



Various movements aiming to solve environmental and social issues have gathered momentum on a global scale, as seen in the entry into force of the United Nation's Sustainable Development Goals (SDGs), taking effect of the Paris Agreement on climate change, and penetration of signatories to the United Nations Global Compact. Around the world, the way people think and behave has changed dramatically, with more customers selecting to purchase environmentally friendly products and investors investing more in ESG themes.

Companies have a mission to contribute to the global environment and society through their business activities. In addition, they are expected to link their initiatives to address social issues to growth opportunities and sustained improvements in corporate value more than ever before.

Founded in 1691, the Sumitomo Forestry Group has a long history spanning over 320 years. In the long way to reach today beginning with the Sumitomo family's commencement of the Besshi Copper Mine and management of the surrounding forests, we have been developing our business by facing various issues, taking on challenges and overcoming adversity.

In 1894, we launched the Large-Scale Reforestation Plan to restore forests that had been devastated by smoke pollution from copper smelting. By planting trees over a wide range, the mountains were eventually returned to a state of rich greenery.

Forests provide a variety of functional public benefits, such as the absorption and fixation of carbon dioxide, the preservation of biodiversity, support for water resources, soil preservation and prevention of damage from landslides. Sustainable forestry, or the planting, managing, harvesting and use of trees and then planting them again, is essential for preserving forests and the benefits they generate for future generations. The Sumitomo Forestry Group has continued to pursue sustainable forestry with an eye on the long term.

Since its founding, Sumitomo Forestry has pursued a sustainable business model, and has become a corporate group with approximately 19,200 employees, 275 companies as the Group and annual sales of ¥1,300 billion. Our social responsibilities have also grown over time.

As globalization advances in various aspects, including culture and the economy, the business environment has changed in many ways, but the philosophy of the Sumitomo Forestry Group has stayed constant.

"The Sumitomo Forestry Group utilizes wood as a healthy and environmentally friendly natural resource to provide a diverse range of lifestyle-related services that contribute to the realization of a sustainable and prosperous society. All our efforts are based on Sumitomo's Business Spirit, which places prime importance on fairness and integrity for the good of society." We will continue to base our business activities on this corporate philosophy, and take on challenges to help improve the global environment for future generations through initiatives that only Sumitomo Forestry can undertake.

Ryu Yano
Chairman and Representative Director

A handwritten signature in black ink, reading "Ryu Yano".



To Our Stakeholders

At Sumitomo Forestry, we have continued to grow alongside the times while properly addressing the needs of our customers.

We have launched initiatives to create new businesses that support the future of our group and sustain growth under the Sumitomo Forestry Group's 2021 Medium-Term Management Plan, a three-year medium-term vision that began in April 2019. We are taking steps toward the next stage of growth by proceeding with strengthening earnings structures and building a stable financial base.

Based on the Large-Scale Reforestation Plan formulated in 1894 which worked on the restoration of the devastated forests, our Group's businesses have been undertaking the initiatives that aim to coexist with the environment and society as a matter of course before the word "ESG" even existed.

Today, the entire Group engages in sustainability management, and under the 2021 Medium-Term Management Plan, we are focusing on the unification between ESG initiatives and our businesses as one of the basic policies underpinning our growth strategy.

We aim to build a sustainable society and become a presence that is indispensable in that society people living. Through our business activities, we are proactively working to solve the increasingly diverse issues facing the environment and society. We appreciate the continued understanding and support of all stakeholders.

Akira Ichikawa
President and Representative Director

Review of 2018 Medium-Term Management Plan and Outlook for Fiscal 2019

Under the Sumitomo Forestry Group's 2018 Medium-Term Management Plan, a three-year plan that ended in fiscal 2018, the Company endeavored to change the business structure with the aim of sustainable growth. Over these three years, we invested a total of ¥244.3 billion, one of the largest investments the Company has ever made. As a result of these investments toward diversifying our earnings portfolio, the Overseas Housing and Real Estate Business has grown as a pillar of earnings in addition to the domestic business.

In fiscal 2018, net sales expanded 7.1% year on year to ¥1,308.9 billion, recurring income declined 11.1% to ¥51.4 billion, and profit attributable to owners of the parent decreased 3.2% to ¥29.2 billion. These profit figures include ¥3.4 billion in actuarial differences in accounting for retirement benefits that held down profits. Excluding this factor, recurring income would be ¥54.8 billion (down 1.3% YoY), around the same level as the previous year.

Through the 2018 Medium-Term Management Plan, we believe our initiatives have shown some results for building a structure able to steadily generate recurring income of ¥55.0 billion.

< Fiscal 2019 Forecasts >

	(Billions of yen)		
	Fiscal 2018	Fiscal 2019 forecasts*	YoY change
Net sales	1,308.9	1,123.0	△ 14.2%
Recurring income (Excluding actuarial differences)	54.8	57.0	+3.9%
Recurring income	51.4	57.0	+10.8%
Profit attributable to owners of the parent	29.2	30.0	+2.9%

* After application of "Accounting Standard for Revenue Recognition"

In fiscal 2019, Sumitomo Forestry is steadily implementing measures in step with the business environment in each region, promoting environmentally friendly housing and advancing non-residential construction in Japan, as well as aiming to enhance our product lineup to match changes in housing demand overseas. For fiscal 2019, we are forecasting net sales to decline 14.2% year on year to ¥1,123.0 billion, recurring income to increase 10.8% to ¥57.0 billion and profit attributable to owners of the parent to increase 2.9% to ¥30.0 billion. Compared with the previous fiscal year, we anticipate a decline in net sales due to the adoption of accounting standards related to revenue recognition in fiscal 2019. For reference, using the previous accounting standard, our forecast would be for net sales to increase 6.1% year on year to ¥1,389.0 billion.

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. As the impact of actuarial differences is hard to estimate, we do not factor it into our performance plans, including our Medium-Term Management Plan.

Risks and Opportunities

Uncertainties have increased in the overseas business environment with trade friction between the U.S. and China, the U.K. exiting the European Union, and geopolitical risks in emerging countries and others.

In Japan, there are concerns that the economy will weaken after the 2020 Tokyo Olympics and Paralympics, in addition to the impact on the economy from the planned consumption tax hike. Changes in demographics are expected to lead to a decline in the supply of housing in the future. However, as the markets mature, we will be required to provide new value in the real quality of buildings in terms of our customers' strong focus on their homes. Moreover, new demand should emerge in accordance with developments in IT and the creation of a diverse sense of value.

In recent years, there has been an increase in social interest in certain aspects of a corporation that may have an impact on business sustainability, starting with initiatives related to environmental issues such as those that address climate change, corporate governance, diversity, and other non-financial aspects.

The Sumitomo Forestry Group is developing businesses in a broad range of fields related to wood, a renewable natural resource. We have created a unique value chain that pursues the potential of trees, from forestry management to the procurement, distribution and production of timber building materials, in addition to providing a diverse range of lifestyle-related services, such as housing construction and biomass power generation. Against the backdrop of permeation of the ESG and the SDGs, companies are expected to engage in business that helps to resolve social issues, and we intend to leverage our strengths in this environment.

2021 Medium-Term Management Plan

The Sumitomo Forestry Group has established the 2021 Medium-Term Management Plan with the aim of strengthening the management base and further growth of our business based on future-oriented business strategies. The Medium-Term Management Plan revolves around four basic policies, and targets net sales of ¥1,260.0 billion and recurring income of ¥85.0 billion in the final fiscal year of the plan.

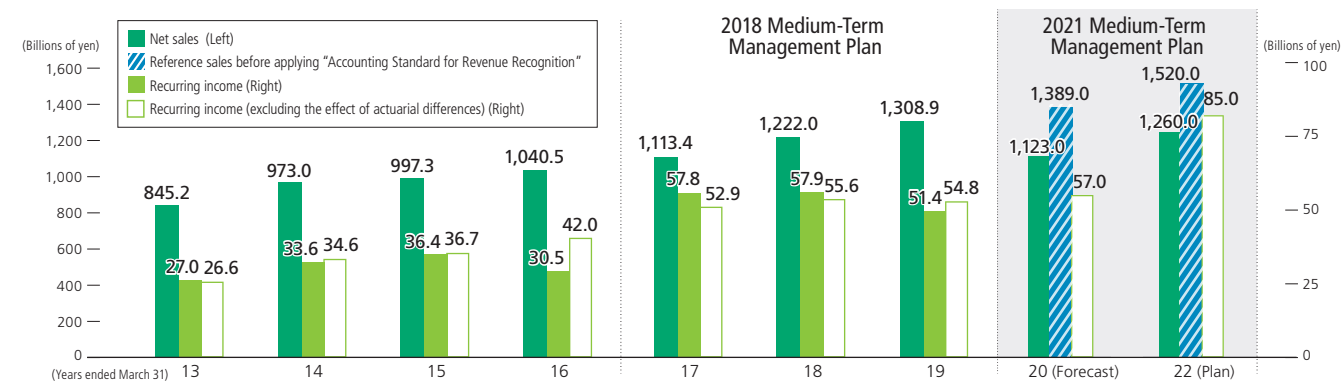
The Medium-Term Management Plan is focused on sustainable growth as a common goal. The Sumitomo Forestry Group places an emphasis on not only achieving numerical targets, but also developing strategies that always look to the future. We leverage the special qualities of each business in rapidly changing markets in Japan and around the world, and undertake value creation that connects to next-generation growth.

Medium-Term Management Point 1

Capital Policy

While expanding business scale, Sumitomo Forestry aims to reinforce its financial position for future growth. Under the Medium-Term Management Plan, the Company targets positive free cash flow over the total three years of the plan by realizing a steady return on the investments it

< Earnings Trends >

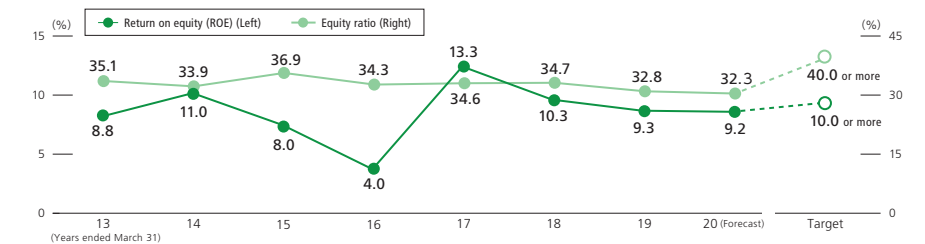


Medium-Term Management Point 2

has made thus far. By working to enhance shareholders' equity, we aim to achieve ROE above 10%. In addition, we are improving financial discipline while setting a financial goal over the medium and long terms of keeping our debt-equity ratio no higher than 0.5 times and raising the shareholders' equity ratio to 40% or more.

Under the 2021 Medium-Term Management Plan, Sumitomo Forestry has budgeted ¥150.0 billion for investments, the same level as in the 2018 Medium-Term Management Plan. We effectively allocate funds for investments that contribute to the long-term improvement of corporate value, after thoroughly evaluating the balance between existing asset efficiency, financial conditions and cash flow.

We view returns to all shareholders as one of our most important management tasks at Sumitomo Forestry. Our basic policy is to pay out constant and stable dividends, at a level that corresponds to profits. Based on this policy, we plan to distribute interim and year-end dividends of ¥20 per share each in fiscal 2019, for a total annual dividend of ¥40 per share.



Further Promotion of ESG

As our business domains and scale expand, we have focused more intently on strengthening corporate governance, our human resource strategy, and consideration for the environment. In order to take a unified approach to business and ESG, along with the new Medium-Term Management plan, the Sumitomo Forestry Group decided to increase the number of individual qualitative targets from 12 to 15 items as they relate to its five material issues.

The strength of a company is derived from the knowledge and experiences of diverse human resources and a shared value system. Sumitomo Forestry has been selected by the Ministry of Economy, Trade and Industry for inclusion in its New Diversity Management Selection 100 in FY2018. The Company aims to further improve its competitiveness with "strong individuals" and "strong organizations," putting every effort into workstyle reforms and human resource development, including the deployment of new information technology.

Moreover, we will thoroughly manage risks and reinforce corporate governance, including at affiliated companies in Japan and around the world. The ratio of overseas business in the Sumitomo Forestry Group's business portfolio has been on the rise, and we have been proceeding with dispatching directors to our companies around the world, refining our decision-making process, and rolling out internal control systems.

Furthermore, Sumitomo Forestry has obtained certification in Science Based Targets (SBT)*¹ to address climate change, and has declared its support for the Task Force on Climate-related Financial Disclosures (TCFD)*². We evaluate the impact that climate change may have on our operations, and reflect this assessment in our business strategies and risk management.

With a change in Japanese eras from Heisei to Reiwa, the issues that we should address have diversified along with changes in the social situation. With Sumitomo's Business Spirit, passed down from our predecessors and the knowledge we have amassed in trees as a driving force, we will make every effort to increase corporate value and ensure sustained growth into the future.

*1 See SBT on page 46 for details. *2 See TCFD on page 48 for details.

