



November 9, 2017

News Release

Company name: Kumagai Gumi Co., Ltd.
Representative: Yasushi Higuchi, President
(Stock code: 1861, TSE, First Section)
Contact: Chihiro Nosaka
General Manager, Accounting Dept.,
Administrative Div.
(Tel.: 81-3-3235-8606)

Company name: Sumitomo Forestry Co., Ltd.
Representative: Akira Ichikawa, President
(Stock code: 1911, TSE, First Section)
Contact: Yuichiro Ono
General Manager, Corporate
Communications Dept.
(Tel.: 81-3-3214-2270)

Notice of Capital and Business Alliance
between Sumitomo Forestry Co., Ltd. and Kumagai Gumi Co., Ltd.

Sumitomo Forestry Co., Ltd. (hereafter, “Sumitomo Forestry”) and Kumagai Gumi Co., Ltd. (hereafter, “Kumagai Gumi”) concluded an agreement concerning a capital and business alliance (hereafter, “the Alliance”) today.

The two companies intend to grow together as long term strategic partners and increase corporate value based on a good relationship involving mutual respect for independence and autonomy in management and a spirit of equality.

1. Purpose of the Alliance: Entry into New Business Areas and Creation of New Markets

The residential housing and construction markets in Japan are projected to reach a contracted equilibrium at a smaller market size as the population declines over the medium to long-term. Recognizing the need for initiatives aimed at sustainable growth amid the changing business environment, the two companies are aiming to build new, independent positions that exceed the boundaries of their existing businesses. They have considered a collaborative structure for initiatives such as creating new markets, development of high value-added technology, and business expansion overseas.

Sumitomo Forestry, which is the top brand in the timber and building materials business and the wooden custom-built detached housing business, recognizes the need for a general contracting function in pursuing a global strategy that includes the real estate development business in addition to strengthening Sumitomo Forestry’s business in the non-housing sector in Japan. Meanwhile, Kumagai Gumi, which has an extensive track record in construction both in Japan and overseas, is aiming to strengthen its renewable energy business in biomass power generation and other forms of alternative energy, and to strengthen its overseas business as a medium to long-term strategy, in addition to the civil engineering and construction sectors. The two companies determined that their strategic directions are compatible, and that they can achieve mutual maximization of corporate value, and thus entered the Alliance.

Known as a country with one of the highest percentages of forested land in the world, people in Japan have long been closely connected with trees and greenery. Not only has there been increasing demand for the “warmth” and “healing” of trees and greenery recently; the Act for Promotion of Use of Wood in Public Buildings was enacted in October 2010. Promoting the use of wood has been positioned as a national government policy of Japan, and the need for the use of wood is increasing in a wide range of areas other than residential housing.

The two companies will work to realize an abundant society by providing buildings and housing that utilize wood and greenery and fuse the in-depth knowledge of natural materials of wood and greenery that are the strengths of Sumitomo Forestry with the superior technology and expertise in civil engineering and construction that are strengths of Kumagai Gumi. Both companies share strong feelings about forest resources and have the goal of

revitalizing the forestry business, beginning with effective use of wood in the civil engineering and construction sector and, by extension, contributing to national conservation and the environment. They will move forward on working to build social infrastructure that maintains a balanced harmony with the natural environment in terms of both the hard and soft aspects.

The companies will also proactively develop a model that creates synergy in each business segment, and will conduct a capital increase via private placement of new shares and acquire shares in each other's company to develop and strengthen a long-term partnership and pursue sustainable collaboration.

In the future, the two companies will accelerate collaboration and development based on the Alliance, and will contribute to the development of a sustainable society that can meet the expectations of customers.

2. Description of the Alliance: Expansion of Business Domains in which Synergy is Anticipated

(Description of Business Alliance)

Sumitomo Forestry and Kumagai Gumi have agreed to collaborate on each business area and will build a framework for collaboration. The main aspects of this are described below.

- (1) Construction business related to MOCCA (timber solutions) and greening
The goal is to establish a commanding position by working to differentiate ourselves from other companies in new markets such as construction business that incorporates or is related to MOCCA (timber solutions) and greening, beginning with large and medium-sized commercial buildings and public facilities. The two companies will therefore build an organizational structure that fuses the knowledge and highly specialized human resources both companies have cultivated. Each company will bring its own expertise to the Alliance and actively contribute to the redevelopment of areas where the creation of green spaces is being considered in facility plans of a certain size and larger to build communities that incorporate sophisticated landscaping.
- (2) Renewable energy business
The goal is for both companies to create a renewable energy business in Japan and overseas. In the biomass power generation business, we are planning to organize a project requiring a total investment of around 30 billion yen. Establishment of a new joint venture is being considered in which Sumitomo Forestry will take the main responsibility for project formation, fuel supply, and power plant management, and Kumagai Gumi will take the lead on construction of the power plant and related facilities. The two companies will also work together on wind power generation and all other aspects of the renewable energy business in addition to this.
- (3) Overseas business
We envision collaboration in the area of construction and development, mainly in Taiwan, Vietnam, Myanmar, and other regions in which Kumagai Gumi has a strong presence. Kumagai Gumi has actively participated in the construction business in Taiwan since the 1970s and has a track record in building TAIPEI 101, a landmark skyscraper in Taipei, and numerous other prominent projects. The two companies will utilize these local networks of Kumagai Gumi and the knowledge that Sumitomo Forestry possesses in utilizing timber and greening in housing to work together, not only on residential housing, but in a wide range of sectors, including construction and urban development.
- (4) Peripheral business sectors (healthcare, sales of products developed, etc.)
Sumitomo Forestry is already engaged in the nursing care business for the elderly, including the design, construction, and operation of private-pay elder care facilities, and will respond to the expanding need for nursing both in Japan and overseas in the future. The company is exploring collaboration in the healthcare facility business overseas, mainly in the Asian region, in addition to Kumagai Gumi's strong network in Taiwan. We will also explore joint sales of products that Kumagai Gumi has developed jointly, both in Japan and overseas. Such products include the Flora Tender walker to support independent living for elders who receive nursing care in their homes and other settings, and the Ace Up system used for the steel frame construction. These will utilize the purchasing power of Sumitomo Forestry, which is No. 1 in the timber and building materials distribution business in Japan, and will be used at Kumagai Gumi construction sites and other locations.
- (5) Joint research and development (new construction methods, materials and equipment, robotics, etc.)
Our goal in the large and medium-sized wooden building construction business is to create new added value, and develop new construction methods, beginning with hybrid construction involving wood, steel frame, and steel reinforced concrete, as well as materials and equipment. The two companies will also pursue research and development in the robotics sector to assist with construction work, and to save energy and cut costs at construction sites.

We expect the synergies from the Alliance to produce around 150 billion yen in net sales and roughly 10 billion yen in operating income in total for the two companies over the medium- to long-term.

(Details of the Capital Alliance)

Sumitomo Forestry and Kumagai Gumi will each acquire shares in the other company as detailed below. The objectives in doing so is to actively develop a model for creating synergy in each business area, develop and strengthen the partnership over the long-term, and collaborate on an ongoing basis.

Sumitomo Forestry will acquire 9,361,200 common shares in Kumagai Gumi through the purchase of treasury shares and new shares issued by Kumagai Gumi for private placement (20.0% of total shares issued after the capital increase). Kumagai Gumi will acquire 5,197,500 common shares in Sumitomo Forestry through the purchase of new shares issued by Sumitomo Forestry for private placement (2.85% of total shares issued after the capital increase).

For further details on the Sumitomo Forestry capital increase via private placement with Kumagai Gumi and the Kumagai Gumi capital increase via private placement with Sumitomo Forestry, please see the release issued by Kumagai Gumi today entitled, “Notice of New Share Issue and Allocation of Treasury Shares via Private Placement and Change in Major Shareholders, Top Shareholder, and Other Affiliated Companies Based on the Capital and Business Alliance with Sumitomo Forestry Co., Ltd.,” and the release issued by Sumitomo Forestry today entitled, “Notice of New Share Issue via Private Placement Based on Capital and Business Alliance between Sumitomo Forestry Co., Ltd. and Kumagai Gumi Co., Ltd.”

The basic views on strategic cross-shareholding are explained in “Principle 1-4” under basic views in the Corporate Governance Report that Sumitomo Forestry submitted to Tokyo Stock Exchange, Inc. on July 3, 2017 and in “Principle 1-4” under basic views in the Corporate Governance Report that Kumagai Gumi submitted to Tokyo Stock Exchange, Inc. on June 29, 2017.

3. Profiles of the Two Companies

a. Profile of Sumitomo Forestry (As of September 30, 2017)

Name	Sumitomo Forestry Co., Ltd.		
Location	3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo		
Name and title of representative	Akira Ichikawa, President		
Business description	Timber and building materials business, housing business, overseas business, etc.		
Capital	27,672 million yen		
Date founded	February 20, 1948		
Major shareholders and percentage of shares held	The Master Trust Bank of Japan, Ltd. (Trust Account)		5.88%
	Sumitomo Metal Mining Co., Ltd.		5.70%
	Japan Trustee Services Bank, Ltd. (Trust Account)		4.39%
	Japan Trustee Services Bank, Ltd. (Trust Account 9)		3.59%
	THE IYO BANK, LTD.		3.30%
	SUMITOMO CORPORATION		2.47%
	SUMITOMO LIFE INSURANCE COMPANY		2.38%
	The Hyakujushi Bank, Ltd.		2.37%
	Sumitomo Mitsui Banking Corporation		2.33%
	Sumitomo Mitsui Trust Bank, Limited		1.92%
Relationship between Sumitomo Forestry and Kumagai Gumi	Capital relationship	Number of shares Sumitomo Forestry holds in Kumagai Gumi	Not applicable
		Number of shares Kumagai Gumi holds in Sumitomo Forestry	Not applicable
	Personal connections		Not applicable
	Transactional relationship		Not applicable
	Existence of interested parties		Not applicable
Consolidated business results and financial status over the past three years (Millions of yen, unless otherwise specified)			

Consolidated Fiscal Year	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Net assets	260,782	265,257	295,344
Total assets	665,538	710,318	793,617
Net assets per share (yen)	1,387.39	1,374.47	1,552.04
Net sales	997,256	1,040,524	1,113,364
Operating income	33,994	30,093	53,989
Ordinary income	36,424	30,507	57,841
Net income attributable to owners of parent	18,572	9,727	34,532
Net income per share (yen)	104.85	54.92	194.95
Dividends per share (yen)	21.5	24.0	35.0

Notes: 1. The percentage of shares held is the percentage of shares held out of the total number of shares issued.
2. The percentage of shares held is rounded to two decimal places.

b. Profile of Kumagai Gumi (as of September 30, 2017)

Name	Kumagai Gumi Co., Ltd.		
Location	(Head Office) 8-6, 2-chome, Chuo, Fukui-shi, Fukui Prefecture, Japan (Tokyo Headquarters) 2-1, Tsukudo-cho, Shinjuku-ku, Tokyo, Japan		
Name and title of representative	Yasushi Higuchi, President		
Business description	Construction business and peripheral businesses		
Capital	13,341 million yen		
Date founded	January 6, 1938		
Major shareholders and percentage of shares held	Japan Trustee Services Bank, Ltd. (Trust Account)		9.19%
	The Master Trust Bank of Japan, Ltd. (Trust Account)		7.77%
	Kumagai Gumi Business Partner Shareholding Association		4.65%
	Japan Trustee Services Bank, Ltd. (Trust Account 9)		3.08%
	Japan Trustee Services Bank, Ltd. (Trust Account 5)		1.76%
	Sumitomo Mitsui Banking Corporation		1.57%
	NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited)		1.48%
	HAYAT (Standing proxy: The Bank of Tokyo-Mitsubishi UFJ, Ltd.)		1.45%
	The Nomura Trust and Banking Co., Ltd. (Trust account)		1.37%
	Japan Trustee Services Bank, Ltd. (Trust Account 2)		1.27%
Relationship between Sumitomo Forestry and Kumagai Gumi	Capital relationship	Number of shares Kumagai Gumi holds in Sumitomo Forestry	Not applicable
		Number of shares Sumitomo Forestry holds in Kumagai Gumi	Not applicable
	Personal connections		Not applicable
	Transactional relationship		Not applicable
	Existence of interested parties		Not applicable
Consolidated business results and financial status over the past three years (Millions of yen, unless otherwise stated)			
Consolidated Fiscal Year	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Net assets	53,551	64,933	80,288
Total assets	255,514	255,525	271,908
Net assets per share (yen)	143.27	173.76	215.03
Net sales	362,090	343,647	344,706
Operating income	16,104	24,540	25,135

Ordinary income	15,658	25,772	25,358
Net income attributable to owners of parent	5,458	12,092	16,433
Net income per share (yen)	15.72	32.35	43.99
Dividends per share (yen)	2.00	4.00	7.00

Notes: 1. The percentage of shares held is the percentage of shares held out of the total number of shares issued.
2. The percentage of shares held is rounded to two decimal places.
3. Kumagai Gumi conducted a 10:1 reverse stock split on October 1, 2017. The figures noted above for net assets, net income, and dividends per share do not take the impact of this reverse stock split into account.

4. Schedule

Date of capital and business alliance agreement conclusion	Thursday, November 9, 2017
Share acquisition date	Scheduled for Tuesday, November 28, 2017

5. Future Forecast

The impact of the Alliance on the consolidated results for fiscal year ending March 31, 2018 is expected to be minor for both companies. We believe that the Alliance will contribute an increase in corporate value over the long-term due to the synergies created and the development and strengthening of the long-term partnership between the two companies. If the need to revise earnings forecasts arises or other information that should be disclosed emerges at a later date, such information will be disclosed promptly.