

Timber and Building Materials Business



Progress of Business Strategies in the Mid-Term Management Plan



Koji Tanaka
Managing Executive Officer
Divisional Manager of Timber
and Building
Materials Division

A range of operations, from procurements of timber and building materials to manufacturing and distribution
Aiming to diversify revenue sources by handling more wood fuel for biomass power generation, etc.

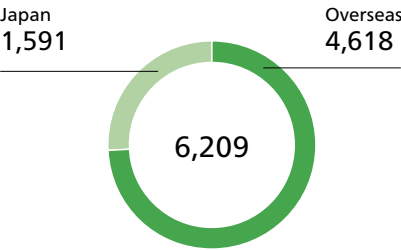
Based on a global network built up over years of developing operations worldwide, the Timber and Building Materials Business sources stable supplies of high-quality timber from properly managed forests. As the leading trading company in the domestic timber and building materials distribution markets in terms of volume, Sumitomo Forestry operates a broad range of businesses, including the manufacturing and distribution of timber and building materials. In FY2022, in the distribution business, while timber prices remained high, the Group worked to ensure a stable supply by focusing on strengthening cooperation with suppliers, and continued to pursue endeavors to increase the handling of wood fuel for biomass power generation and the utilization of domestic timber. In the manufacturing business, performance in Japan remained firm due to a review of sales strategies and cost reduction effects from labor-saving lines, while overseas, sales volumes of medium density fiberboard (MDF) and laminated veneer lumber (LVL) increased. As a result, net sales amounted to 273.7 billion yen, up 26.2% year on year, and recurring income amounted to 14.9 billion yen, up 49.0% year on year. In August 2022, Sumitomo Forestry also launched the Japanese version of One Click LCA, a software program that can calculate CO2 emissions during procurement of raw materials, processing, transportation, construction, renovation, and disposal, thereby promoting efforts to support the decarbonization of the construction industry.

Mission for Growth

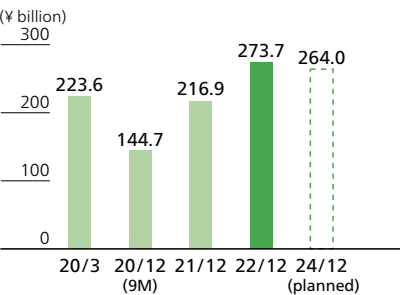
In the Timber and Building Materials Business, Sumitomo Forestry will continue to expand sales of environmentally friendly products such as planted forest timber by utilizing the supply chain for sustainable timber procurement. It will also continue to focus on building a stable supply system for wood fuel aimed at biomass power generation. To realize “Mission TREEING 2030,” its long-term vision, the Group will expand existing businesses, promote efforts to establish a cyclical materials supply system with timber industrial complexes as a pillar, and standardize carbon neutral design by popularizing and expanding the use of One Click LCA.

In February 2023, Sumitomo Forestry launched a project to promote the acquisition of the EPD environmental certification label for timber and building materials manufacturers and a One Click LCA calculation by contract business for developers, general contractors, and design firms. These projects will help support carbon neutral design across the entire construction industry. Going forward, the Timber and Building Materials Business will continue to accelerate the promotion of “wood change,” one of the pillars of the Sumitomo Forestry Group’s decarbonized initiatives.

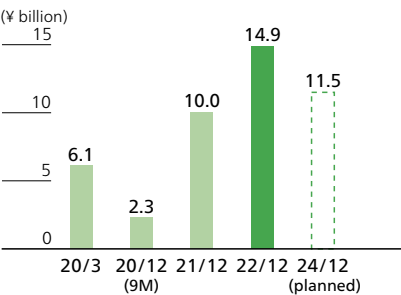
Number of employees



Net sales



Recurring income



*1 The end of the FY was changed from March 31 to December 31 starting in the FY ended December 2020. The FY ended December 2020 is a nine-month transition period from April 1 to December 31, 2020 reflecting the change in the FY's start and end.
*2 For more information about performance for the FY ending December 2023, please visit our website. <https://sfc.jp/english/ir/library/statements/2023.html>

Business Environment and Strengths

- Rising demand for domestic timber amid soaring imported timber prices and other factors
- Creation/expansion of business opportunities contributing to carbon neutrality through utilizing timber
- The Group’s wide-ranging management resources, from upstream (forests) to downstream (construction)
- Ability to procure timber resources through our global network
- Possession of in-house manufacturing bases overseas and a system for developing and selling high-value-added products through our integrated production and sales system

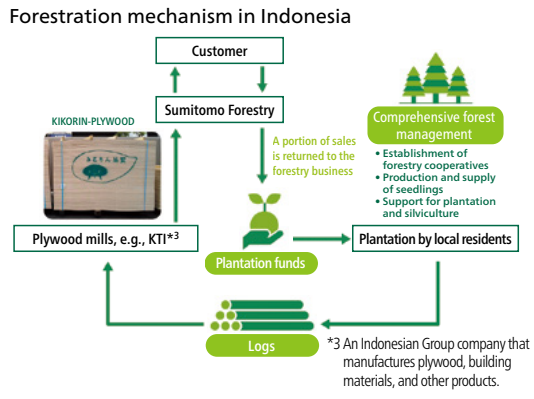
Initiatives

- Strengthen the functions of Sumitomo Forestry Wood Products to encourage the spread of domestic timber
- Establish timber industrial complexes to improve timber production and ensure a stable supply of wood products, thereby strengthening price competitiveness
- Standardize components and develop a supply chain to strengthen competitiveness of medium- to large-scale wooden construction
- Develop new products and services, including the establishment of a supply system for biomass power generation fuel
- Strengthen functions to resolve issues faced by suppliers, such as building an information infrastructure that directly links the entire supply chain

Products and Services

Realizing Recycling-Based Societies and Contributing to Local Communities with KIKORIN-PLYWOOD

The Sumitomo Forestry Group has set a target for the percentage of procurement of imported wood board products, such as plywood, that are made of certified forest timber and planted forest wood, and has been working to expand sales of these products. Among these products, JAS Plywood which uses 50% or more of FSC-certified or PEFC-certified timber and timber from sustainable planted forests is marketed as “KIKORIN-PLYWOOD,” and some of its revenue has been invested in our forestry business developed in Indonesia. This product made using certified timber or 50% or more of wood from plantation forests was praised as being environmentally friendly, receiving an encouragement prize in the 1st EcoPro Awards in September 2018. From FY2021, the definition of “KIKORIN-PLYWOOD” was amended to “plywood using 100% of sustainable certified timber” in order to align with the Sumitomo Forestry Group’s Wood Procurement Standards, and we are striving to further expand sales. Sales performance in FY2022 (January to December) under the new definition was 298,692 m³. Through further sales expansion, the Group aims to realize a recycling-based society and contribute to local communities.



Employee Voices

Strengthening a Range of Initiatives to Increase Domestic Timber Handling Volume

Sumitomo Forestry Wood Products is a trading company specializing in timber, with a focus on domestic timber. In recent years, we have promoted various initiatives to perpetuate the domestic timber wood cycle. One of these is the expansion of purchasing timber*. In addition to purchasing logs from markets and logging companies, we also purchase wood in order to secure log resources and ensure a stable supply. We purchase timber on the condition that trees are planted after logging, thereby contributing to the recycling of forest resources through planning and proposing reforestation. Since domestic timber is a highly local industry, we believe that revitalizing the use of domestic timber will help revitalize communities as well. In addition to the reforestation field, which is indispensable for the recycling of forest resources, we will strengthen our efforts in the fields of log distribution, chip distribution, and product distribution to further promote the utilization of domestic timber.



Eriko Ishida
Tokyo Sales Office
Sumitomo Forestry Wood
Products Co., Ltd.

*4 Purchasing unlogged trees from forest owners, logging and selling them.

Housing Business



Progress of Business Strategies in the Mid-Term Management Plan



Ikuro Takahashi
Director,
Managing Executive Officer
Divisional Manager of
Housing Division

Regaining Profitability and Anticipating Market Changes through Transformation
Accelerating Structural Reforms with the new Innovation Strategy Department

Within the Housing Business, the Sumitomo Forestry Group has utilized the design and technological capabilities cultivated in the mainstay custom-built detached housing business to diversify its operations into the rental housing business, the spec-home business, the renovation business, the greening business, etc. that propose the comfort unique to wood. In January 2023, the segment was changed from Housing and Construction to Housing. Under the former segment, FY2022 results were net sales of ¥533.5 billion, up 4.4% year on year, and recurring income of ¥15.9 billion, down 19.1% year on year. In addition to continued efforts to strengthen digital marketing, the Group actively worked to realize a decarbonized society through actions to increase orders for Net Zero Energy Houses (ZEH) and launched Life Cycle Carbon Minus (LCCM) houses in April 2022. Although net sales increased due to higher unit sales prices and other factors, income decreased due to higher costs associated with soaring material prices.

The basic policy of the Medium-Term Management Plan is to regain profitability and promote transformation enabling Sumitomo Forestry to anticipate and respond to future market changes. To achieve this goal, the Group has established the Innovation Strategy Department to implement fundamental structural transformation in all areas of sales, design, and construction. At the same time, it is working to reduce costs through digital transformation and streamlining construction.

Mission for Growth

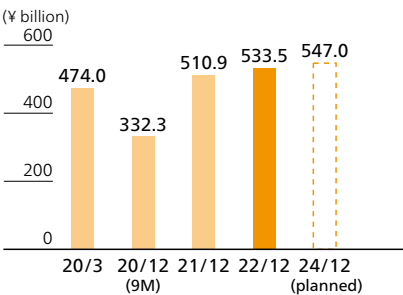
The Sumitomo Forestry Group has long provided quality living environments by working to provide high-quality homes that last a long time. Sumitomo Forestry Home houses, made from advanced construction methods such as the Group's proprietary Big-Frame (BF) structure while fully expressing the attractiveness and qualities of wood, is a leading brand in custom-built wooden detached houses. Furthermore, as timber is gaining worldwide attention as a type of renewable and sustainable natural capital, the Housing Business is checking the legal compliance and

sustainability of timber by procuring main structural materials through the Timber and Building Materials Division. What makes the Group unique is its comprehensive strengths in procurement and high value-added products and services. It will continue to strengthen its competitiveness through structural transformation and restructuring of the earnings base, increase its market share in the custom-built detached housing business, and focus on developing human resources to expand priority businesses such as spec homes, rental housing, and renovation.

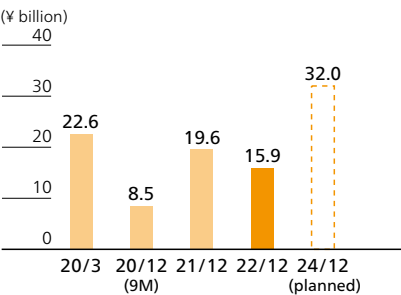
Number of employees



Net sales



Recurring income



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Business Environment and Strengths

- Changing consumer needs and lifestyles due to population aging and the shift to digital technologies
- Decreasing new housing starts due to the decline in domestic population
- Brand strength in wooden construction cultivated over many years
- Relationships with owners of approximately 340,000 homes delivered in Japan (cumulative total)
- Unique BF construction method, product lineup and technical capability meeting diverse needs, building proposal and construction capabilities which integrate housing exteriors
- Group comprehensive capabilities, network within and outside Japan for procurement of timber and wood components, and cooperative relationships with contractors and construction firms

Initiatives

- Transforming business structure and rebuilding earnings base
- Expanding sales of ZEH and LCCM houses
- Further promoting digital marketing
- Strengthening human resource recruitment and training to expand priority businesses
- Accelerating the development of infrastructure and mechanisms to maintain connections with owners

Products and Services

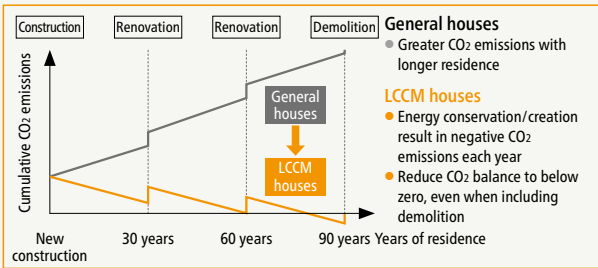
Opened the first model house for the Group's environmental flagship LCCM houses*6

In October 2022, Sumitomo Forestry opened a model house with life cycle carbon minus (LCCM) specifications in Yonago City, Tottori Prefecture. The Group's LCCM houses have low CO₂ emissions from raw material procurement to construction due to their wooden structure. Sumitomo Forestry further reduces CO₂ emissions by utilizing renewable biomass fuel in the timber drying process and using domestic timber for the structural frame. In addition, the Group's BF construction method is notable for its flexibility and facilitating floor plan change renovations, and contributes to long-term carbon storage thanks to longer building lifespans. Going forward, the Sumitomo Forestry Group will continue its contributions to the realization of a sustainable society by expanding sales of LCCM houses and promoting the standardization of carbon neutral design.



Exterior design evocative of all four seasons

*6 A house that achieves a negative CO₂ balance over the entire life cycle of the building, including during construction, by reducing CO₂ and creating renewable energy during construction, occupancy, and demolition.



ZEH order ratio (%)

FY	19/3	20/3	20/12	21/12	22/12	23/12 Plan
ZEH order ratio	40.0	51.0	51.5	67.4	77.2	80.0

* It includes Nearly ZEH and has included ZEH Oriented in narrow areas since FY ended March 2019 and ZEH Oriented in heavy snowfall areas since FY ended March 2020.
* It has included Hokkaido since FY ended December 2020.
* Calculation period: Accounting period (January 2020 - December 2020 for FY ended December 2020 only).

Employee Voices

Focusing on Expanded ZEH Sales by Pitching Benefits of Reduced Utility Costs and Resilience

Sumitomo Forestry is strengthening its ZEH proposals for new housing. Due in part to government subsidy measures, all 17 of the buildings I successfully earned contracts for in FY2022 meet ZEH specifications. Since trees can even store carbon after becoming lumber, growing the number of Sumitomo Forestry's wooden houses can help turn a town into a forest. In addition, because our houses already have high insulation efficiency, they are well suited for ZEH specification. This ZEH capability added to our ability to achieve spacious homes with our unique BF construction method is a key way we can differentiate ourselves from our competitors. Customers not only enjoy lower utility costs, but they appreciate the added value of resilience, such as seismic resistance and disaster prevention functions. Going forward, Sumitomo Forestry will continue to focus on expanding ZEH sales offering the superior performance, high quality, and environmental benefits unique to Sumitomo Forestry housing, as well as high economic benefits to customers.



Yusuke Nishida
Supervisor, Sales Group,
Kumamoto Branch
Housing Division

Global Housing, Construction and Real Estate Segment

Global Housing, Construction and Real Estate Business



Progress of Business Strategies in the Mid-Term Management Plan



Atsushi Kawamura
Director, Senior Managing Executive Officer
Divisional Manager of Global Housing, Construction and Real Estate Division

Significant Increase in Sales and Income Due to a Strong United States Single Family Homes Business and Yen Depreciation
Aiming for Further Growth Through Aggressive Investment in the Wooden Non-Residential Business

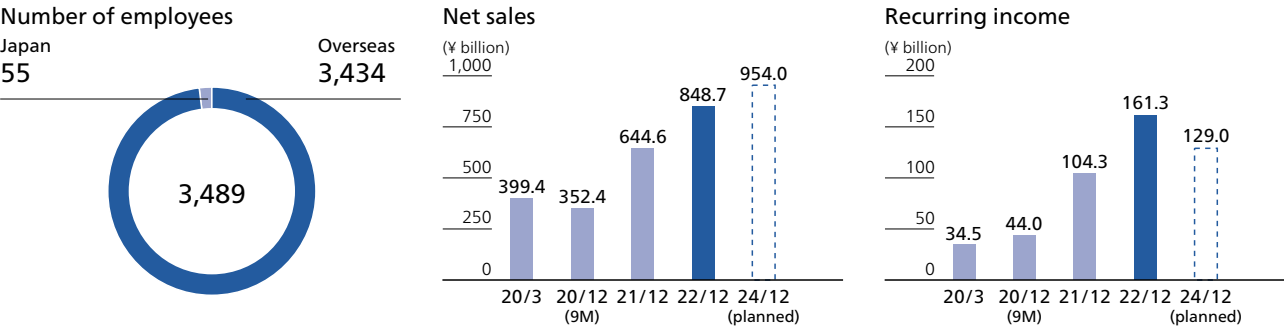
In 2023, this segment was merged with the Construction Business in Japan and renamed the Global Housing, Construction and Real Estate Business. In FY2022, although the number of units sold in the single family homes business in the United States declined due to the impact of longer construction periods, the business performed well against the backdrop of increased housing prices due to increasing demand for moves from urban areas to the suburbs, driving overall performance in this segment. The continued depreciation of the yen further boosted results, and net sales reached ¥848.7 billion, up 31.7% year on year, while recurring income reached ¥161.3 billion, up 54.6% year on year, a significant improvement for both. Of the approximately ¥300.0 billion planned for investments and loans over the three years of the current Medium-Term Management Plan, ¥30.0 billion will be dedicated to wooden non-residential projects related to decarbonization and ¥130.0 billion in real estate and housing lot development in the overseas businesses. In FY2022, investments and loans in the former category amounted to ¥3.6 billion, a progress rate of 12%, while the latter category received ¥42.9 billion, a progress rate of 33%. In FY2023, Sumitomo Forestry will continue to invest aggressively in its overseas wooden non-residential business and will at the same time develop the real estate development business in Japan and overseas as a pillar of earnings by integrating its experience in the real estate business gained overseas with its expertise in the construction business in Japan.

Mission for Growth

In the United States, orders declined from mid-2022 as interest rates were hiked to curb inflation. In FY2023*5, both net sales and recurring income were expected to decline due to the slowdown in the housing market and rising costs, but since the beginning of the year, mortgage rates have stabilized and housing demand has been recovering. The United States housing market is experiencing an ongoing structural housing shortage of 4 to 6 million units due to the decline in housing starts since the global financial crisis, despite strong demand from homebuyers. Therefore, it is important to be prepared for market turnaround opportunities while making adjustments to avoid carrying excess inventory. Sumitomo Forestry aims to achieve 9,000 housing units sold by securing contracts through the provision of effective

incentives. In addition, the real estate development business is expected to see a decrease in profit in FY2023 due to the sale of some properties in FY2022 ahead of schedule. Despite an unstable financial situation, the Group will secure earning sources for the next fiscal year and beyond by carefully selecting projects and making consistent efforts to bring them to the construction phase. In the Australian housing business, Sumitomo Forestry will strive to improve performance by shortening construction periods through production rationalization and developing products that meet market needs. In the Asian housing and real estate business, it will leverage its expertise in the Japanese housing business to differentiate from competitors and continue to develop environmentally conscious housing.

Special Feature: Construction & Overseas > P.20



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Business Environment and Strengths
(United States, Australia, Asia, Europe)

- Increased demand for housing due to economic and population growth
- Rising construction costs due to higher material and labor costs
- Decrease in affordability and fluctuating housing demand due to rising home prices and interest rates
- Differences in ESG-related perspectives among countries and regions
- Portfolio built through diverse housing and real estate development-related businesses
- Global network from the Timber and Building Materials Business and Environment and Resources Business
- Experienced business partners who operate business rooted in communities

Initiatives

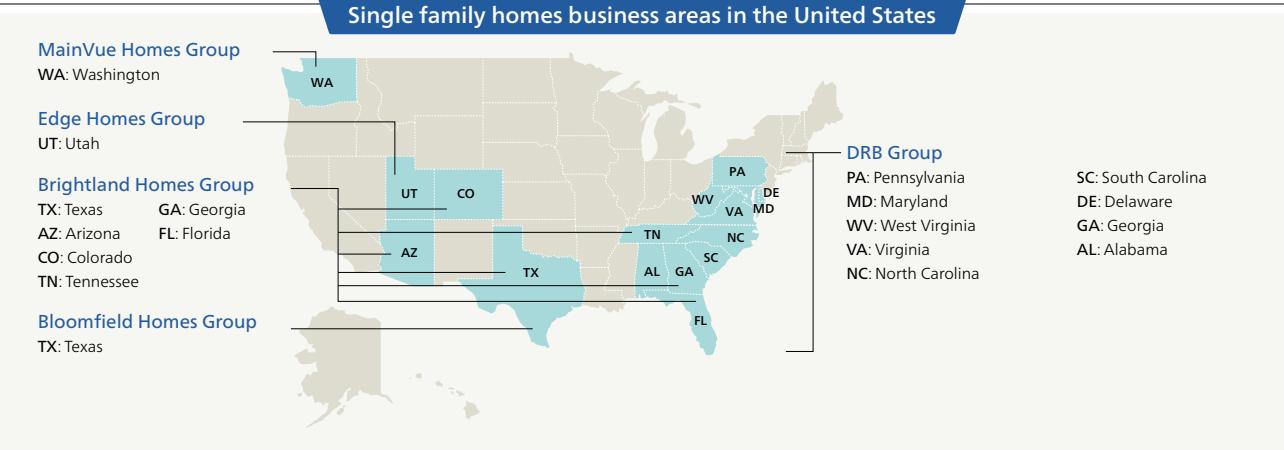
- Housing in the United States**
 - Product development based on area characteristics
 - Strict criteria for new land acquisition and inventory management with attention to capital efficiency
 - Stabilization of supply system, reduction of costs, shortening of construction periods, improvement of safety management, and reduction of waste through promotion of the FITP business
- Real estate in the United States**
 - Continuous acquisition of environmental certifications and development mindful of local communities
 - Promotion of capital-efficient operations through diverse business structures
- Australia**
 - Shortening of construction periods by rationalizing production processes, securing of housing lots through in-house development and collaboration with major developers
 - Expansion of business portfolio by entering peripheral businesses such as greening
- Asia**
 - Provision of solutions to issues in housing and lifestyles and differentiation of communities through the leveraging of the Group's technology and expertise
 - Promotion of initiatives for environmentally conscious housing such as EDGE certification

United States

Housing Business

In the United States, Sumitomo Forestry operates its housing businesses in 16 states from the West Coast to the East Coast through five local builders in the Group. In the housing business in the United States, a deep understanding of local housing and lifestyles and market characteristics and relationships of trust with respective local industries and governments are critical to business operations. Since entering the market in 2003, the Group has focused on sharing the Corporate Philosophy and other values with the management and employees of local Group companies, and has expanded its business by building long-term partnerships. At the same time, it has accumulated expertise while placing importance on local living customs, climate, and construction

methods unique to the region. In FY2022, the number of units delivered by the Group grew to become the ninth largest in the United States. Sumitomo Forestry is in a unique position to balance the experience and track record of local builders with business operations rooted in communities and the advantages of a national builder, such as financial strength and material procurement capabilities. Building on a solid foundation of cooperation with the local Group companies that it has established, the Group will strive to improve construction quality, environmental performance and design features, and to further expand and develop the business by providing living environments and communities that meet the needs of the market.



Global Housing, Construction and Real Estate Segment

Global Housing, Construction and Real Estate Business

United States

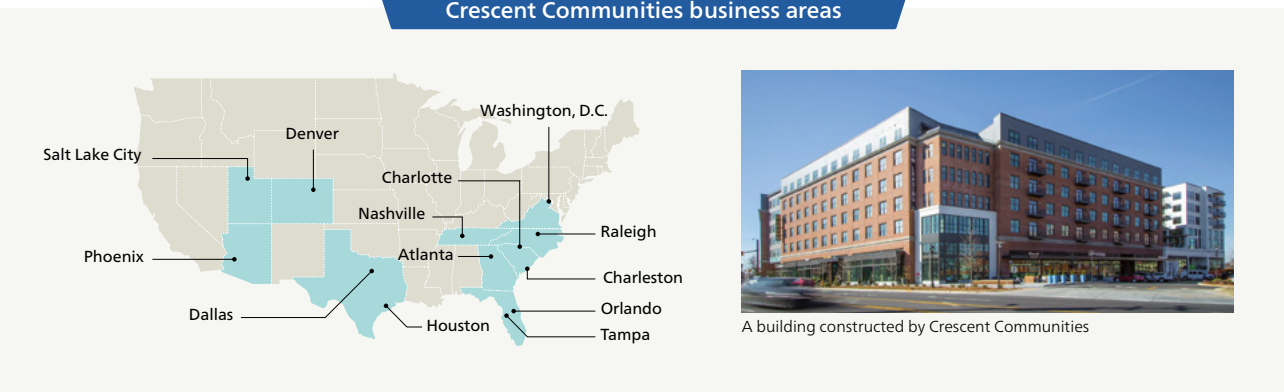
Real Estate Development Business

Crescent Communities, LLC, a wholly owned subsidiary of Sumitomo Forestry, is developing multi-family housings, commercial and mixed use complexes and logistics facilities primarily in the area known as the Sun Belt*⁶, a leading area in employment and population growth rates in the United States. In 2022, together with SFC Asset Management Company (hereinafter “SFCAM”), Crescent Communities formed an ESG friendly real estate opportunities fund. The fund plans to develop and manage four multi-family housings for rent in the Sun Belt area, and will contribute to ESG through the acquisition

of environmental certifications and conducting development through dialogue with local communities. With the formation of this fund, Sumitomo Forestry entered the asset management business in earnest. The Group is also developing real estate in collaboration with leading local developers such as Trammell Crow Residential, Hines, and JPI.

⁶ Sun Belt area: A warm region in the southern United States south of the 37th parallel north, spanning from California to North Carolina. The Sun Belt is showing continuous population growth as the region contains the top four states in terms of population growth in the 2020 U.S. Census (Texas, Florida, California, and Georgia).

Crescent Communities business areas



Single Family Rental Homes Business

The Group has expertise in both the single family rental homes business and the real estate development business, which are necessary components for the development of single family homes for rent in the United States. In 2021, the Group entered the business in earnest, led by Crescent Communities. DRB and Brightland (formerly Gehan) are engaged in land procurement and construction by contract, establishing a business structure that brings together the expertise of all Group companies. In January

2023, through Brightland, Sumitomo Forestry acquired Southern Impression Homes, a developer and manager of single family homes for rent primarily in Florida, allowing the Group to enter the rental management business in that state as well. In the future, the Sumitomo Forestry Group plans to diversify its housing and real estate development businesses in the United States by also constructing, selling, and managing single family homes for rent in other states.

Full-scale entry into the asset management business, promoting forming funds and Japanese investor coordination

In November 2020, Sumitomo Forestry established SFCAM. In February 2022, it made a full-scale entry into the asset management business with the establishment of an ESG friendly real estate opportunities fund. In December of the same year, it formed a real estate investment fund to manage four private elderly care facilities with nursing care operated by the Group. The Group is working to establish new sources of revenue through asset management by efficiently utilizing management resources both in Japan and abroad. Going forward, the Group will form forestry funds and expand medium- to large-scale wooden construction projects to further solidify its earnings base in the asset management business, and contribute to the decarbonization of society as a whole by implementing the wood cycle, Sumitomo Forestry’s tree-focused value chain.

Australia

Housing and Real Estate Development Business

Since launching its housing business in Australia in 2008, Sumitomo Forestry has been steadily expanding its business area. Australia has a high percentage of custom-built homes and is a market where expertise from Japan can be easily transferred. A growing population in the medium to long term is expected due to the immigration policy. Currently, three Group companies operate in all the five major cities of Melbourne, Brisbane, Sydney, Adelaide, and Perth, creating a network spanning all of Australia. The three companies provide quality homes to a wide range of people by developing multiple brands in different price ranges. The total number of homes sold by the three companies together is equivalent to the third biggest in builder rankings for Australia (2021-2022 results). In 2021, Sumitomo Forestry also participated in a wooden office development project near Melbourne. In April 2022, it added Regal Innovations to the Group, expanding into the greening business and thereby diversifying its business

Single family homes business areas in Australia



portfolio. Going forward, the Sumitomo Forestry Group aims to expand the scale of its business in Australia by deepening the market for the housing business and entering peripheral businesses.

Asia

Housing and Real Estate Development Business

Asia is a region that is expected to experience a rise in housing demand along with the medium- to long-term economic and population growth, which is why Sumitomo Forestry has positioned it as the third pillar of the Global Housing, Construction and Real Estate Business after the United States and Australia and is working to strengthen its revenue base there. The Group is currently engaged in joint development of condominiums for sale and the landed house business in collaboration with local companies in Vietnam, Indonesia, and Thailand, utilizing its accumulated technology, design, and

business planning expertise cultivated in Japan and overseas. It will continue to expand the housing and real estate development business by leveraging its network, focusing on areas where synergies can be expected, and contribute to the realization of a decarbonized society by acquiring environmental certifications such as EDGE certification*⁷ and supplying homes with low environmental impact.

⁷ EDGE (Excellence in Design for Greater Efficiencies): A green building certification introduced in 2014 by the International Finance Corporation (IFC), part of the World Bank Group, and currently used in over 170 countries.



United Kingdom

Establishing a Joint Venture for Full-Scale Entry into the Real Estate Market

In 2022, the Group began developing a six-story wooden office building in London in collaboration with United Kingdom-based Bywater Properties. This marked the first steps of Sumitomo Forestry’s real estate development business in Europe. In February 2023, the Group established a real estate development company jointly with the founders of Bywater Properties and thereby conducted a

full-scale entry into the United Kingdom real estate market. The Sumitomo Forestry Group will promote environmentally conscious real estate development and mass timber construction in Europe by utilizing its network, which has one of the highest transaction volumes for European timber by a Japanese company, to boost the expansion of the real estate development business.

Environment and Resources Business



Progress of Business Strategies in the Mid-Term Management Plan



Masanobu Nishikawa
Managing Executive Officer
Divisional Manager of
Environment and
Resources Division

Contributing to the decarbonization of society as a whole through the formation of forestry funds

The Environment and Resources Business develops businesses that maximize the use of forest resources. In the forestry business in Japan and overseas, Sumitomo Forestry owns and manages approximately 288,000 hectares of forests, including forests with third-party forestry certification such as FSC®. The Group's forestry management is based on the sustainable forestry approach, where trees are planted, grown, logged, utilized, and then replanted. This contributes to preserving biodiversity and developing local communities. The Group also operates a renewable energy business in Japan that uses mainly wood resources effectively. (FSC® license code: FSC-C113957)

In FY2022, Sumitomo Forestry's wood biomass power generation facilities were significantly affected by rising fuel procurement costs, and the forestry business in New Zealand experienced a decline in sales volume due to sluggish demand for logs in China, a major market for the Group, leading to a sluggish performance. As a result, net sales amounted to 21.9 billion yen, down 1.9% year on year, and recurring income amounted to 1.4 billion yen, down 64.6% year on year.

During the three years of the Medium-Term Management Plan, the Environment and Resources Business is expanding existing businesses and making new investments to use forest resources effectively. In October 2022, it established U.S.-based forest asset management company Eastwood Forests, LLC. Going forward, this company will increase the forest area it owns and manages through the forestry funds it will form, thereby contributing to carbon offsetting for society as a whole.

Mission for Growth

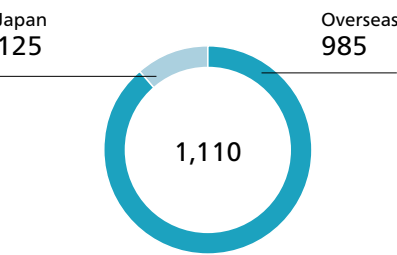
Sumitomo Forestry is working to realize "Mission TREEING 2030," its long-term vision that will contribute to the decarbonization of society as a whole. In the forestry business, it works to establish technology to measure CO2 absorption and carbon stock in forests with high precision, and promote projects that provide value as CO2 sinks through the formation of forestry funds, etc. In February 2023, the Group established NeXT FOREST Corporation, a joint venture with IHI Corporation to provide consulting services for the proper management of tropical peatlands*1. In addition, the Eastwood Climate Smart Forestry Fund I was formed in June 2023. Sumitomo Forestry

will continue to combat climate change and conserve natural capital by creating high-quality carbon credits through the appropriate assessment of the value of natural capital.

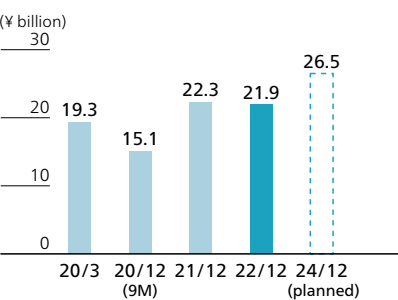
The Group has five wood biomass power generation plants in operation across Japan. In addition to striving to ensure stable operation of each power plant through stable fuel procurement, it plans to start operation of a new power plant in Miyagi Prefecture in the fall of 2023.

*1 Land with deposits of peat created by plant remains that have not decomposed in water. Groundwater level management is extremely important in peatlands because as the groundwater level drops and the land dries out, the carbon-rich peat becomes highly flammable.

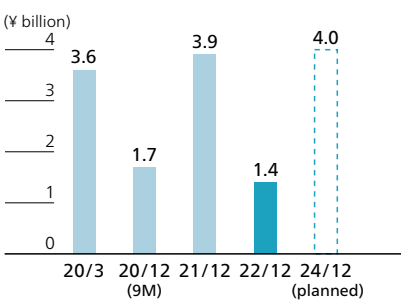
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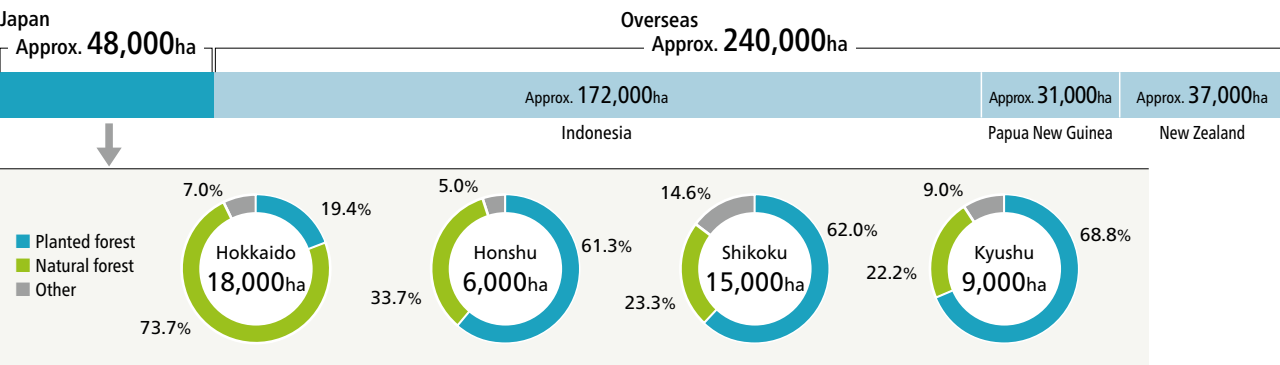
Business Environment and Strengths

- Increased momentum for reducing greenhouse gas emissions to combat climate change
- Establishment of environmentally friendly consumption behavior toward the realization of a sustainable society
- Accumulation of various technologies and knowledge related to forest management
- The world's first successful sustainable tropical peatland management technology
- Expertise in renewable energy power generation and fuel procurement capabilities through the Group's network

Initiatives

- Increase the value of forests by expanding the area of forest management and strengthening cooperation with other Group businesses
- Improve productivity and safety of operations by advanced forest management technology and strengthening human resource development
- Establish stable operation of power sources against the background of the feed-in tariff (FIT) system and develop new biomass fuels in anticipation of the end of FIT period
- Expand business by creating new forest value centered on a carbon sink business

Area of forest owned and managed (as of end of December 2022)



Sumitomo Forestry's wood biomass power plants (as of end of December 2022)

	Kawasaki	Mombetsu	Tomakomai	Hachinohe	Kanda	Morinomiyako
Service areas	Kawasaki City, Kanagawa Prefecture	Mombetsu City, Hokkaido	Tomakomai City, Hokkaido	Hachinohe City, Aomori Prefecture	Miyako District, Fukuoka Prefecture	Sendai City, Miyagi Prefecture
Start of operations	February 2011	December 2016	April 2017	April 2018	June 2021	November 2023 (planned)
Sumitomo Forestry's investment ratio	34%	51%	20%	52%	41.5%	15.0%
Power generation capacity	33MW	50MW	6.2MW	12.4MW	75MW	75MW
Fuel	Construction waste and others	Unused forest resources and others	Unused forest resources and others	Unused forest resources and others	Imported wood pallets and others	Imported wood pallets and others

Employee Voices

From Business as Usual to a Decarbonized Society

Decarbonization efforts will be increasingly needed as many people are now directly experiencing the effects of climate change, not to mention that countries and companies must report on their progress toward their pledged emission reductions. In addition to recognizing the importance of forests itself, the Environment and Resources Division sees this as a business opportunity to contribute to climate change mitigation and realize a decarbonized society. We all know that forests have an amazing capacity to remove carbon from the atmosphere; what has been lacking is a proper way to measure, track, and trade their value. In the NeXT FOREST project I am involved in, we are developing a proper evaluation and monitoring method for tropical peatland forests by utilizing remote sensing and AI technology. Properly assessed forests can lead to the development of informed policies, sustainable forest management practices, and successful restoration or conservation efforts. This action can reduce carbon emissions and increase carbon sequestration while preserving other forest functions, all of which contribute to realizing a decarbonized society.



Niken Putri
Forest Carbon Sink
Business Department
Environment and
Resources Division



Other Segment

Lifestyle Services Business



Progress of Business Strategies in the Mid-Term Management Plan



Kazuo Maniwa
Executive Officer
Divisional Manager of Lifestyle
Service Division

The Sumitomo Forestry Group is helping to create affluent societies through a range of lifestyle-related services, centering on the elderly care and accommodation businesses.

In the Other segment, which includes the Lifestyle Services Business, FY2022 results were net sales of 24.6 billion yen, up 2.5% year on year, and recurring income of 1.9 billion yen, down 35.7% year on year. This business offers a wide range of services to support people’s daily lives, centering on the elderly care business. In addition to the operation of private elderly care facilities and residences for the aged that include living support services, this business is involved in various service businesses, including the insurance agency business for residential customers and others. Under the Material Issue 8 which refers to “to transform markets through DX and innovation” in the Medium-Term Management Plan, the Group is promoting ICT-based health support services with a plan to increase the number of facilities with sensor equipment in the elderly care business to 19 by FY2024. The pursuit of initiatives to develop human assets and provide advanced, high-quality services to further improve occupancy rates and stabilize the business will also continue. The new accommodation business at VISON, a commercial and mixed use complex in the town of Taki, Mie Prefecture, is designed to create local co-creation and regional revitalization. Sumitomo Forestry will continue to work with commercial facilities to expand earning power and achieve stable operations.



VISION

Mission for Growth

The strength of the Lifestyle Services Business lies in the Sumitomo Forestry Group’s high brand power and external assessment, as well as its nationwide name recognition and solid customer base. The elderly care business, accommodation business, golf course management, and other service businesses in this segment all leverage various resources and a wide range of expertise developed in the Timber and Building Materials segment and the Housing segment in the services that aim to create spaces with the comforting effect of wood and lifestyles in which the

greenery of the seasons is incorporated. By providing these services, the Group is able to create strong value for the public interest within society that contributes to solving social issues such as aging and regional revitalization. To address the current issue faced by Japanese society of abating rural areas due to depopulation, collaborations with numerous companies and government agencies will be implemented to promote solutions to regional issues, helping to create affluent societies while expanding business opportunities.

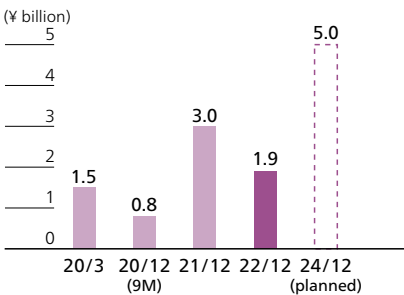
Number of employees



Net sales



Recurring income



*1 The end of the FY was changed from March 31 to December 31 starting in the FY ended December 2020. The FY ended December 2020 is a nine-month transition period from April 1 to December 31, 2020 reflecting the change in the FY start and end.
*2 The other segment includes the elderly care business as well as various service businesses such as housing-related insurance agency. Recurring income includes investment loss (profit) on equity method related to Kumagai Gumi Co., Ltd.
*3 For more information about performance for the FY ending December 2023, please visit our website. <https://sfc.jp/english/ir/library/statements/2023.html>

Business Environment and Strengths

- Diversified housing and living needs in line with social changes such as aging
- Soaring energy prices and escalating labor costs due to labor shortages
- The Sumitomo Forestry Group’s high brand power and external assessment, and a nationwide name recognition and solid customer base
- Resources and expertise to develop services centered on the elderly care and accommodation businesses that- contribute to solving social issues such as aging and regional revitalization
- Possession of fields which make use of the effects of trees and greenery, as well as various technologies and research results, with a focus on the elderly care and accommodation businesses

Initiatives

- Enhance services and promote DX, particularly in the elderly care and accommodation businesses
- Strengthen human resource recruitment and training, including by hiring foreign employees, to expand businesses
- Promote initiatives to reduce environmental impact (electricity, water, energy, etc.) in the elderly care business, accommodation business, golf course management business, etc.

Services

A New Private Nursing Home Bringing Together the Group’s Technologies

Gran Forest Denenchofu, the 17th private nursing home operated by Sumitomo Forestry’s Group company Sumirin Fill Care Co., Ltd., is scheduled to open in October 2023. The building showcases the best of the Group’s technologies, both in interior and exterior design, to provide comfortable spaces that also take biodiversity and the environment into consideration*4.

The rooms will be equipped with monitoring sensors to keep residents safe. Harnessing ICT helps prevent injuries associated with nighttime wandering and standing up, providing support tailored to each resident’s needs. Through the warmth of people and trees, the Group contributes to the creation of a society where people can live comfortably and safely for their entire lives.

*4 This building has acquired the ABINC Certification from the Association for Business Innovation in harmony with Nature and Community (ABINC), which certifies the results of biodiversity conservation efforts to encourage companies to promote harmony between nature and people.



Renderings of Gran Forest Denenchofu

Sumirin Fill Care (As of end of December 2022)

Number of private elderly care facilities operated: 16
Number of day care business facilities operated: 3

Sumirin Care Life (As of end of December 2022)

Number of private elderly care facilities operated: 3
Number of private elderly care facilities (residences that include living support services) operated: 1

Employee Voices

Introducing Protective Sensors to Benefit Both Residents and Staff

The Lifestyle Service Division has a plan to increase the number of facilities that have introduced sensor equipment in the elderly care business to 19 by FY2024. The introduction of sensors has enabled us to visualize residents’ sleep and other activities, leading to prompt responses to changes in physical condition and the maintenance and improvement of health status. In addition, by switching nighttime patrols to monitoring systems, we allow our staff to concentrate on caring for those with greater needs and reduce the burden our staff face. I feel that the use of ICT systems has created a win-win for staff and residents. As of the end of December 2022, Sumirin Fill Care has completed sensor equipment introduction in all 16 of its nursing homes, and Sumirin Care Life Co., Ltd. has already introduced these in Elegano Nishinomiya, with plans for gradual introduction in all elderly care rooms in its other three nursing homes. Going forward, we will continue to strive to provide ICT-powered health support.

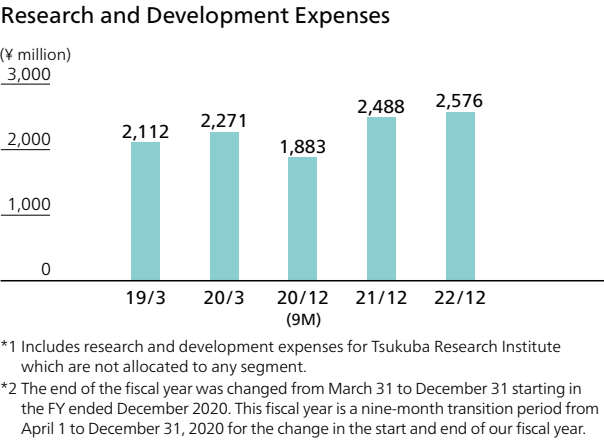


Shouko Kubota
Lifestyle Service Department
Lifestyle Service Division

Policy on Research and Development

Trees have great potential for both the sustainability of the global environment and the development of our society and economy. Under our basic policy of enhancing the value of trees by unlocking their potential, we engage in research over a wide range of areas, focusing on the global environment, urban environments, living environments, and even the mental and physical health of individuals. Our research and development initiatives maximize the value of wood and contribute to the development of a sustainable society.

Research and Development Expenses
In FY2022, research and development expenses for the entire Group were 2,576 million yen. We are promoting research and technological development comprehensively covering upstream to downstream areas, from resources and materials to housing and construction.



Research and Development

The Tsukuba Research Institute, the core driver of the Group’s research and technological development, was established in 1991. Since then, it has supported the Sumitomo Forestry Group with its advanced research and technological development capabilities related to trees.

The Tsukuba Research Institute consists of a total of 7 groups, split between two main activities: research and development linked to business divisions, which is based in our business strategies, and corporate research and development, which seeks to create new business opportunities and value. In January 2023, the existing Architecture Group, Wood Innovation Group, and Housing Technology and Product Development Center

were reorganized into the Housing & Architecture 1, 2, and 3 Groups to provide flexibility in the domestic and international housing, building, and real estate businesses. Each group is engaged in research and technological development comprehensively covering upstream to downstream areas, from forest resources and wood materials to housing and construction, as well as new value-creating research to enhance the value of wood and greenery. In addition, we promote research and development not only through our in-house research and technological development, but also in close collaboration with external partners such as university and government research and development organizations.

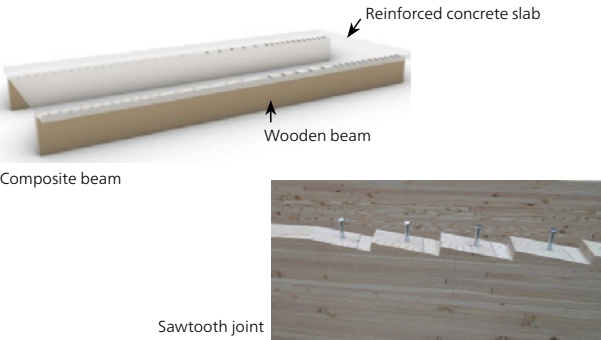


Initiatives for Unlocking the Potential of Trees and Creating New Value

Case 1

Jointly Developed the Composite Beam Construction Method with Nikken Sekkei Ltd.
In April 2022, the composite beam construction method, which combines saw-tooth uneven wood beams and reinforced concrete floor slabs, jointly developed with Nikken Sekkei Ltd., received an implementation structural performance evaluation*3 from Japan ERI Co., Ltd., which conducts building inspection and verification. The composite beam construction method takes advantage of how close the compressive strength of wood and concrete are, using solid joining to realize long spans. Since this leads to lower necessary beam heights, buildings can be built with a greater number of floors, promoting the spread of medium- to large-scale wooden buildings such as offices, schools, and hospitals. We will continue to develop and promote wood construction technologies to achieve our goal of virtually zero greenhouse gas emissions by 2050.

*3 An evaluation system that can be applied to ordinary applications for confirmation without complicated procedures by examining and evaluating buildings and construction methods using special structural methods not stipulated in the Building Standards Act.



Case 2

Participating in Overseas Joint Research on Tree Species Resistant to Climate Change
In April 2022, Japanese and Indonesian universities and research institutes jointly launched the Tropical Forest Resilience Project, a technology development project to select and mass produce climate resilient tree species for Indonesia’s main tree species. The project is expected to strengthen the CO₂ absorption and storage functions of local forests, and in the future, contribute to local communities and economies, in addition to timber production and the restoration of ecosystem functions. Sumitomo Forestry is the only private company participating in the project and will be in charge of propagation of selected trees through tissue culture and other means and production of seedlings, while PT Kutai Timber Indonesia (KTI), a Group company, will be in charge of seedling cultivation and tree planting.



Employee Voices

Valuable Experience from a Meeting of Minds in the Composite Beam Development Process
In developing composite beams, Nikken Sekkei Ltd. and Sumitomo Forestry set up a project team in 2016 to conduct in-depth experiments and verification. I was in charge of sound and vibration, with others in charge of areas like the structure and fire resistance. The development brought together a multi-disciplinary team of members, unlike previous developments in sound insulation flooring and traffic vibration countermeasures. It was a valuable experience as each of my colleagues came up with ideas in their areas, exploring ways to avoid competitor patents for fire resistance and establish effective implementation specifications for the structure, and so on. Looking forward, I would like to engage in development bringing ideas to fruition thanks to different perspectives from different areas.



Shinsuke Nishitani
Senior Researcher
Housing & Architecture 1 Group
Tsukuba Research Institute