

# At a Glance

Net Sales (Billions of yen)\*3

Recurring Income (Billions of yen)\*3

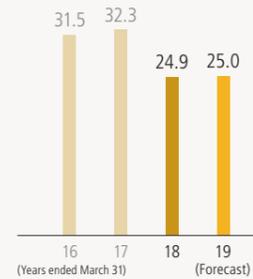
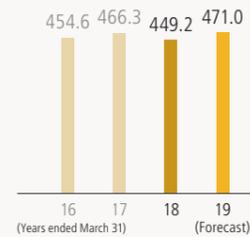
## Timber and Building Materials Business\*1\*2

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.



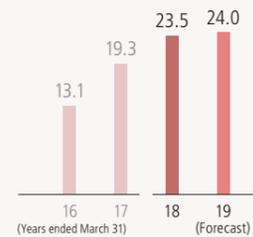
## Housing and Construction Business\*1

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.



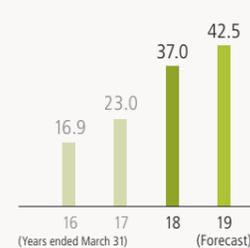
## Overseas Housing and Real Estate Business\*1\*2

We are developing the overseas housing and real estate business primarily in the Pacific Rim, including the United States, Oceania and Southeast Asia.



## Other Businesses

We operate the overseas forestation business, the wood biomass power generation business, the private-pay elderly care facilities business, and lease business, as well as various service businesses including the insurance agency business mainly for our housing business customers. We also undertake contracted civil engineering and construction work, and develop information systems for each Group company.



\*1 Business segments were renamed in April 2018 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.

\*2 Net sales and recurring income for the year ended March 31, 2017 and earlier periods are stated using the old segment classification.

\*3 Net sales and recurring income include inter-segment transfers.

# Business Outline

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.

We aim to achieve sustainable growth through the recycling-oriented business based on continuing to plant, grow and harvest trees.



Upstream (forest management)

Midstream (distribution / processing)

Downstream (consumer services)

Growing trees

Linking society to wood

Utilizing wood in housing and living



Environment and Resources Business



Area of Company-owned forests (Domestic) **47,977** ha  
(As of April 1, 2018)

Area of Company-owned or managed Forests Overseas  
(As of March 31, 2018)  
**Approx. 230** thousand ha

Timber and Building Materials Distribution Business



Volume of plantation timber, timber from certified forests and Japanese timber handled at overseas distribution bases  
(Fiscal 2017)  
**1,163** thousand m<sup>3</sup>

Manufacturing Business



Total production volume at overseas manufacturing subsidiaries (Total of board or construction materials products)  
(Fiscal 2017)  
**1,224** thousand m<sup>3</sup>

Custom-Built Detached Housing Business



The number of houses completed (Domestic)  
(Fiscal 2017)  
**7,556** units

Overseas Housing and Real Estate Business



The number of units sold (Overseas)  
(Fiscal 2017)  
**9,223** units

Wood Biomass Power Generation Business



Power generation capacity (Total in operation and planning)  
(As of end of July 2018)  
**Approx. 177** MW

Elderly Care Business



Private-pay elderly care facilities operated (As of end of July 2018)  
Sumirin Fill Care Co., Ltd. **16** facilities Sumirin Care Life Co., Ltd. **3** facilities

# Growing Trees



## ■ Environment and Resources Business ■

### ◆ Domestic Forestry

The forests planted after WWII across Japan have matured and reached the harvesting period, and the sustainable forestry is required more than before, in which new trees are planted to replace harvested timber. Sumitomo Forestry owns a total of 47,977 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

As plantations have reached the harvesting period, 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, 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 investing in tower yarder forestry logging equipment to improve the safety and efficiency of forestry operations in steep mountainous areas and other high-performance machinery. 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.



Timberland in New Zealand

### ◆ Overseas Forestation

We are developing our business to manage around 230,000 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 stricter 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.

Most of our managed forests in New Zealand are populated with radiata pine, a tree that produces uniformly high-grade timber that is good for processing. 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 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.

## (Utilizing Wood in Housing and Living)

### ■ Wood Biomass Power Generation Business ■

Japan's market for renewable energy 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.

The Sumitomo Forestry Group is developing wood biomass power generation projects in several parts of Japan that use fuels such as wood chips made from waste building materials or unused timber from forests.

The procurement process for unused timber from forests can also help to stimulate local forestry operations by maintaining woodlands near the power plant, thus enhancing the social significance of the business due to its contribution to the local economy.

The businesses derive an advantage in terms of reliable fuel supplies by utilizing the distribution network developed in the Group's Timber and Building Materials Business. We are continuing to expand the scale of this business. In fiscal 2018, we expect our wood biomass power plants to generate a total of 200 MW of renewable power (based on confirmed projects).



Hachinohe Biomass Power Plant

	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 (PKS, coal)	Unused timber from forests	Unused timber from forests, other (PKS)	Wood pellets, others (PKS, 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

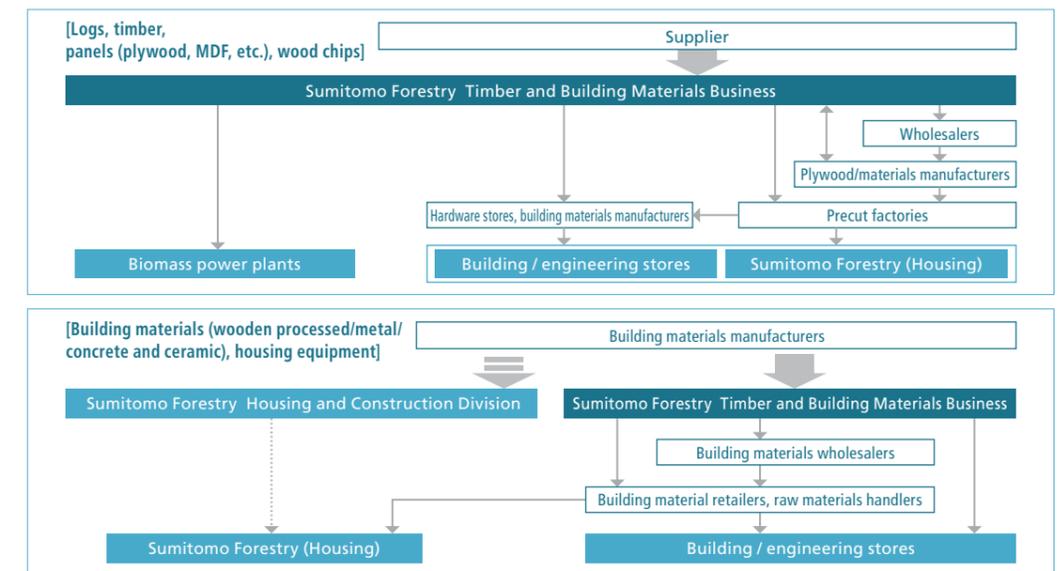
Amid future projections of shrinkage in the market for new housing construction, the business environment is evolving as demand grows for materials with non-residential building applications. Responding to this ongoing shift is a critical issue faced by our Timber and Building Materials Distribution Business.

Under these conditions, we are focusing on initiatives such as the sale of “Kigurumi FR,” a pure laminated engineered wood with one-hour fire resistance that is used as a structural material in non-residential building applications. We have established the Wooden Construction Development Department to develop systems to integrate materials sales with the undertaking of construction. 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.

Our overseas distribution operations are administered from Singapore. The business mainly focuses on selling timber and building materials to countries in Southeast Asia. In October 2017, we entered a capital tie-up and business alliance with An Cuong Wood-Working JSC, Vietnam’s leading manufacturing and distribution company for interior building materials. This capital and business alliance established a consolidated system from materials procurement through to housing construction in Vietnam, which has huge growth potential. In New Zealand, we established a sustainable business cycle spanning forestation, logging and distribution, and we also export logs from the forests we own and manage in New Zealand to markets across Asia. We are aiming to continue expanding this business.

➔ See the Initiatives towards Sustainable Procurement on page 56 for details.

Main Commercial Logistics Flowchart

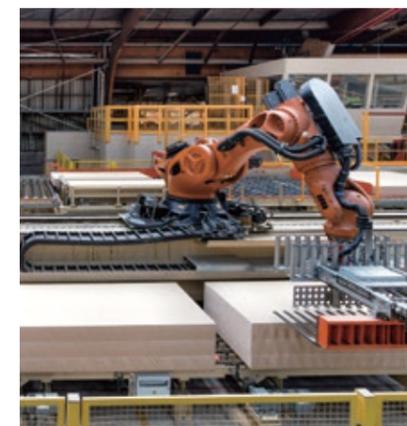


## ■ Manufacturing Business ■

The Group’s manufacturing operations in Japan produce furniture and fixtures, floor materials and equipment for use in constructing houses and facilities. Overseas, our production bases in Southeast Asia, Oceania and North America make varied building materials such as medium-density fiberboard (MDF), particleboard, and kitchen cabinets that we supply to markets worldwide. The international market for wood products such as MDF and particleboard is becoming more competitive as supply expands, making it increasingly important to develop differentiated, value-added products that cater to user requirements. To expand profits further, the key challenge is to reinforce the business base by formulating a unified Group strategy while developing personnel with high-level expertise in manufacturing technology.

In fiscal 2018, we reformed the structure of our organization, integrating overseas manufacturing operations with the sales operations of the timber and building materials business and our domestic manufacturing operations to unify production technology and factory management approaches across the Group. Going forward, in addition to targeting a stable system of production, we will work to reduce costs significantly while developing and commercializing high-value-added products. Based on a more integrated production and sales system, we aim to promote sharing of information and unify hitherto separate product development and marketing activities.

The Manufacturing Business is still developed from a long-term perspective not limited by the composition of our existing operations, our aim remains to strengthen value chains for the Group’s manufacturing operations and build enterprise value.



Plant of Nelson Pine Industries Ltd.

# Utilizing Wood in Housing and Living



## ■ 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. This has since developed into a core business as we continue to supply high-quality houses based on advanced technology and superior designs.

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. We conduct an overall inspection of the business from different angles such as product, service and cost. Even amid shifts in market demand and customer needs, we will be addressing to build a system that consistently achieves annual sales around the 9,000-house level by aiming boost our 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.

We are also aiming to provide customers with their ideal living space by using our cultivated know-how and a wealth of ideas, such as proposing designs that respond to lifestyles for dual-income families or people with hobby-related needs, and "Forest Selection BF" products in which customers can choose from 1,000 prepared floor plans. We work to provide a wide range of customers with a comfortable living environment in their ideal home, whether they are first-time home buyers, people looking to buy a block of land to build a property, or somebody wanting a luxury home with a high-class design sense.

Attention has recently focused on smart houses that not only use appliances and installed equipment to control internal settings or save energy, but also perform well in aspects such as fire prevention, anti-theft, and security. We are speeding up research into high-performance residences that enhance convenience with AI or IoT technologies. This includes an initiative to commercialize security services that can protect a home from natural disasters using sensing technology.



Forest Maison apartment housing (exterior)

## ■ 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. Led by urban areas, demand for apartment construction is expected to be steady in Japan going forward. In April 2018, we established branch offices in Tokyo, Nagoya and Osaka staffed with specially trained salespeople to focus on gaining more orders for apartments and other properties that incorporate rental housing.

In addition to management of rental housing developments through a stronger partnership with our group rental management company, we are also developing proposals for long-term management support using non-residential properties such as childcare and elderly care facilities and stores, as well as differentiated plans that consider property usage from the perspective of both owners and residents. Going forward, we will continue to work to secure orders and expand business by accurately assessing market needs.

As for residential property development, the Group's spec home operations construct approximately 300 high-quality detached houses for sale per year, based on technology and know-how accumulated in Group businesses such as custom-built housing and landscaping. In the future, we aim for townscape development that delivers a rich local community environment by supporting biodiversity for a closer bond between residents and nature.

## ■ Landscaping Business ■

The Group's landscaping business operations are mainly focused on residential properties and environmental greenery projects.

In residential greening, we offer a range of services from planning and design to the installation and maintenance of exterior and outdoor facilities. 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.

In addition to carrying out the creation of green spaces, we also select local saplings, wild plants, cultivated plants, and safely-introduced non-native plants for various parts of the project after considering ecological, genetic, and other impacts on the area. Plants for greening that are considerate of biodiversity are what we call "Harmonic Plants."

The Group has constructed built-for-sale residential property within a park environment at the "Forest Garden Hadano" (Kanagawa Prefecture) complex. In March 2018, this was one of the first custom-built housing developments to gain ABINC\* certification.



Environmental landscaping (Mitsui Sumitomo Insurance Surugadai Bldg. with adjacent "ECOM (eco + communication)" space)

\* The certification system managed by the Association for Business Innovation in harmony with Nature and Community (ABINC) provides independent verification that a company is working to keep people and nature in harmony through initiatives to conserve biodiversity.



Renovation of a traditional Japanese-style house

## ■ Existing Homes Business ■

As Japan's housing stock has risen to around 60 million homes while the number of households is roughly 52 million, the Japanese government is promoting policies to make use of established housing and ensure the "formation of housing stock of good quality." Societal awareness is significant regarding the eco-friendly business of passing homes to the next generation, as housing stock, a form of social capital, is being appropriately evaluated as an asset; thus we believe this market has the potential to expand in scale.

Leveraging the Group's original know-how and technology, we are developing various businesses that aim to maximize the value of existing homes: home renovation, resale of renovated properties, real estate brokerage, and management of condominiums and apartments.

In home renovation business, we differentiate our offerings from those of other firms by using our advanced technical expertise in seismic resistance and retrofitting technology and through proposals of comfortable spaces with wood accents. The ratio of orders received from owners of Sumitomo Forestry houses and general customers is split evenly. In addition, we renovate around 300 traditional Japanese-style homes each year to enable ancestral homes to be retained in the family; renovating these rare wooden structures makes a contribution to inheritance of Japan's culture. Based on these various initiatives, we aim to grow annual sales to ¥100.0 billion over the next five years.

\* 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.



Joint booth at May 2018 trade fair

### Topics Renovation

Sumitomo Forestry Home Tech Co., Ltd. is strengthening its presence in the non-residential renovation sector, and through the business alliance with Kumagai Gumi, realized a collaboration with K&E Co., Ltd., which is a subsidiary of Kumagai Gumi.

K&E Co., Ltd. is a specialist in renovation projects that involve exterior or common areas. By combining their skills with our expertise in wooden interior design, we aim to grow our orders for large-scale building renovation projects, including hotels, condominiums, and commercial complexes.

### Topics Existing Home Renovation (Resale of Renovated Homes)

We have started in the vacation rental business as one approach to developing the Group's renovation business. In a part of Osaka city, which has been designated as a National Strategic Special Zone, we are managing vacant units in rental condominiums as authorized vacation rental facilities. This helps address a social issue to service the demand for accommodation from overseas visitors to Japan.



Annex at Senri Rehabilitation Hospital

## ■ MOCCA (Timber Solutions) Business ■

Amid rising interest in using wooden materials in buildings of medium and large scale, we are working to expand this business in the non-residential sector, including for facilities for educational or commercial use. The enactment of the Act on Promotion of Use of Wood in Public Buildings in 2010 has spurred development of varieties of fire-resistant engineered wood, with more buildings incorporating materials such as CLT\*1. Overseas, where the use of wood is steadily growing in consideration of climate change and other environmental issues, many high-rise structures have been constructed using wood.

We continue to increase opportunities to provide spaces that make use of the qualities of wood in buildings. Projects undertaken in fiscal 2017 included the annex of the Senri Rehabilitation Hospital (Osaka Prefecture), an observation space included in a new building for the Nagasaki Prefectural Government, and a dormitory at Besshi Junior High School in the city of Niihama (Ehime Prefecture). Wood will also be used in the construction of the stadiums and sporting facilities for the 2020 Tokyo Olympic and Paralympic Games. The Sumitomo Forestry Group has been chosen to manufacture and install the wooden materials for the roof covering the grandstands in the New National Stadium in Tokyo.

Going forward, through the MOCCA (Timber Solutions) Business, we will continue to hand down the culture of wood while seeking to reinvigorate Japan's forestry industry and contribute to the creation of employment opportunities based on greater utilization of domestic timber.

\*1 Cross-Laminated Timber (CLT) is a type of engineered wood product made from layers of solid-sawn dried timber. As in plywood, each layer is oriented so that the grain runs perpendicular to that of the adjacent layer.

## ■ Elderly Care Business ■

We apply technology and know-how gained in the Group's housing and related businesses to generate synergies in the management of elderly care facilities. Providing peace of mind to residents via all aspects of facility management, we strive to create conditions for healthy living.

Sumirin Fill Care Co., Ltd. operates 16 private elderly care facilities and three elderly day-care service centers, mostly in the Greater Tokyo area. Based on the self-support concept, the company has introduced advanced ICT systems to help monitor the health and movements of facility residents.

City of Kobe-based Sumirin Care Life Co., Ltd. operates three large-scale private elderly care facilities and seven in-home nursing care service centers. The elderly care services are tailored to residents' needs, from giving support for healthy independent living to provision of advanced medical support in partnership with medical institutions. The company plans to open Japan's largest\*2 development for elderly residents by combining living support services in 2020; *Elegano Nishinomiya* (Hyogo Prefecture) will contain a total of 309 units.

With Japan facing a multitude of social issues associated with the advent of a super-aging society, we will continue to focus on contributing to society through the elderly care business.



Elegano Nishinomiya exterior concept image

\*2 According to data published in May 2017 by the Senior Housing Association on its information system for serviced accommodation for the elderly

# Utilizing Wood in Housing and Living



## Overseas Housing and Real Estate Business

### United States / Australia

The Group's housing business has been developed with local partners based in the United States and Australia, focusing primarily on detached houses built using wooden frames as the main market. Growing populations mean that demand for housing is expected to continue rising in both these countries. We will continue to target these markets, with sales primarily focused on detached houses.

While our United States operations consist entirely of spec homes, in Australia, these account for about 20–30% of local sales. We undertake spec home developments on a joint basis with experienced partners with an excellent knowledge of local conditions because such projects require large-scale land purchases in advance. We monitor market pricing and interest rate trends continuously. To minimize the risk of inventory asset write-downs, we also set a ceiling on investments to manage the balance, and any investments above a designated amount, such as purchasing land, must be approved by the Sumitomo Forestry Board of Directors.



Street view of houses sold by Gehan Homes Group (United States)

## Initiatives towards Sustainable Growth

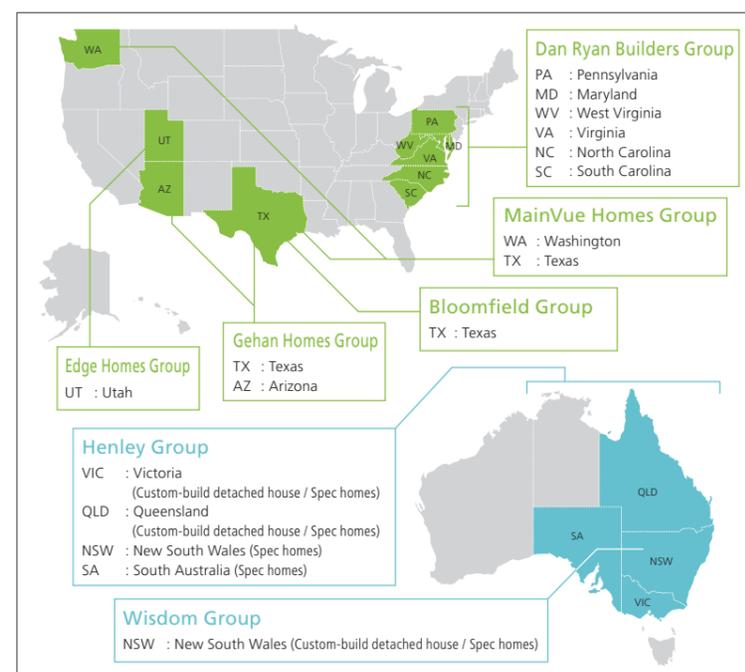
Housing is a business with strong local characteristics due to changing climates and lifestyle habits at sites. Therefore, in terms of operations, we treat the autonomy of partners in the business with the utmost respect.

We place strong emphasis on finding business partners with a matching management stance and related policies. Based on trust, we focus on trying to create synergies by exploiting the Group's total capabilities. Going forward, we will make further progress in areas such as the sharing of operating platforms and construction and design know-how; development of shared services; use of standardized materials and related specifications; and joint materials procurement.

We are also working to develop organizational systems and strengthen governance by assigning directors and employees to our business partners, and deploying an executive officer in charge of North American operations.

We have also begun a new initiative of applying greenery technology originally developed in Japan to our built-for-sale housing development projects to enhance the attractiveness of these properties. We also aim to promptly generate profits via active involvement in exterior services such as landscaping.

### Group Business Areas

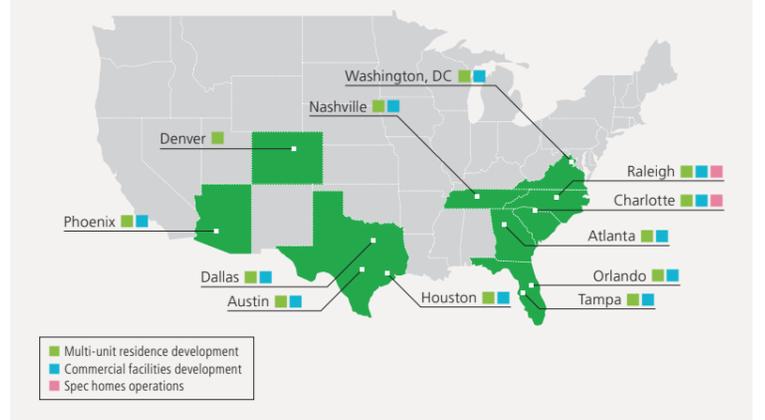


Crescent Communities development

### Topics Crescent Communities II, LLC

In July 2018, the Group acquired the operations of Crescent Communities, LLC, a real estate management firm based in Charlotte, North Carolina, USA. This acquisition recognizes the strong growth potential in the United States market for apartments and other rental housing, in which the company performs well. It also diversifies the business base in the United States by augmenting the flow-based spec home business via expansion of stock-based businesses such as apartments.

### Crescent Communities Business Areas





Luxury condominium development (Thailand)

## ◆ Southeast Asia

The Group is engaged in joint development of condominiums for sale with other companies in Hong Kong, Vietnam and Thailand. Business development in all three of these markets is based on stable prospects of growth in demand over the medium and long term.

Further, we announced our first housing development in Indonesia in November 2017. Although most housing in the region is built using reinforced concrete, in line with local custom, with this project we intend to exhibit our strength by utilizing our design expertise and knowledge of creating attractive interiors using wood. Our partner in the project is PT. Summarecon Agung Tbk, a leading Indonesian listed real estate developer. Continuing on from the United States and Australia, we are striving for growth via the development of housing-related business in Southeast Asia. Housing demand in Asia is strong due to rapid development of infrastructure, growing populations and increasing income levels. We aim to minimize business risk through regional diversification, while also contributing to the development of the living environment in Southeast Asia.



Residential property (Indonesia)



## Sustainability

For more details on non-financial items, please refer to the CSR Report 2018: (<http://sfc.jp/english/information/society/index.html>)