

Happiness Grows from Trees



SUMITOMO FORESTRY

Sumitomo Forestry Group 2018 Medium-Term Management Plan:

Promoting reform for a new stage
(FY3/17-FY3/19)

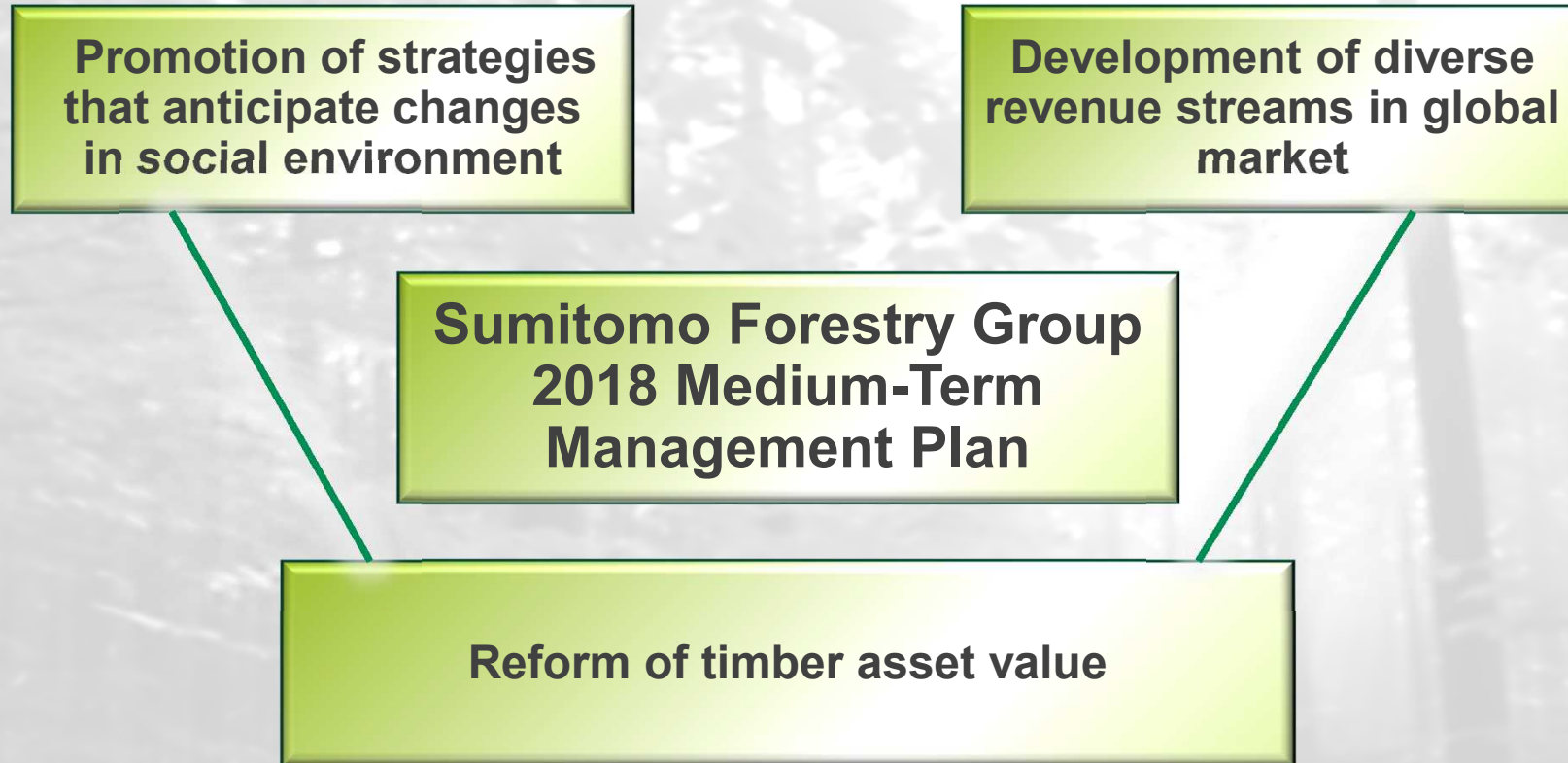
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Japanese economic forecast

- ◆ Due to progression of yen appreciation and dropping stock prices since the beginning of the year, consumer sentiment has slumped, and economic performance is stagnant. In the near future, surge demand is expected ahead of the consumption tax hike to be followed by economic contraction resulting from a reactive decline.
- ◆ As a mature society, in the medium to long term diverse values and new markets different from those of the past will arise.

Global economic forecast

- ◆ There are some causes for concern such as the deceleration of the Chinese economy, a slowdown in economic growth in emerging countries due to dropping crude oil prices, and geopolitical risks, but the global economy will be on a gentle upward trek against the backdrop of slow but sure economic growth in the United States.
- ◆ Changes will occur in the social environment associated with economic development as population increases, especially in emerging countries.



Over the next three years, Sumitomo Forestry will further solidify the business foundation for sustainable growth and **“promote reform for a new stage.”**

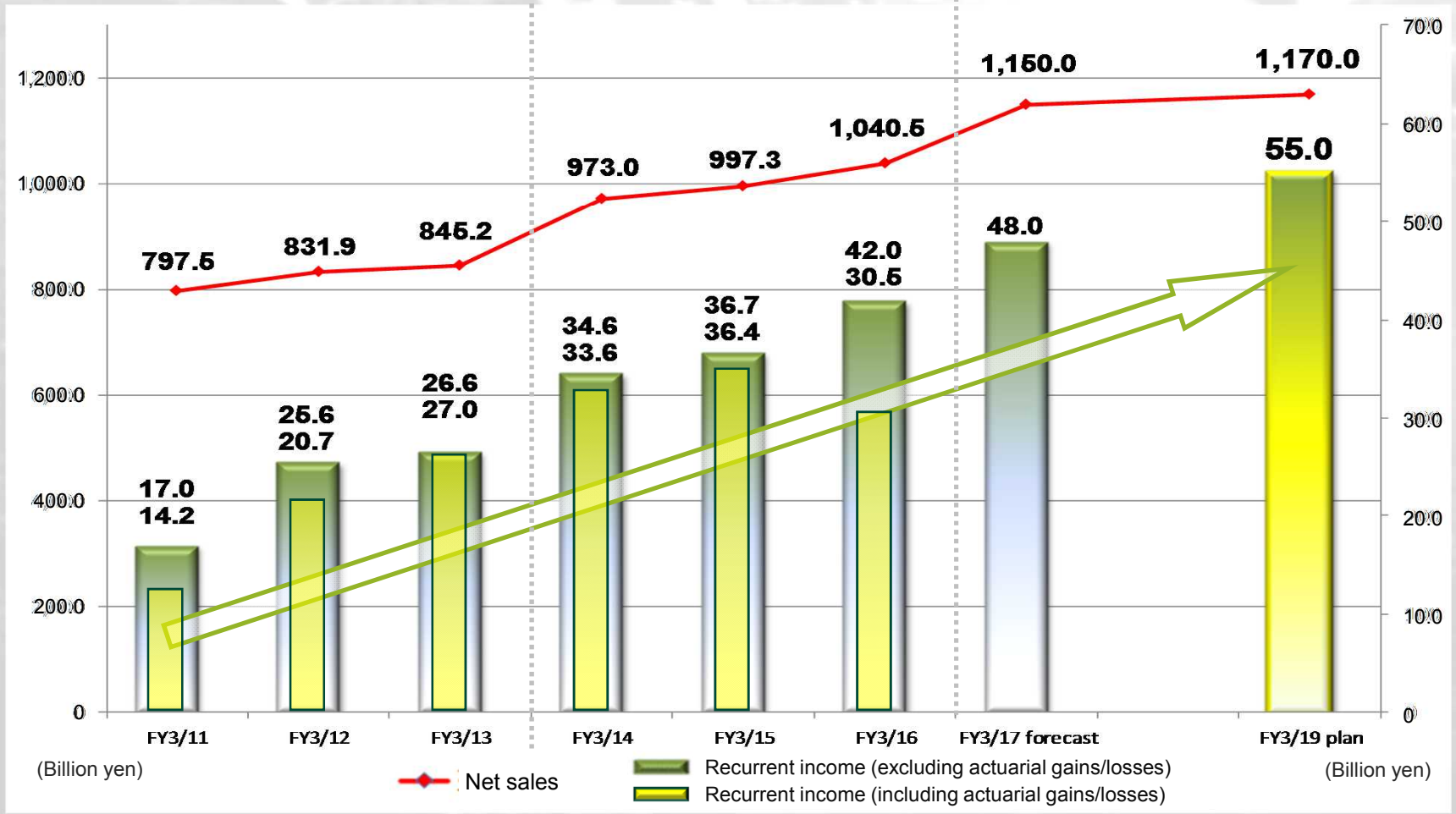
Performance Targets of Medium-Term Management Plan (1): Performance Trends from Past

Steadily carry out “bolstering earnings power” and “expanding business scale” as touted in previous six-year period and move into new growth stage

Establish structure for recurring income of ¥20 billion

Structure for net sales of ¥1 trillion and recurring income of ¥30 billion

2018 Medium-Term Management Plan



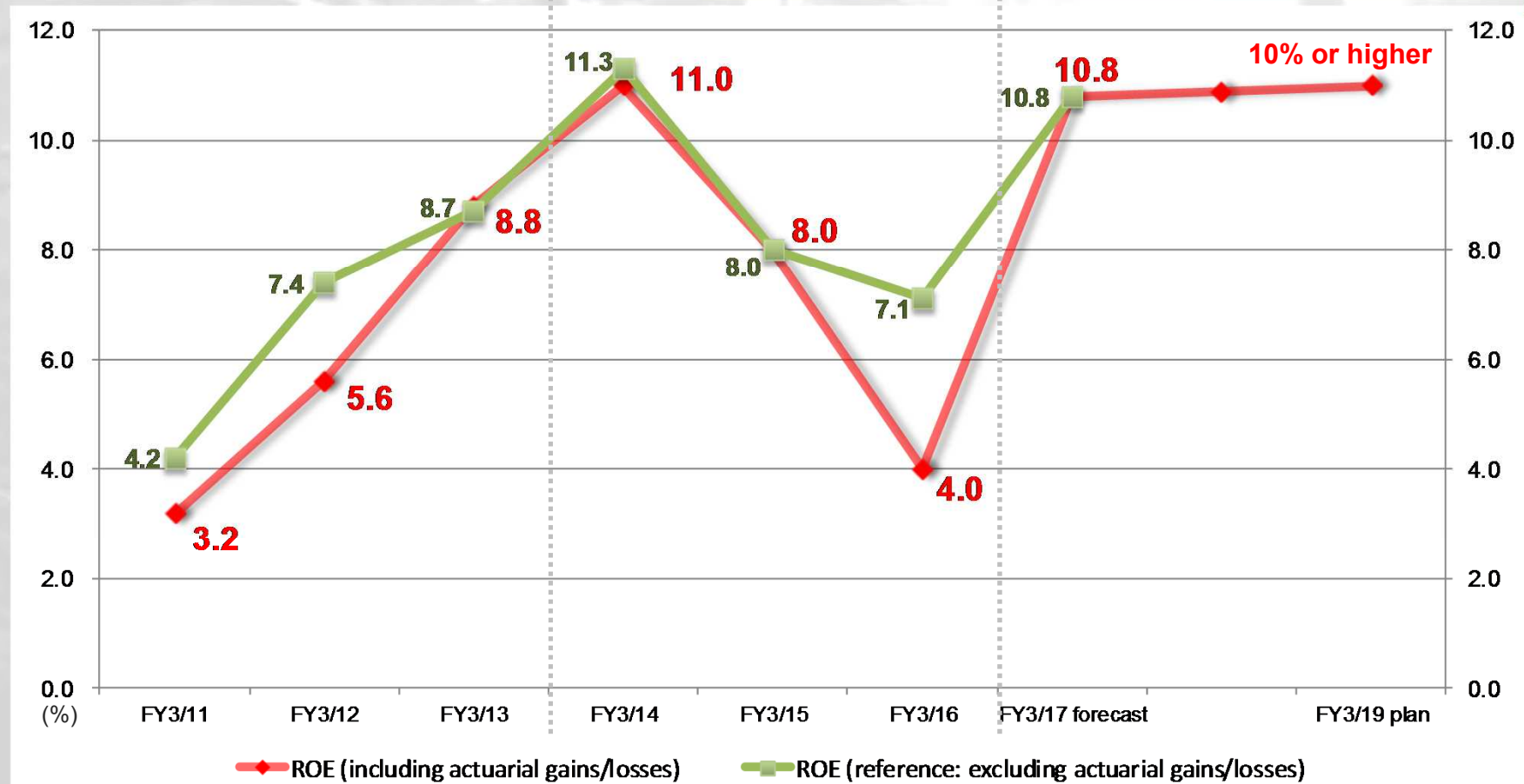
Performance Targets of Medium-Term Management Plan (1): ROE Trends

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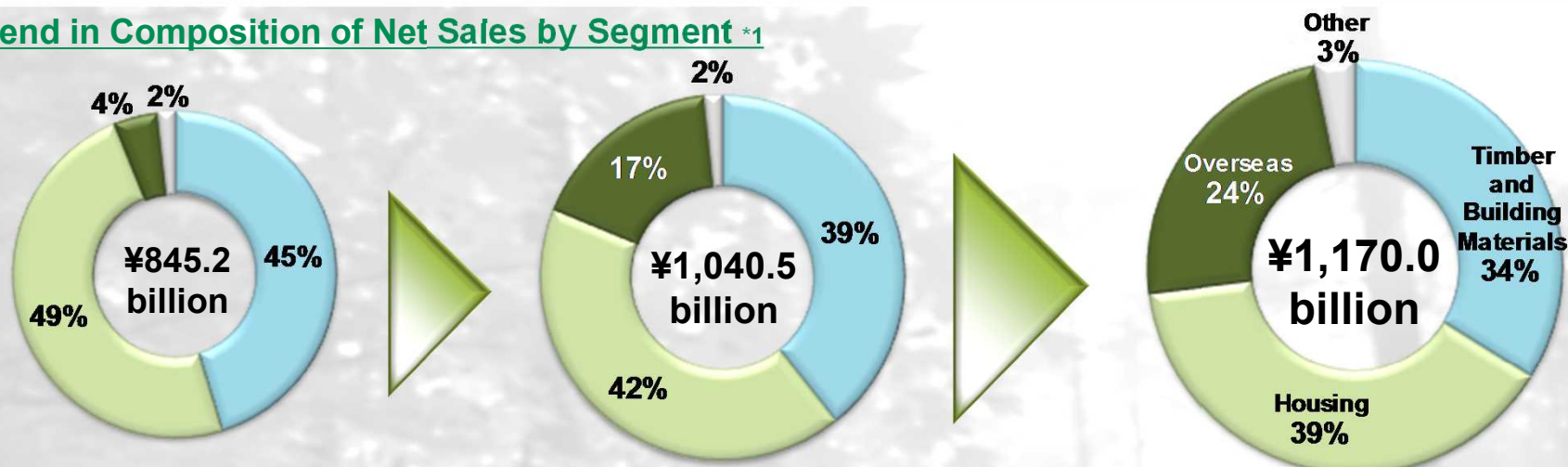
2018 Medium-Term Management Plan



*ROE excluding actuarial gains/losses (reference value) is calculated using the effective statutory tax rate, and net assets for each year have not been adjusted.

Performance Targets of Medium-Term Management Plan (2): Performance and Portfolio Trends

Trend in Composition of Net Sales by Segment *1

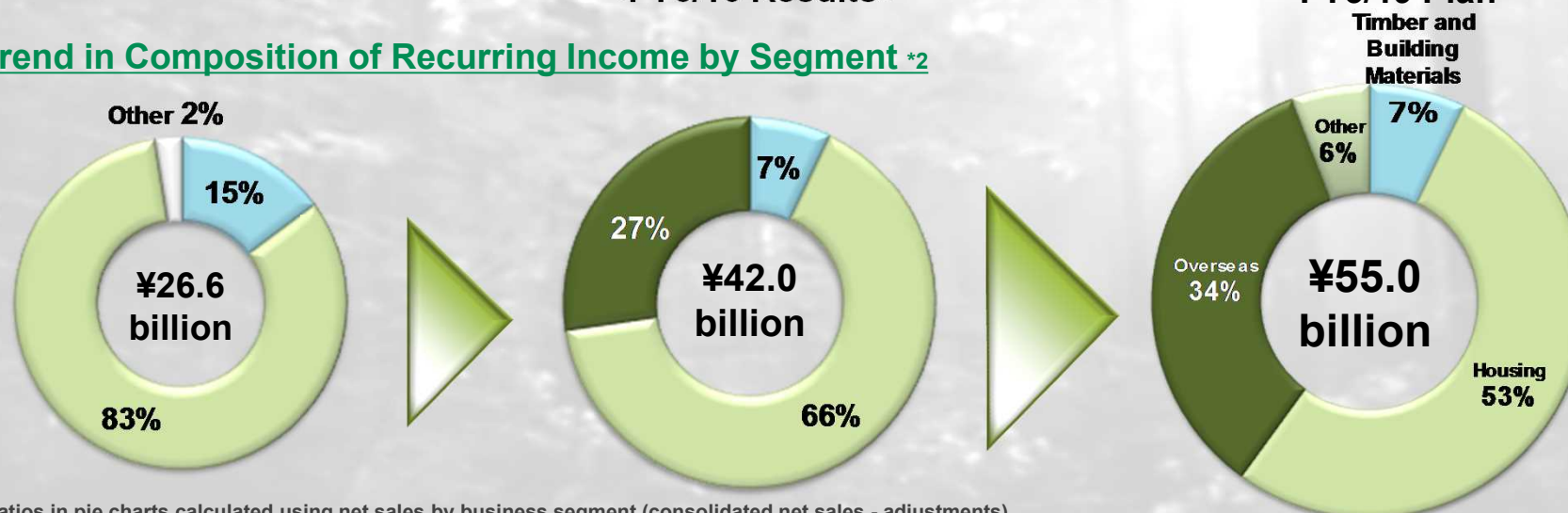


<FY3/13>

<FY3/16 Results>

<FY3/19 Plan>

Trend in Composition of Recurring Income by Segment *2



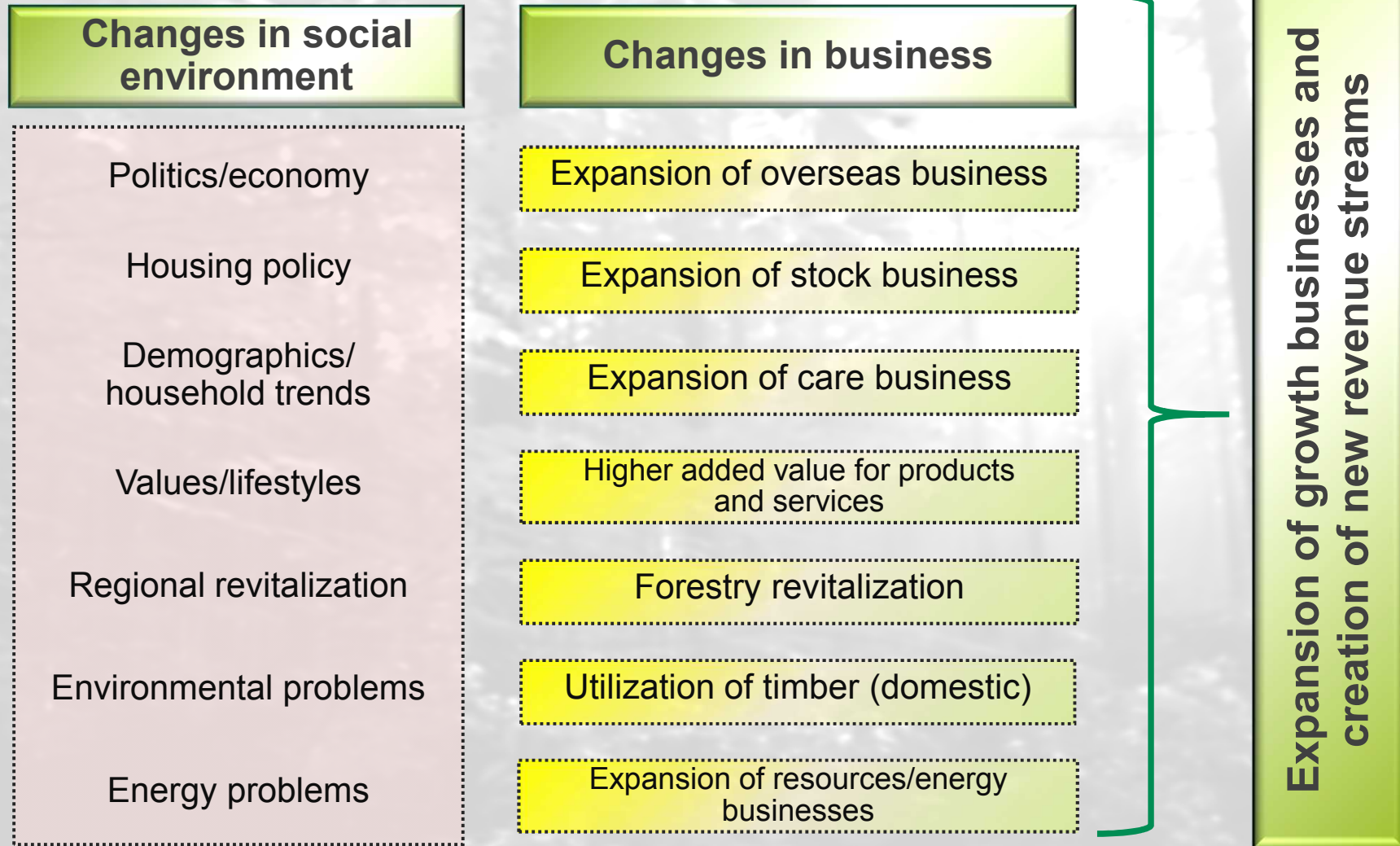
*1: Ratios in pie charts calculated using net sales by business segment (consolidated net sales - adjustments)

*2: Ratios in pie charts calculated using recurring income by business segment (consolidated recurring income - adjustments and negative segment profits)

*3: Pie chart from *2 excludes actuarial gains/losses

(3/13 Overseas: -¥1.8 billion, 3/16 Other: -¥1.0 billion)

(1) Promotion of strategy that anticipates changes in social environment



(2) Development of diverse revenue streams in global market

**Manufacturing
business**

**Housing/
real estate business**

**Resources-related
business**

Acquisition of mountain forest in NZ, etc.

**Housing peripherals
business**

Entry into greening, rental housing and other
businesses

**Timber and building
materials distribution
business**

Singapore oversight, cultivation of markets in
emerging countries, etc.

(3) Reform of timber asset value

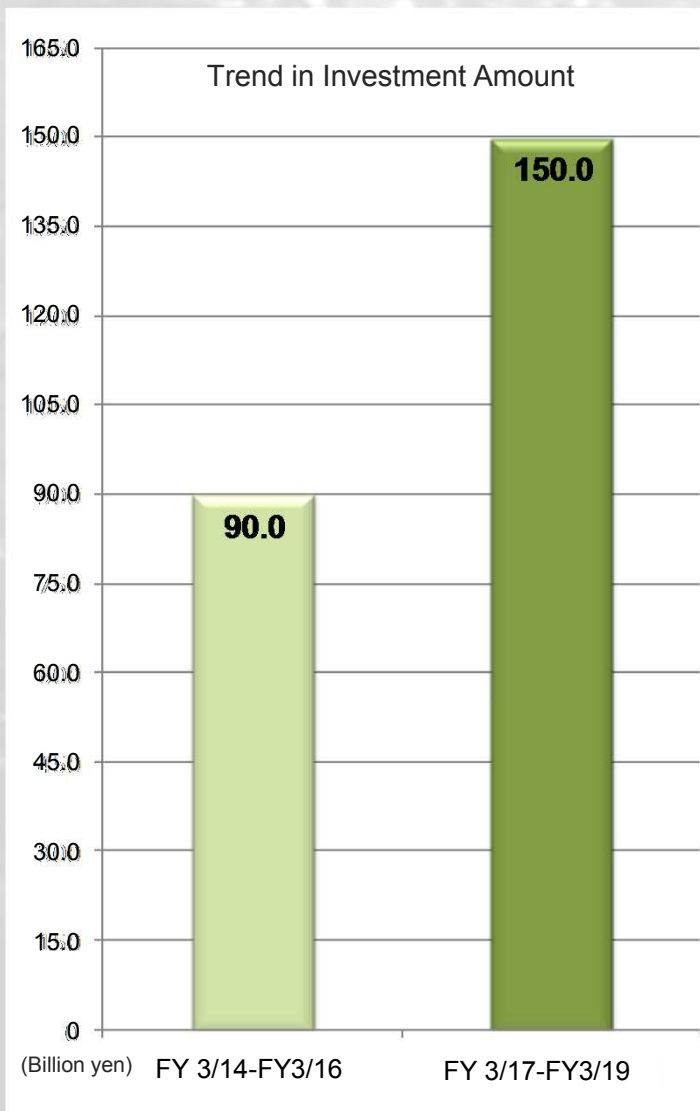
Increasing environmental awareness worldwide



Creation of new timber value



Expansion of business opportunities and social contribution

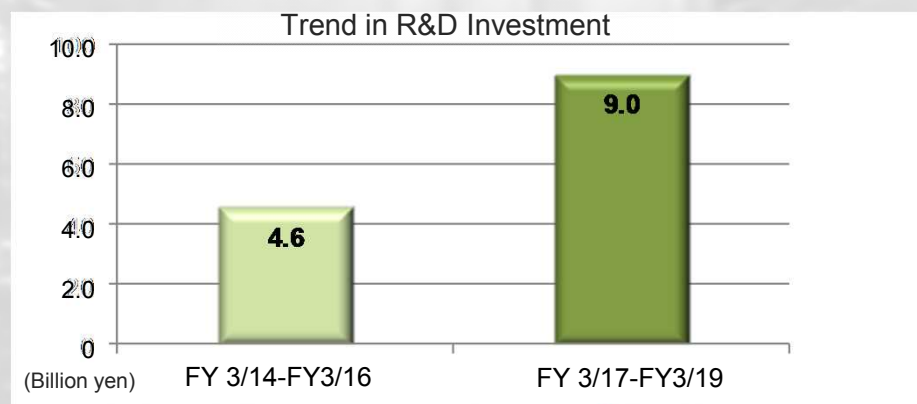


Investment plan

- Over the next three years a record high ¥150 billion investment will be made.
- Depreciation and amortization over the three years will be substantially greater than ¥40 billion.
- In addition to resources/energy and overseas business related investments, investments will be made primarily in new projects such as the care business to diversify revenue streams in order to reform the business structure.

R&D investment

- ¥9.0 billion will be invested over three years, double the size of investments in the past. The focus will go beyond existing research fields, and new themes will be explored from a medium- to long-term perspective to maximize the potential of timber.



Medium-Term Management Plan: Performance Plans by Segment

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(Billion yen)

	Net Sales			Recurring Income		
	FY3/16	FY3/19 (plan)	Compared to FY3/16	FY3/16	FY3/19 (plan)	Compared to FY3/16
Timber and Building Materials	427.0	420.0	-7.0 -1.6%	3.4	4.5	+1.1 +34.2%
Housing	454.6	485.0	+30.4 +6.7%	31.5	33.0	+1.5 +4.7%
Overseas	187.9	294.0	+106.1 +56.4%	13.1	21.4	+8.3 +63.5%
Other	16.9	39.8	+22.9 +135.9%	-1.0	3.6	+4.6 -
Adjustment	-45.8	-68.8	-23.0 -	-16.4	-7.5	+8.9 -
Total	1,040.5	1,170.0	+129.5 +12.4%	30.5	55.0	+24.5 +80.3%

Strategy by Segment:

(1) Timber and Building Materials Business

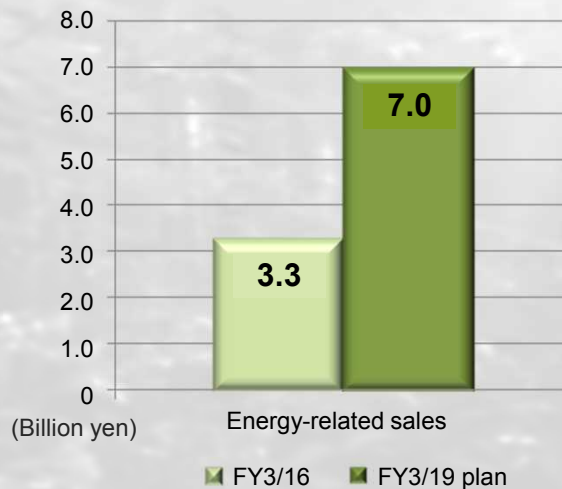
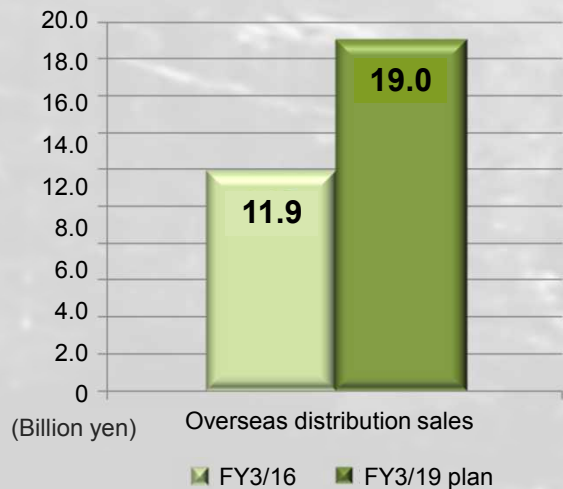
Building of new supply chain overseas and strengthening of efforts in growth markets

Basic strategy

- Strengthen roll-out efforts overseas. Build a supply chain in collaboration with local subsidiaries and manufacturing bases in each country under the oversight of Singapore and take up business endeavors in new regions.
- In Japan, strengthen efforts in energy-related markets like increasingly-in-demand fuel chips, non-housing markets and renovation materials, and expand exports of domestic materials.

Specific plan

- Overseas distribution sales: ¥11.9 billion in FY3/16 → ¥19.0 billion in FY3/19
- Energy related (fuel chips, timber) sales: ¥3.3 billion in FY3/16 → ¥7.0 billion in FY3/19



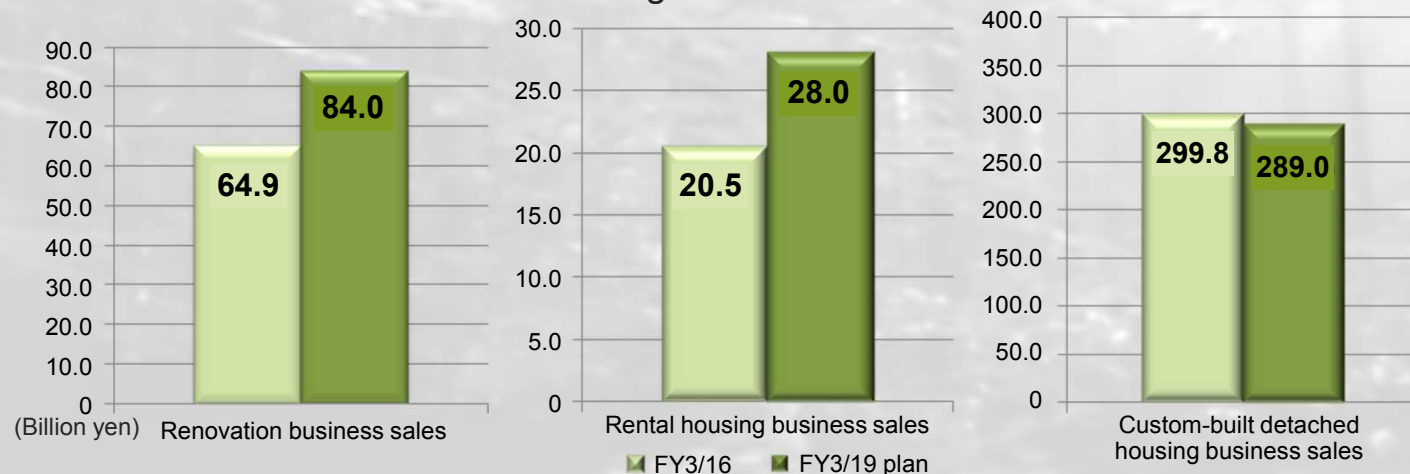
Provide products and services of higher added value than ever before by enhancing proposal capabilities and technology to meet diverse needs

Basic strategy

- The custom-built detached housing business will address the second consumption tax hike and increase profitability by increasing added value and reducing costs in accordance with customer needs.
- Expand the renovation and rental housing businesses by improving technology and added value.
- Engage in business development taking full advantage of a wide range of business domains, including the MOCCA(Timber and Solutions)Business, greening, real estate brokerage and real estate leasing and management businesses.

Specific plan

- Renovation business sales: **¥64.9 billion** in FY3/16 → **¥84.0 billion** in FY3/19
- Rental housing business sales: **¥20.5 billion** in FY3/16 → **¥28.0 billion** in FY3/19
- Custom-built detached housing business sales: **¥299.8 billion** in FY3/16 → **¥289.0 billion** in FY3/19



Strategy by Segment: (3) Overseas Business

Expand the business while meeting the home life needs peculiar to each country and territory using the Group's expertise and technology

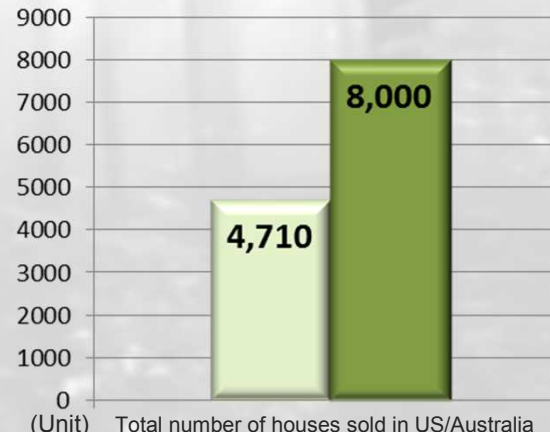
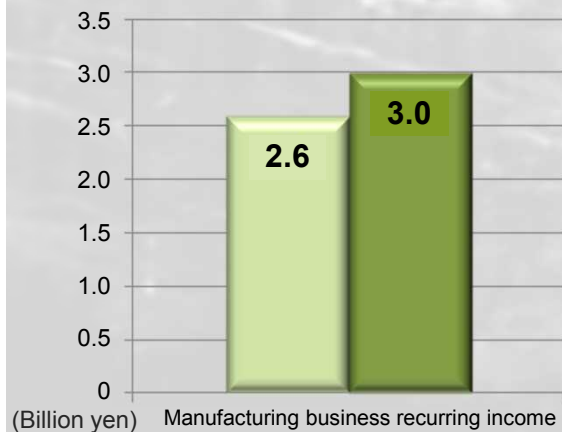
Basic strategy

- In the housing/real estate business, the top priority is to establish a structure for a total of 8,000 houses, 5,000 in the United States and 3,000 in Australia. For that reason, the Group will turn its attention to M&As and entering new regions.
- In the manufacturing business, sales of environmentally-conscious high value-added products will be strengthened, and sales territories will be reviewed while also looking into a new production system based on the resources background.



Specific plan

- Manufacturing business recurring income: ¥2.6 billion in FY3/16 → ¥3.0 billion in FY3/19
- Housing/real estate business recurring income: ¥15.2 billion in FY3/16 → ¥24.5 billion in FY3/19
- Total number of houses sold in US/Australia: 4,710 in FY3/16 → 8,000 in FY3/19



■ FY3/16 ■ FY3/19 plan

Leverage the Group's expertise and characteristics to roll out businesses that solve social challenges and create future revenue streams

Basic strategy

- Expand renewable energy business, including wood biomass.
- Expand care business leveraging distinctive services and added value.
- A sustainable afforestation business that takes biodiversity conservation and local communities into account will be developed while keeping an eye on global timber demand.

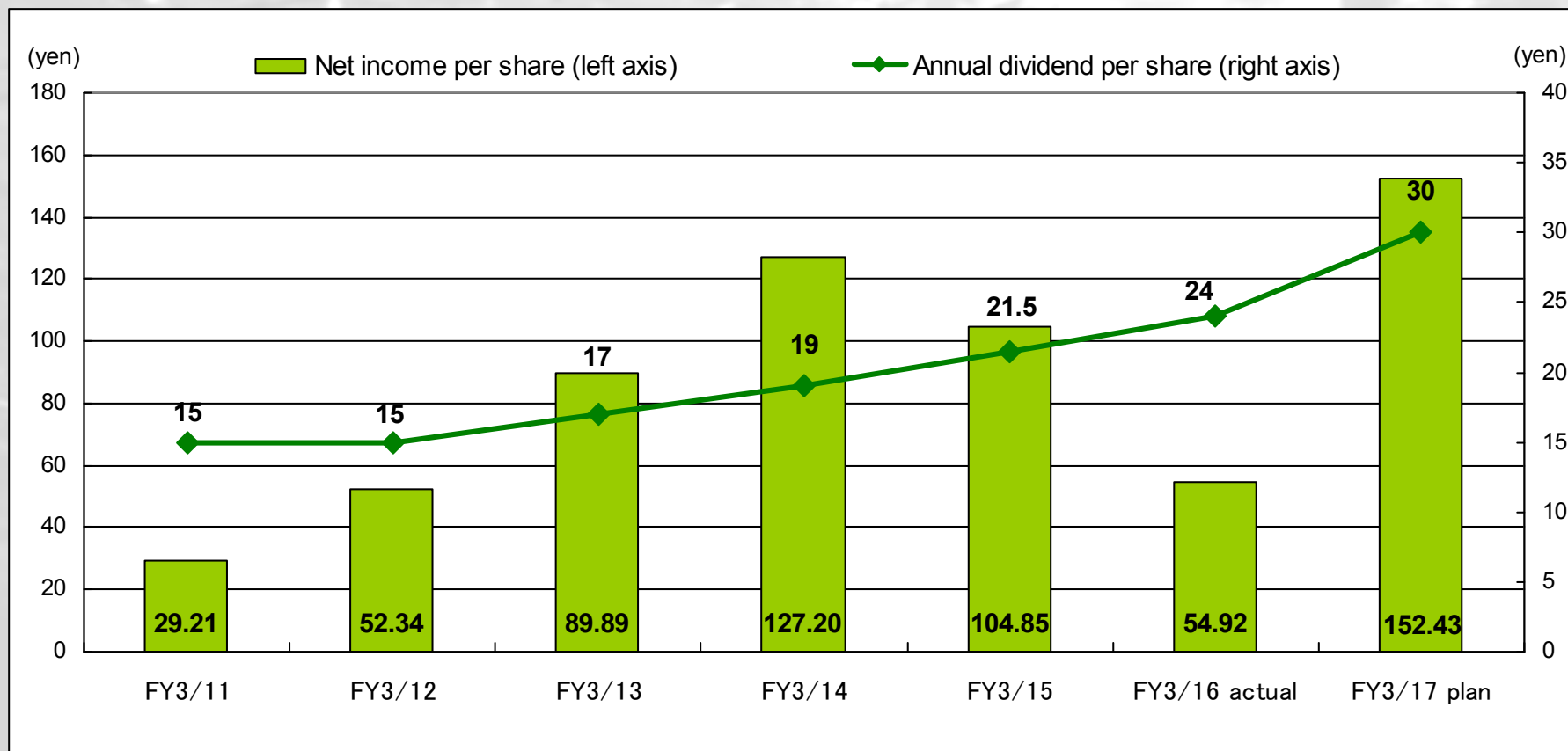


Specific plan

- Wood biomass power generation: **100MW** in FY3/16 → **200MW** in FY3/19 (including operations and plans)
- Number of elderly care facilities managed: **10** in FY3/16 → **20** in FY3/19



- Sumitomo Forestry recognizes return to shareholders as one of its highest priorities. The basic policy is to engage in stable, continuous distribution of dividends according to the profit situation considering the management base, financial condition, cash flow, etc. in a comprehensive manner.
- In the future, stable dividends will be maintained, taking into account the balance with record high growth investments.



Strengthening of Management Foundation: HR Strategy and Corporate Governance

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Strengthen the management foundation through both securing/training of human resources and corporate governance

HR strategy

- **Respect the diversity of employees and create an open and energetic corporate culture.**
- **Promote change in the way of thinking among all employees.**

Corporate governance

- **Strengthen governance through risk management in growing overseas businesses and internal control.**
- **Strengthen independent and objective management supervision function by increasing number of outside directors.**

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Thank you for listening.