

Clearly identifying risks and issues across all Sumitomo Forestry Group divisions, and connecting them to our business strategies going forward

Akira Ichikawa
President and Representative Director

Business Results and Forecast for the Current Period

Growth mainly in the Overseas Housing and Real Estate Business, primarily focused in the US, drove our financial performance in fiscal 2017. We also focused on strengthening profitability in the Timber and Building Materials Business, while investing resources in our energy-related and elderly care businesses. The more diversified income generated by our business portfolio resulted in net sales rising 9.8% year on year to ¥1,222.0 billion, though recurring income was flat at ¥57.9 billion. Excluding actuarial differences in accounting for retirement benefits (below, “actuarial differences”), recurring income rose 5.1% year on year from ¥52.9 billion to ¥55.6 billion. Profit attributable to owners of the parent declined 12.7% to ¥30.1 billion, reflecting lower profits from domestic operations along with higher profits from non-controlling interests related to the expansion of our overseas operations.

In fiscal 2018, we are forecasting net sales of ¥1,310.0 billion, recurring income of ¥57.5 billion, profit attributable to owners of the parent of ¥31.5 billion, and return on equity (ROE) of 10.0%. This puts us on course to achieve all four performance targets set out in the Medium-Term Management Plan. However, these forecasts do not factor in the effect of actuarial differences. Excluding these impacts, we currently expect to post an increase in recurring income in fiscal 2018 for the ninth consecutive year since fiscal 2010.

< Fiscal 2018 Forecasts vs. Plan Targets >

Four performance targets	Fiscal 2018 forecasts	Medium-Term Management Plan targets
Net sales	¥1,310.0 billion	¥1,170.0 billion
Recurring income	¥57.5 billion	¥55.0 billion
Profit attributable to owners of the parent	¥31.5 billion	¥31.5 billion
ROE	10.0%	10.0% or higher

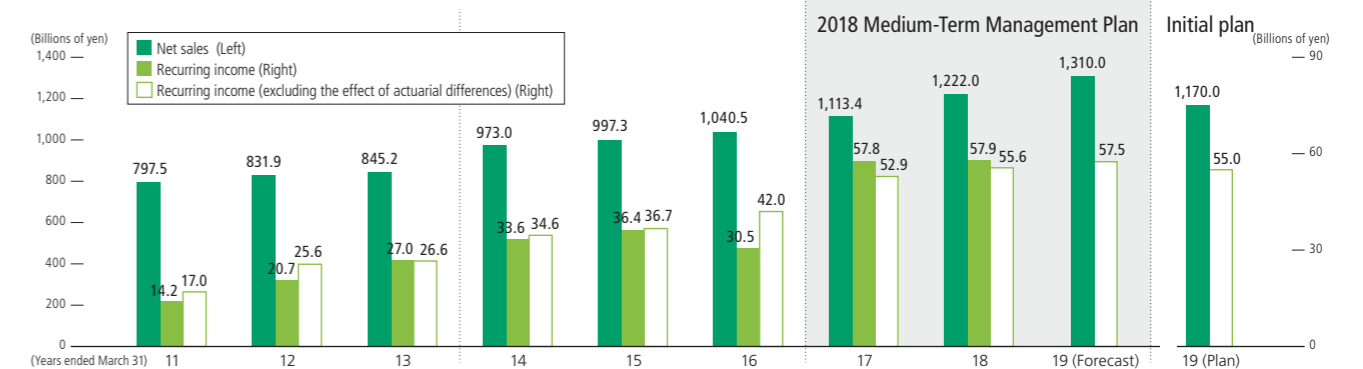
Fiscal 2018 is the final year of the Sumitomo Forestry Group’s 2018 Medium-Term Management Plan (below “Medium-Term Management Plan”). Under this current plan, we are making progress building robust bases in Japan and overseas to support the next stage of the Group’s growth. We are also steadily expanding our business domains.

Our overall performance to date is in line with the plan, despite significant changes in the business environment surrounding the Group. Under the situation of sluggish growth in the number of housing starts in the domestic housing market, customers’ housing needs are becoming increasingly diversified in line with lifestyle changes. The importance placed on the social responsibilities of companies has become more significant than ever before, such as addressing climate change and the Sustainable Development Goals (SDGs).

Whatever the future holds, our mission will be to create distinctive value and continue growing by accurately responding to the needs of society and people.

➔ See the Addressing Climate Change on page 54 for details.

< Earnings Trends >



Topics 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.

Risks and Opportunities for the Sumitomo Forestry Group

To promote sustainable growth of the Group, it is important that we recognize risks and related issues and take any required countermeasures quickly. The shrinkage of the Japanese housing market due to social factors, most notably the falling population and rise in elderly households, poses a risk not only to our Housing and Construction Business, but also our Timber and Building Materials Business. Even if business conditions remain challenging going forward, we aim to secure a steady stream of orders for custom-built detached houses by supplying high-value-added products and services. We will also strive to expand our overall Housing and Construction Business by investing resources in sectors with growth potential such as housing renovations, rental apartments and the MOCCA (Timber Solutions) business.

From a social perspective, the Group's Housing and Construction Business plays a broad role in supporting regional economies. The houses and other products and services that we supply in conjunction with our business partners and affiliates positively affect the lives of many people that use them. Through these businesses, we will not only improve our profits, but also contribute to the creation of more sustainable local economies.

One of the major characteristics of the Sumitomo Forestry Group is our wide-range development of upstream, midstream and downstream businesses using our knowledge of wood and related technical expertise. At the same time, there is considerable scope for more interdivisional collaboration and creating related synergy gains; this is one area where we must reinforce our efforts. We plan to maximize profits by utilizing the strengths of our fully integrated operations from manufacture to sales in our timber and building materials distribution and overseas manufacturing businesses, while also pursuing gains from greater Group collaboration in the Overseas Housing and Real Estate Business.



Interior concept image

W350 Plan
Wooden High-Rise Building
(Exterior concept image)



Images provided by Sumitomo Forestry / Nikken Sekkei

Topics W350 Plan

This Wooden High-Rise Building will have a height of 350 meters, with 70 floors above ground. The amount of timber to be used is approximately 185,000 m³, equivalent to the amount used for approximately 8,000 custom-built detached houses built by Sumitomo Forestry. Wooden buildings provide a pleasant space for people and a habitat for living creatures such as birds and insects, contributing to the biodiversity of cities and changing cities into forests.



With demand for renewable resources growing in Japan and around the world, the Group has an advantageous situation due to our ties to wood-related closed-loop supply chains. We are looking to harness our collective resources to bolster our efforts in this area as part of generating future growth.

Intercompany alliances and innovation are playing a vital role in the evolution of the Sumitomo Forestry Group. The capital and business alliance to which we agreed with Kumagai Gumi Co., Ltd. in November 2017 does not have a short-term focus. Rather, it is an initiative targeting a better future for both companies. We are looking at specific collaboration across various business sectors. For instance, we are working together in technical development concept research for the W350 Plan to construct a wooden high-rise building by 2041 and other structural development plans, such as the W70 Plan to develop the structural materials needed to construct wooden buildings of up to 70 meters in height.

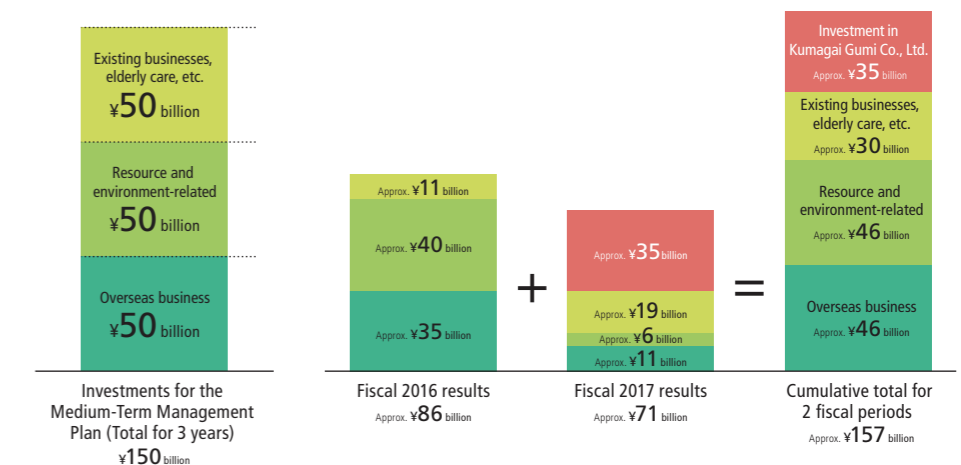
Investment Plans and Financial Strategy

* The figures listed for the fiscal year ended March 31, 2018 are after application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc.

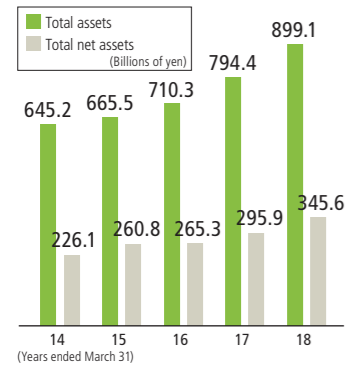
A financial strategy with a long-term perspective is also essential in realizing sustainable growth. While the timing of investments implies some short-term variability, we have set a financial goal over the medium and long term of keeping our debt-equity ratio (DER) no higher than 0.5 times and raising the shareholders' equity ratio to at least 40%. As of March 31, 2018, the DER was 0.7 times and the shareholders' equity ratio was 34.7%. We will continue working towards attaining these financial targets.

Under the current Medium-Term Management Plan, we plan to invest a total of ¥150.0 billion over three years into overseas, resource and environment-related businesses, as well as some existing operations in Japan and the Other Businesses segment. The total investment in the first two years of the plan was ¥157.0 billion. This figure includes: ¥46.0 billion to acquire housing business assets in the United States and Australia; ¥46.0 billion to acquire forests in New Zealand, and to invest in wood biomass power generation and other resource and environment-related assets; and ¥30.0 billion invested in domestic and existing operations. Separately, we have initiated the capital and business alliance with Kumagai Gumi. Although we have already invested more than we targeted in the plan, we will consider further growth investments going forward based on the potential and social significance of each business.

< Investment Trends >



< Total Assets and Total Net Assets >



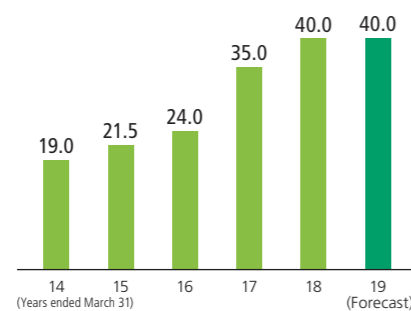
Reflecting these investments, total assets were ¥899.1 billion at the end of March 2018, an increase of 13% from a year earlier. The major contributing factors were real estate for sale owned by our overseas spec homes business, purchase of investment securities, and an increase in fixed assets. Reflecting the appropriation of earnings, shareholders' equity at the end of this term was ¥311.6 billion, an increase of 13% compared with a year earlier.

The basic rationale supporting the Group's financial strategy is to work to improve financial strength while increasing profitability through continuous growth investments. Going forward, we will strive to strike a good balance while targeting increases in both shareholders' equity and ROE.

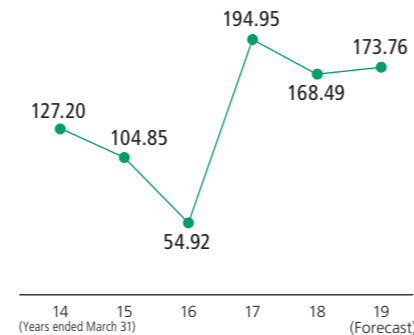
Shareholder Returns

Providing returns to all shareholders is one of our most important management tasks at Sumitomo Forestry. Our basic policy is to pay out stable dividends on an ongoing basis. Looking ahead, we will aim to meet the expectations of shareholders, based on what we view as an appropriate balance between our financial position and growth investment. Annual dividends increased by ¥5 to ¥40 per share in fiscal 2017. In fiscal 2018, we expect to pay ¥40 per share in annual dividend, including interim and year-end dividends of ¥20 per share each.

< Annual Dividend per Share > (Yen)



< Net Income per Share > (Yen)



Topics Inventory Management

Land holdings (for properties under construction or in process of sale) are an essential part of the Group's development of the housing business in Japan and overseas. Land was worth about 20% of total assets, at ¥194.2 billion. In the United States, where the Group is developing the housing business based on sales of freehold houses that include a parcel of land, we also have purchased land on a large scale for property development and construction. As a result, our land holdings in the United States comprise about 70% of the above figure. While variation in land values is a risk factor, we take multiple steps to mitigate and minimize it by maintaining risk control and management systems. Investments in real estate are subject to a ceiling set in line with the consolidated balance sheet (net assets). Other controls include having an executive officer who is responsible for North American operations based in Texas, and ensuring that asset purchases above a certain value require the approval of the Board of Directors.

To Our Stakeholders

At the Sumitomo Forestry Group, we develop business with respect for the diverse views of the people with whom we work, as well as a shared Corporate Philosophy. The foundation of our Corporate Philosophy is the Sumitomo Business Spirit, in which we benefit society by conducting business by placing emphasis on the principles of integrity and sound management. Based on this way of thinking, the Group has consistently worked to develop numerous businesses that use timber as a renewable resource, keeping in line with the demands of the times. With increased interest in recent years in ESG (environmental, social and governance) and CSR (corporate social responsibility) issues, along with the SDGs (Sustainable Development Goals), we continue to recognize our role in society and the importance of conducting business sustainably for the long term.

Even in times of change, the Sumitomo Forestry Group will work to actualize resolutions to various issues while contributing to the creation of a prosperous society. With our Corporate Philosophy and Our Values providing grounding for our enterprise, we always strive to expand and develop our business while acting in ways that win public trust. We appreciate the continued understanding and support of all stakeholders.

Akira Ichikawa
President and Representative Director

