamental Policy

Considering the impact on the environment, we are promoting activities aimed at reducing greenhouse gas emissions and mitigating climate change, including thorough energy-saving activities and the use of renewable energy. We established targets for reducing greenhouse gas emissions looking to 2030

with an eye to the medium- to long-term future. In July 2018, those targets were officially approved as Science Based Targets (SBT).

Moreover, we are promoting the reduction, reuse, and recycling of industrial waste to reduce our environmental impact and use resources effectively.

➡ See Energy Conservation and Reductions in Greenhouse Gas Emissions in Business Activities on page 46 for details.

Target	Specific steps based on issues and strategies	Indicators for evaluation (numerical targets)	FY2018 results	FY2019 target	FY2020 target	FY2021 target	Key related SDGs
Reducing greenhouse gas emissions toward creating a decarbonized society (SBT: Scope 1 and 2)	Reduce greenhouse gas emissions	Greenhouse gas emissions volume compared to fiscal 2017	381,613 t-CO <sub>2</sub> e +3.2%	380,356 t-CO <sub>2</sub> e +2.9%	398,274 t-CO <sub>2</sub> e +7.7%	402,768 t-CO <sub>2</sub> e +8.9%	   
		Carbon efficiency	— (0.292)* <sup>1</sup> t-CO <sub>2</sub> /millions of yen	0.341 (0.275)* <sup>1</sup> t-CO <sub>2</sub> /millions of yen	0.341 (0.279)* <sup>1</sup> t-CO <sub>2</sub> /millions of yen	0.318 (0.264)* <sup>1</sup> t-CO <sub>2</sub> /millions of yen	
Protecting resources, reducing the generation of waste and achieving zero emissions	Promote industrial waste separation	Recycling rate at new housing construction sites* <sup>2</sup>	94.2%	96.1%	98.0%	98.0%	
		Recycling rate at housing demolition sites (based on demolition starts at the parent company)* <sup>3</sup>	77.6%* <sup>4</sup>	98.0%	98.0%	98.0%	
		Recycling rate at renovation sites* <sup>5</sup>	74.3%	80.0%	82.0%	84.0%	
		Recycling rate of the power generation business	64.5%	52.5%	54.3%	56.5%	
		Recycling rate at overseas manufacturing plants	97.5%	97.9%	98.0%	98.0%	
		Recycling rate at domestic manufacturing plants	99.1%	99.5%	99.5%	99.5%	
		Recycling rate of the Lifestyle Service Business* <sup>6</sup>	92.8%	95.2%	96.6%	98.0%	
	Waste reduction Promote zero emissions	Final disposal volume of industrial waste compared to fiscal 2017	56,643t ▲11.0%	58,860t ▲7.5%	56,632t ▲11.0%	54,087t ▲15.0%	
		Total industrial waste emissions compared to fiscal 2017	3,087kg/ building ▲7%	3,020kg/ building ▲9%	2,950kg/ building ▲11%	2,730kg/ building ▲18%	
Conserving and effectively utilizing water resources	Properly manage water resources	Water consumption (m <sup>3</sup> ) (Part of domestic and overseas affiliates)	2,978,000 m <sup>3</sup>	Within 2,981,000 m <sup>3</sup>	Within 2,990,000 m <sup>3</sup>	Within 3,011,000 m <sup>3</sup>	

\*1 Figures in parentheses are calculated based on sales before applying "Accounting Standard for Revenue Recognition"

\*2 For new housing construction sites of the Housing & Construction Division, Sumitomo Forestry Landscaping, and Sumitomo Forestry Home Engineering

\*3 Applicable to specified construction materials (concrete, ascon, wood waste) under the Construction Recycling Law added with metal

\*4 Only the results for FY2018 include those not covered by the Construction Recycling Law.

\*5 For remodeling sites at Sumitomo Forestry Home Tech

\*6 Emissions associated with lifestyle services and housing-related materials sales




### Material Issue 4

## A Vibrant Work Environment where a Diverse Workforce can Unharness Their Skills and Individuality

### Fundamental Policy

The Group promotes a free and open-minded corporate culture that respects diversity in accordance with Our Values. We are also committed to securing an appropriate balance between work and individual commitments such as caring for children and the elderly, maintaining a safe and healthy work environment, implementing regular educational and

training programs to prepare for disasters, accidents and so forth, as stipulated in the Sumitomo Forestry Group Code of Conduct. Further, we are advancing development of a vibrant workplace where diverse human assets can be actively engaged without regard to gender, age, nationality, race, religion or disability.

Target	Specific steps based on issues and strategies	Indicators for evaluation (numerical targets)	FY2018 results	FY2019 target	FY2020 target	FY2021 target	Key related SDGs
Creating a work environment that generates diverse ideas, job satisfaction and vibrancy	Promotion of women's participation and advancement in the workplace	Female employees in management positions (%)	Sumitomo Forestry 3.7% Consolidated in Japan 6.0%	4.2% 6.2%	5.0% 6.7%	5.5% 7.3%	  
	Improve employee satisfaction	Employee satisfaction level	Sumitomo Forestry 81.0% Consolidated in Japan —* <sup>1</sup>	83.0% —* <sup>1</sup>	84.0% compared to fiscal 2019 105%	85.0% compared to fiscal 2019 110%	
Securing human resources by training younger workers and utilizing older ones	Develop human resources from a long-term perspective according to the revision of the evaluation system (April 2019) and evaluator training	Three-year turnover rate among newly hired graduates	Sumitomo Forestry 18.0% Consolidated in Japan 22.2%	17.0% 15.3%	16.0% 13.2%	15.0% 12.9%	
		Training costs per employee	Sumitomo Forestry ¥97 thousand Consolidated in Japan ¥53 thousand	¥120 thousand ¥65 thousand	¥132 thousand ¥66 thousand	¥132 thousand ¥66 thousand	
	Enhance training programs	Total number of training participants	Sumitomo Forestry 11,367 Consolidated in Japan 13,297	13,000 15,224	13,000 15,700	13,000 16,176	
		Training time per employee (hours)	Sumitomo Forestry 13.6 Consolidated in Japan 81.7%	13.7 82.0%	14.4 85.0%	15.5 87.0%	
		Rate of retiree re-employment	Sumitomo Forestry 81.7% Consolidated in Japan 73.3%	82.0% 64.0%	85.0% 67.7%	87.0% 78.0%	
	Implementing interviews for retirees prior to full-term retirement at the beginning of the fiscal year	Average paid leave taken by employees (days)	Sumitomo Forestry 10.1 Consolidated in Japan 8.7	12.3 10.0	13.5 10.6	14.0 11.3	
		Average reduction rate of overtime hours compared to fiscal 2017	Sumitomo Forestry ▲24.9% Consolidated in Japan 2.0%	▲27.6% ▲3.3%	▲30.0% ▲6.2%	▲32.0% ▲11.3%	
	Expand departments using flextime and so on	Average reduction rate of overtime hours compared to fiscal 2013	Sumitomo Forestry ▲24.9% Consolidated in Japan 2.0%	▲27.6% ▲3.3%	▲30.0% ▲6.2%	▲32.0% ▲11.3%	
		Average reduction rate of overtime hours compared to fiscal 2017	Sumitomo Forestry ▲24.9% Consolidated in Japan 2.0%	▲27.6% ▲3.3%	▲30.0% ▲6.2%	▲32.0% ▲11.3%	
Eliminating occupational injuries	Implement reciprocal safety audits and manufacturing department safety audits	Number of serious occupational injuries (four or more days of work leave)	Sumitomo Forestry 2 Consolidated in Japan 10 Consolidated outside Japan 16	0 0 0	0 0 0	0 0 0	
			Domestic forest sites (contractors)	4	0	0	
			Overseas plantation sites (contractors)	3	0	0	
			New construction sites in Japan (contractors)* <sup>2</sup>	9	0	0	
			New construction sites in Japan (contractors)* <sup>2</sup>	16	0	0	
			New construction sites in Japan (contractors)* <sup>2</sup>	16	0	0	
	Share case studies and implement risk assessments	Number of occupational injuries (One or more days of work leave)	New construction sites in Japan (contractors)* <sup>2</sup>	16	0	0	

\*1 Employee satisfaction that is scheduled for implementation in fiscal 2019 is used as a reference value

\*2 The number includes sole proprietorships



Initiatives to Address Five Material Issues


Material Issue 5

Corporate Ethics and Governance Structures

Fundamental Policy

With the background of globalization, diversification and expansion of our business, the Group is reviewing its philosophy structure. Sustainability management based on the Corporate Philosophy, Our Values, and Code of Conduct complies with international codes, international initiatives, and other social demands. In addition, we are working to reinforce the

mechanism for managing business risks—which also encompasses Group companies—by constantly managing prioritized risks through the Risk Management Committee while strengthening our Business Continuity Management (BCM) system as a measure against disasters.

Target	Specific steps based on issues and strategies	Indicators for evaluation (numerical targets)	FY2018 results	FY2019 target	FY2020 target	FY2021 target	Key related SDGs
Reinforcing risk crisis and compliance structures	Progress check of prioritized risk items set by the Risk Management Committee and share materialized risks	Progress of management for prioritized risks (conducted on a quarterly basis by the Risk Management Committee)	100%	100%	100%	100%	
	Understand the extent of compliance awareness and enhance channels for reporting misconduct and compliance violations	Regular implementation and phased deployment of compliance awareness surveys	—	Sumitomo Forestry	Major Group companies in Japan	All Group companies in Japan and some overseas	
	Obtain external certification for Business Continuity Management (BCM)	Obtaining Resilience Certification	—	Sumitomo Forestry	All Group companies in Japan	All Group companies in Japan	
	Analyze and disclose potential financial impact from climate-related risks that could (potentially) have on the organization	Conduct scenario analysis and disclosure consistent with guidance from the Task Force on Climate-related Financial Disclosures (TCFD)	Implement for two sectors, domestic Housing Business and Timber and Building Materials Distribution Business	Re-examination of analysis results and expansion of scope of application for two sectors: domestic Housing Business and Timber and Building Materials Business	Re-examination of analysis results and expansion of scope of application for two sectors: domestic Housing Business and Timber and Building Materials Business	Completion of re-examination of analysis results for all business departments, and incorporation into the subsequent medium-term plan	

Environmental Management

The Group has established the Sumitomo Forestry Group Environmental Policy. The environmental policy applies to all manner of business processes and product lifecycles, including product and service development, design, production, materials procurement, distribution, waste management, supplier and partner selection, new business launches as well as mergers and acquisitions. 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. In this way, we promote business operations that contribute to a sustainable society.

Sumitomo Forestry Group Environmental Policy

Through our experience nurturing forests since our founding, the 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.

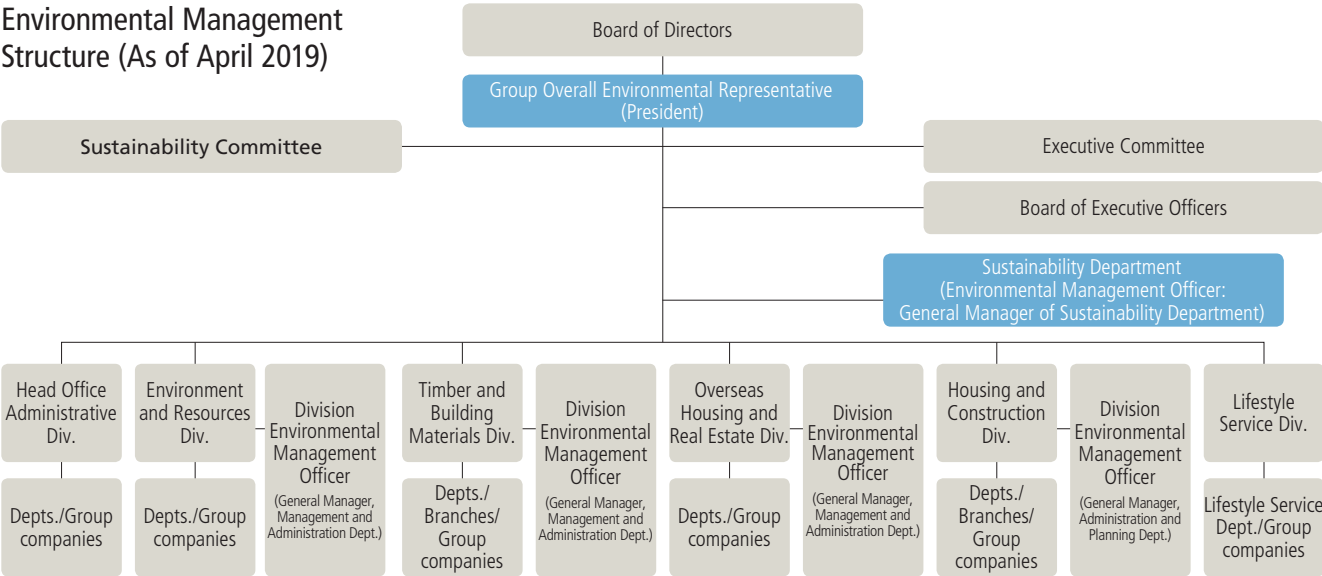
1. Develop business operations centered on wood and forests
- We will cultivate forests and their ability to preserve and enhance the rich ecosystem to protect biodiversity, actively utilize timber resources and create new corporate value.
2. Develop and offer environmentally conscious products and services
- 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

To put its environmental policy into practice in business, the Sumitomo Forestry Group has put in place an environmental management structure with the top management in charge of environmental management. General Manager of Sustainability Department, as the Environmental Management Officer, compiles a sustainability budget with numerical targets on a fiscal year basis in each Group division. The Sustainability Committee periodically checks up on progress to enhance the effectiveness of environmental activities.



Environmental Management Structure (As of April 2019)



ISO 14001 Certification Status

Sumitomo Forestry introduced an environmental management system in fiscal 1995 and acquired ISO 14001 certification for a part of its 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 domestic 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 4 Group companies are integrated in Japan. In addition, 6 Group companies are proceeding with certification overseas, with a focus on manufacturing companies. As of March 2019, 85.7% of consolidated organizations (Net sales basis) have received certification.

Domestic companies within the registration scope of ISO 14001 certifications are periodically audited once a year by external certification bodies. In fiscal 2018, 37 departments and divisions at 5 companies underwent transition assessment surveillance for the new standard, ISO 14001:2015 (JISQ 14001:2015), and were approved to register for transition to the standard.

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 March 2019)

\*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

Company Name		Date of Certification
Expanded Domestic Group Certification	Sumitomo Forestry (excluding overseas)	August 2002 <sup>*1</sup>
	Sumitomo Forestry Landscaping Co., Ltd.	November 2002 <sup>*2</sup>
	Sumitomo Forestry Crest Co., Ltd.	September 2003 <sup>*2</sup>
	Sumitomo Forestry Home Tech Co., Ltd.	March 2013 <sup>*2</sup>
	Japan Bio Energy Co., Ltd.	August 2014 <sup>*2</sup>
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

Identification and Measures for Environmental Risk

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. Moreover, risks with the potential to have a major impact on operations are reported to the Board of Directors for discussion on countermeasures. In fiscal 2018, we conducted scenario analysis based on TCFD and discussed the result at the Sustainability Committee.

Risks and Strategies Related to Changes in Climates and Biodiversity

Risks Related to 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.

< Strategy >

Sumitomo Forestry promotes sales of homes using its BF (Big-Frame) construction method, which offers high earthquake resistance, as well as disaster-resilient homes with functions that allow people to stay for a certain period of time even if lifeline services are disrupted. The Company is also creating services that offer rapid assistance in the event of a natural disaster by using IoT technology to remotely look for damage.

Risks Related to Changes in Timber Resources and Procurement Restrictions

Given that timber is our main material and the source of our products, depletion of timber resources or changes in vegetation as a result of climate change may mean that Sumitomo Forestry will incur costs and be forced to change suppliers if restrictions are put in place.

< Strategy >

Sumitomo Forestry imports timber from over 20 countries as a measure to mitigate the risk of changes in forest conditions and new regulations on timber procurement, and has dispatched employees to key countries in order to gather information and check the legality of timber procurement by headquarters staff. Also, Sumitomo Forestry was the first company in Japan to be registered as a Type 1 Wood-Related Entity under the Clean Wood Act that came into effect in May 2017, and makes a concerted effort to procure legally harvested timber for the entire Group.

Risks Related to Mandatory Emission Reductions

As the movement to reduce greenhouse gas (GHG) emissions gains momentum globally, there is the possibility that reduction of GHG emissions will be imposed upon businesses in countries where the Sumitomo Forestry Group has a presence. If Group companies with bases in these countries are unable to meet reduction targets, they will be required to purchase carbon emission credits, a risk that will increase business costs. In Japan as well, introduction of a new carbon tax could influence business activities and costs.

< Strategy >

We have set greenhouse gas emission reduction targets for each Group company and business division, and work to reduce emissions in line with targets set each fiscal year. In addition to these actions, we have promoted reduction of energy consumption.

Risk Related to Energy Supply Shortages

In countries such as New Zealand for example, which consumes electricity generated by hydropower plants, 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.

< Strategy >

We have set greenhouse gas emissions reduction targets for each Group company and business division, and work to reduce emissions in line with targets set each fiscal year. In addition to the actions, we have promoted reduction of electricity consumption.

Risks Related to Reputational Damage

If Sumitomo Forestry makes mistakes when addressing risks, such as climate change and the preservation of biodiversity, the Company's reputation may be damaged and earnings, such as sales, would be directly affected.

< Strategy >

The Risk Management Committee and the Sustainability Committee take a comprehensive approach to analyzing and responding to risks related to the environment, society and corporate governance from short-, medium- and long-term perspectives.



## ■ 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.

### Energy Conservation and Reductions in Greenhouse Gas Emissions in Business Activities

As the impact of climate change becomes more imminent globally, companies are required to reduce greenhouse gas emissions as a measure against global warming. Sumitomo Forestry Group declared in June 2017 that it would set Science Based Targets (SBT) under the SBT initiative\*<sup>1</sup> and establish new greenhouse gas emission reduction targets for the entire Group. Subsequently, those targets were officially approved as SBT in July 2018. The SBT for the Sumitomo Forestry Group are as follows.

#### SBT (Science Based Targets)

- ① Scope 1 and 2\*<sup>2</sup>: Total 21% reduction  
(Target year 2030; Base year 2017)
- ② Scope 3\*<sup>3</sup>: Total 16% reduction in categories 1\*<sup>3</sup> and 11\*<sup>3</sup>  
(Target year 2030; Base year 2017)



\*1: The SBT initiative was established in 2015 by four organizations (The United Nations Global Compact (UNGC), CDP, World Resources Institute (WRI), World Wide Fund for Nature (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. In Japan, the Ministry of the Environment encourages companies to adopt SBT in their initiatives.

\*2: Scope 1: Direct GHG emissions of a company, including those from fuel consumption. For example, CO<sub>2</sub> emissions from using gasoline in company vehicles.  
Scope 2: Indirect GHG emissions (including CH<sub>4</sub> and N<sub>2</sub>O) from purchased electricity and heat. For example, CO<sub>2</sub> emissions from using electricity in office buildings.  
Scope 3: GHG emissions occurring in the supply chain. For example, CO<sub>2</sub> emissions when sold products are used.

\*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.

#### < State of progress of SBT >

	Fiscal 2017 (reference year)	Fiscal 2018	Change
Scope 1 and 2	369,785	381,613*	3.2%
Scope 3	8,895,066	9,009,596	1.3%

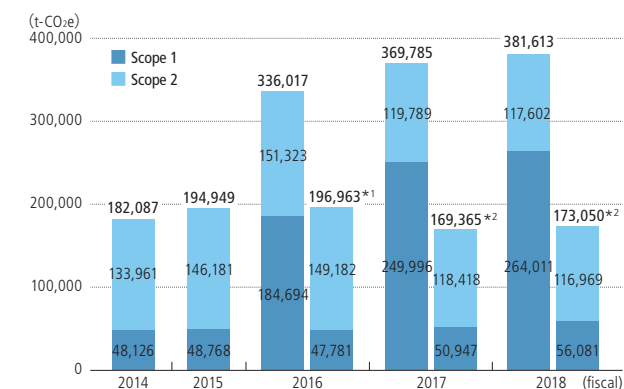
\* In fiscal 2018, greenhouse gas emissions increased as the Hachinohe Biomass Power Plant starting operations in April 2018.

Based on SBT, the Sumitomo Forestry Group will further strengthen its energy-saving activities, promote use of renewable energy, and take other measures to reduce greenhouse gas emissions and mitigate climate change.

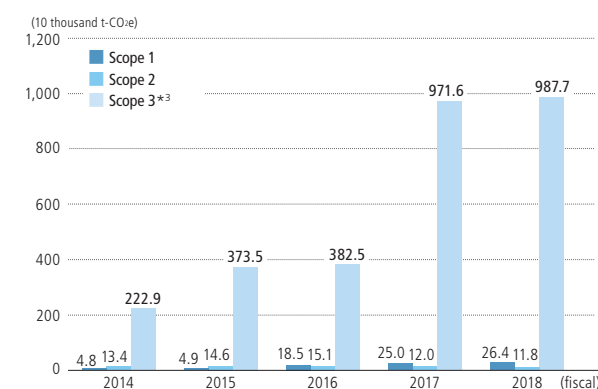
### Greenhouse Gas Emissions by Scope, Based on the GHG Protocol

Since fiscal 2012, we obtain quantitative data for each scope that conforms to the GHG Protocol, the widely used global greenhouse gas measurement standard. In light of increasing demand for renewable energy in recent years, 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 timber from forests, coal is used as a supplementary fuel to ensure smooth operation and maintenance. Accordingly, total CO<sub>2</sub> emissions for Scopes 1 and 2 in fiscal 2018 for the Sumitomo Forestry Group increased 3.2% year on year to 381,613 t-CO<sub>2</sub>e. Of the total for Scope 1 and 2, overseas plants emitted 29.0%, while domestic plants and the power generation business accounted for 56.9%. We started measuring Scope 3 emissions in fiscal 2013 and broadened the scope of our measurements in fiscal 2015 and fiscal 2017. In fiscal 2018, the amount came to 9.877 million t-CO<sub>2</sub>e.

#### CO<sub>2</sub> emissions for Scopes 1 and 2



#### CO<sub>2</sub> emissions for Scopes 1, 2, and 3



\*1 Excludes figures for the power generation business (Mombetsu Biomass Power Plant)

\*2 Excludes figures for the power generation business (Mombetsu Biomass Power Plant and Hachinohe Biomass Power Plant)

\*3 The scope for calculating Scope 3 was expanded from three categories to 15 categories in fiscal 2015.

The scope for calculating Scope 3 was expanded from domestic operations to the entire Sumitomo Forestry Group in fiscal 2017.

### Carbon Stock in Forests

Trees absorb CO<sub>2</sub> and fixate 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 2018 was 13.10 million t-CO<sub>2</sub> (up 0.04 million t-CO<sub>2</sub> YoY) and by plantation areas overseas it was 7.38 million t-CO<sub>2</sub> (down 0.45 million t-CO<sub>2</sub>).

\*The volume of carbon accumulated through absorption of CO<sub>2</sub> by forests. The volume accumulated by 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. In Japan, our carbon stock estimate covers both natural forests and plantations, but only plantations for overseas.

➡ Please see page 40 for CO<sub>2</sub> emission reduction targets and results.

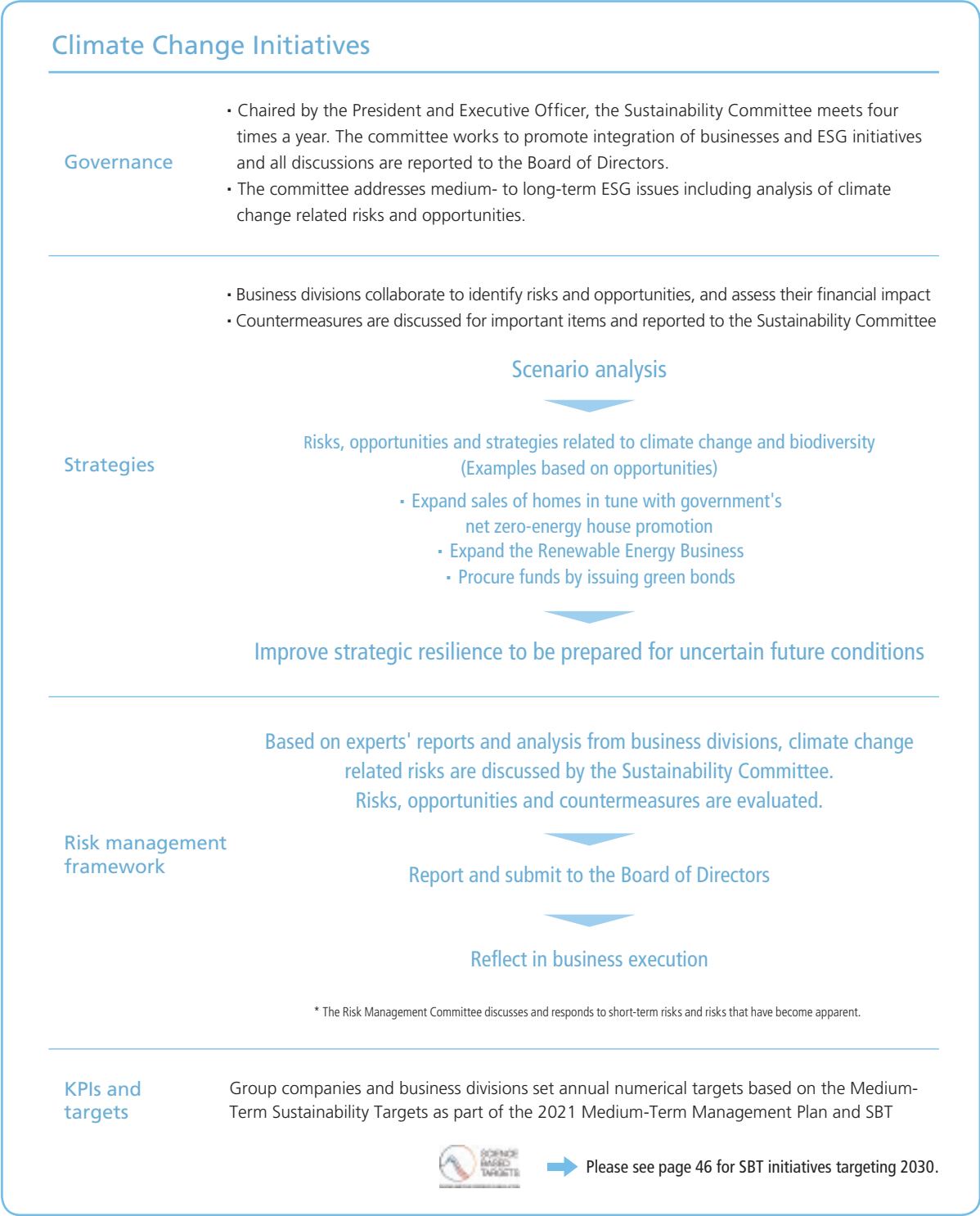


Response to TCFD



The Sumitomo Forestry Group understands that climate change poses great risks. In July 2018, the Company announced its support for the TCFD\*, and began to analyze scenarios the same year.

\*TCFD stands for Task Force on Climate-related Financial Disclosures. The Financial Stability Board directed the creation of a task force for disclosing financial information related to climate in April 2015, which led to a framework for companies to voluntarily disclose information on climate related risks and opportunities.



Initiatives towards Sustainable Procurement

The Sumitomo Forestry Group strives to contribute to realization of a sustainable and prosperous society through business activities that utilize wood as a renewable natural resource. To undertake practical implementation of procurement activities that are considerate of economic, social, and environmental issues, we have established the Sumitomo Forestry Group Procurement Policy.

#### 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

Timber Procurement Management

The Sumitomo Forestry Group established the Timber Procurement Committee, comprising managers from departments in charge of timber procurement to promote Group-wide management of timber procurement through confirming legality of imported timber, setting procurement standards and risk assessments for illegal logging and such.

In fiscal 2018, the committee met three times and confirmed legal compliance and conducted sustainability surveys at all 109 direct suppliers subject to inspections, as well as to 43 suppliers for overseas Group companies (distributors). Sumitomo Forestry periodically checks legal compliance and sustainability at these suppliers, including new and ongoing suppliers, once a year - no more than two years from the current year.

Initiatives for Enabling Sustainable Timber Procurement

Based on the Sumitomo Forestry Group Procurement Policy, the Group carries out due diligence to ensure 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.

Access to Information

The Timber & Building Materials Division, Housing & Construction Division, and the timber procurement divisions across the Group conduct due diligence to ensure suppliers supply timber and wood products that meet logging compliance requirements. Procurement managers gather information in accordance with the due diligence manual for timber procurement.

Risk Assessments and Measures to Reduce Risk

With this information sorted by country, region, wood species, and timber type, risk assessment on illegal logging or human rights violation is carried out based on procurement standards stipulated by the committee. Risk categories are A (low risk), B (medium risk) and C (high risk). Timber and wood products in the B (medium risk) and C (high risk) categories should not be solely evaluated with documentation to prove that they are legally harvested according to that country's laws and regulations. In addition, when necessary, company staff are sent for on-site inspections to ensure traceability back to the logging site.



Initiatives for Enabling Sustainable Timber Procurement

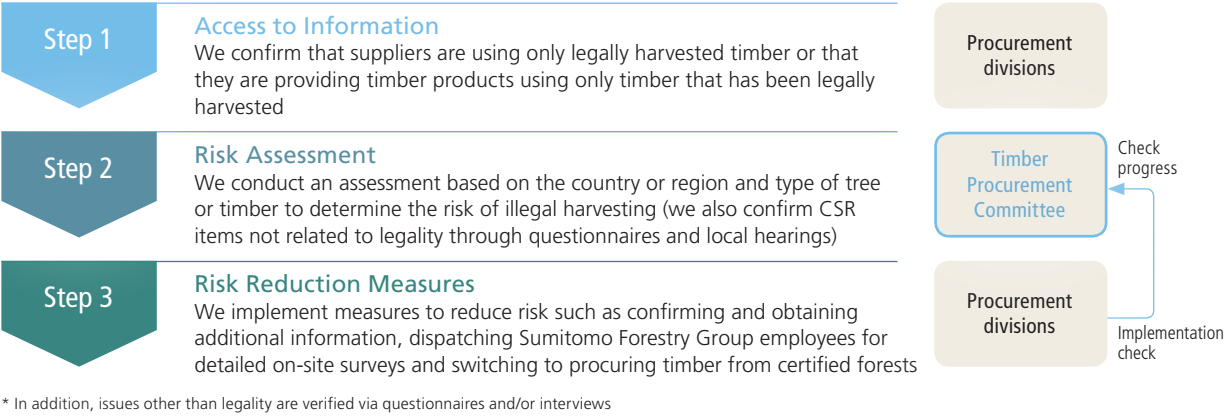
Consideration for Human Rights, Labor, Biodiversity Conservation and Local Communities

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

- Whether the rights of workers, local and indigenous communities 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 with consideration for these rights.
- Whether forests with high conservation value 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.

Review

Each procurement division reports the status and progress of these initiatives to the Timber Procurement Committee, facilitating continuous improvements throughout the supply chain. In fiscal 2018, we strengthened the management system by scoring survey outcomes to improve the visualization of suppliers’ sustainability initiatives. Sumitomo Forestry requested that improvements be made at five suppliers that did not satisfy our standards.



Strengthening Sustainability Initiatives for Timber and Wood Products

Amid growing concerns over deforestation as a factor in climate change, the Sumitomo Forestry Group established a new Action Plan in May 2019, in addition to its own timber procurement due diligence mechanism. We have reinforced and newly implemented sustainability evaluation standards for suppliers.

Policy on “Sustainable Timber and Wood Products

In the Medium-Term Sustainability Targets as part of the 2021 Medium-Term Management Plan, we set a target of 100% procurement of sustainable timber and wood products by the end of fiscal 2021. Even in situations where legality can be confirmed, we will promote the gradual increased use of alternative wood (natural timber from forest thinning or plantation timber) to stop the handling of items that do not fall under our definition of sustainable timber or timber products.

Our thinking regarding “sustainable timber and wood products”

1	Certified timber and pre-certified timber: FSC, PEFC, and SGEC (Regardless of CoC connection, we place emphasis on certification at time of production and promote a shift to certified timber)	2	Timber from plantation forests
3	Natural timber where forestry management and distribution can be assessed as sustainable (This does not include timber from conversion forests = timber harvested from natural forests that were converted to farm land such as palm oil plantations)	4	Recycled timber

Engagement

As part of timber procurement initiatives, we organized a stakeholder dialogue in July 2019 to meet with environmental NGOs and ESG experts and researchers. Experts from the certified NPO Sustainable Management Forum of Japan, World Wildlife Fund (WWF) Japan, FoE Japan, Global Environment Forum, Institute for Global Environmental Strategies, Takasaki City University of Economics and Waseda University participated to discuss various themes, such as the implementation of the Sustainability Procurement Survey, the process and time frame for improvements, timber from conversion forests and recycled timber.

Communication with Procurement Partners and Partner Evaluation

Material suppliers of the Housing and Construction Business (suppliers excluding on-site equipment manufacturers, precut factories, building material operators and frame centers) are evaluated every year on items that include a corporate overview, quality, cost, delivery period, environmental response as well as services. We provide feedback from the evaluation results as a way to play a role in bettering our suppliers. In fiscal 2018, feedback was passed to 235 suppliers (100% implementation rate). As a part of evaluations, audits are periodically carried out at suppliers’ factories. In fiscal 2018, we implemented 153 factory audits.

Topics

A smooth 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 that leads to environmental destruction. At Sumitomo Forestry, each business division has been registered as a business operator under this law, and the entire Group makes every effort to procure legal timber.



## 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.

### Customers

Our customers are surrounded by widespread social and environmental change. Amidst the diversification of people's 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.



Proposals to customers using apps

Main responsibilities	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
Communication methods	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

93.8%

Customer satisfaction regarding custom-built detached houses according to surveys conducted when owners move in

96.1%

### 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 focused on 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.



Traceability confirmation in timber procurement

Main responsibilities	Build fair and open business relationships Improve occupational health and safety Strict compliance with laws and regulations
Communication methods	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 unused wood in domestic (Japan) timber

338 thousand tons

Percentage of reviews conducted for suppliers who handle directly imported timber and wood products with verified legal compliance

100%

### 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.



Guiding domestic investors (Tsukuba Research Institute)

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

Return on equity (ROE)

9.3%

Individual meetings with institutional investors and analysts in Japan and overseas

183 meetings

### 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.



Family Open Day

Main responsibilities	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
Communication methods	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)

24.9% reduction

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

13.6 hours

### Regional Communities

The Sumitomo Forestry Group proactively promotes business activities in harmony with local communities, thereby aiming to revitalize local economies and promote employment. 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.



Free distribution of seedlings to local residents

Main responsibilities	Help solve social problems Reduce environmental impact in business Preserve the natural environment and biodiversity
Communication methods	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. ¥103 million

Amount of donations related to social contributions

Approx. ¥307 million



Human Rights Initiatives

In July 2019, we formulated the Sumitomo Forestry Group Human Rights Policy based on respect for the International Bill of Human Rights (the Universal Declaration of Human Rights and the International Covenants on Human Rights), the International Labour Organization’s (ILO) Core Labor Standards, the 10 Principles of the United Nations Global Compact, and the United Nations Guiding Principles on Business and Human Rights. And the Sumitomo Forestry Group Code of Conduct contains language for respecting human rights and creating healthy workplaces. With the aim of spreading acceptance of these policies at our business partners, we periodically conduct assessments of our partners. We also conduct due diligence of human rights, address risks related to human rights, and further engage in reduce risks related to human rights.

Sumitomo Forestry Group Human Rights Policy website  
➡ <http://sfc.jp/english/corporate/policies/humanrights.html>

Due Diligence and Addressing Significant Risks

Through human rights due diligence, the Sumitomo Forestry Group identifies factors that may have a negative impact on human rights and works to prevent or reduce them.

### CSR Fact-Finding Surveys

As the CSR initiatives at each Group company in fiscal year 2018, we conducted the surveys at 57 Group companies, confirming that 44 companies provided human rights training, 40 companies have systems to handle grievances, and 47 companies have risk mitigation plans in place. Based on this survey, we did not find any human rights violations in fiscal 2018.

### Respect for Human Rights in the Supply Chain

We engage in fair and responsible procurement activities based on the Sumitomo Forestry Group Procurement Policy. For importing and procuring timber, we conduct surveys of our suppliers and on-site interviews to ensure our procurement activities take into account human rights, labor, biodiversity conservation and local communities.

➡ See Initiatives towards Sustainable Procurement on page 49 for details.

### Identifying and Addressing Significant Human Rights Risks

The Company identified significant human rights risks in 2019 by mapping out risks at stakeholders in the value chains of each business division. The Company has already taken steps to address these identified significant risks, and is drawing up plans and advancing countermeasures to prevent, avoid, mitigate and rectify the risks for each stakeholder.

### Respect for Human Rights at Overseas Plantations

At our plantation forest operations in West Kalimantan of Indonesia (PT. Wana Subur Lestari / PT. Mayangkara Tanaman Industri), operations are carried out with respect for human rights and the environment. We conduct joint surveys with the International Finance Corporation (IFC), a member of the World Bank Group, and interview local residents to hear their opinions.

#### Initiatives in Recent Years

2012: Sumitomo Forestry signed an advisory agreement with the IFC. Along with the IFC, we conducted surveys of business locations to understand whether land usage plans at business sites were being properly implemented and adequate consideration is made for the livelihoods of local residents while respecting the rights of indigenous people and protecting cultural assets.

2013 and 2015: Public hearings were held with invitations sent to local residents, neighboring companies, academics, NGOs, government officials and other stakeholders.

2018: With help from IFC, Sumitomo Forestry set up grievance mechanisms at WSL and MTI to collect information and opinions from local residents. With the University of Indonesia, Sumitomo Forestry launched a three-year social survey covering its business sites and surrounding areas.

### 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.



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 Code of Conduct and the Sumitomo Forestry Group Human Rights Policy.

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.

If there has been a compliance violation, the employee will be dealt with appropriately in accordance with Employment Regulations. Unfair dismissals are not allowed.

Sumitomo Forestry strives for talent acquisition, a major issue for management, by properly reflecting in our recruitment activities. The Workstyle Diversification Department, an independent organization within the Personnel Department, takes the lead in supporting the activities of our diverse workforce, including female employees, re-employed retirees, and employees with disabilities.

Employment and Promotion of Women (Non-Consolidated)

	(fiscal year)				
	2014	2015	2016	2017	2018
Ratio of female employees* <sup>1</sup>	18.8 %	19.4 %	20.0 %	20.4 %	21.0 %
Ratio of female employees in management positions* <sup>1</sup>	2.2 %	2.6 %	2.8 %	3.2 %	3.7 %
Ratio of newly graduated female recruits* <sup>2</sup>	29.0 %	26.8 %	22.8 %	18.0 %	24.8 %

Status of Female Recruitment / Employment (Domestic Subsidiaries)

	(fiscal year)				
	2014	2015	2016	2017	2018
Ratio of female employees* <sup>1</sup>	29.6 %	30.4 %	30.7 %	31.6 %	32.0 %
Ratio of female employees in management positions* <sup>1</sup>	3.6 %	4.0 %	4.2 %	4.6 %	6.0 %
Ratio of newly graduated female recruits* <sup>2</sup>	36.1 %	48.0 %	40.3 %	40.2 %	43.5 %

\* 1 The ratio of female employees and the ratio of female employees in management positions are calculated based on the number of employees as of March 31 each year.  
\* 2 The ratio of newly graduated female recruits is calculated based on the number of employees as of April 1 each year.

Employment of Persons with Disabilities (Non-Consolidated)

	(fiscal year)				
	2014	2015	2016	2017	2018
Ratio of employees with disabilities	2.24 %	2.12 %	2.12 %	2.26 %	2.32 %

\* For fiscal 2017, the calculation includes special subsidiary company Sumirin Wood Peace Co., Ltd.  
\* For fiscal 2018, the calculation includes special subsidiary company Sumirin Wood Peace Co., Ltd. and Group affiliate Sumirin Business Service Co., Ltd.

Number of Re-Employed Retirees

(fiscal year)				
2014	2015	2016	2017	2018
43	33	47	52	48



## ■ Work-Life Balance

We aim to improve employee motivation and productivity through various initiatives to create a workplace where employees can lead a mentally and physically 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 Division to implement initiatives to reduce long working hours. Additionally, for work system and operational flow reforms at the head office, the Long Working Hours Mitigation Committee was set up within the division to lead the campaign to reduce long working hours by making system improvement proposals.

### Practicing Mental Healthcare

Based on the Guideline on Maintaining and Improving Mental Health of Workers formulated by the Ministry of Health, Labour and Welfare, Sumitomo Forestry offers care for mental health through self-care, care provided by line managers, care provided by occupational health staff within the workplace, and care using resources from outside the business.

The Company has established the Workstyle Diversification Department within the Personnel Department. In order to further enhance mental healthcare, the Company has assigned an employee who is a qualified clinical psychologist to the Workstyle Diversification Department, and has closely cooperated with an external provider of the Employee Assistance Program (EAP) to provide follow-up support and help in returning to work for individuals with mental disorders.

\* Employee Assistance Program (EAP) : A workplace mental healthcare service

### Supporting Diverse Workstyles

The 6th Next Generation Law Action Plan  
(Fiscal 2015 to 2019)

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.

Supporting Workstyles for Employees Caring for Family Members

As a part of measures to help employees continue working while caring for family members, we have set up systems such as reduced work hours, in addition to revising the care leave system. Employees may take time off for the equivalent of ten days a year in 30-minute increments under our family care leave and medical leave.

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.

### Encouraging Different Systems for Paid Leave

We encourage employees to take planned paid leave of more than 14 days every year, including so-called “refresh” leave and summer holiday leave. The average number of paid leave days used in fiscal 2018 was 10.1 (53.2%), up from 9.0 (47.4%) the previous year.

Also, for employees at our housing and construction business branches which are opened on Saturdays and Sundays to meet with customers, we strive to improve our workplace environment by offering “Family Friendly Day Leave.” It allows employees to 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, we are developing employees who are highly motivated and proud to work at Sumitomo Forestry. And Sumitomo Forestry also endeavors to train personnel who contribute to the realization of its corporate philosophy by nurturing a corporate culture that is open and inclusive.

The Company promotes independent efforts for capacity building and career development, and has regulations for assisting employees who seek to obtain qualifications or take classes at external educational institutions.

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, is based on the concept of “Supporting Motivated People,” and focuses on skill development with an emphasis on self-initiative. 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 (FY2018)

Training program	Number of people attending (non-consolidated)	Number of people attending (Group companies)
Training for specific levels (13 courses)	876	154
Selective training (24 courses)	74	24
Self-development training (40 courses)	144	1
e-learning (6 mandatory courses)	4,798	4,911

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

(fiscal year)	2014	2015	2016	2017	2018
Hours of training courses taken	6.8	9.3	9.4	13.1*	13.6
Spending on training (¥ thousand)	91	91	100	100	97

\* The calculation method was changed in fiscal 2017.



Students receive individualized instruction in small class settings  
(The Sumitomo Forestry School of Professional Building Techniques)



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.

New Students and Performance at the Sumitomo Forestry School of Professional Building Techniques

(fiscal year)	2015	2016	2017	2018	2019
Number of new students	64	63	67	69	57
Number of graduates	57	61	66	68	—
Students who acquired Grade 2 Carpenter Skills Certification	54	57	49	62	—

Winners of WorldSkills Competitions

Fiscal year	Participants in WorldSkills competitions		
	Regional competition (Chiba Prefecture event)	National competition (Chiba Prefecture representative)	International competition
2010	28 people (all 28 received a skills certificate)	5 people (one gold, one silver, one bronze, and two medallions for excellence)	
2011	27 people (all 27 received a skills certificate)	5 people (one silver, one medallion for excellence)	1 person (silver medal at the London competition)
2012	40 people (all 40 received a skills certificate)	5 people (one silver, two bronze, two medallions for excellence)	
2013	35 people (28 received a skills certificate)	5 people (one silver, two medallions for excellence)	1 person (medallion for excellence at the Leipzig competition)
2014	56 people (46 received a skills certificate)	4 people (three medallions for excellence)	
2015	57 people (54 received a skills certificate)	2 people (two silver)	
2016	61 people (57 received a skills certificate)	5 people (one bronze, two medallions for excellence)	
2017	65 people (49 received a skills certificate)	7 people (three bronze, three medallions for excellence)	
2018	68 people (62 received a skills certificate)	7 people (one gold, two silver, one bronze, three medallions for excellence)	



National competition of WorldSkills in fiscal 2018

Governance



## Introducing the Board of Directors and Statutory Auditors

(As of June 21, 2019; number of shares held by the Company as of March 31, 2019)

### Directors

\* Attendance at Board of Directors meetings



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)

Attendance\* 16/16 times

#### Ryu Yano

(Born Apr. 21, 1940)

Chairman of the Board and Representative Director

[Notable concurrent jobs] Outside Statutory Auditor at DAIKIN INDUSTRIES, LTD.

#### Reason for appointment as a director

Ryu Yano has abundant experience and achievements as a corporate manager, successively serving as President / Director and Chairman of the Board.

Company shares held

98 thousand shares



Apr. 1978 Joined the Company  
Jun. 2007 Executive Officer  
Jun. 2008 Director  
Managing Executive Officer  
Representative Director  
(current position)  
Apr. 2010 President / Director  
(current position)  
President and Executive Officer  
(current position)

Attendance\* 16/16 times

#### Akira Ichikawa

(Born Nov. 12, 1954)

President and Representative Director

#### Reason for appointment as a director

Akira Ichikawa has abundant experience and achievements related to the Sumitomo Forestry Group's business, serving in the Group's management since April 2010 as President / Director.

Company shares held

64 thousand shares

### Outside Directors

\* Attendance at Board of Directors meetings



Attendance\* 16/16 times

#### Junko Hirakawa

(Born Oct. 9, 1947)

Independent Officer

[Notable concurrent jobs] Lawyer / Outside Director of Tokyo Financial Exchange Inc. / Outside Director of Hitachi Construction Machinery Co., Ltd.

#### Reason for appointment as a director

As an attorney, Junko Hirakawa has practical knowledge of corporate law in Japan and abroad, and has been judged to play an appropriate role in strengthening the Company's corporate governance by making recommendations to management from an expert's perspective.

Company shares held

— shares



Attendance\* 16/16 times

#### Izumi Yamashita

(Born Feb. 1, 1948)

Independent Officer

[Notable concurrent jobs] Outside Director of AEON Bank, Ltd.

#### Reason for appointment as a director

Izumi Yamashita has abundant experience in the financial industry and deep insight as a corporate manager, and has been judged to play an appropriate role in strengthening the Company's corporate governance by making recommendations to management.

Company shares held

— shares

Organizational Structure	Company with a Board of Directors and a Board of Statutory Auditors
Number of Independent Officers	5
Number of Board of Directors Meetings	16
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	<a href="http://sfc.jp/english/corporate/corporate_governance.html">http://sfc.jp/english/corporate/corporate_governance.html</a>

### Directors

\* Attendance at Board of Directors meetings



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  
Apr. 2016 Representative Director  
(current position)  
Apr. 2018 Divisional Manager of Overseas Housing and Real Estate Division  
(current position)

Attendance\* 16/16 times

#### Shigeru Sasabe

(Born Feb. 28, 1954)

Representative Director

[Role] Oversees the Environment and Resources Division

#### Reason for appointment as a director

Shigeru Sasabe has abundant experience and achievements related to the Sumitomo Forestry Group's business and management. He was appointed as Director in 2010, and has successively held positions such as Divisional Manager of the Lifestyle Service Division. He currently serves as Executive Vice President and Executive Officer and Divisional Manager of the Overseas Housing and Real Estate Division.

Company shares held

31 thousand shares



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)

Attendance\* 16/16 times

#### Tatsuhiro Satoh

(Born Dec. 14, 1955)

Representative Director

[Notable concurrent jobs] Statutory Auditor at Kumagai Gumi Co., Ltd.  
[Role] In charge of General Administration, Personnel, IT Solutions, Intellectual Property, Internal Audit, and the Tsukuba Research Institute

#### Reason for appointment as a director

Tatsuhiro Satoh has abundant experience and achievements related to the Sumitomo Forestry Group's business and management. He was appointed as Director in 2013, serving as an Executive Officer who oversees General Administration, Personnel, and other departments. He currently serves as Executive Vice President and Executive Officer.

Company shares held

26 thousand shares



Jul. 1983 Joined the Company  
Jun. 2008 Executive Officer  
Apr. 2010 Managing Executive Officer  
Jun. 2011 Director  
Apr. 2014 Senior Managing Executive Officer  
(current position)  
Representative Director  
(current position)  
Divisional Manager of Housing Division

Attendance\* 16/16 times

#### Ken Wada

(Born Dec. 26, 1956)

Director

[Role] Oversees the Lifestyle Service Division and in charge of TOP2020 (Tokyo Olympics and Paralympics), Secretary, External Relations

#### Reason for appointment as a director

Ken Wada has abundant experience related to the Sumitomo Forestry Group's business. After being appointed as Director in 2011, he has successively held positions such as Divisional Manager of the Housing Division. He currently serves as Senior Managing Executive Officer.

Company shares held

37 thousand shares



Apr. 1985 Joined the Company  
Jun. 2010 Executive Officer  
Apr. 2011 Managing Executive Officer  
Apr. 2014 Divisional Manager of Overseas Business Division  
Jun. 2014 Deputy Divisional Manager of Housing Division  
Apr. 2015 Director  
(current position)  
President and 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)

Attendance\* 16/16 times

#### Toshiro Mitsuyoshi

(Born May 23, 1962)

Director

#### Reason for appointment as a director

Toshiro Mitsuyoshi has abundant experience related to the Sumitomo Forestry Group's business. After serving as Divisional Manager of the Overseas Business Division and other roles, he was appointed as Director in 2014, successively serving as President and Director of Sumitomo Forestry Home Tech Co., Ltd., a subsidiary of the Sumitomo Forestry Group. He currently serves as Senior Managing Executive Officer and Divisional Manager of the Housing and Construction Division.

Company shares held

9 thousand shares



Apr. 1981 Joined the Company  
Apr. 2009 General Manager of Corporate Planning Department  
Jun. 2010 Executive Officer  
Apr. 2011 General Manager of Corporate Planning Department  
Apr. 2011 Managing Executive Officer  
(current position)  
General Manager of Corporate Planning Department  
Jun. 2014 Director  
(current position)  
Oct. 2015 Divisional Manager of Timber and Building Materials Division  
(current position)

Attendance\* 16/16 times

#### Akihisa Fukuda

(Born Apr. 16, 1957)

Director

#### Reason for appointment as a director

Akihisa Fukuda has abundant experience related to the Sumitomo Forestry Group's business. After serving successively as General Manager of Corporate Planning Department and Executive Officer in charge of Finance, IT Solutions and other areas, he was appointed as Director in 2014. He currently serves as Managing Executive Officer and Divisional Manager of the Timber and Building Materials Division.

Company shares held

13 thousand shares



Apr. 1986 Joined the Company  
Apr. 2012 General Manager of Personnel Department  
Apr. 2013 General Manager of Personnel Department  
Apr. 2014 General Manager of Personnel Department  
Apr. 2014 General Manager of Corporate Planning Department  
Jun. 2016 Executive Officer  
Apr. 2017 General Manager of Corporate Planning Department  
Apr. 2017 Managing Executive Officer  
(current position)  
General Manager of Corporate Planning Department  
Jun. 2018 Director  
(current position)

Attendance\* 13/13 times\*

#### Tatsumi Kawata

(Born Oct. 4, 1962)

Director

[Role] In charge of Corporate Planning, Finance, Corporate Communications and Sustainability

#### Reason for appointment as a director

Tatsumi Kawata has abundant experience related to the Sumitomo Forestry Group's business. After successively serving as the General Manager of the Personnel Department, General Manager of the Corporate Planning Department and other roles, he was appointed as Director in 2018. He currently serves as Managing Executive Officer.

Company shares held

5 thousand shares

\* Attendance since his appointment on June 22, 2018

### Statutory Auditors

\* Independent Officer

#### Senior Statutory Auditor (full-time)

#### Hitoshi Hayano

Statutory Auditor  
(full-time)

Outside  
Statutory Auditors

#### Noriaki Toi

#### Yoshitsugu Minagawa\*

#### Yoshimasa Tetsu\*

#### Makoto Matsuo\*

#### President and Executive Officer

#### Akira Ichikawa\*

Executive Vice President and  
Executive Officers

#### Shigeru Sasabe\*

Oversees Environment and Resources  
Division and Divisional Manager of  
Overseas Housing and Real Estate Division

#### Tatsuhiro Satoh\*

In charge of General Administration,  
Personnel, IT Solutions, Intellectual Property,  
Internal Audit, and the Tsukuba Research  
Institute

#### Senior Managing Executive Officers

#### Ken Wada\*

Oversees the Lifestyle Service Division  
and in charge of TOP2020 (Tokyo  
Olympics and Paralympics), Secretary,  
External Relations

#### Toshiro Mitsuyoshi\*

Divisional Manager of Housing and  
Construction Division

#### Managing Executive Officers

#### Akihisa Fukuda\*

Divisional Manager of Timber and Building  
Materials Division

#### Tatsumi Kawata\*

In charge of Corporate Planning,  
Finance, Corporate Communications and  
Sustainability

#### Akira Sekimoto

Divisional Manager of Environment and Resources Division

#### Kanpei Tokunaga

President and Representative Director of Sumitomo Forestry Home Tech Co., Ltd.

#### Atsushi Kawamura

In charge of North American Business and Deputy  
Divisional Manager of Overseas Housing and Real Estate  
Division

#### Takahisa Higaki

Divisional Manager of Lifestyle Service Division

#### Executive Officers

#### Kunihiko Takagiri

President and Representative Director of Sumitomo Forestry Residential Co., Ltd.

#### Ryoji Machino

President and Representative Director of Sumitomo Forestry Crest Co., Ltd.

#### Masayuki Tabuse

Deputy Divisional Manager of Timber and Building  
Materials Division

#### Akio Numazaki

Deputy Divisional Manager of Housing and  
Construction Division (Oversees Construction  
Materials Development, Construction Management,  
Quality Control and Customer Relationships)

#### Junko Saishu

In charge of Workstyle Reform and Women's  
Empowerment and General Manager of Personnel  
Department Workstyle Diversification Department

#### Koichi Shimizu

General Manager of IT Solutions Department

#### Ikuro Takahashi

Deputy Divisional Manager of Housing and  
Construction Division (Oversees Human Resources  
Development, Real Estate and Market Development,  
Technology and Product Development and Design  
Management) and General Manager of Marketing and  
Promotion Department

#### Kazutaka Horita

Deputy Divisional Manager of Timber and  
Building Materials Division and General  
Manager of Manufacturing Department

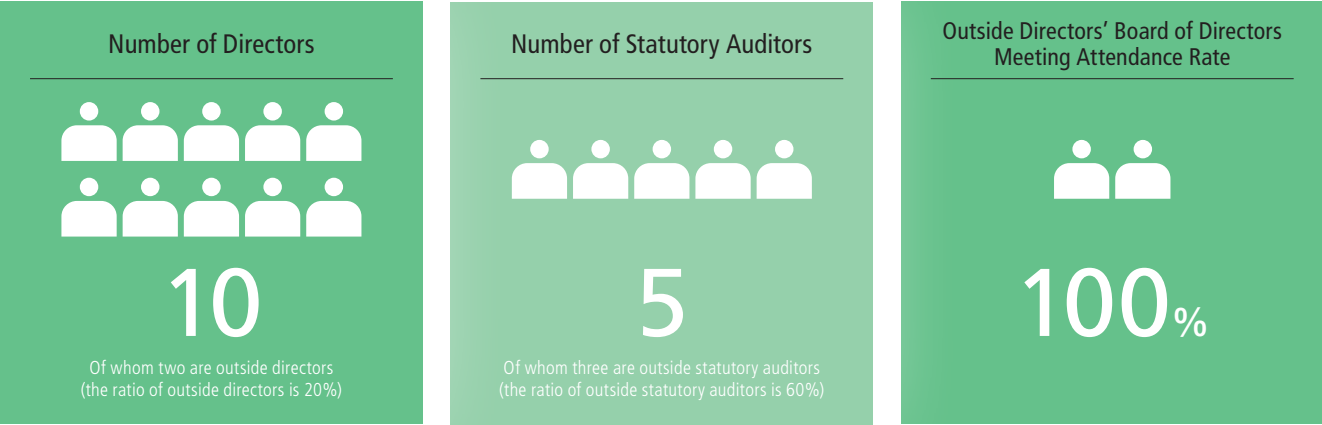
#### Yoichi Hosoya

Deputy Divisional Manager of Timber  
and Building Materials Division and  
General Manager of Industrial Materials  
Department and International Marketing  
Department



Corporate Governance

Sumitomo Forestry Co., Ltd. seeks to ensure management transparency as well as the 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 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 the expectations of various stakeholders around the Group.

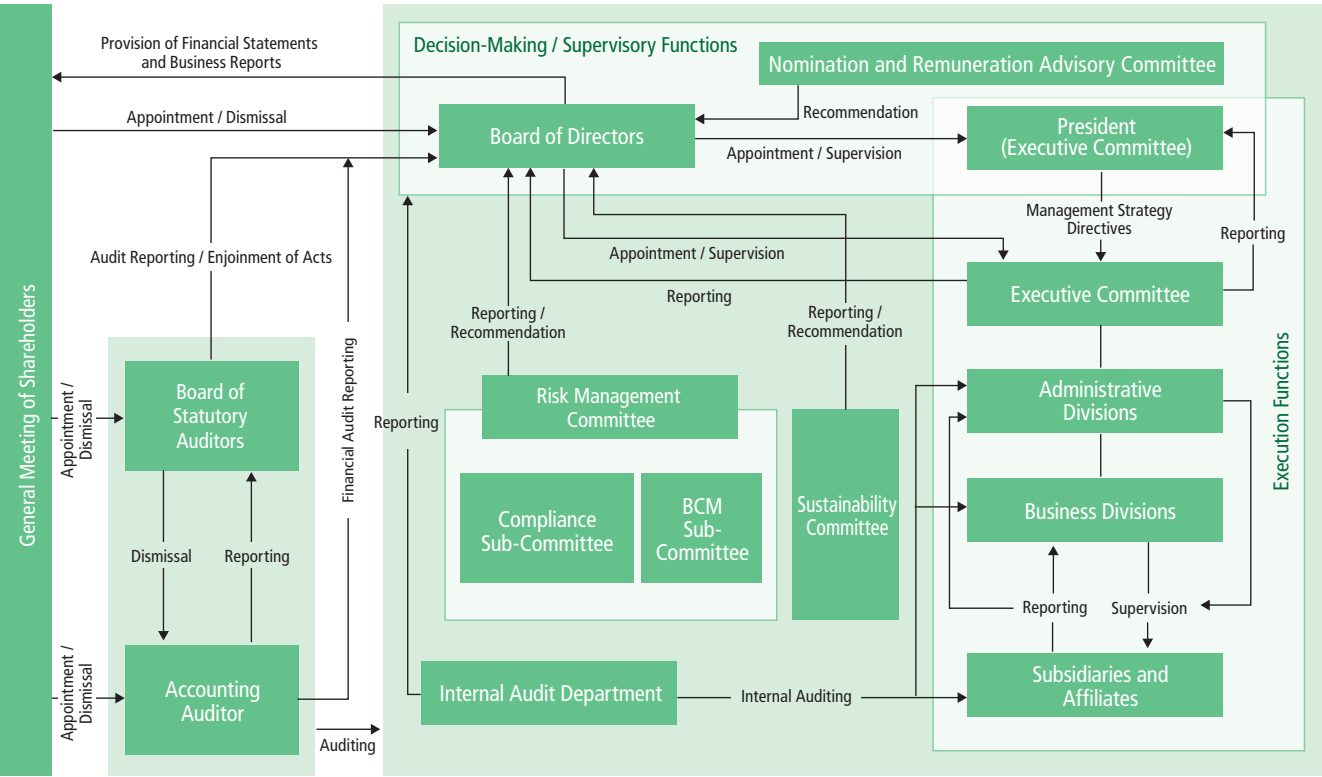


Corporate Governance System

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.

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. The Board of Directors met 16 times and the Executive Committee met 26 times in fiscal 2018. Directors and statutory auditors strive to maintain a Board of Directors meeting attendance rate of at least 75%.

Reforms to Corporate Governance

	1996	2000	2005	2010	2018	2019
Corporate Philosophy	1996: Formulated our Corporate Philosophy	2001: Revised the Corporate Philosophy, designated Our Values	2007: Established Our Values and Ideals and revised Our Values	2017: Added a Code of Conduct	2018: Revised to current corporate policies	
Separation of business decision-making, supervision and execution		2002 onward: Introduced executive officer system				
Director				2014: Appointed a woman as a director	2014 onward: Total set at 12 or fewer people (Articles of Incorporation)	
Outside Directors				2014 onward: One person	2016 onward: Increased to two people	
Outside Statutory Auditors			Until 2009: Two people	2010 onward: Increased to three people		
Executive Remuneration/ Personnel			2005 onward: Abolished the executive retirement bonus	2015 onward: Established the Nomination and Remuneration Advisory Committee	2015-2017: Introduced stock-based compensation stock option system ⇒ 2018 onward: Changed stock option to a remuneration plan for shares with restriction on transfer	
Various Committees			2002 onward: Established the Risk Management Committee	2018 onward: Established the Sustainability Committee		

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

The effectiveness of the Board of Directors was evaluated in fiscal 2018 through discussions at Board of Directors meetings that were based on self-analyses of each Board Member. The Board of Directors also evaluated effectiveness by confirming the status of implementation of their roles as designated by the Sumitomo Forestry Basic Policy on Corporate Governance and exchanging opinions with Outside Directors and Outside Statutory Auditors. Initiatives undertaken in the fiscal year under review included revising deliberation standards for the Board of Directors and narrowing down the number of items deliberated by the Board of Directors, as well as deepening discussions at the Board of Directors by providing opportunities for Outside Directors to be briefed by business divisions on an individual basis. Meetings were held on multiple occasions for officers, including Outside Officers, to discuss medium- and long-term business strategies, facilitating a constructive dialogue about the new Medium-Term Management Plan. With regard to strengthening defensive governance (risk management, enhancing internal controls, etc.), a point raised in the fiscal 2017 effectiveness evaluation, the Company revised its management of investments and loans, and strived to improve monthly reporting to Outside Directors about internal reports. As a result of these discussions, the officers arrived at the conclusion that the Board of Directors is functioning effectively overall. With regard to future issues, some participants in the discussions expressed the opinion that there needs to be more deliberation about rebuilding a strategy for human resources, and that defensive governance should be further strengthened in order to expand business domains and address changes in the operating environment. The Company will continue to work on improving these topics to further enhance the effectiveness of the Board of Directors.



Statutory Audit System

Each statutory auditor audits the directors’ execution of duties utilizing the deep insights and diverse perspectives they have acquired from their various backgrounds. As assistants to the statutory auditors, ten 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 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.

The Board of Statutory Auditors met 14 times and the Group Board of Statutory Auditors met 6 times in fiscal 2018.

Attendance of Outside Officers at Board Meetings  
(fiscal 2018)

Position and Name	Board of Directors Meetings (convened 16 times)		Board of Statutory Auditors Meetings (convened 14 times)	
	Number of meetings attended	Attendance rate	Number of meetings attended	Attendance rate
Director: Junko Hirakawa	16	100%	—	—
Director: Izumi Yamashita	16	100%	—	—
Statutory Auditor: Yoshitsugu Minagawa	16	100%	14	100%
Statutory Auditor: Yoshimasa Tetsu*	13	100%	11	100%
Statutory Auditor: Makoto Matsuo*	12	92%	10	90%

\* Statutory auditors Yoshimasa Tetsu and Makoto Matsuo have attended meetings of the Board of Directors and Board of Statutory Auditors since their appointment as statutory auditors at the 78th Ordinary General Meeting of Shareholders on June 22, 2018.

Reasons for Appointment as Outside Director and  
Statutory Auditor

Name	Reason for appointment
<b>Junko Hirakawa</b> 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.
<b>Izumi Yamashita</b> 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.
<b>Yoshitsugu Minagawa</b> 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.
<b>Yoshimasa Tetsu</b> 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.
<b>Makoto Matsuo</b> 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.

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, and solicit opinions, in the nomination of director and statutory auditor candidates and executive officers; the removal of directors, statutory auditors and executive officers; the evaluation of the Chief Executive Officer and other executive officers; and decisions about remuneration for directors and executive officers. 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

Sumitomo Forestry has created an officer remuneration system that provides appropriate incentives to directors and statutory auditors in order to realize the Sumitomo Forestry Group’s Corporate Philosophy.

(Remuneration for Directors (Excluding Outside Directors))

Remuneration for directors, excluding Outside Directors, is comprised of three different types: monthly remuneration and restricted stocks as basic remuneration and a bonus as performance-linked remuneration.

The Company sets the amount of remuneration commensurate with the duties and responsibilities of each director’s position.

Basic remuneration is paid in a fixed amount of cash according to position, with a certain percentage paid in the

Basic Remuneration : 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).
Basic Remuneration : Restricted Stock
As of the 78th General Meeting of Shareholders held on June 22, 2018, the Company introduced a remuneration system for allocating shares with restrictions on their transfer, in lieu of stock-based compensation stock options. 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.
Performance-Linked Remuneration
A set amount is approved at the annual Ordinary General Meeting of Shareholders.

form of restricted stocks. The amount of cash payments complies with a remuneration framework approved by resolution of the General Meeting of Shareholders. The amount of restricted stocks paid out does not exceed ¥100 million per year, per a resolution passed by the General Meeting of Shareholders.

Restricted stock remuneration is offered as a medium- and long-term incentive to increase the motivation and ambition of officers to enhance the corporate value of Sumitomo Forestry, while also sharing this value with our shareholders to increase the Company’s share price.

Performance-linked remuneration is awarded in amounts approved by the General Meeting of Shareholders that are commensurate with profit attributable to owners of the parent as well as consolidated recurring income, excluding actuarial differences in retirement benefit accounting.

(Outside Director Remuneration)

Remuneration for Outside Directors consists solely of monthly remuneration as basic remuneration.

A resolution was approved by the 76th Ordinary General Meeting of Shareholders on June 24, 2016, that limits this monthly remuneration to no more than ¥5 million per month.

(Statutory Auditor Remuneration)

Statutory auditor remuneration consists solely of monthly remuneration as basic remuneration.

A resolution was approved by the 74th Ordinary General Meeting of Shareholders on June 20, 2014, that limits this monthly remuneration to no more than ¥8 million per month.

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.

Remuneration\*<sup>1</sup> (fiscal 2018) (Millions of yen)

	Total Remuneration	Total Remuneration by Type			Number of Eligible Officers
		Monthly Remuneration	Stock Compensation	Bonuses	
<b>Directors</b> (Excluding Outside Directors)	514	334	37* <sup>3</sup>	143* <sup>2</sup>	9
<b>Statutory Auditors</b> (Excluding Outside Statutory Auditors)	48	48	—	—	3
<b>Outside Officers</b>	55	55	—	—	7

\*1 The figures above include one director and three statutory auditors who retired at the conclusion of the 78th Ordinary General Meeting of Shareholders held on June 22, 2018.  
\*2 The 79th Ordinary General Meeting of Shareholders held on June 21, 2019 approved a resolution that sets the amount of performance-linked remuneration for eight directors, excluding Outside Directors.  
\*3 Stock-based compensation as basic remuneration shows the total of ¥9 million in costs for allocating stock options, and ¥28 million in costs for allocating restricted stock to eight directors, excluding Outside Directors.



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 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, 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.

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, and also in order to address SDGs, TCFD guidelines, and human rights issues. 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 monitor the Company’s operational status and effectiveness within the context of its Corporate Philosophy, Our Values, and the Code of Conduct, along with the formulation and promotion of initiatives that address medium- to long-term ESG issues which concern Sumitomo Forestry Group’s sustainability, starting with climate change. The meetings also analyze risks and opportunities, and manage progress on the Medium-Term Sustainability Targets, which incorporates business strategies that contribute to achieving SDGs.

Minutes of the Committee’s meetings are reported in their entirety to the Board of Directors with the aim of integrating business with solutions to social issues.

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, the 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 Subcommittee and the Business Continuity Plan (BCP) Subcommittee\* are comprised of the general manager of the General Administration Department, who serves as committee chairman,

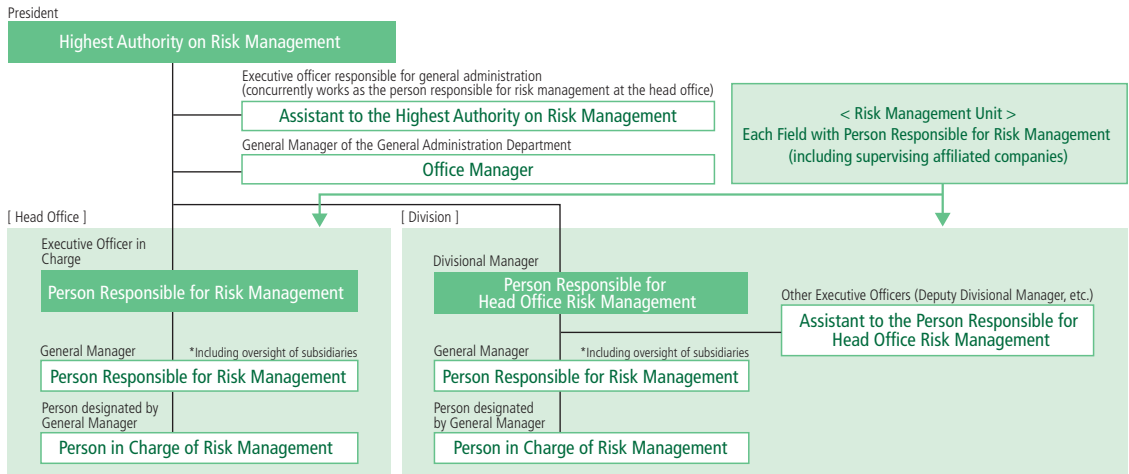
and the staff in charge of risk management, including those of the departments supervising subsidiaries. These subcommittees work to enhance the effectiveness of risk management pertaining to Group-wide risks, namely, compliance risks related to core business and business interruption. In fiscal 2018, the Risk Management Committee convened four times, the Compliance Subcommittee twice, and the BCP Sub-committee four times, and the Board of Directors received reports from them four times.

We are developing specific activities to improve our effectiveness in addressing the environmental, social, and governance risks specified in the Sumitomo Forestry Group Code of Conduct. For climate change, for example, the Company evaluates risks and opportunities that could have a significant impact on its finances at the corporate and division levels, based on the latest information and information obtained from each department. In fiscal 2018, each business division collaborated on a scenario analysis based on TCFD. The Sustainability Committee also discusses risks that have been judged as important from a longer-term perspective. The outcomes of these discussions are reported to the Board of Directors and reflected in business execution.

In fiscal 2019, in order to appropriately respond to changes in the risks surrounding the Group, we will continue to improve the inventory of the risks to be managed and the priority actions selected at the beginning of the fiscal year through the PCDA cycle to manage risk. We will strengthen the system.

\* The BCP Subcommittee’s name was changed to the BCM Subcommittee in April 2019 in order to facilitate the reinforcement of the BCM structure of the entire Group inside and outside Japan. The BCM Subcommittee aims to improve business continuity against various risks, expand alternative bases, and strengthen functions at the Emergency Headquarters.

Risk Management Structure of the Sumitomo Forestry Group

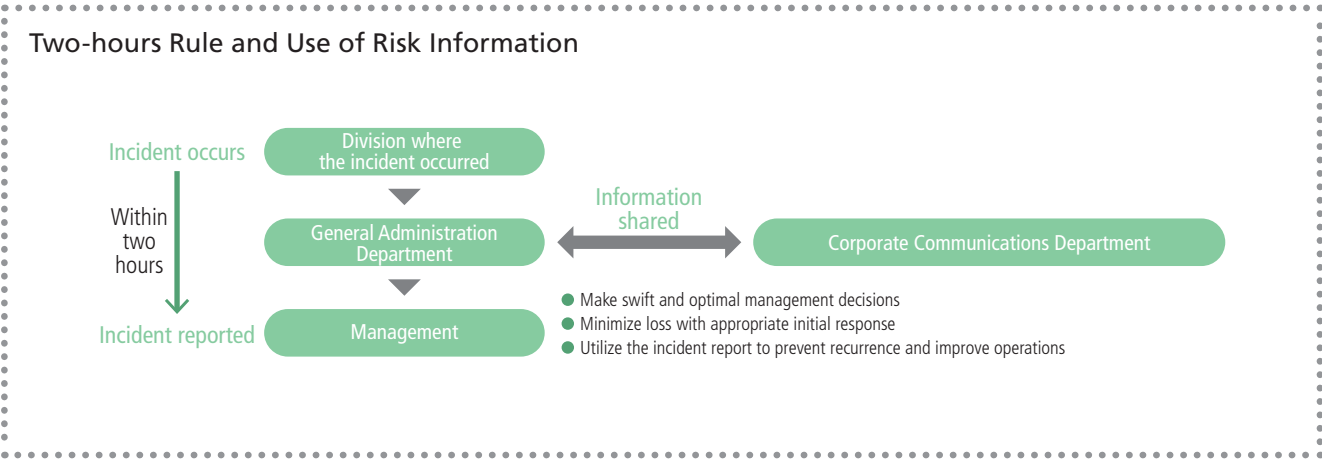




(Rapidly Identifying and Responding to Risk)

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 Subcommittee 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 subcommittee was convened twice in fiscal 2018 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 subcommittee 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 Subcommittee (currently BCM Subcommittee) 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 2018, Sumitomo Forestry held four BCP Subcommittee 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.

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 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



BCP simulation training sessions

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 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 2018, a total of 14,763 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, and Nagoya) where a large number of people are expected to be unable to return home, three days 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

up to share their awareness of risk and enhance their ability to collaborate during emergencies. More than 550 people have participated in this training to date.

Furthermore, we have put in place high-level security systems for situations in which employees to work remotely if they have difficulty getting to work. The system allows for important business operations, such as payment of salaries and payments to business parties, to be carried out from home or other remote locations. Drills for these situations are also conducted every year.

Initiatives towards Supply Chain Business Continuity Initiatives

In readiness for the potential disruption of its Housing and Construction 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, in the event of an earthquake or other natural disaster, or an accident such as a fire occurring at a supplier, we plan to further reduce the risk of business interruption by examining the creation of a system for suppliers

to give a damage report to Sumitomo Forestry and a system to manage damage histories.

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.

External Recognitions (As of August 2019)

	The FTSE4Good Global Index is a stock market index of the index provider FSTE, a joint venture between of the UK’s Financial Times and London Stock Exchange. We have been consecutively included in this index every year since 2004.
	Sumitomo Forestry was awarded the Gold Class commendation for the fourth time in the Sustainability Yearbook 2019, a CSR rating by RobecoSAM. At the same time, we are also recognized as an “Industry Mover” as the company with the largest improvement in scores compared to the previous year in the Homebuilding Industry. In addition to being selected as one of the world’s most sustainable companies for the 12th straight year in the Home Building Industry Sector.
	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 third year running as a Climate Change A List company by CDP, its highest ranking. Of the companies selected for the A List in 2018, there were 126 global firms and 20 Japanese companies, including Sumitomo Forestry.
	Sumitomo Forestry was selected as a constituent of the “Dow Jones Sustainability Asia Pacific Index,” a global ESG investment stock index, and “Industry Leader” the Homebuilding Industry, the highest level of recognition.
	<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> <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> <p>Sumitomo Forestry has been selected for inclusion in the “S&amp;P/JPX Carbon Efficient Index,” an environmental index jointly developed by the Tokyo Stock Exchange and S&amp;P Dow Jones Indices and that has been adopted as an index for the Government Pension Investment Fund (GPIF).</p>
	Sumitomo Forestry was selected as one of the “New Diversity Management Selection 100 in FY2018” (commendation by the Minister of Economy, Trade and Industry) sponsored by the Ministry of Economy, Trade and Industry, which recognizing companies that use diverse human resources to create value.
	Sumitomo Forestry has been selected as a Certified Health and Productivity Management Organization (in the large company category) for three consecutive years as a company that strives to strategically consider employee health management from a management perspective.
	The convertible bonds with stock acquisition rights issued in September 2018, the world's first Green Convertible Bond that complies with the Green Bond Principles and has obtained a second-party opinion from a major evaluation organization. Sumitomo Forestry was the first Japanese company to receive an award in the “New Products” category of the “4th Green Bond Pioneer Awards” sponsored by the Climate Bonds Initiative.



Financial Section



## Eleven-Year Consolidated Financial Summary

	Millions of yen										
(Years ended March 31)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
<b>Operating Results:</b>											
Net sales	¥1,308,893	¥1,221,998	¥1,113,364	¥1,040,524	¥997,256	¥972,968	¥845,184	¥831,870	¥797,493	¥723,923	¥823,810
Gross profit	232,146	219,315	204,138	183,134	169,492	160,162	141,436	136,873	132,568	124,269	133,493
Selling, general and administrative expenses	182,899	166,294	150,149	153,041	135,498	126,747	116,105	117,682	118,330	114,522	126,656
Operating income	49,247	53,021	53,989	30,093	33,994	33,415	25,330	19,191	14,238	9,747	6,837
Recurring income	51,436	57,865	57,841	30,507	36,424	33,567	26,981	20,714	14,206	9,465	6,160
Profit attributable to owners of the parent / Net income	29,160	30,135	34,532	9,727	18,572	22,531	15,923	9,271	5,175	2,377	1,028
Recurring income (excluding actuarial differences)	54,846	55,574	52,860	42,038	36,681	34,586	26,630	25,631	16,998	7,101	11,159
<b>Financial Position:</b>											
Total assets	¥ 970,976	¥ 899,120	¥ 794,360	¥ 710,318	¥665,538	¥645,197	¥547,973	¥503,496	¥489,417	¥469,738	¥427,738
Working capital*1	236,047	209,506	190,386	178,215	158,110	120,725	91,335	94,509	89,665	88,338	81,700
Interest-bearing debt	248,885	200,630	163,817	119,069	103,369	92,975	69,229	67,923	69,229	66,786	49,127
Total net assets	353,489	345,639	295,857	265,257	260,782	226,078	193,250	169,335	163,110	162,930	156,192
<b>Cash Flows:</b>											
Cash flows from operating activities	¥ 40,689	¥ 13,732	¥ 40,337	¥ 45,705	¥ 14,709	¥ 54,057	¥ 45,910	¥ 26,873	¥ 17,515	¥ 37,239	¥ (8,161)
Cash flows from investment activities	(71,659)	(46,250)	(62,350)	(9,972)	(23,575)	(10,476)	(28,662)	(32,903)	(13,247)	(19,117)	(29,062)
Cash flows from financing activities	11,523	25,156	14,267	1,813	(17,286)	8,511	(5,305)	(5,622)	372	11,546	24,196
Cash and cash equivalents at the end of the year	105,102	125,555	132,707	141,265	103,296	128,343	75,658	63,839	75,582	71,662	40,730
<b>Capital Investment:</b>											
Tangible fixed assets	¥ 18,320	¥ 17,079	¥ 50,940	¥ 18,042	¥ 12,617	¥ 14,735	¥ 7,058	¥ 10,970	¥ 11,923	¥ 10,636	¥ 24,075
Intangible fixed assets	3,173	2,171	2,839	2,006	2,488	2,417	2,890	2,786	2,434	1,561	2,013
Others	838	1,302	349	400	282	252	343	194	215	395	150
Total	22,331	20,552	54,128	20,448	15,388	17,404	10,291	13,950	14,572	12,592	26,238
Depreciation and amortization	13,696	13,727	12,887	11,753	11,453	9,810	8,978	8,469	8,437	8,502	8,477
											Yen
<b>Per Share Data:</b>											
Profit attributable to owners of the parent / Net income	¥ 160.80	¥ 168.49	¥ 194.95	¥ 54.92	¥ 104.85	¥ 127.20	¥ 89.89	¥ 52.34	¥ 29.21	¥ 13.42	¥ 5.80
Net assets	1,755.06	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
Cash dividends	40.0	40.0	35.0	24.0	21.5	19.0	17.0	15.0	15.0	15.0	15.0
											%
<b>Financial Ratios:</b>											
Gross profit margin	17.7	17.9	18.3	17.6	17.0	16.5	16.7	16.5	16.6	17.2	16.2
Operating income margin	3.8	4.3	4.8	2.9	3.4	3.4	3.0	2.3	1.8	1.3	0.8
Recurring income margin	3.9	4.7	5.2	2.9	3.7	3.4	3.2	2.5	1.8	1.3	0.7
Return on assets (ROA)*2	5.5	6.8	7.7	4.4	5.6	5.6	5.1	4.2	3.0	2.1	1.4
Return on equity (ROE)*2	9.3	10.3	13.3	4.0	8.0	11.0	8.8	5.6	3.2	1.5	0.6
Equity ratio	32.8	34.7	34.6	34.3	36.9	33.9	35.1	33.6	33.3	34.6	36.5
Interest-bearing debt ratio*3	43.9	39.2	37.3	32.8	29.6	29.8	26.5	28.7	29.8	29.1	23.9
Current ratio	163.2	158.8	158.8	156.9	154.1	137.0	133.1	137.1	136.8	140.3	141.6
Interest coverage ratio (times)*4	20.1	9.6	27.1	43.1	12.6	44.2	34.9	20.0	13.7	31.8	—

\*1. Working capital = Current assets – Current liabilities

\*2. ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

\*3. Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

\*4. Interest coverage ratio (times) = Cash flows from operating activities / Interest payments

# Management's Discussion and Analysis

## Market Overview

In fiscal 2018 (the fiscal year ended March 31, 2019), the global economy continued a mild recovery overall with steady economic recovery in the United States despite some signs of weakness in China and Europe resulting primarily from trade problems sparked by changes in American policies. In Japan, there has also been a mild recovery owing mainly to improved employment conditions and increased capital expenditures, but there were some signs of weakness in exports and production, and the outlook for consumer spending remained uncertain. In the domestic housing market, there appeared to be a decline in a portion of the rental housing due to financial institutions taking a careful approach toward financing, but the number of new housing starts increased from the previous year as interest rates on housing loans remained low.

## Consolidated Operating Results

### 1 Net Sales and Orders Received

Net sales rose 7.1% year on year to ¥1,308,893 million. The Sumitomo Forestry Group worked to improve profitability in the main businesses of custom-built detached housing and timber and building materials, while also diversifying our revenue streams, including aggressively investing management resources into expanding the domain of our overseas business and pouring effort into the wood biomass power generation business and other resource and environment-related businesses.

The amount of orders for custom-built detached houses rose 18.2% to ¥343,204 million, reflecting an increase in the number of orders as well as a rise in unit price.

### 2 Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 10.0% year on year to ¥182,899 million. Excluding actuarial differences arising from accounting for retirement benefits, SG&A expenses rose 6.5% to ¥179,489 million. The main reason for the increase in SG&A expenses excluding the impact of actuarial differences was the conversion of the Crescent Communities Group and Mark III Properties, LLC into consolidated subsidiaries.

### 3 Operating Income, Recurring Income

Operating income declined 7.1% year on year to ¥49,247 million, and recurring income declined 11.1% to ¥51,436 million. Earnings on a core business basis excluding actuarial differences rose 3.8% at the operating level from ¥50,730 million in the previous fiscal year to ¥52,658 million and decreased 1.3% at the recurring level to ¥54,846 million. Although operating income increased due to the growth of the housing business overseas, recurring income declined due to a reduction in equity-method investment gains.

### 4 Profit Attributable to Owners of Parent

Profit attributable to owners of the parent decreased 3.2% year on year from ¥30,135 million in the previous fiscal year to ¥29,160 million. Although the Company recorded a gain on sales of investment securities as extraordinary gains, this decrease mainly reflected the impact of actuarial differences.

## Segment Results

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

Note: Two of the segments have been renamed starting from the fiscal year ended March 31, 2019, with the "Housing Business" changing to the "Housing and Construction Business," and the "Overseas Business" changing to the "Overseas Housing and Real Estate Business." Furthermore, the overseas manufacturing business within the Overseas Business was reclassified within the Timber and Building Materials Business.

### 1 Timber and Building Materials Business

Net sales in the Timber and Building Materials Business rose 4.7% year on year to ¥487,091 million, while recurring income decreased 7.0% to ¥7,980 million. In the domestic distribution business, results were strong, including an increase in the sales volume, owing to a recovery of timber prices in the market and strengthening of partnerships with trading partners. Moreover, to promote further diversification of revenue streams, we worked to expand exports of domestic timber, poured effort into expanding the volume of fuel wood for power generation handled, and endeavored to provide high-value-added services, including supplying construction materials for commercial facilities. As restrictions grow stronger on logging in natural forests in each country, we also made efforts to expand our sustainable products, including expanding sales of environmentally friendly products made with timber from certified forests and plantation timber. Overseas, we worked out of our regional headquarters in Singapore to expand sales of timber and building materials primarily in Vietnam and China. In the domestic manufacturing business, we continued to work on improving profitability through such means as focusing on expanding sales of high-value-added stairway material and other products that are easy to assemble at the construction site and shorten the time required for construction. In New Zealand, domestic sales and sales to Japan were strong, but results were sluggish due to a rise in manufacturing costs.

### 2 Housing and Construction Business

Net sales in the Housing and Construction Business increased

0.8% year on year to ¥452,839 million, and recurring income declined 13.4% to ¥21,598 million.

### Custom-Built Detached Housing Business

In the custom-built detached housing business, we worked to offer highly customized proposals to first-time buyers looking for land and enhance our proposal capabilities with respect to products that take advantage of our original technology and design capabilities. We also poured effort into expanding orders for ZEH (net zero-energy house). As a result, the number of completed and delivered units increased compared to the previous year, but results were sluggish due primarily to rising prices of construction materials. On the product side, we added domestic oak to our lineup of interior materials for flooring and other uses made with precious wood such as oak, teak, pine, maple, and walnut procured from overseas via our own network. Additionally, we further expanded the diversity of room spaces available with "The Forest BF," which offers various room spaces with customizable ceiling heights to meet the demands of various customers. This included new proposals incorporating positive elements of exterior design from traditional Japanese architecture such as deep eaves and a bigger selection of types and designs of flooring and fittings to go along with the customized ceiling heights.

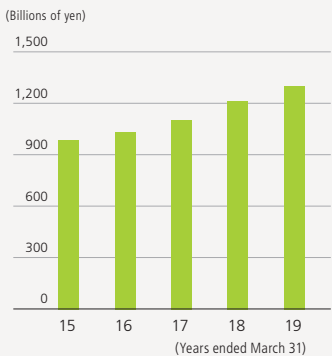
### Apartment Business

In our apartment business, we worked to expand orders for apartments using our Wall Frame (WF) method, which allows for greater customization of floor plans and more adaptability to tenant needs while also attempting to improve our sales capabilities in cities with large markets by opening branches in Tokyo, Osaka, and Nagoya. Furthermore, as tenant lifestyles become more diverse and greater performance is required of apartments, we worked to provide more comfortable living environments. These efforts included joint development of sound insulating flooring and use of that flooring in our Forest Maison apartments.

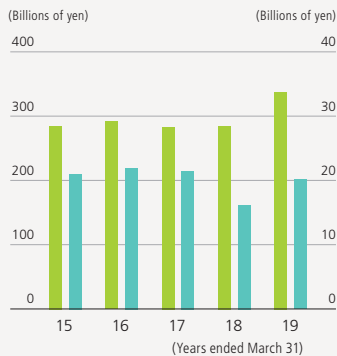
### Number of New Housing Starts in Japan



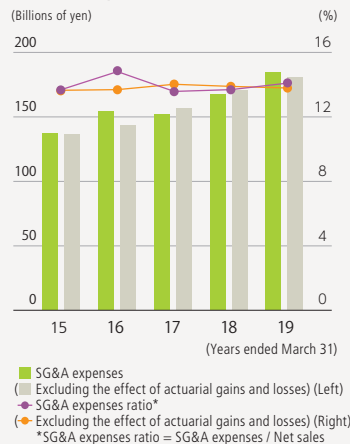
### Net Sales



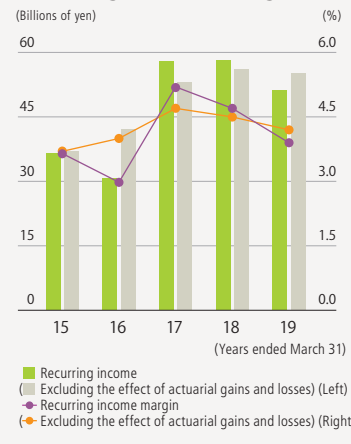
### Amount of Orders Received



### SG&A Expenses and SG&A Expenses Ratio



### Recurring Income and Recurring Income Margin



### Profit Attributable to Owners of the Parent and ROE





Renovation Business

In the renovation business, we worked to strengthen our sales capabilities, including by increasing the number of interior coordinators and designers. We also poured effort into expanding orders for earthquake resistance renovations utilizing our high level of technical capabilities based on proprietary seismic-resistance and seismic-vibration damper construction methods and renovation of traditional Japanese-style houses. As a result, business results were strong.

MOCCA (Timber Solutions) Business

In our MOCCA (Timber Solutions) business, we steadily built upon our track record of construction, including completing a wooden day-care center and guest house, to promote adoption of wood construction and material in buildings. Additionally, in our collaboration with strategic partner and equity-method affiliate Kumagai Gumi Co., Ltd., we performed design testing on wood construction and material with properties they constructed and worked on identifying issues such as cost. This was just one of the ways we worked on strengthening our partnership in relation to medium- and large-scale wooden architectural structures.

3 Overseas Housing and Real Estate Business

Net sales in the Overseas Housing and Real Estate Business increased 19.3% year on year to ¥364,878 million, and recurring income rose 9.9% to ¥25,812 million. In the overseas spec homes business, the overall number of units delivered in the United States increased compared to the previous year as a result of strong housing markets in states such as Washington, Utah, Texas, Maryland, and North Carolina

where the Group is engaged in business activities. In Australia, where the Group primarily operates in Melbourne and Sydney, the housing market is in an adjustment phase, so the number of units delivered decreased. In Vietnam, Indonesia, and Thailand, we made steady progress on spec homes and condominium projects to enhance our revenue base in Southeast Asia. We made Mark III Properties, LLC which is engaged in the land development business, a consolidated subsidiary in May 2018. We did the same with Crescent Communities, LLC which is engaged in the real estate development business related to multi-family housing and commercial and mixed-use complexes, in July of the same year. This was part of our efforts to make a full-fledged entry into the overseas real estate development business and further diversify our revenue base and business.

4 Other Businesses

Besides the aforementioned businesses, the Sumitomo Forestry Group operates a biomass power generation business, an overseas forestation business, private-pay elderly care facilities and a wide range of service businesses for residential customers (including non-life insurance agency services). This also includes the business of equity-method affiliate Kumagai Gumi Co., Ltd. Results were strong in the biomass power generation business in both Mombetsu City, Hokkaido, and in Hachinohe City, Aomori, where operations were launched in April 2018.

Net sales in Other Businesses increased 9.2% year on year to ¥40,416 million, and recurring income rose 5.5% to ¥5,203 million.

Housing and Construction Business

(Years ended March 31)	2016	2017	2018	2019
Orders				
Custom-Built Detached Housing	(¥ million)	¥297,490	¥288,458	¥290,326
	(Units)	7,730	7,427	7,608
Apartment	(¥ million)	¥ 22,967	¥ 22,540	¥ 17,195
	(Units)	1,523	1,519	948
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 63,604	¥ 63,202	¥ 63,315
Sales				
Custom-Built Detached Housing	(¥ million)	¥299,837	¥306,307	¥288,582
	(Units)	7,962	8,098	7,556
Apartment	(¥ million)	¥ 20,514	¥ 22,125	¥ 20,114
	(Units)	1,324	1,551	1,353
Spec Homes	(¥ million)	¥ 11,606	¥ 11,206	¥ 12,360
	(Units)	303	292	308
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 61,724	¥ 61,245	¥ 62,700

Segment Performance Highlights

(Years ended March 31)	Millions of yen			
	2018	2019	Change	Percent of change
Net Sales	¥1,221,998	¥1,308,893	+ 86,896	+ 7.1%
Timber and Building Materials Business	465,240	487,091	+ 21,851	+ 4.7%
Housing and Construction Business	449,201	452,839	+ 3,638	+ 0.8%
Overseas Housing and Real Estate Business	305,954	364,878	+ 58,925	+ 19.3%
Other Businesses	37,007	40,416	+ 3,409	+ 9.2%
Adjustments	(35,404)	(36,330)	- 926	—
Recurring Income	¥ 57,865	¥ 51,436	- 6,429	- 11.1%
Timber and Building Materials Business	8,582	7,980	- 602	- 7.0%
Housing and Construction Business	24,945	21,598	- 3,347	- 13.4%
Overseas Housing and Real Estate Business	23,486	25,812	+ 2,327	+ 9.9%
Other Businesses	4,934	5,203	+ 269	+ 5.5%
Adjustments	(4,081)	(9,158)	- 5,076	—

\* Net sales include intersegment sales and transfers.  
Net sales and recurring income adjustments include net sales and selling, general and administrative expenses at the General Administration Department that cannot be allocated to specific businesses. Business segments were renamed in the fiscal year ended March 31, 2019 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. In addition,segment information for the fiscal year ended March 31, 2018 reflects the new reportable segment classification.

Net Sales and Recurring Income of Main Subsidiaries

(Millions of yen)

Timber and Building Materials Business

(Years ended March 31)	Net Sales		Recurring Income	
	2018	2019	2018	2019
Sumitomo Forestry Crest Co., Ltd.	¥34,125	¥33,752	¥ 123	¥ 387
(Years ended December 31)	2017	2018	2017	2018
Overseas Subsidiaries*1				
PT. Kutai Timber Indonesia (Indonesia)*2	¥12,735	¥13,470	¥ 143	¥ 72
Nelson Pine Industries Ltd. (New Zealand)*2	17,539	17,327	3,157	2,039

Housing and Construction Business

(Years ended March 31)	Net Sales		Recurring Income	
	2018	2019	2018	2019
Sumitomo Forestry Residential Co., Ltd.	¥26,159	¥27,748	¥1,363	¥1,465
Sumitomo Forestry Home Service Co., Ltd.	7,108	7,579	770	536
Sumitomo Forestry Landscaping Co., Ltd.	26,904	25,565	1,288	1,317
Sumitomo Forestry Home Tech Co., Ltd.	66,274	70,317	2,913	3,229

Overseas Housing and Real Estate Business

(Years ended December 31)	Net Sales		Recurring Income	
	2017	2018	2017	2018
Overseas Subsidiaries*1				
Housing Business in U.S.	¥219,421	¥262,195	¥25,625	¥31,040
Housing Business in Australia	86,742	80,377	6,934	4,560

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

	US\$	AU\$	NZ\$
2017.12:	112.19	86.01	79.73
2018.12:	110.44	82.53	76.43

\*2 The Overseas Manufacturing Business was transferred to the Timber & Building Materials Business on December 31, 2018.

## Financial Position and Cash Flow

### 1 Financial Position

Total assets totaled ¥970,976 million at the end of fiscal 2019, an increase of ¥71,856 million year on year. The increase in total assets was attributable mainly to the increase in inventories, non-current assets, and investment securities associated with expansion of the Overseas Housing and Real Estate Business, including making the Crescent Communities Group a consolidated subsidiary. Liabilities increased ¥64,005 million compared to the end of the previous fiscal year to ¥617,486 million due mainly to an increase in borrowings associated with making the Crescent Communities Group a consolidated subsidiary. Net assets totaled ¥353,489 million, and the equity ratio was 32.8%.

### 2 Cash Flow

Cash and cash equivalents as of March 31, 2019 stood at ¥105,102 million, a decrease of ¥20,453 million from the end of the previous fiscal year. A summary of cash flows in fiscal 2018 is presented below.

#### Cash flows from operating activities

Net cash provided by operating activities totaled ¥40,689 million. This was due mainly to an increase in capital resulting from posting of ¥56,618 million in income before income taxes and minority interests, despite a decrease in capital resulting from an increase in inventories associated with expansion of the Overseas Housing and Real Estate Business.

#### Cash flows from investment activities

Net cash used in investment activities totaled ¥71,659 million. This was due mainly to use of funds in the acquisition of ownership stakes in the Crescent Communities Group.

#### Cash flows from financing activities

Net cash provided by financing activities totaled ¥11,523 million. This was due to an increase in funds from an increase in interest-bearing debt despite the decrease in funds resulting from payment of dividends and acquisition of additional stake in a consolidated subsidiary.

### 3 Capital Expenditures (Capital Investment)

Capital expenditures increased 8.7% from ¥20,552 million in the previous fiscal year to ¥22,331 million in the fiscal year under review. Investment in tangible fixed assets amounted to ¥18,320 million, while investment in intangible fixed assets amounted to ¥3,173 million. Major investments included around ¥4,600 million for model homes within and outside Japan, around ¥4,100 million in real estate for use by businesses in the United States, and around ¥3,200 million related to software.

### 1 Housing Market Trends

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

#### i. 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 potentially affect the Group's operating results and financial position by weakening demand for housing purchases.

#### ii. 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.

#### iii. 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.

#### iv. 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 within Japan. 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 Sumitomo Forestry Group's business, such as the Housing and Construction Business, include Act on the Protection of Personal Information, Building Standards Act, Construction Business Act, Act on Architects and Building Engineers, Real Estate Brokerage Act, City Planning Act, National Land Use Planning Act, Housing Quality Assurance Act, Long-Term Care Insurance Act, Waste Management and Public Cleansing Act, Labor Standards Act, and Industrial Safety and Health Act. The Sumitomo Business Risk 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 related to people's livelihoods, 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 the Group's operating results and financial position.

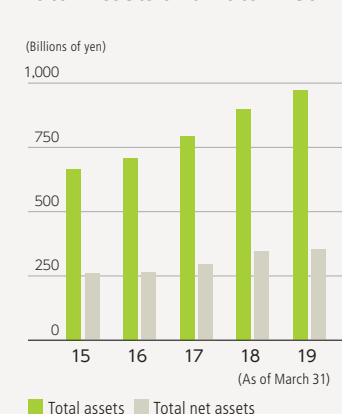
### 5 Timber and Building Materials Market Conditions

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 and construction materials can lead to higher materials costs for the housing and construction 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.

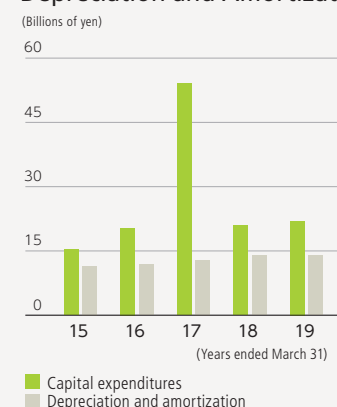
### 6 Exchange Rate Fluctuations

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.

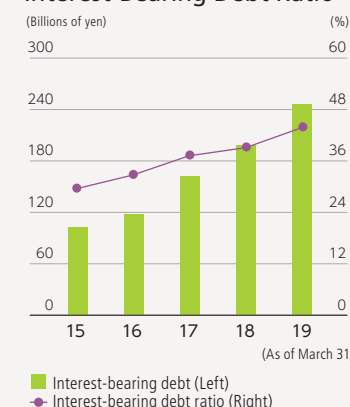
Total Assets and Total Net Assets



Capital Expenditures and Depreciation and Amortization



Interest-Bearing Debt and Interest-Bearing Debt Ratio





Consolidated Balance Sheet

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2019 and 2018

7 Product Quality Assurance

The Group endeavors to ensure complete quality control with respect to its products and services, housing, and all aspects of its operation. However, serious quality issues that affect our customers such as defects in housing, etc. that arise due to unforeseen circumstances or human error, or life-threatening accidents (and including accidents unique to the elderly care business with private elderly care facilities, etc.), or serious issues with product quality may impact the Group's operating results and financial position due to claims for compensatory damages or loss of trust from customers or the market.

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 affecting 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 potentially affect the Group's operating results and financial position.

13 Environmental Risks from Climate Change and Other Phenomena

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 March 31, 2019.

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Current assets:			
Cash and time deposits (Notes 7, 12, 16)	¥ 82,421	¥ 105,865	\$ 742,599
Marketable securities (Notes 5, 12, 16)	5,304	5,010	47,789
Receivables—			
Notes and accounts, trade (Notes 7, 16, 17)	145,237	135,642	1,308,559
Loans and other (Notes 7, 16)	66,396	57,350	598,214
Inventories—			
Finished goods, logs and lumber	30,070	26,474	270,924
Costs on uncompleted construction contracts (Note 7)	26,945	25,322	242,767
Real estate for sale (Note 7)	63,736	55,751	574,247
Real estate for sale in process (Note 7)	173,472	138,457	1,562,952
Other current assets (Note 7)	16,595	16,042	149,516
Allowance for doubtful accounts	(355)	(343)	(3,202)
Total current assets	609,820	565,570	5,494,366
Property, plant and equipment, at cost less accumulated depreciation:			
Land (Notes 7, 8, 19)	39,513	34,216	356,002
Buildings and structures (Notes 7, 8, 19)	87,084	78,307	784,609
Machinery, equipment and vehicles (Notes 7, 8)	91,685	91,215	826,067
Timber	35,439	37,135	319,301
Construction in progress (Note 7)	11,770	2,700	106,043
Leased assets	8,535	10,728	76,895
	274,025	254,301	2,468,917
Less accumulated depreciation	(104,025)	(101,188)	(937,247)
Net property, plant and equipment	170,000	153,113	1,531,670
Intangible assets, net of amortization:			
Goodwill	12,651	15,762	113,987
Other intangible assets	13,900	13,309	125,234
Total intangible assets	26,551	29,071	239,221
Investments and other assets:			
Investment securities (Notes 5, 7, 16)	140,968	131,470	1,270,097
Long-term loans and receivables	3,628	4,809	32,688
Deferred tax assets (Notes 7, 9)	4,945	5,248	44,557
Asset for retirement benefits (Note 18)	238	138	2,149
Other assets (Note 7)	15,864	12,141	142,931
Allowance for doubtful accounts	(1,039)	(2,440)	(9,361)
Total investments and other assets	164,605	151,366	1,483,060
Total assets	¥ 970,976	¥ 899,120	\$8,748,316

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2019 and 2018

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Current liabilities:			
Payables—			
Notes and accounts, trade (Notes 16, 17)	¥194,142	¥181,853	\$1,749,183
Other	14,385	19,078	129,608
Short-term loans payable (Notes 6, 7)	45,251	35,664	407,705
Current portion of convertible bonds (Note 6)	—	20,000	—
Current portion of long-term loans payable (Notes 6, 7, 16, 17)	16,255	4,827	146,452
Current portion of lease obligation (Note 6)	584	1,100	5,261
Advances received from customers	60,418	55,037	544,356
Accrued income taxes	4,902	4,830	44,168
Accrued employees’ bonuses	14,353	11,708	129,320
Accrued directors and corporate auditors’ bonuses	143	146	1,288
Other current liabilities (Notes 9, 23)	23,339	21,821	210,283
Total current liabilities	373,772	356,064	3,367,623
Long-term liabilities:			
Bonds issued (Notes 6, 16)	70,000	50,000	630,687
Convertible bonds (Note 6)	10,090	—	90,908
Long-term loans payable (Notes 6, 7, 16, 17)	102,269	84,374	921,426
Long-term lease obligation (Note 6)	4,436	4,666	39,970
Deferred tax liabilities (Note 9)	11,474	13,904	103,375
Liability for retirement benefits (Note 18)	19,822	16,723	178,594
Other long-term liabilities (Note 23)	25,623	27,750	230,856
Total long-term liabilities	243,714	197,417	2,195,817
Contingent liabilities (Note 15)			
Net assets:			
Shareholders’ equity (Note 13):			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 182,698,636 shares in 2019 and 182,607,739 shares in 2018	32,752	32,672	295,087
Capital surplus	22,247	23,637	200,443
Retained earnings	241,427	219,562	2,175,214
Treasury stock: 1,325,804 shares in 2019 and 1,323,737 shares in 2018	(2,337)	(2,333)	(21,060)
Total shareholders’ equity	294,088	273,538	2,649,683
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	25,196	33,258	227,012
Deferred gain (loss) on hedges	752	(221)	6,780
Translation adjustments	(1,733)	5,053	(15,617)
Retirement benefits liability adjustments	17	9	151
Total accumulated other comprehensive income	24,232	38,099	218,326
Subscription rights to shares	135	129	1,216
Non-controlling interests	35,034	33,873	315,651
Total net assets	353,489	345,639	3,184,876
Total liabilities and net assets	¥970,976	¥899,120	\$8,748,316
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets (Note 21)	¥1,755.06	¥1,719.05	\$15.81

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Net sales (Note 20)	¥1,308,893	¥1,221,998	\$11,792,894
Cost of sales	1,076,747	1,002,683	9,701,296
Gross profit	232,146	219,315	2,091,598
Selling, general and administrative expenses (Note 11)	182,899	166,294	1,647,888
Operating income	49,247	53,021	443,709
Other income (expenses):			
Interest and dividends income	2,114	1,885	19,047
Interest expense	(2,015)	(1,387)	(18,159)
Equity in earnings (losses) of affiliates	1,715	3,026	15,450
Gain on sales of investment securities (Note 5)	4,740	132	42,704
Gain on step acquisition	629	6,464	5,669
Impairment loss (Note 8)	(126)	(5,727)	(1,138)
Other gains (losses), net (Notes 5, 10)	315	1,124	2,838
Total	7,371	5,518	66,411
Income before income taxes	56,618	58,538	510,120
Income taxes (Note 9):			
Current	15,468	16,846	139,360
Deferred	724	3,060	6,525
Total	16,192	19,906	145,885
Profit	40,426	38,632	364,235
Profit attributable to non-controlling interests	11,266	8,497	101,508
Profit attributable to owners of parent	¥ 29,160	¥ 30,135	\$ 262,727
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Profit attributable to owners of parent (Note 21):			
Basic	¥160.80	¥168.49	\$1.45
Diluted	155.32	158.82	1.40
Cash dividends	40.00	40.00	0.36

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
Profit	¥ 40,426	¥38,632	\$ 364,235
Other comprehensive income (Note 22):			
Unrealized gain (loss) on available-for-sale securities	(8,144)	7,694	(73,373)
Deferred gain (loss) on hedges	974	(141)	8,771
Translation adjustments	(8,075)	(756)	(72,755)
Share of other comprehensive income of affiliates accounted for by the equity method	(282)	(883)	(2,539)
Total other comprehensive income	(15,527)	5,914	(139,896)
Comprehensive income	¥ 24,899	¥44,547	\$ 224,339
Total comprehensive income attributable to:			
Owners of the parent	¥ 15,293	¥35,864	\$ 137,791
Non-controlling interests	9,606	8,683	86,548

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, 2019 and 2018

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2018	¥32,672	¥23,637	¥219,562	¥(2,333)	¥273,538
Changes during the period:					
Issuance of new shares	26	26			53
Issuance of new shares (exercise of share acquisition rights)	53	53			106
Cash dividends (¥40.00 per share)			(7,295)		(7,295)
Profit attributable to owners of parent			29,160		29,160
Purchases of treasury stock				(5)	(5)
Disposal of treasury stock		0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests		(1,470)			(1,470)
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	80	(1,390)	21,865	(5)	20,550
Balance at March 31, 2019	¥32,752	¥22,247	¥241,427	¥(2,337)	¥294,088

	Millions of yen							
	Accumulated other comprehensive income							
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at April 1, 2018	¥33,258	¥(221)	¥ 5,053	¥ 9	¥ 38,099	¥129	¥33,873	¥345,639
Changes during the period:								
Issuance of new shares								53
Issuance of new shares (exercise of share acquisition rights)								106
Cash dividends (¥40.00 per share)								(7,295)
Profit attributable to owners of parent								29,160
Purchases of treasury stock								(5)
Disposal of treasury stock								0
Change in ownership interest of parent due to transactions with non-controlling interests								(1,470)
Change of scope of equity method								—
Net changes in items other than shareholders' equity	(8,062)	974	(6,786)	8	(13,867)	6	1,161	(12,700)
Total changes during the period	(8,062)	974	(6,786)	8	(13,867)	6	1,161	7,850
Balance at March 31, 2019	¥25,196	¥ 752	¥(1,733)	¥17	¥ 24,232	¥135	¥35,034	¥353,489

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
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
Issuance of new shares (exercise of share acquisition rights)					—
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						
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests
Balance at April 1, 2017	¥25,896	¥ (80)	¥ 6,874	¥(320)	¥32,370	¥ 82	¥20,864
Changes during the period:							
Issuance of new shares							10,000
Issuance of new shares (exercise of share acquisition rights)							—
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	5,728	48	13,009
Total changes during the period	7,361	(141)	(1,821)	329	5,728	48	13,009
Balance at March 31, 2018	¥33,258	¥(221)	¥ 5,053	¥ 9	¥38,099	¥129	¥33,873

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 4)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity
Balance at April 1, 2018	\$294,369	\$212,969	\$1,978,211	\$(21,019)	\$2,464,531
Changes during the period:					
Issuance of new shares	238	238			476
Issuance of new shares (exercise of share acquisition rights)	479	479			959
Cash dividends (\$0.36 per share)			(65,724)		(65,724)
Profit attributable to owners of parent			262,727		262,727
Purchases of treasury stock				(42)	(42)
Disposal of treasury stock		0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests		(13,243)			(13,243)
Change of scope of equity method					—
Net changes in items other than shareholders' equity					
Total changes during the period	717	(12,526)	197,003	(42)	185,153
Balance at March 31, 2019	\$295,087	\$200,443	\$2,175,214	\$(21,060)	\$2,649,683

	Thousands of U.S. dollars (Note 4)						
	Accumulated other comprehensive income						
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on hedges	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests
Balance at April 1, 2018	\$299,647	\$(1,992)	\$ 45,526	\$ 79	\$ 343,261	\$1,165	\$305,188
Changes during the period:							
Issuance of new shares							476
Issuance of new shares (exercise of share acquisition rights)							959
Cash dividends (\$0.36 per share)							(65,724)
Profit attributable to owners of parent							262,727
Purchases of treasury stock							(42)
Disposal of treasury stock							0
Change in ownership interest of parent due to transactions with non-controlling interests							(13,243)
Change of scope of equity method							—
Net changes in items other than shareholders' equity	(72,635)	8,771	(61,144)	72	(124,936)	51	10,463
Total changes during the period	(72,635)	8,771	(61,144)	72	(124,936)	51	10,463
Balance at March 31, 2019	\$227,012	\$ 6,780	\$(15,617)	\$151	\$ 218,326	\$1,216	\$315,651

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2019	2018	2019
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 56,618	¥ 58,538	\$ 510,120
Adjustments—			
Depreciation and amortization	13,696	13,727	123,396
Impairment loss	126	5,727	1,138
Amortization of goodwill	6,418	5,448	57,824
Provision for (reversal of) doubtful accounts	(1,341)	92	(12,079)
Net changes in defined benefit liability	3,154	(2,621)	28,419
Interest and dividends income	(2,114)	(1,885)	(19,047)
Interest expense	2,015	1,387	18,159
Equity in losses (earnings) of affiliates	(1,715)	(3,026)	(15,450)
Losses (gains) on sales of marketable securities and investment securities, net	(4,740)	(108)	(42,704)
Gain on step acquisition	(629)	(6,464)	(5,669)
Losses (gains) on disposal of fixed assets, net	76	172	686
Change in assets and liabilities:			
Notes and accounts receivable, trade	(8,694)	(12,017)	(78,335)
Inventories	(21,173)	(38,473)	(190,765)
Other current assets	(3,959)	4,447	(35,672)
Notes and accounts payable, trade	6,118	752	55,126
Advances received from customers	3,355	2,779	30,230
Other current liabilities	2,797	(62)	25,203
Other	1,472	2,095	13,264
Total	51,482	30,507	463,845
Interest and dividends income received	6,337	3,948	57,097
Interest paid	(2,027)	(1,438)	(18,262)
Income taxes paid, net	(15,103)	(19,286)	(136,076)
Net cash provided by operating activities	40,689	13,732	366,605
<b>Cash flows from investment activities:</b>			
Payments into time deposits	(5,236)	(20,526)	(47,172)
Proceeds from withdrawal of time deposits	5,294	35,514	47,702
Decrease (increase) in short-term loans receivable	138	391	1,240
Proceeds from sales and redemption of securities	10	—	89
Payments for purchases of fixed assets	(20,204)	(14,827)	(182,036)
Proceeds from sales of fixed assets	1,584	3,275	14,273
Payments for purchases of intangible assets	(2,839)	(2,183)	(25,580)
Payments for purchases of investment securities	(13,556)	(42,710)	(122,135)
Proceeds from sales and redemption of investment securities	8,901	3,507	80,195
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(46,771)	(7,661)	(421,403)
Payments for long-term loans receivable	(1,342)	(148)	(12,092)
Repayments of long-term loans receivable	1,741	1,070	15,690
Other	621	(1,950)	5,597
Net cash used in investment activities	(71,659)	(46,250)	(645,631)
<b>Cash flows from financing activities:</b>			
Increase (decrease) in short-term loans payable	8,817	3,973	79,440
Payments of lease obligations	(1,632)	(2,096)	(14,707)
Proceeds from long-term loans payable	25,789	13,560	232,358
Repayments of long-term loans payable	(10,648)	(20,665)	(95,941)
Proceeds from issuance of bonds	20,000	30,000	180,196
Proceeds from issuance of convertible bonds	10,100	—	90,999
Payment for redemption of convertible bonds	(19,900)	—	(179,295)
Proceeds from issuance of stock	—	10,000	—
Dividends paid	(7,295)	(7,085)	(65,724)
Dividends paid to non-controlling shareholders	(6,652)	(4,838)	(59,934)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(6,715)	(1)	(60,500)
Net decrease (increase) in deposits with withdrawal and usage restrictions	(371)	—	(3,341)
Other	30	2,308	265
Net cash provided by financing activities	11,523	25,156	103,818
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(1,007)	(307)	(9,071)
<b>Net increase (decrease) in cash and cash equivalents</b>	(20,453)	(7,670)	(184,279)
<b>Cash and cash equivalents at the beginning of the year</b>	125,555	132,707	1,131,226
<b>Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation</b>	—	518	—
<b>Cash and cash equivalents at the end of the year (Note 12)</b>	¥105,102	¥125,555	\$ 946,947

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2019 and 2018

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 and construction-related operations, including construction, maintenance, renovation and landscaping of custom-built and other homes and sale and brokerage of real estate; overseas housing and real estate-related operations, including sale of spec homes, construction of detached houses and development of multi-family homes and commercial complexes; and other businesses, including biomass power generation business, overseas forestation business, private-pay elderly care facilities 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, 2019, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 195 and 79 (110 and

29 in 2018), respectively.

Crescent Communities II, LLC and 84 other companies, whose shares were newly acquired, have been included in the scope of consolidation from the fiscal year ended March 31, 2019. Additionally, CC-SFA MF Atherton, LLC and one other company, which were included as equity-method affiliates in the previous fiscal year, have been no longer included in the scope of equity-method application. CC-SFA MF Atherton, LLC has been newly included in the scope of consolidation because of the additional acquisition of shares.

On the other hand, Sumirin Agro-Products Co., Ltd., which was included in the scope of consolidation in the previous fiscal year, has been excluded from the scope of consolidation in the fiscal year ended March 31, 2019 due to the merger by another consolidated subsidiary, Sumitomo Forestry Landscaping Co., Ltd.

Kanda Biomass Energy K.K. and 51 other companies, whose shares were newly acquired, have been included as equity-method affiliates from the fiscal year ended March 31, 2019.

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, 2019, which was included in other current liabilities in the accompanying consolidated balance sheet, was ¥3,733 million (\$33,634 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, 2019, which was included in other long-term liabilities in the accompanying consolidated balance sheet, was ¥127 million (\$1,145 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 ¥453 million (\$4,082 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2019.

**(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.

**(x) Accounting standards issued but not yet effective**  
(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, 2020.  
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.

**(y) Changes in presentation**  
(Application of Partial Amendments to Accounting Standard for Tax Effect Accounting)  
The Company adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (the “Partial Amendments”) (ASBJ Statement No. 28 of February 16, 2018) from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets and deferred tax liabilities are included within investments and other assets, and long-term liabilities, respectively. As a result, ¥6,531 million of deferred tax assets in current assets and ¥1,463 million of deferred tax liabilities in current liabilities previously presented in the consolidated balance sheet as of March 31, 2018, have been reclassified as deferred tax assets in investments and other assets and deferred tax liabilities in long-term liabilities and ¥4,562 million of deferred tax assets and liabilities levied by the same taxation authority are offset. Therefore, deferred tax assets in investments and other assets and deferred tax liabilities in long-term liabilities are presented as ¥5,248 million and ¥13,904 million, respectively. Also, Note 9 “Income Taxes” in the Notes to the consolidated financial statements has been expanded in accordance with Note 8 and Note 9 of Interpretive Notes to Accounting Standard for Tax Effect Accounting. However, comparative information for the year ended March 31, 2018 has not been disclosed in Note 9 in accordance with the transitional provisions set forth in Article 7 of the Partial Amendments.

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 ¥110.99 =US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 2019. 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, 2019 and 2018 were as follows:

	Millions of yen			
	2019			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated fair value)
Securities classified as:				
Available-for-sale:				
Equity securities	¥24,750	¥36,938	¥(642)	¥61,047
Debt securities	—	—	—	—
Other	5,000	—	—	5,000

	Millions of yen			
	2019			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	<b>¥1,762</b>	<b>¥42</b>	<b>¥—</b>	<b>¥1,803</b>

	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

	Millions of yen			
	2018			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	¥1,768	¥55	¥—	¥1,824

	Thousands of U.S. dollars			
	2019			
	Acquisition cost	Unrealized gains	Unrealized losses	Carrying amounts (Estimated fair value)
Securities classified as:				
Available-for-sale:				
Equity securities	<b>\$222,995</b>	<b>\$332,805</b>	<b>\$(5,783)</b>	<b>\$550,018</b>
Debt securities	—	—	—	—
Other	<b>45,049</b>	—	—	<b>45,049</b>

	Thousands of U.S. dollars			
	2019			
	Carrying amounts	Unrealized gains	Unrealized losses	Estimated fair value
Securities classified as:				
Held-to-maturity:				
Debt securities	<b>\$15,875</b>	<b>\$374</b>	<b>\$—</b>	<b>\$16,249</b>

(b) Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in other gains (losses), net in the accompanying consolidated statements of income for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Proceeds	<b>¥8,371</b>	¥2,666	<b>\$75,419</b>
Gross gains	<b>4,740</b>	132	<b>42,704</b>
Gross losses	—	24	—

(c) Investments in affiliates included in “Investment securities” as of March 31, 2019 and 2018 were ¥73,845 million (\$665,331) and ¥48,638 million, respectively.

## 6. Short-Term and Long-Term Debt

Short-term debt at March 31, 2019 and 2018 generally represented short-term loans payable which bore interest of 3.13% and 2.43% per annum, respectively. Long-term debt at March 31, 2019 and 2018 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans, principally from banks and insurance companies, due 2019 to2035 with interest of 3.45%:			
Secured:			
Loans from banks or other	<b>¥ 40,629</b>	¥ 36,482	<b>\$ 366,059</b>
Unsecured:			
Bonds issued	<b>70,000</b>	50,000	<b>630,687</b>
Bonds with subscription rights to shares	<b>10,090</b>	20,000	<b>90,909</b>
Loans from banks or other	<b>77,895</b>	52,718	<b>701,818</b>
Lease obligation	<b>5,020</b>	5,766	<b>45,231</b>
	<b>203,634</b>	164,967	<b>1,834,705</b>
Portion due within one year:			
Bonds with subscription rights to shares	—	20,000	—
Loans from banks or other	<b>16,255</b>	4,827	<b>146,452</b>
Lease obligation	<b>584</b>	1,100	<b>5,261</b>
	<b>16,839</b>	25,927	<b>151,712</b>
	<b>¥186,795</b>	¥139,040	<b>\$1,682,992</b>

The aggregate annual maturities of bonds issued, long-term loans payable and lease obligation at March 31, 2019 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Bonds issued	Long-term debt	Lease obligation	Bonds issued	Long-term debt	Lease obligation
2020	¥ —	¥ 16,255	¥ 584	\$ —	\$ 146,452	\$ 5,261
2021	—	34,497	770	—	310,816	6,940
2022	—	35,769	554	—	322,276	4,991
2023	—	8,458	359	—	76,202	3,231
2024	20,090	5,396	188	181,007	48,621	1,691
Thereafter	60,000	18,148	2,566	540,589	163,511	23,116
	¥80,090	¥118,524	¥5,020	\$721,597	\$1,067,877	\$45,231

## 7. Pledged Assets and Secured Liabilities

(a) Pledged assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and time deposits	<b>¥ 1,605</b>	¥ 1,787	<b>\$ 14,462</b>
Receivables—Notes and accounts, trade	<b>1,831</b>	1,734	<b>16,500</b>
Receivables—Other	<b>308</b>	90	<b>2,777</b>
Costs on uncompleted construction contracts	<b>1,124</b>	1,184	<b>10,129</b>
Real estate for sale	<b>25,123</b>	22,712	<b>226,352</b>
Real estate for sale in process	<b>54,685</b>	58,247	<b>492,700</b>
Land	<b>6,054</b>	3,364	<b>54,544</b>
Buildings and structures	<b>10,784</b>	5,474	<b>97,159</b>
Machinery, equipment and vehicles	<b>11,224</b>	12,207	<b>101,126</b>
Construction in progress	<b>5,676</b>	68	<b>51,139</b>
Investment securities	<b>17,835</b>	18,280	<b>160,694</b>
Other	<b>4,673</b>	2,168	<b>42,104</b>
	<b>¥140,922</b>	¥127,314	<b>\$1,269,685</b>

(b) Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Short-term loans payable	<b>¥16,602</b>	¥ 7,309	<b>\$149,583</b>
Long-term loans payable	<b>40,601</b>	35,398	<b>365,806</b>
Other	—	—	—
	<b>¥57,203</b>	¥42,707	<b>\$515,389</b>

## 8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2018 consisted of the following:

Location	Major use	Asset category	Millions of yen
			2018
Long An Province, Vietnam	Particle board manufacturing equipment	Buildings and structures	¥1,514
		Machinery, equipment and vehicles	3,284
		Other	929
		Total	¥5,727

The Group classifies assets based on the categories used for management accounting. Rental assets and idle assets are assessed individually from this classification.

For particle board manufacturing equipment with continued negative profitability, the book value of the equipment was reduced to its recoverable amount, and the amount of the reduction was recorded as an impairment loss. The recoverable amount was measured in terms of its value in use, which was calculated by discounting expected future cash flows at a rate of 17.1%.

Loss on impairment of fixed assets for the year ended March 31, 2019 was immaterial.

## 9. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise corporation tax, enterprise tax, and prefectural and municipal inhabitants taxes. The effective statutory tax rates for the years ended March 31, 2019 and 2018 were 30.6% and 30.9%, respectively.

The table below shows the differences in the effective statutory tax rate and the effective income tax rate.

	2019	2018
Effective statutory tax rate	<b>30.6%</b>	30.9%
Non-deductible expenses for tax purposes	<b>0.4</b>	0.4
Non-taxable dividend income	<b>(0.9)</b>	(0.2)
Per capita portion of inhabitant tax	<b>0.5</b>	0.5
Amortization of goodwill	<b>3.5</b>	2.9
Equity in earnings of affiliates	<b>(0.9)</b>	(1.6)
Tax rate differences with oversea subsidiaries	<b>(6.5)</b>	—
Other	<b>1.8</b>	1.2
Effective tax rate	<b>28.6%</b>	34.0%

The significant components of deferred tax assets and liabilities at March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Allowance for doubtful accounts	<b>¥ 435</b>	¥ 835	<b>\$ 3,922</b>
Accrued employees’ bonuses	<b>3,503</b>	3,318	<b>31,561</b>
Accrued legal welfare expense on employees’ bonuses	<b>529</b>	499	<b>4,768</b>
Enterprise taxes	<b>503</b>	353	<b>4,528</b>
Devaluation of real estate for sale	<b>273</b>	361	<b>2,459</b>
Liability for retirement benefits	<b>5,813</b>	4,817	<b>52,371</b>
Devaluation of property	<b>751</b>	762	<b>6,767</b>
Devaluation of financial instruments	<b>1,576</b>	1,674	<b>14,201</b>
Tax loss carryforwards	<b>5,080</b>	2,527	<b>45,773</b>
Impairment loss	<b>1,034</b>	1,002	<b>9,313</b>
Warranty reserve for completed construction	<b>585</b>	712	<b>5,275</b>
Unrealized profit on fixed assets	<b>579</b>	533	<b>5,215</b>
Other	<b>4,651</b>	4,646	<b>41,907</b>
Gross deferred tax assets	<b>25,312</b>	22,038	<b>228,057</b>
Valuation allowance for tax loss carryforwards	<b>(4,911)</b>	—	<b>(44,243)</b>
Valuation allowance for total deductible temporary differences	<b>(5,345)</b>	—	<b>(48,154)</b>
Valuation allowance	<b>(10,255)</b>	(7,459)	<b>(92,397)</b>
Total deferred tax assets	<b>15,057</b>	14,580	<b>135,663</b>
Deferred tax liabilities:			
Deferred gains on sales of property	<b>(757)</b>	(757)	<b>(6,818)</b>
Gain on securities contributed to employee retirement benefit trusts	<b>(1,217)</b>	(1,217)	<b>(10,969)</b>
Unrealized gain on available-for-sale securities	<b>(11,000)</b>	(14,206)	<b>(99,108)</b>
Land revaluation differences	<b>(853)</b>	(850)	<b>(7,689)</b>
Taxes on undistributed earnings of subsidiaries	<b>(2,201)</b>	(605)	<b>(19,835)</b>
Other	<b>(5,557)</b>	(5,600)	<b>(50,064)</b>
Gross deferred tax liabilities	<b>(21,586)</b>	(23,236)	<b>(194,482)</b>
Net deferred tax assets (liabilities)	<b>¥ (6,528)</b>	¥ (8,656)	<b>\$ (58,819)</b>



A breakdown of amount of tax loss carryforwards and deferred tax assets by carryforwards expiration period as of March 31, 2019 is as follows:

	Millions of yen						
	2019						
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	Total
Tax loss carryforwards*	¥ 520	¥ 994	¥ 164	¥ 382	¥ 146	¥ 2,874	¥ 5,080
Valuation allowance	(520)	(994)	(164)	(382)	(146)	(2,704)	(4,911)
Deferred tax assets	—	—	—	—	—	170	170

	Thousands of U.S. dollars						
	2019						
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	Total
Tax loss carryforwards*	\$ 4,685	\$ 8,956	\$ 1,478	\$ 3,442	\$ 1,315	\$ 25,894	\$ 45,770
Valuation allowance	(4,685)	(8,956)	(1,478)	(3,442)	(1,315)	(24,363)	(44,247)
Deferred tax assets	—	—	—	—	—	1,532	1,532

\* Tax loss carryforwards are measured using the effective statutory tax rates.

## 10. Other Gains (Losses), Net

Other gains (losses), net, for the years ended March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loss on foreign exchange	¥(190)	¥ (188)	\$(1,716)
Gain on sales of property, plant and equipment	86	62	777
Loss on sales of property, plant and equipment	—	(82)	—
Loss on disposal of property, plant and equipment	(162)	(151)	(1,463)
Other, net	582	1,484	5,240
	¥ 315	¥1,124	\$ 2,838

## 11. Selling, General and Administrative Expenses

The components of “Selling, General and Administrative Expenses” for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Salaries and allowances	¥60,513	¥56,357	\$545,208
Provision for employees’ bonuses	9,500	9,203	85,592
Provision for directors’ and corporate auditors’ bonuses	143	146	1,288
Retirement benefit expenses	6,092	717	54,884
Provision for directors’ and corporate auditors’ retirement benefits	20	25	185
Allowance for doubtful accounts	(47)	5	(419)
Provision for warranty reserve for completed construction	1,328	884	11,964

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2019 and 2018 were ¥2,112 million (\$19,027 thousand) and ¥1,977 million, respectively.

## 12. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and time deposits	¥ 82,421	¥105,865	\$742,599
Short-term investments	5,000	5,000	45,049
Cash equivalents included in short-term loans receivable	20,000	15,000	180,193
Restricted cash	(2,091)	—	(18,836)
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(228)	(310)	(2,058)
Cash and cash equivalents	¥105,102	¥125,555	\$946,947

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, 2019 were mainly as follows:

Crescent Communities II, LLC and other companies

	Millions of yen	Thousands of U.S. dollars
	2019	2019
Current assets	¥ 15,284	\$137,706
Non-current assets	43,155	388,815
Goodwill	2,552	22,992
Current liabilities	(11,008)	(99,184)
Long-term liabilities	(5,762)	(51,913)
Non-controlling interests	(816)	(7,351)
Acquisition cost	43,404	391,065
Cash and cash equivalents	(1,233)	(11,107)
Net expenditure for acquisition of shares	¥ 42,172	\$379,958

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
	2018
Current assets	¥29,064
Non-current assets	1,215
Goodwill	7,223
Current liabilities	(4,390)
Long-term liabilities	(9,567)
Non-controlling interests	(5,799)
Translation adjustments	646
Gain on step acquisition	(6,464)
Previously held equity interest before obtaining control	(7,831)
Acquisition cost	4,095
Cash and cash equivalents	—
Net expenditure for acquisition of shares	¥ 4,095

## 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, 2019 and 2018, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$25,742 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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Guarantee on loans from financial institutions:			
Guarantees of housing loans to customers	¥30,978	¥28,970	\$279,105
Affiliated companies of Crescent Communities group	9,835	—	88,612
Kanda Biomass Energy K.K.	7,657	—	68,990
Kawasaki Biomass Electric Power Co., Ltd.	436	472	3,930
MOS Lumber Products Co., Ltd.	67	41	601
Total	¥48,973	¥29,484	\$441,238

## 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 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 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 of 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 its contractual obligation in full on maturity dates)

The Finance Department of Company manages liquidity risk by establishing and revising 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		
	2019		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 82,421	¥ 82,421	¥ —
Receivables—notes and accounts, trade	135,636	135,636	—
Marketable securities and investment securities:			
Held-to-maturity	1,762	1,803	42
Shares in affiliates	33,231	32,390	(841)
Available-for-sale	66,047	66,047	—
Total	¥319,096	¥318,297	¥(800)
Payables—notes and accounts, trade	¥194,142	¥194,142	¥ —
Bonds issued	70,000	70,638	638
Long-term loans payable*	118,524	117,900	(624)
Total	¥382,666	¥382,680	¥ 15
Derivatives**:			
Hedge accounting not applied	¥ (30)	¥ (30)	¥ —
Hedge accounting applied	1,081	1,081	—
Total	¥ 1,052	¥ 1,052	¥ —

	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	¥ —

	Thousands of U.S. dollars		
	2019		
	Carrying amount	Fair value	Difference
Cash and time deposits	\$ 742,599	\$ 742,599	\$ —
Receivables—notes and accounts, trade	1,222,054	1,222,054	—
Marketable securities and investment securities:			
Held-to-maturity	15,875	16,249	374
Shares in affiliates	299,406	291,826	(7,580)
Available-for-sale	595,067	595,067	—
Total	\$2,875,001	\$2,867,795	¥(7,206)
Payables—notes and accounts, trade	\$1,749,183	\$1,749,183	\$ —
Bonds issued	630,687	636,437	5,749
Long-term loans payable*	1,067,877	1,062,259	(5,618)
Total	\$3,447,748	\$3,447,879	\$ 131
Derivatives**:			
Hedge accounting not applied	\$ (267)	\$ (267)	\$ —
Hedge accounting applied	9,744	9,744	—
Total	\$ 9,477	\$ 9,477	\$ —

\* 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
	2019	2018	2019
Unlisted equity securities	¥ 4,618	¥ 5,051	\$ 41,612
Investment in affiliates	40,614	15,140	365,925

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

	Millions of yen			
	2019			
	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	¥ 81,999	¥ —	¥ —	¥—
Receivables—notes and accounts, trade	135,636	—	—	—
Marketable securities and Investment securities:				
Government bonds	305	1,239	218	—
Other	5,000	—	—	—
Total	¥ 222,940	¥1,239	¥218	¥—

	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	¥—

	Thousands of U.S. dollars			
	2019			
	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	\$ 738,800	\$ —	\$ —	\$—
Receivables—notes and accounts, trade	1,222,054	—	—	—
Marketable securities and Investment securities:				
Government bonds	2,748	11,163	1,964	—
Other	45,049	—	—	—
Total	\$2,008,651	\$11,163	\$1,964	\$—

**17. Derivatives and Hedging Activities**

Derivative transactions to which hedge accounting is not applied at March 31, 2019 and 2018 were as follows:

	Millions of yen			
	2019			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,679	¥ —	¥(20)	¥(20)
Sell (U.S. dollar)	128	—	(3)	(3)
Sell (Thai baht)	917	917	(15)	(15)
Currency swap contracts:				
Pay U.S. dollar / receive Yen	3	—	(0)	(0)
Total	¥2,727	¥917	¥(37)	¥(37)
Interest rate swap contracts:				
Pay fixed / receive variable	¥1,598	¥200	¥ 8	¥ 8
Total	¥1,598	¥200	¥ 8	¥ 8

	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



	Thousands of U.S. dollars			
	2019			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	\$15,128	\$ —	\$(180)	\$(180)
Sell (U.S. dollar)	1,152	—	(24)	(24)
Sell (Thai baht)	8,259	8,259	(132)	(132)
Currency swap contracts:				
Pay U.S. dollar / receive Yen	27	—	(1)	(1)
Total	\$24,566	\$8,259	\$(337)	\$(337)
Interest rate swap contracts:				
Pay fixed / receive variable	\$14,401	\$1,800	\$ 70	\$ 70
Total	\$14,401	\$1,800	\$ 70	\$ 70

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, 2019 and 2018 were as follows:

		Millions of yen		
		2019		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounting in principle:				
Sell (U.S. dollar)		¥ 5,721	¥ —	¥ 6
Sell (Euro)	Accounts payable, trade	1,861	—	16
Sell (Thai baht)		346	346	6
Buy (U.S. dollar)	Accounts payable, trade	29,294	19,290	1,105
Buy (Euro)		5,196	—	(51)
Accounted for by the allocation method:				
Buy (U.S. dollar)	Accounts payable, trade	262	—	*
Buy (Euro)		146	—	*
Total		¥42,824	¥19,636	¥1,081
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	¥ 1,810	¥ 1,117	*
Total		¥ 1,810	¥ 1,117	¥ —
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	¥ —

	Hedged item	Millions of yen		
		2018		
		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)		2,325	—	12
Buy (U.S. dollar)	Accounts payable, trade	13,819	—	(227)
Buy (Euro)		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)		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	¥ —

	Hedged item	Thousands of U.S. dollars		
		2019		
		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	\$ 51,542	\$ —	\$ 53
Sell (Euro)		16,764	—	141
Sell (Thai baht)		3,113	3,113	50
Buy (U.S. dollar)	Accounts payable, trade	263,929	173,801	9,955
Buy (Euro)		46,811	—	(456)
Accounted for by the allocation method:				
Buy (U.S. dollar)	Accounts payable, trade	2,359	—	*
Buy (Euro)		1,314	—	*
Total		\$385,833	\$176,915	\$9,744
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	\$ 16,308	\$ 10,068	*
Total		\$ 16,308	\$ 10,068	\$ —
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	\$ 25,762	\$ 25,762	*
Total		\$ 25,762	\$ 25,762	\$ —

\* 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, and 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, 2019 and 2018 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the year	¥72,224	¥72,478	\$650,725
Service cost	3,216	3,324	28,977
Interest cost	524	573	4,721
Actuarial gain and loss	2,845	(2,055)	25,629
Retirement benefits paid	(2,075)	(2,075)	(18,695)
Prior service cost	8	6	69
Other	(56)	(27)	(505)
Balance at the end of the year	¥76,685	¥72,224	\$690,922

The changes in plan assets for the years ended March 31, 2019 and 2018 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the year	¥56,953	¥54,885	\$513,139
Expected return on plan assets	1,595	1,372	14,368
Actuarial gain and loss	(566)	236	(5,096)
Contributions	2,201	2,186	19,834
Retirement benefits paid	(1,723)	(1,726)	(15,522)
Balance at the end of the year	¥58,461	¥56,953	\$526,723

The changes in the liability for retirement benefits, which were calculated by the simplified method for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the year	¥1,315	¥ 998	\$11,848
Retirement benefit expense	263	245	2,366
Retirement benefits paid	(91)	(113)	(817)
Contributions	(93)	(73)	(834)
Increase due to newly consolidated subsidiary	—	258	—
Other	(35)	(1)	(315)
Balance at the end of the year	¥1,359	¥1,315	\$12,248

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2019 and 2018 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded retirement benefit obligation	¥ 72,718	¥ 68,314	\$ 655,180
Plan assets at fair value	(59,192)	(57,615)	(533,313)
	13,526	10,699	121,868
Unfunded retirement benefit obligation	6,058	5,887	54,578
Net liability for retirement benefits in the balance sheet	¥ 19,584	¥ 16,585	\$ 176,446
Liability for retirement benefits	¥ 19,822	¥ 16,723	\$ 178,594
Asset for retirement benefits	(238)	(138)	(2,149)
Net liability for retirement benefits in the balance sheet	¥ 19,584	¥ 16,585	\$ 176,446

The components of retirement benefit expense for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 3,216	¥ 3,324	\$ 28,977
Interest cost	524	573	4,721
Expected return on plan assets	(1,595)	(1,372)	(14,368)
Amortization of actuarial gain and loss	3,410	(2,291)	30,726
Amortization of prior service cost	8	6	69
Retirement benefit expense under the simplified method	263	245	2,370
Other	11	0	95
Retirement benefit expense	¥ 5,837	¥ 485	\$ 52,590

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 and 2018 were as follows:

	2019	2018
Bonds	46%	46%
Stocks	25%	25%
General account	13%	13%
Other	16%	15%
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:

	2019	2018
Discount rates	0.000%–0.622%	0.000%–0.961%
Expected rates of return plan assets	2.8%	2.5%
Expected rate of salary increase (point based plan)	5.0%	5.5%

Contributions to defined contribution retirement benefit plans of the Company and its consolidated subsidiaries were ¥1,214 million (\$10,938 thousand) and ¥1,089 million for the years ended March 31, 2019 and 2018, 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 and overseas (mainly in the United States). The net income from the investment properties for the years ended March 31, 2019 and 2018 was ¥371 million (\$3,343 thousand) and ¥532 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
	Increase/ (Decrease)	2019	2019	2019	2019
2018					
¥13,270	¥16,307	¥29,576	¥28,374	\$266,476	\$255,644

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 Construction, and Overseas Housing and Real Estate) based on division and identified by products, services and geographical areas:

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

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

Overseas Housing and Real Estate: sale of spec homes, and construction of detached houses, development of multi-family housing and commercial complexes, etc. in overseas markets

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

(Changes in reportable segments)

In conjunction with the reorganization that took place in April 2018, the previous three reportable segments of “Timber and Building Materials,” “Housing,” and “Overseas” have changed to “Timber and Building Materials,” “Housing and Construction,” and “Overseas Housing and Real Estate” effective from the fiscal year ended March 31, 2019.

The main change is the inclusion of overseas timber and building material manufacturing and sales business, which were previously included in the “Overseas” segment, in “Timber and Building Materials.”

Segment information for the fiscal year ended March 31, 2018 reflects the new reportable segment classification.

Millions of yen								
As of/Year Ended March 31, 2019	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥464,091	¥452,234	¥364,365	¥1,280,691	¥ 26,882	¥1,307,572	¥ 1,321	¥1,308,893
Inter-segment transfers	22,999	604	513	24,117	13,534	37,651	(37,651)	—
Total	487,091	452,839	364,878	1,304,807	40,416	1,345,223	(36,330)	1,308,893
Segment income (loss)	7,980	21,598	25,812	55,391	5,203	60,594	(9,158)	51,436
Segment assets	207,408	155,773	321,486	684,667	128,308	812,975	158,001	970,976
Other items:								
Depreciation and amortization	3,073	4,699	1,760	9,532	3,367	12,898	798	13,696
Amortization of goodwill	—	—	6,250	6,250	168	6,418	—	6,418
Interest income	101	39	127	268	142	409	27	437
Interest expense	706	520	2,257	3,482	299	3,781	(1,766)	2,015
Equity in earnings (losses) of affiliates	(49)	(1)	923	873	841	1,714	0	1,715
Investments in affiliates	8,937	—	28,205	37,142	34,952	72,094	(8)	72,086
Increase in tangible and intangible fixed assets	2,178	6,865	7,984	17,027	5,201	22,228	(1,014)	21,214

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥1,321 million (\$11,902 thousand) of administration department profit.  
2. Adjustments for segment income and loss include ¥1,255 million (\$11,307 thousand) of elimination of inter-segment income and loss, ¥3,410 million (\$30,723 thousand) of retirement benefits liability adjustments (gain), and ¥4,492 million (\$40,472 thousand) of corporate general administration expense, which are not allocable to the reportable segments.  
3. Adjustments for segment assets include ¥8,955 million (\$80,683 thousand) of inter-segment eliminations, ¥166,955 million (\$1,504,235 thousand) of corporate assets, which are not allocable to the reportable assets.

The main components of net change in carrying amount above included an increase of ¥20,756 million (\$187,011 thousand) due to business combinations, an increase of ¥2,954 million (\$26,618 thousand) due to acquisitions of real estate, an increase of ¥81 million (\$732 thousand) due to exchange rate, a decrease of ¥7,208 million (\$64,942 thousand) due to change in the holding purpose of properties to real estate for sale and a decrease of ¥277 million (\$2,499 thousand) due to depreciation for the year ended March 31, 2019.

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

Millions of yen								
As of/Year Ended March 31, 2018	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	¥443,123	¥448,623	¥305,491	¥1,197,237	¥ 23,663	¥1,220,899	¥ 1,098	¥1,221,998
Inter-segment transfers	22,117	578	463	23,157	13,345	36,502	(36,502)	—
Total	465,240	449,201	305,954	1,220,394	37,007	1,257,401	(35,404)	1,221,998
Segment income (loss)	8,582	24,945	23,486	57,013	4,934	61,947	(4,081)	57,865
Segment assets	201,471	144,022	233,191	578,684	131,999	710,683	188,437	899,120
Other items:								
Depreciation and amortization	3,254	4,611	2,240	10,105	2,771	12,876	851	13,727
Amortization of goodwill	3	—	5,277	5,280	168	5,448	—	5,448
Interest income	137	42	89	268	150	418	27	445
Interest expense	514	427	1,547	2,488	252	2,740	(1,353)	1,387
Equity in earnings (losses) of affiliates	(114)	(1)	1,908	1,793	1,233	3,026	0	3,026
Investments in affiliates	1,810	2	10,643	12,455	34,133	46,588	(9)	46,580
Increase in tangible and intangible fixed assets	2,428	7,085	4,689	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 of administration department profit.  
2. Adjustments for segment income and loss include ¥699 million of elimination of inter-segment income and loss, ¥2,291 million of retirement benefits liability adjustments (gain), and ¥5,673 million of corporate general administration expense, which are not allocable to the reportable segments.  
3. Adjustments for segment assets include ¥10,079 million of inter-segment eliminations, ¥198,516 million of corporate assets, which are not allocable to the reportable assets.

Thousands of U.S. dollars								
As of/Year Ended March 31, 2019	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:								
Unaffiliated customers	\$4,181,379	\$4,074,552	\$3,282,862	\$11,538,792	\$ 242,198	\$11,780,991	\$ 11,903	\$11,792,894
Inter-segment transfers	207,220	5,442	4,625	217,287	121,942	339,229	(339,229)	—
Total	4,388,599	4,079,994	3,287,487	11,756,079	364,140	12,120,220	(327,326)	11,792,894
Segment income (loss)	71,902	194,596	232,562	499,060	46,878	545,939	(82,509)	463,430
Segment assets	1,868,709	1,403,489	2,896,528	6,168,726	1,156,033	7,324,759	1,423,557	8,748,316
Other items:								
Depreciation and amortization	27,686	42,337	15,854	85,878	30,332	116,210	7,186	123,396
Amortization of goodwill	—	—	56,308	56,308	1,518	57,825	—	57,825
Interest income	912	356	1,142	2,410	1,277	3,687	247	3,934
Interest expense	6,357	4,684	20,334	31,375	2,695	34,070	(15,912)	18,159
Equity in earnings (losses) of affiliates	(437)	(7)	8,312	7,868	7,578	15,447	3	15,450
Investments in affiliates	80,524	—	254,120	334,645	314,909	649,553	(73)	649,480
Increase in tangible and intangible fixed assets	19,623	61,851	71,936	153,410	46,859	200,269	(9,136)	191,133

(Related information)

(1) Products and services information

Millions of yen				
Year Ended March 31, 2019	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥464,874	¥816,749	¥27,270	¥1,308,893

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

Thousands of U.S. dollars				
Year Ended March 31, 2019	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$4,188,433	\$7,358,761	\$245,699	\$11,792,894

(2) Geographic area information

Sales information by geographic area was as follows:

Millions of yen				
Year Ended March 31, 2019	Japan	United States	Other Area	Total
	¥894,910	¥292,151	¥121,832	¥1,308,893



Year Ended March 31, 2018	Millions of yen			
	Japan	United States	Other Area	Total
	¥870,641	¥226,671	¥124,686	¥1,221,998

Year Ended March 31, 2019	Thousands of U.S. dollars			
	Japan	United States	Other Area	Total
	<b>\$8,062,979</b>	<b>\$2,632,229</b>	<b>\$1,097,686</b>	<b>\$11,792,894</b>

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

Year Ended March 31, 2019	Millions of yen			
	Japan	New Zealand	United States	Other Area
	<b>¥95,676</b>	<b>¥35,668</b>	<b>¥23,906</b>	<b>¥14,750</b>
	<b>¥170,000</b>			

Year Ended March 31, 2018	Millions of yen			
	Japan	New Zealand	United States	Other Area
	¥94,382	¥39,215	¥3,913	¥15,603
	¥153,113			

Year Ended March 31, 2019	Thousands of U.S. dollars			
	Japan	New Zealand	United States	Other Area
	<b>\$862,025</b>	<b>\$321,360</b>	<b>\$215,387</b>	<b>\$132,898</b>
	<b>\$1,531,670</b>			

### (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, 2019	Millions of yen				
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Other	Elimination and/or Corporate
Loss on impairment of fixed assets	<b>¥89</b>	<b>¥—</b>	<b>¥—</b>	<b>¥38</b>	<b>¥—</b>
	<b>¥126</b>				

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

Year Ended March 31, 2019	Thousands of U.S. dollars				
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Other	Elimination and/or Corporate
Loss on impairment of fixed assets	<b>\$799</b>	<b>\$—</b>	<b>\$—</b>	<b>\$339</b>	<b>\$—</b>
	<b>\$1,138</b>				

(Amortization and balance of goodwill)

As of/Year Ended March 31, 2019	Millions of yen				
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Other	Elimination and/or Corporate
Amortization of goodwill	<b>¥—</b>	<b>¥—</b>	<b>¥6,250</b>	<b>¥ 168</b>	<b>¥—</b>
Balance of goodwill	<b>—</b>	<b>—</b>	<b>9,956</b>	<b>2,695</b>	<b>—</b>
	<b>¥ 6,418</b>				
	<b>12,651</b>				

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

As of/Year Ended March 31, 2019	Thousands of U.S. dollars				
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Other	Elimination and/or Corporate
Amortization of goodwill	<b>\$—</b>	<b>\$—</b>	<b>\$56,308</b>	<b>\$ 1,518</b>	<b>\$—</b>
Balance of goodwill	<b>—</b>	<b>—</b>	<b>89,702</b>	<b>24,285</b>	<b>—</b>
	<b>\$ 57,825</b>				
	<b>113,987</b>				

## 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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Profit attributable to owners of parent per share—Basic:			
Profit attributable to owners of parent	¥ 29,160	¥ 30,135	\$262,727
Income not available to common stockholders	—	—	—
Profit attributable to owners of parent available to common stockholders	29,160	30,135	262,727
Weighted average number of shares issued	181,345,520	178,859,807	—
Profit attributable to owners of parent per share fully diluted—Diluted:			
Adjusted profit attributable to owners of parent	—	—	—
Common shares increase	6,396,884	10,889,784	—
(Convertible bonds with stock acquisition rights)	(6,281,036)	(10,785,741)	—
(Subscription rights to shares)	(115,848)	(104,043)	—

### (b) Net assets per share

Details on the computation of net assets per share as of March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net assets per share:			
Total net assets	¥ 353,489	¥ 345,639	\$3,184,876
Amounts deducted from total net assets:	35,169	34,002	316,867
(Subscription rights to shares)	(135)	(129)	(1,216)
(Non-controlling interests)	(35,034)	(33,873)	(315,651)
Net assets attributable to shares of common stock	318,320	311,637	2,868,009
The number of shares of common stock used for the calculation of net assets per share	181,372,832	181,284,002	—

## 22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrealized gain (loss) on available-for-sale securities:			
Amount incurred during the year	¥ (6,610)	¥11,260	\$ (59,553)
Reclassification adjustments for gains and losses included in net income	(4,740)	(110)	(42,704)
Amount before tax effect	(11,349)	11,150	(102,257)
Tax effect	3,206	(3,456)	28,884
Unrealized gain (loss) on available-for-sale securities	(8,144)	7,694	(73,373)
Deferred gain (loss) on hedges:			
Amount incurred during the year	1,386	(203)	12,483
Reclassification adjustments for gains and losses included in net income	15	—	131
Amount before tax effect	1,400	(203)	12,615
Tax effect	(427)	62	(3,843)
Deferred gain (loss) on hedges	974	(141)	8,771
Translation adjustments:			
Amount incurred during the year	(8,075)	(756)	(72,755)
Reclassification adjustments for gains and losses included in net income	—	—	—
Amount before tax effect	(8,075)	(756)	(72,755)
Tax effect	—	—	—
Translation adjustments	(8,075)	(756)	(72,755)
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	(215)	(186)	(1,934)
Reclassification adjustments for gains and losses included in net income	(67)	(698)	(605)
Share of other comprehensive income of affiliates accounted for by the equity method	(282)	(883)	(2,539)
Total other comprehensive income	<b>¥(15,527)</b>	<b>¥ 5,914</b>	<b>\$ (139,896)</b>

## 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, 2019 and 2018 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of the year	¥1,507	¥1,488	\$13,575
Liability incurred for assets acquired	157	104	1,416
Change in estimates	417	—	3,761
Accretion expense	12	10	111
Liabilities settled	(84)	(96)	(757)
Balance at end of the year	¥2,010	¥1,507	\$18,106

During the fiscal year ended March 31, 2019, estimates of asset retirement obligations that were recorded as an obligation to restore a site to its original condition associated with the real estate rental agreement for the head office have changed due to obtaining new information regarding site restoration expenses. The asset obligations have increased by ¥417 million (\$3,761 thousand) as a result of this change.

24. Related Party Transactions

Principal transactions between the Company, the Company’s consolidated subsidiaries and their related parties for the year ended March 31, 2019 and 2018 were summarized as follows:

2019			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
Hitoshi Hayano	Standing Corporate auditor of the Company	Sales of housing	¥67	\$604	¥—	\$—
Noriaki Toi	Corporate auditor of the Company	Sales of housing	¥31	\$279	¥—	\$—

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.

2018			Millions of yen	Balance at the end of the year
Name	Title	Transactions	Amounts	Balance at the end of the year
Noriaki Toi	Corporate auditor of the Company	Sales of housing	¥20	¥21

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.

25. Business Combination

(Acquisition of shares of Crescent Communities II, LLC and 65 other companies)

The Company acquired shares of Crescent Communities II, LLC and 65 other companies through Sumitomo Forestry America, Inc., its U.S. subsidiary, making them its subsidiaries.

(a) Summary of the business combination

(1) Name of the acquiree and business description  
Name of the acquiree: Crescent Communities II, LLC and 65 other companies  
Description of business: Multi-family housing development business, commercial complex development business and housing sales business

(2) Main reason for implementing the business combination  
The Company has been pursuing diversification in business and stabilization of its earnings structure through obtaining a high-quality platform for its multi-family housing business and commercial complex development business in the U.S.

(3) Date of the business combination  
July 2, 2018 (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 the name of the acquiree

(6) Ratio of voting rights acquired: 100%

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

(b) Period for which the business results of the acquiree are included in the consolidated financial statements of the Company

The period is from July 1, 2018 to December 31, 2018 as the deemed acquisition date was July 1, 2018.

(c) Breakdown of consideration for acquisition and type of consideration

Consideration for acquisitions: ¥43,404 million (\$391,065 thousand)  
Acquisition cost: ¥43,404 million (\$391,065 thousand)

(d) Description and amount of primary acquisition-related costs

Advisory fee: ¥515 million (\$4,642 thousand)

(e) Amount of goodwill, reason for recognition, and amortization method and period

(1) Amount of goodwill  
¥2,552 million (\$22,992 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 5 years

(f) Assets acquired and liabilities assumed at the acquisition date

See Note 12.

26. Stock Option Plan

(a) Stock option expenses per accounts for the years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Selling, general and administrative expenses	¥12	¥48	\$108

(b) 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, 2019	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, 2018	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested	—	—	—
Vested stock options			
As of March 31, 2018	38,800	41,400	38,500
Vested	—	—	—
Exercised	3,500	900	900
Forfeited	—	—	—
Unexercised	35,300	40,500	37,600

2) Unit price information

Year Ended March 31, 2019	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	¥1,795	¥1,634	¥1,456
Fair unit value on the grant date	¥1,233	¥1,092	¥1,256

(c) Method for estimating a fair unit price for stock options

No stock options were granted in the fiscal year ended March 31, 2019.

(d) 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

### *(Forest fire damage on plantation owned by consolidated subsidiary)*

On February 5, 2019, there was a forest fire on a forestation area owned by consolidated subsidiary, Tasman Pine Forests Ltd. (fiscal year end of December 31) in Nelson, New Zealand. The damage is estimated to be approximately ¥1,600 million (\$14,416 thousand), which is expected to be recorded in the fiscal year ending March 31, 2020. Replanting of trees in the affected area will be completed by 2021, so the impact on sales and other activities will be not significant.

### *(Changes in reportable segments)*

Previously, the reportable segments were classified as “Timber and Building Materials,” “Housing and Construction,” and “Overseas Housing and Real Estate,” but beginning the fiscal year ending March 31, 2020, the reportable segments will be changed to “Timber and Building Materials,” “Housing and Construction,” “Overseas Housing and Real Estate,” and “Environment and Resources.”

This is due to the increasing importance of environment and resources-related businesses to the Group.

The main change is that the biomass power generation business and the overseas forestation business, which were included in “Other,” will be included in “Environment and Resources.”

The information on amounts of sales, and income or loss by the reportable segments for the fiscal year ended March 31, 2019 based on the new segment classification is as follows:

As of/Year Ended March 31, 2019	Millions of yen								
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥464,091	¥452,234	¥364,365	¥15,138	¥1,295,829	¥12,466	¥1,308,295	¥ 598	¥1,308,893
Inter-segment transfers	22,999	604	513	4,388	28,505	9,805	38,310	(38,310)	—
Total	487,091	452,839	364,878	19,526	1,324,333	22,272	1,346,605	(37,712)	1,308,893
Segment income (loss)	7,980	21,598	25,812	4,012	59,403	85	59,488	(8,052)	51,436

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥598 million (\$5,388 thousand) of administration department profit.

2. Adjustments for segment income and loss include ¥382 million (\$3,442 thousand) of elimination of inter-segment income and loss, ¥3,410 million (\$30,723 thousand) of retirement benefits liability adjustments (loss), and ¥4,260 million (\$38,382 thousand) of corporate general administration expense, which are not allocable to the reportable segments.

As of/Year Ended March 31, 2019	Thousands of U.S. dollars								
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	\$4,181,379	\$4,074,552	\$3,282,862	\$136,390	\$11,675,183	\$112,320	\$11,787,503	\$ 5,391	\$11,792,894
Inter-segment transfers	207,220	5,442	4,625	39,534	256,821	88,345	345,166	(345,166)	—
Total	4,388,599	4,079,994	3,287,487	175,924	11,932,003	200,665	12,132,669	(339,775)	11,792,894
Segment income (loss)	71,902	194,596	232,562	36,150	535,210	763	535,973	(72,544)	463,430



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## 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, 2019, 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, 2019, 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 21, 2019  
Tokyo, Japan

A member firm of Ernst & Young Global Limited

# Corporate Overview



## Sumitomo Forestry Group Overview

(As of July 31, 2019)

### 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 timber 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 building 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 Honchosha 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
■ Kanda Biomass Energy K.K.	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
■ Aquagnis Taki Hotel Asset Co., Ltd.	Ownership, management and rental business of accommodation facilities

■ Timber and Building Materials Business ■ Housing and Construction Business ■ Environment and Resources Business ■ Other Businesses



Overseas Group Overview

< 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, etc.
■ Bloomfield Homes Group	Construction and sale of spec homes
■ Gehan Homes Group	Construction and sale of spec homes
■ MainVue Homes Group	Construction and sale of spec homes
■ Dan Ryan Builders Group	Construction and sale of spec homes
■ Edge Homes Group	Construction and sale of spec homes
■ Crescent Communities Group	Construction and sale of multi-family housing development, commercial complex development, etc.
■ Mark III Properties, LLC	Land development
< 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 Properties Group	Construction and sale of custom-built homes and spec homes
■ Wisdom Properties Group	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
< Singapore >	
■ Sumitomo Forestry (Singapore) Ltd.	Import/export and wholesale of timber and building materials, oversight and participation in management of affiliates in Asia
< 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
< 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 sale of plywood, secondary processed plywood, processed timber products and particle board
■ PT. Rimba Partikel Indonesia	Manufacture and sale of particle board and melamine faced chipboard
■ PT. Sinar Rimba Pasifik	Manufacture and sale of wooden interior products
■ PT. AST Indonesia	Manufacture and sale of materials for musical instruments and wooden building materials
■ PT. Summa Sinar Fajar	Development of detached houses in Indonesia

< Myanmar >	
■ Sumitomo Forestry (Singapore) Ltd. Yangon Branch	Wholesale of timber and building materials, collect information on overseas locations
< 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
■ Grand Star Co., Ltd.	Development, construction and sale of condominiums
■ Grand River Forest Co., Ltd.	Development, construction and sale of condominiums
■ PF Forestry Co., Ltd.	Development, construction and sale of detached houses
< 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
■ An Cuong Wood-Working Joint Stock Company	Manufacture and sale of secondary processed board Manufacture, sale and construction of wooden interior building materials
< 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

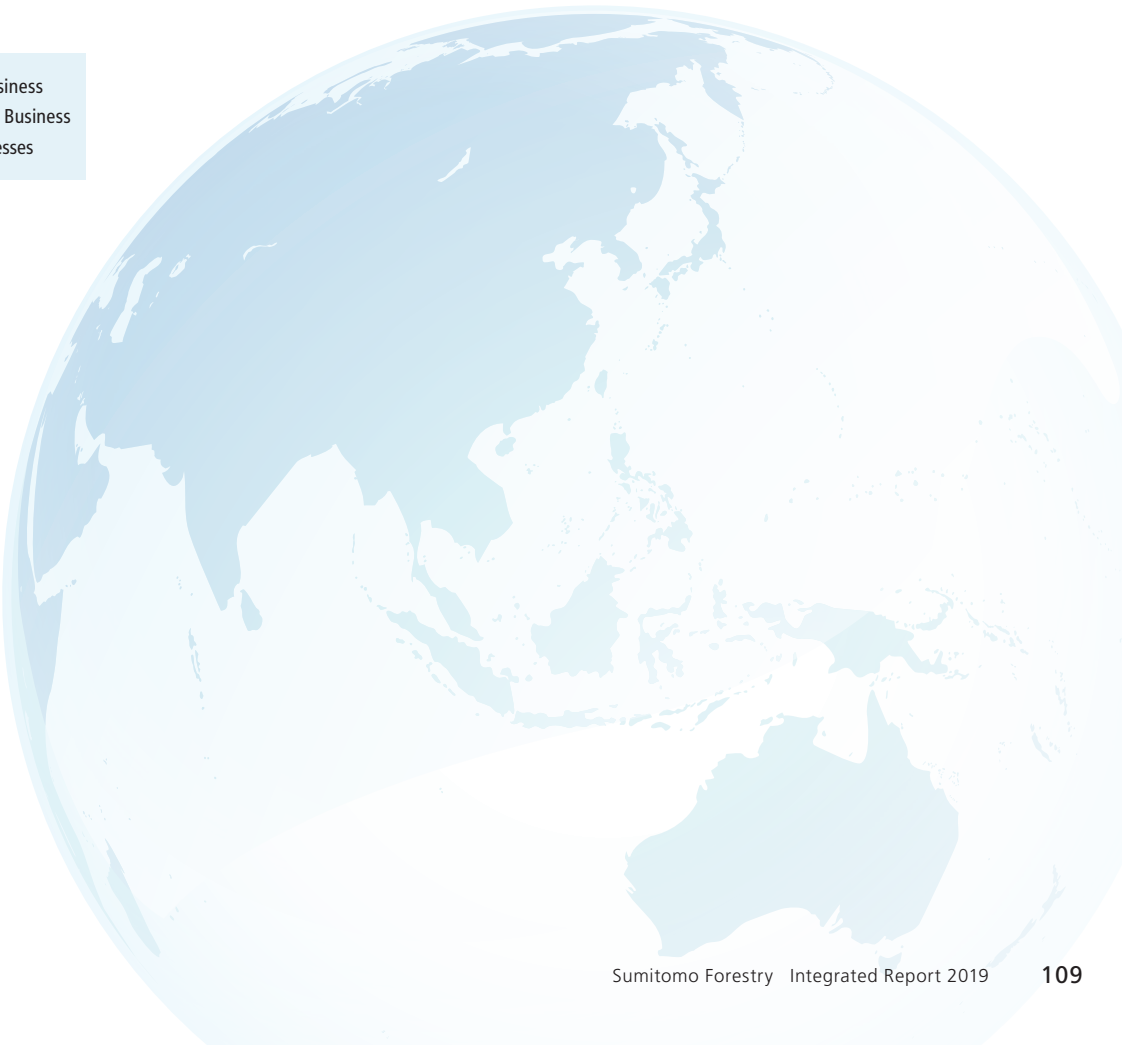
Overseas Offices

- Vancouver Office (Canada)
- Amsterdam Office (Netherlands)

■ Timber and Building Materials Business

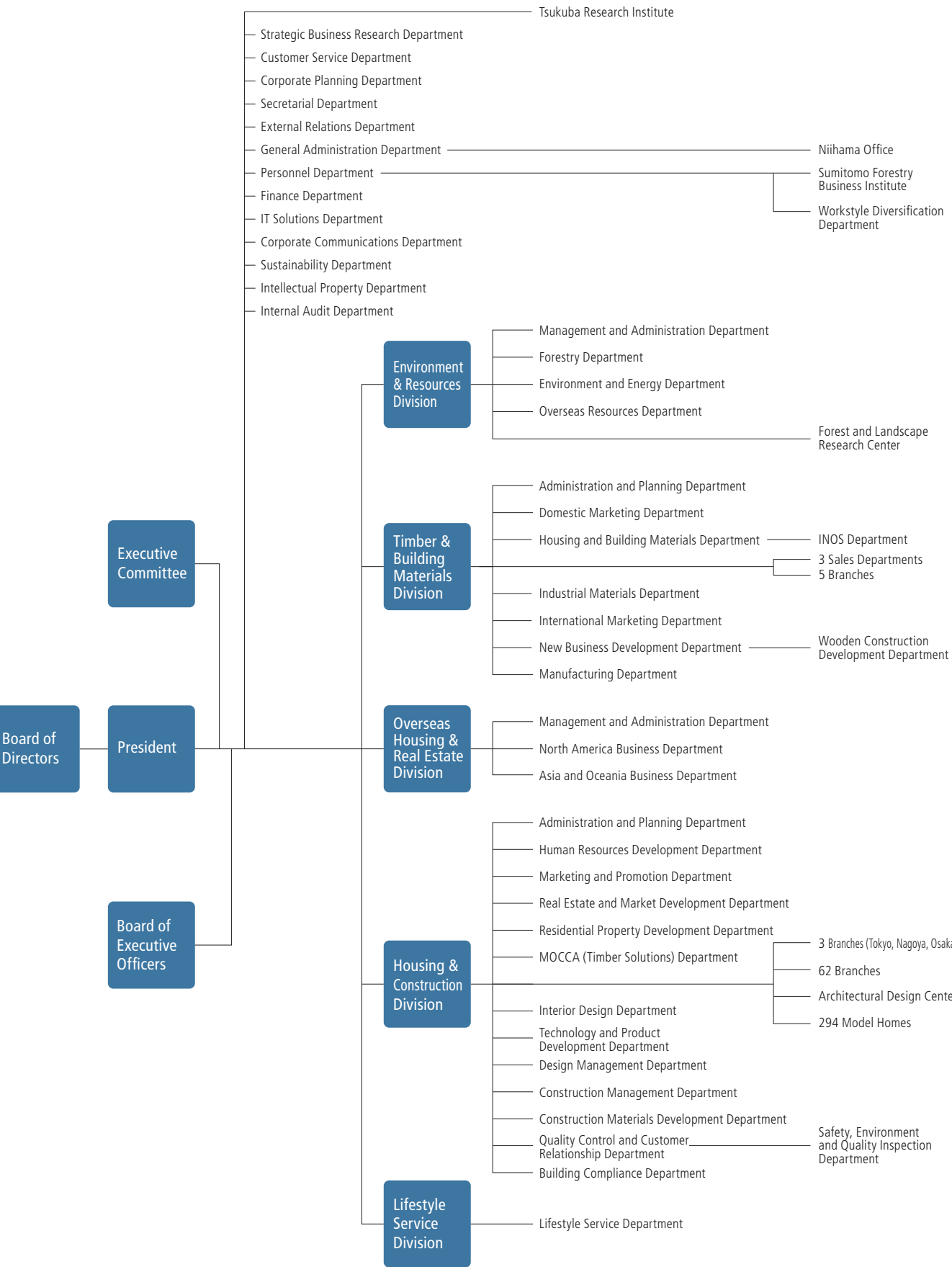
■ Overseas Housing and Real Estate Business

■ Environment and Resources Businesses



Organization Chart

(As of April 1, 2019)



Corporate Profile / Stock Information

Company Outline (As of March 31, 2019)

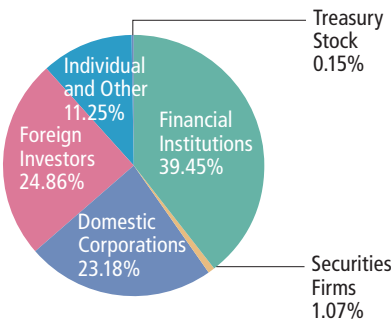
Company Name	Sumitomo Forestry Co., Ltd.
Founded	1691
Incorporated	1948
Paid-In Capital	¥32,752 million
Stock Exchange Listing	Tokyo
Total Number of Authorized Shares	400,000,000
Total Number of Shares Issued	182,698,636
Ordinary Shareholders' Meeting	June
Number of Shareholders	10,947
Head Office	Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Consolidated Subsidiaries	195 (Overseas 165)
Affiliated Companies	79 (Overseas 72)
Number of Employees (Consolidated)	19,159
Homepage	<a href="http://sfc.jp/english/">http://sfc.jp/english/</a>
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, 2019)

Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	11,951	6.5
Sumitomo Metal Mining Co., Ltd.	10,110	5.5
Japan Trustee Services Bank, Ltd. (trust account)	9,536	5.2
The Iyo Bank, Ltd.	5,849	3.2
Kumagai Gumi Co., Ltd.	5,197	2.8
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	3,536	1.9
Sumitomo Mitsui Trust Bank, Ltd.	3,408	1.8

\* 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, 2019)



Stock Price and Trading Volume

