

Sumitomo Forestry Group 2018 Medium-Term Management Plan

The Three Basic Policies

(For the fiscal years ending March 31, 2017 through March 31, 2019)





Toward a New Growth Stage: Changes at Sumitomo Forestry

The Sumitomo Forestry Group has formulated a new medium-term management plan for the three fiscal years ending in fiscal 2018 (the year ending March 31, 2019). The new medium-term management plan is intended to promote changes needed to achieve sustainable growth, by anticipating new demand even in a maturing society, and by adapting to changes in business conditions with the aim of building a business structure.

During the three years of this plan, we will execute a strategy aligned with the three basic policies that follow. This will include changing the composition of our business by further increasing the ratio represented by the Overseas Business, while also expanding the Renovation Business and the Apartment Business, changing our domestic earnings structure. This will help us work to build a strong business base aimed at a new stage.

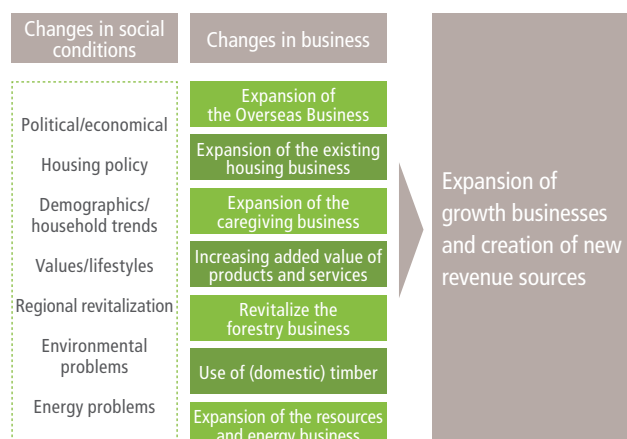
Societal conditions in recent years have given rise to various changes, political and economic as a matter of course, and also in demographics, as the birthrate drops and the population ages, in terms of global environmental problems and even in people's preferences and values. As new issues associated with these changes constantly come to the fore, they also generate new demand connected to solutions. To continue on a path of sustainable growth, we must regard change as an opportunity to expand our business, responding to it rapidly and flexibly.



Sumitomo Forestry Group renovation of a traditional Japanese-style house

Promoting the Use of Wood

A movement is also spreading to revitalize Japan's forestry industry, part of regional revitalization efforts spearheaded primarily by local governments nationwide, that is encouraging the use of mainly Japanese produced timber in a variety of fields. Our Group is thus working not only to provide homes that offer comfortable living spaces, but to expand the use of wood in non-residential buildings as well as the MOCCA (timber solutions) Business. By fully leveraging the knowledge, experience and expertise of wood that we have acquired to date and promoting the use of wood in non-residential buildings such as retail facilities, homes for the elderly and daycare centers, and nursery schools, we will contribute both to the development of wooden buildings and the revitalization of local communities.



Expanding the Renovation Business and the Apartment Business

For example, the domestic new housing market is expected to face increasingly diminished equilibrium. At the same time, however, the demand for renovation in the market for existing homes is expected to expand. Given that promotion of renovations for earthquake resistance and energy savings is an issue in this market, particularly for housing becoming a major issue for society, we view this change in market trends as a clear opportunity, and will continue making investment of management resources in the renovation business a priority. In our apartment business, we have also introduced a new wall frame (WF) construction method that allows for highly versatile spaces, unearthing new demand and aiming to further expand orders. By leveraging use of the original housing technology and expertise we have accumulated in the development of our Housing Business to date, we will continue to lead the market.

Basic Policy

1

Pursuing a strategy that anticipates societal changes

Creating Businesses That Generate Added-Value

As our society continues to age, we aim to expand the business by providing added value and services typical of the Company, utilizing the warmth of wood in our operation of elderly daycare services and elderly care facilities. In renewable energy, another issue on society's radar, we have also positioned the development of new fields such as wind power generation as an important theme, in addition to the wood biomass power generation business we have already commercialized. Looking ahead, we will maintain a firm grasp on changes in customer values and lifestyles as well as on society's needs, maximizing Group management resources as we ourselves change to expand our business range and aim for sustainable growth.

Basic Policy

2

Diversifying revenue sources in the global market

Overseas Manufacturing Business

Overseas Housing and Real Estate Business

Resource-related business

Acquisition of New Zealand timberland, etc.

Housing-related business

Entry into the landscaping business and apartment businesses

Timber and building materials distribution business

Singapore consolidation, development of markets in emerging countries

With an increasingly active global movement toward environmental preservation and the effective use of resources, forests and trees are playing an ever greater role. While the use of wood as a building material continues to evolve, progress is also being made in research into its

Transforming the value of wood

Basic Policy

3

chemical uses. Centered on our Tsukuba Research Institute, the Group already conducts research into the uses of wood as a building material, wood buildings and tissue culture technology. Moving forward, we will focus not only on these existing areas of research, but look into such things as using the wood fiber of cellulose as a material and chemical effectiveness, and will bring a medium- to long-term perspective to developing new uses for wood. As we move ahead to develop new proposals and products, we will enhance the asset value of wood by generating new ways of utilizing this resource, thus creating new value.



A house built by U.S. Group company Dan Ryan Builders Group

The Group has an extensive history and broad network in building its business overseas. We manufacture wood board in Southeast Asia and Oceania and build and sell detached homes, primarily in the United States and Australia. Today, we are working to expand the range of our business into new regions and new fields. By maximizing leverage of them, we will develop a vertically integrated business overseas, just as we have done domestically, encompassing the full range of industries involving wood, from the forestation business on the upstream, to distribution and manufacturing, through to housing-related businesses on the downstream. At the same time, we will work to diversify Group revenue sources by building a horizontal business that ties regions together. In terms of specific segments, our efforts will include acquiring sustainable forest resources and expanding our forestation business in anticipation of growth in demand for timberland and wood, areas of increasing interest driven by environmental problems. In the Overseas Housing and Real Estate Business, we are working as quickly as possible to build a sales structure to support 8,000 new detached housing units in the U.S. and Australia annually, while also aiming to expand our reach into building materials distribution, landscaping and the Apartment Business.



Increased global environmental awareness



Creation of new value for wood



Expansion of business opportunities and social contributions



Mombetsu Biomass Power Station (Hokkaido)

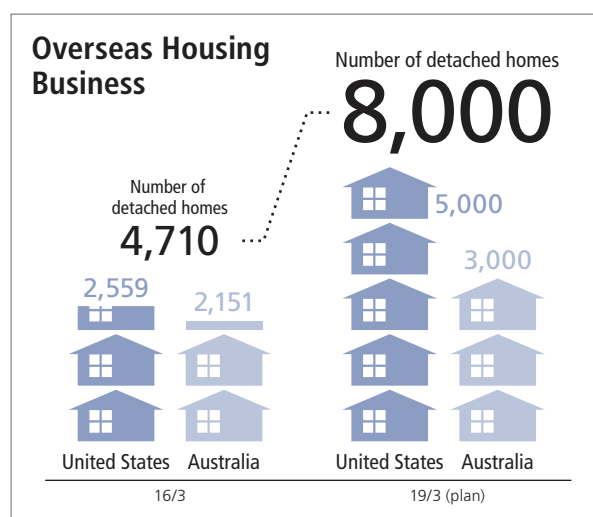
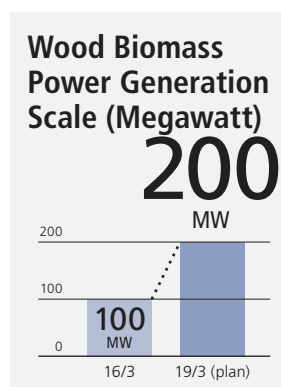
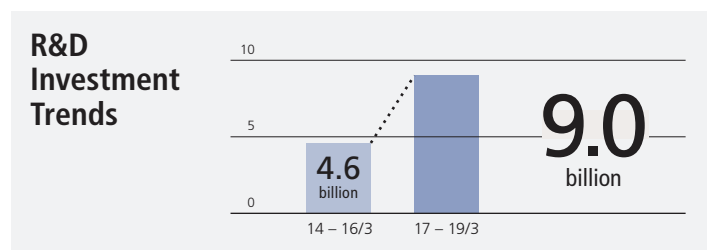
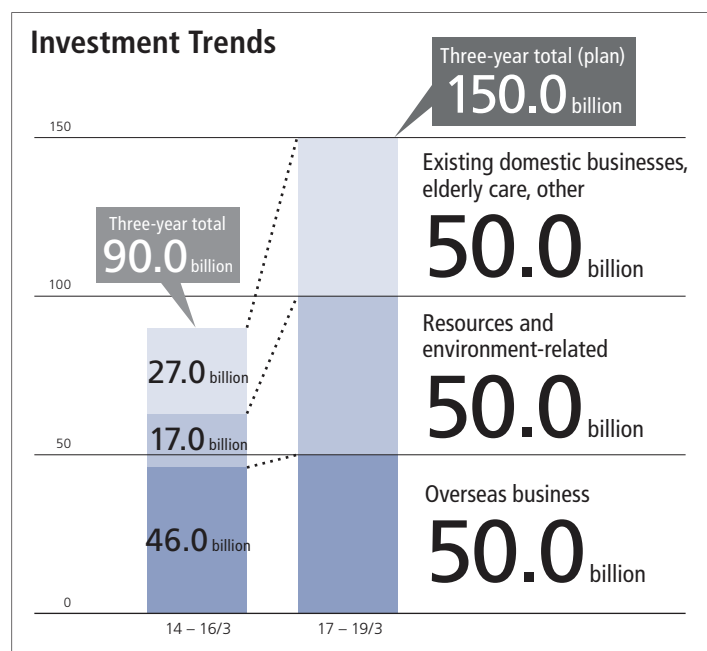
Planning for a Record Level of Investment



To deploy the diverse strategies required to meet the targets laid out in our new medium-term management plan, the Group plans to invest ¥150.0 billion over the next three years, a record level of investment for us. This amount is significantly higher than our depreciation expenses of approximately ¥40.0 billion over that same three-year period. Efforts will focus on diversifying revenue sources by investing ¥50.0 billion each in our resources and energy business and in our Overseas Business, as well as in new projects in the nursing care business and others. Separate

from these investments, we will also double our level of investment in research and development to ¥9.0 billion, as we work to actively develop new research themes intended to draw out the maximum potential of wood.

In carrying out each policy of this investment plan, we will advance the policies and execute the strategies required to achieve the goals of our new medium-term management plan.



Tsukuba Research Institute (tissue culture room)