

Efforts for Sustainability Management

The Sumitomo Forestry Group’s Sustainability Management

Corporate Philosophy

The Sumitomo Forestry Group has been operating and engaging in sustainable management based on its Corporate Philosophy of “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.”

Code of Conduct

The Sumitomo Forestry Group Code of Conduct has been established to emulate the Sumitomo business spirit that has been passed down since the company’s establishment and to meet with global social needs such as international conventions and initiatives. The Sumitomo Forestry Group is seeking to disseminate and implement the Code of Conduct throughout its supply chain as a global standard, including service providers, business partners, and contractors, in addition to the Group and its partners, including suppliers and affiliates. To guarantee that the Sumitomo Forestry Group Code of Conduct is widely known, the Sumitomo Forestry Group Code of Conduct Guidebook is issued to each employee at the Group companies in Japan, translated into English and other languages, and implemented at abroad affiliates as well as through e-learning. This information

has also been disclosed on our website to our business partners and other stakeholders. In addition, we monitor the practice and effectiveness of these principles from our Corporate Philosophy to Our Values and Code of Conduct, etc. at the Sustainability Committee convened four times a year.

Policies and Guidelines

We have also established policies such as “Environmental Policy,” “Procurement Policy,” and “Occupational Health and Safety Policy,” and various guidelines based on our Corporate Philosophy and Code of Conduct. We formulated Mission TREEING 2030 in February 2022, a long-term vision that incorporates the ideal image of the Sumitomo Forestry Group into a long-term business concept. The Group aspires to realize a sustainable society by addressing the Nine Material Issues identified and providing values to the global environment, people’s lives and society, and markets and economic activities, etc.

Long-Term Vision > P.14 Mid-term Management Plan > P.34

ESG Initiatives in Management

The Sumitomo Forestry Group has announced “Mission TREEING 2030 Phase 1” (2022-2024), the first phase of its long-term vision “Mission TREEING 2030,” a three-

year medium-term management plan that provides the groundwork for future growth and contribution to decarbonization. One of the five basic policies is “Further Integration of Business and ESG,” and the Group has established “Sustainability Targets as part of Mid-term Management Plan in fiscal 2024,” which incorporates the Group’s sustainability strategy and material issues. “Mid-term Sustainability Targets in fiscal 2024” is a revision of the specific ESG-related goals in the Medium-Term Management Plan that has been in operation since fiscal 2019, with the goal of better aligning our business and ESG strategies in accordance with the new policies of the Mid-term Management Plan. Under the long-term vision “Mission TREEING 2030,” the value created by the Group was organized from the perspectives of providing “Value for our planet,” “Value for people and society,” and “Value for the market economy,” and nine new material issues were identified. Specific numerical targets have been defined for each business unit in more detail until 2024 in order to realize these nine material issues.

We believe that it will not only meet the expectations of society, including the SDGs, but also lead to an increase in corporate value that cannot be judged only from an economic perspective.

Sustainability Committee

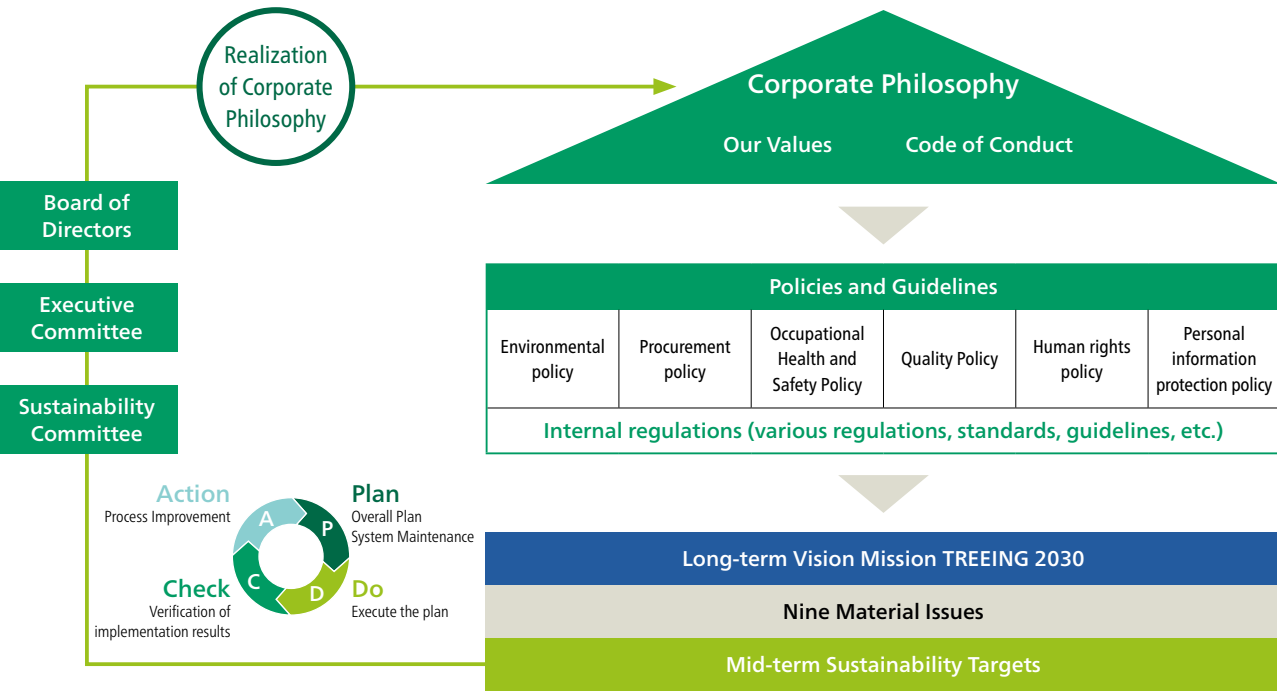
In response to increased demand for medium- to long-term initiatives regarding Environment, Social, and Governance (ESG) and the disclosure of such information, and also in order to address SDGs, TCFD guidelines, and human rights issues, Sumitomo Forestry established a Sustainability Committee in April 2018.

The Sustainability Committee is comprised of executive officers and directors, as well as general managers, with the President and Executive Officers acting as the committee chairman. At committee meetings held four times a year, committee members monitor the Company’s operational status and effectiveness within the context of Our Values and the Code of Conduct, along with the formulation and promotion of initiatives that address medium- to long-term ESG issues which concern the Sumitomo Forestry Group’s sustainability, starting with climate change. The meetings also analyze risks and opportunities, and manage progress on the Mid-Term Sustainability Targets, which incorporate business strategies that contribute to achieving SDGs. Minutes of the committee’s meetings are reported in their entirety to the Board of Directors with the aim of integrating business with solutions to social issues.

Risk check for new business plans by the Executive Committee

All new business and project plans that are brought for deliberation to the Board of Directors and the Executive Committee, which is the advisory body to the president, Sumitomo Forestry conducts risk assessment for the following categories, considering the entire supply chain. If a risk is confirmed, a report is made regarding the risk and measures to deal with it, which is used to determine implementation. In addition, the same risk assessment is recommended for new business projects that are not brought for deliberation to these meetings because they can be implemented under the jurisdiction of the respective division or affiliated company. In fiscal year 2022, 35 new businesses and projects were discussed. By evaluating matters from multiple angles, including non-financial factors, the Executive Committee contributes to sustainable business management. At the same time, the Sumitomo Forestry Group will proactively continue with sustainability management.

The Sumitomo Forestry Group’s Sustainability Management



Main risk assessment List

Environmental Aspects	1. Greenhouse Gases
	2. Biodiversity Conservation (Including Verification of Protected Regions)
	3. Waste
	4. Water Resources
	5. Soil Contamination
	6. Noise
	7. Other
Social Aspects	1. Relationships with Companies We Do Business With
	2. Anti-Corruption in All Its Forms, Including Extortion and Bribery.
	3. Human Rights Considerations for Workers and Other Stakeholders
	4. Promotion of Employee Diversity
	5. Prohibition of Forced Labor and Child Labor
	6. Appropriate Working Hours and Wages
	7. Occupational Health and Safety
	8. Impact on Local Communities (Including Concern for Local Residents and Administrations, Industry Organizations, NPOs, Municipal Citizens’ Groups and Indigenous People)
Legal and Regulatory Compliance	Various national laws/regulations/etc.
Overall	Recognition of Indications from External Organization About Business Models, Products, Services and the Related Business Entities

Nine Material Issues and Related SDGs

Nine Material Issues

Identifying material issues

Following on from 2008, the Sumitomo Forestry Group identified important CSR issues in March 2015. Since then, major changes have occurred around the world, including adoption of the SDGs (Sustainable Development Goals) and the conclusion and entry into force of the Paris Agreement, and in Japan, the GPIF's (Government Pension Investment Fund) signing of the PRI (United Nations Principles for Responsible Investment) has accelerated the trend toward ESG investment. In response to these trends, the Sumitomo Forestry Group developed its long-term vision "Mission TREEING 2030" in February 2022, which newly identified Nine Material Issues. In addition to analyzing geopolitical changes, technological innovations such as digitalization, as well as changes in the stakeholder preferences such as employees and customers' choices, we have also used the Sumitomo Forestry Group's strengths, which have grown significantly through M&A and capital and business alliances, to identify areas where the Group can make a unique contribution, not just to sustainability, but also as material issues for the Group's overall business.

Identification Method of Material Issues

In order to formulate our mission, we conducted a questionnaire survey of all stakeholders, including customers, business partners, shareholders and investors, outside experts, and employees, and received responses from approximately 6,000 people. Based on external changes (Megatrends), we identified matters that would impact the Sumitomo Forestry Group and set 35 issues classified in 5 categories of "Environmental Issues (Climate change)," "Environmental Issues (Resources and Biodiversity)," "Social Issues," "Governance," and "Economic Issues" and let respondents select what they think was important. Individual interviews with young employees and management-level personnel were also conducted.

We narrowed down the material issues for the Sumitomo Forestry Group based on the results of these questionnaires and interviews. Furthermore, we incorporated management's opinions and performed materiality assessments in consideration of risks and opportunities through a series of discussion among management ranks. Finally, we selected the Nine Material issues from three perspectives: "Value for our planet," "Value for people and society" and "Value for the market economy."

Nine Material Issues and Related SDGs



Value for our planet

1 To enhance the value of forests and wood through sustainable forest management

Nurturing forests to enhance and harness the value of wood and other forest resources.

Basic Policy

As global environmental problems such as climate change, resource depletion, and biodiversity loss become more serious, expectations for wood and forests that produce natural resources and biological resources to solve these problems are rising. Forests not only have functions of absorbing and fixing CO₂, conserving biodiversity, and producing wood building materials, fuel materials, or the like, but also have various public benefits such as water source recharge, soil conservation, and sediment disaster prevention. We intend to enhance the value of forest resources by promoting further integration of business and ESG and by conducting sustainable forest management and use of wood.

Initiatives	Indicators for Evaluation (numerical targets)	FY2022 Results	FY2023 Targets	FY2024 Targets
Sustainable use of forest resources	Seedlings supplied Forests in Japan	1.88 million seedlings	2.23 million seedlings	2.53 million seedlings
	Amount of biofuel material used (such as wood chips and pellets)*1	1,648,729t	2,073,948t	2,482,964t
Biodiversity Conservation	Establishment of evaluation methods for biodiversity conservation	Gathering information	Exploring evaluation standards	Establishing evaluation methods

*1 Covers Japan Bio Energy, Okhotsk Bio Energy, Michinoku Bio Energy, Sumitomo Forestry Wood Products, and Sumitomo Forestry Timber and Building Materials Business

2 To realize carbon neutrality by leveraging forests and wood resources

Contributing to the decarbonization of society by reducing our own GHG emissions, by offering timber and wood products that sequesterate carbon, and by providing low-carbon/carbon-free products and services.

Basic Policy

Since trees absorb and fix CO₂ in the process of growth and only a small amount of CO₂ during production, it is important to actively use wood for the transition to decarbonized society . We promote the use of wood construction and wood materials in buildings while promoting forest management that accelerates the harvesting and reforestation of working forests that promote carbon storage and the long-term carbon storage value of wood. We will also contribute to the decarbonization of society as a whole by promoting decarbonized architecture by establishing and standardizing decarbonization design methods.

Initiatives	Indicators for Evaluation (numerical targets)	FY2022 Results	FY2023 Targets	FY2024 Targets
Promotion of decarbonization	Renewable energy consumption rate [Efforts to achieve RE100]*2	3.9%	6.1%	35.1%
	Percentage of orders for ZEH out of new custom-built detached housings	77.2%	75.0%	80.0%
Utilization of Sustainable Forest Resources	Sales quantity of KIKORIN-PLYWOOD (Monthly)	28,452m ³	35,000m ³	35,000m ³

*2 Excludes offices and other facilities located in New Zealand, which is aiming to achieve RE100 by 2035 as a whole nation.

3 To realize a circular bioeconomy by leveraging forests and wood resources

Realizing a circular society by making the most of wood, a renewable and natural resource from the forest ecosystem.

Basic Policy

The Sumitomo Forestry Group realizes a circular bioeconomy centered on wood by running a wood cycle that cascades utilization of timber, which is a renewable and sustainable natural resource, in forest, wood, architecture, and the field of energy such as biomass power generation and increasing the value of wood resources. For resources other than wood, we will strive to control, reuse, and recycle waste. We will also continue to investigate sustainability of our supply chain for the sustainable use of resources.

Initiatives	Indicators for Evaluation (numerical targets)	FY2022 Results	FY2023 Targets	FY2024 Targets
Resource recycling (industrial waste)	Recycling rate at new housing construction sites*3	94.3%	97.0%	98.0%
	Recycling rate at housing demolition sites*4	99.9%	100%	100%
Resource recycling (supply chain management)	Number of EPD acquisition proposals to suppliers Ratio	65 companies 64.8%	30 companies 66%	65 companies 71%
Utilization of Sustainable Forest Resources	Unused resources (biomass use) handling volume	18,022m ³	18,452m ³	19,202m ³

*3 Includes new housing construction sites of the Housing and Construction Division, Sumitomo Forestry Landscaping, as well as Sumitomo Forestry Home Engineering

*4 Includes all wastes (concrete, asphalt-concrete, and wood waste) under the Construction Material Recycling Law

Nine Material Issues and Related SDGs

Value for people and Society

4 To provide comfortable and secure spaces for society at large

Providing safe, comfortable and secure spaces to society at large.

Basic Policy As various social issues such as human rights issues like discrimination and poverty, intensification of disasters become apparent, the tendency toward well-being has increased, and people’s living spaces, especially homes, are required to be safe, secure, comfortable and warm. The Sumitomo Forestry Group will strive to improve customer satisfaction by focusing on providing high-quality products that give a sense of security, safety, comfort, and warmth to each of its many customers, in both newly built detached houses and remodeling, among others.

Initiatives	Indicators for Evaluation (numerical targets)	FY2022 Results	FY2023 Targets	FY2024 Targets
Customer satisfaction	Ratio of Certified as Long-life Quality Housing*1	96.3%	95.0%	95.0%
	Questionnaire at the time of moving in (Non-consolidated NPS value*2)	53.2pt	52.0pt	53.0pt

*1 Limited to private house and applicable floor area or more
*2 Net Promoter Score (NPS). NPS is an index used to measure customer loyalty (the amount of trust and affinity for the company and brand)

5 To improve the livelihood of the local communities where we operate

Creating jobs through our businesses and contributing to the development of local communities.

Basic Policy Both in Japan and overseas, regions where forest businesses are operated are far away from major urban areas, and economic and cultural disparities are often seen even within each country. The Sumitomo Forestry Group is actively contributing to development of social infrastructure required in each region, in addition to increasing employment by hiring local human resources, particularly in the forest business in developing countries. In Japan, we will expand provision of high-quality elderly care facilities and nursing care facilities where the warmth of wood can be felt, who are also socially vulnerable. Furthermore, we will develop businesses that contribute to regional revitalization.

Initiatives	Indicators for Evaluation (numerical targets)	FY2022 Results	FY2023 Targets	FY2024 Targets
Response to declining birthrate and aging population	Number of rooms at private-pay elderly care facilities	1,764 rooms	1,842 rooms	1,842 rooms
Communication with local communities	Year-on-year increase in Open Bay Timber employees [Recruitment of local human resources to increase production]	+26 employees	+17 employees	+28 employees
Human rights	Efforts related to grievance mechanisms *3	Operational structure under consideration	Range enlargement	Continuous operation

*3 Grievance and/or complaint mechanisms related human rights issues for stakeholders.

6 To create a vibrant environment for all workers

Creating a work environment where everyone throughout the supply chain is safe, healthy and motivated.

Basic Policy The foundation of a fair work environment is that everyone in the supply chain accepts diversity, including race, ethnicity, nationality, gender, and religion, respects human rights without discrimination. We must also respect work-life balance, which emphasizes the lifestyle of each individual. With the utmost emphasis on continuous improvement of employee satisfaction, we will work on multi-faceted and concrete targets such as respect for diversity, prevention of harassment, elimination of occupational injuries, improvement of retention rate, number of obtained qualifications.

Initiatives	Indicators for Evaluation (numerical targets)		FY2022 Results	FY2023 Targets	FY2024 Targets
Work-life balance (workstyle reform)	Male childcare leave acquisition rate	Non-consolidated	49.0%	90.0%	100.0%
		Consolidated in Japan	25.4%	39.0%	43.0%
Diversity	Female officer ratio	Non-consolidated	13.8%	16.7%	19.4%
Human resources development	Training cost per employee	Non-consolidated	105,000 yen	125,000 yen	150,000 yen
		Consolidated in Japan	35,000 yen	57,000 yen	56,000 yen

Value for the market economy

7 To create new markets with forests and wood

Creating new markets that enrich the economy through the resourceful use of forests and wood.

Basic Policy Utilization of forests and wood is emphasized in order to enrich the economy while solving various environmental and social issues. In order to deepen and expand utilization of wood and activate forest functions, creation of new markets that utilize these is also key. The Sumitomo Forestry Group will expand its medium- and large-scale wooden construction business globally. In addition, in order to develop various new technologies, new products, and new markets that utilize wood and forests, we will promote research and development that emphasizes collaboration with the outside world without being bound by our own technology.

Initiatives	Indicators for Evaluation (numerical targets)	FY2022 Results	FY2023 Targets	FY2024 Targets
New market development	Development of medium-to large-scale wooden construction business (US / Australia / Europe)	Commercialization	Commercialization	Commercialization
Research & development	Number of contracts for joint research partners Ratio of all themes	42 contracts 52.5%	36 contracts 51%	38 contracts 54%

8 To transform markets through DX and innovation

Enhancing economic efficiency and added value through business transformation brought about by DX and innovation.

Basic Policy In the fields of forestry and wooden construction where tradition and experience have been emphasized, it is necessary to raise economic efficiency and increase added value through market reforms such as DX and innovation, in view of the situation such as decrease and aging of main players, technological advancement and globalization, and future demand expansion. The Sumitomo Forestry Group aims to ensure quality and quantity of wood resources and provide them with high added value by improving efficiency of sales activities and supply chains through DX and innovation. In the field of elderly care business, which faces similar challenges, we will introduce innovations to increase added value and improve operational efficiency, such as user safety and security.

Initiatives	Indicators for Evaluation (numerical targets)	FY2022 Results	FY2023 Targets	FY2024 Targets
DX-related	Data linkage with customers Adoption rate	766 companies 64%	770 companies 64%	820 companies 68%
	Number of facilities that have introduced sensor equipment in elderly care business	18	19	19

9 To establish a robust business structure

Contributing to a stable economy by continuously providing value with a structure that is resilient to contingent circumstances.

Basic Policy The Sumitomo Forestry Group will not only build a Business Continuity Management (BCM) system to provide stable value even in the case of unexpected events, but will also aim to strengthen supervisory function of the Board of Directors during normal times, and prompt strengthening of the governance and information security of expanding overseas affiliated companies. With respect to climate change and natural disasters, we will continue to analyze scenarios based on the TCFD recommendations to build a strong business.

Initiatives	Indicators for Evaluation (numerical targets)	FY2022 Results	FY2023 Targets	FY2024 Targets
Governance/Compliance	Strengthening information security level of overseas affiliated companies*	39.1%	50%	100%
Climate change	Conduct scenario analysis and disclosure consistent with guidance from the Task Force on Climate-related Financial Disclosures (TCFD)	New implementation in two divisions including the Environment and Resources Division and Global Housing, Construction and Real Estate Division	Examining impact of the entire group through re-implementation in two divisions including the Timber and Building Materials Division and Housing Division	Examining reflection of measures taken by the group in the strategy for each business division of the next Mid-Term Management Plan

* The Sumitomo Forestry Group’s unique security base level achievement rate

Visit our website for further details about the nine material issues and other indicators.
<https://sfc.jp/english/sustainability/management/materiality1.html>



Results

Ratings in the table below
Achieved: ○ Not achieved but improved from previous year: △ Not achieved and declined compared to previous year: ×

Material Issues

1 To enhance the value of forests and wood through sustainable forest management

13

15

2 To realize carbon neutrality by leveraging forests and wood resources

7

13

3 To realize a circular bioeconomy by leveraging forests and wood resources

11

12

15

Indicators for Evaluation (numerical targets)	Managing Department	FY2022 Targets	FY2022 Results	FY2022 Value
Seedlings supplied Forests in Japan	Environment and Resources Division	2.23 million	1.88 million	△
Renewable energy consumption rate [Efforts to achieve RE100]*1	All the Sumitomo Forestry Group Companies	4.1%	3.9%	△
Amount of electricity supplied by renewable energy business*2	Environment and Resources Division	751,110MWh	746,486MWh	△
Recycling rate at domestic manufacturing plants	Timber and Building Materials Division	99.0%	99.4%	○
Water consumption	The Sumitomo Forestry Group	2,739,067m³	2,937,395m³	×

*1 Excluding offices and other facilities located in New Zealand, which is aiming to achieve RE100 by 2035 as a whole nation.
*2 The figures are for Mombetsu Biomass Electric Power, Hachinohe Biomass Electric Power, Kawasaki Biomass Electric Power, Tomakomai Biomass Power, Kanda Biomass Energy, and Kashima Solar Power Plant. For equity-method affiliates, electricity supply is calculated according to their equity share.

Visit the Sustainability website below for other indicators.
<https://sfc.jp/english/sustainability/management/materiality1.html>



The Sumitomo Forestry Group’s Environmental Management

The Sumitomo Forestry Group advocates contributions to the realization of a sustainable society in its Corporate Philosophy. The Environmental Policy applies to all stages of product life cycle and all business processes from product and service development, design and manufacturing to material procurement, distribution, waste management, supplier and partner selection, new project launches, and mergers and acquisitions, in all businesses of the Sumitomo Forestry Group to promote businesses that contribute to the realization of a sustainable society.

In 2022, Sumitomo Forestry established Mission TREEING 2030, a long-term vision that integrates a long-term business framework to realize a decarbonized society and the Sumitomo Forestry Group’s ideal vision towards 2030

which is also the goal year of the SDGs. We also unveiled “Mission TREEING 2030 Phase 1” (2022-2024), a three-year Mid-Term Management Plan that will build the groundwork for future growth and our contribution to decarbonization. In this plan, we have newly identified Nine Material Issues by organizing the value created by the Group from the perspectives of value for our planet, value for people and society, and value for the market economy.

Regarding the value for our planet, we are enhancing our environmental management through the three issues we have put forth: enhancing the value of forests and wood through sustainable forest management, realizing carbon neutrality by leveraging forests and wood resources, and realizing a circular bioeconomy by leveraging forests and wood resources.

Sumitomo Forestry Group Environmental Policy

Through its experience nurturing forests since our founding, the Sumitomo Forestry Group has learned to appreciate the wonders of wood and the importance of nature. As a corporate entity with a close affinity with nature, we will pursue business activities that balance both environmental and economic interests and contribute to a sustainable society.

1. Develop business operations centered on wood and forests
2. Develop and offer environmentally conscious products and services
3. Minimize and improve environmental impact
4. Ensure strict legal compliance
5. Make continual improvements to our environmental management system
6. Promote environmental education
7. Pursue active communication

Sumitomo Forestry Group Environmental Policy
<https://sfc.jp/english/sustainability/environment/management/>



Environmental Management Structure

To ensure that management is practiced in accordance with the Environmental Policy, whose objective is to contribute to the creation of a sustainable society, the Sumitomo Forestry Group has established an environmental management structure with the President of Sumitomo Forestry assuming overall responsibility.

The General Manager of Sustainability Department under the President and Representative Director acts as the Environmental Management Officer to raise the

effectiveness of environmental activities by drafting a Sustainability Budget as quantitative targets for each fiscal year for environmental activities that each department of the Group is advancing and by regularly checking progress in with the Sustainability Committee.

In addition, the Sustainability Committee reports its findings to the Board of Directors, and the Board of Directors is involved in monitoring environmental performance.

Understanding and Responding to Environmental Risks

The Sumitomo Forestry Group is aware of the risk upon its business activities from environmental changes such as climate change or reduced biodiversity and works to gather related information, analyze this information as necessary as a way to evaluate business risks.

We also determined specific measures as evaluation metrics in each department for risk with the potential to

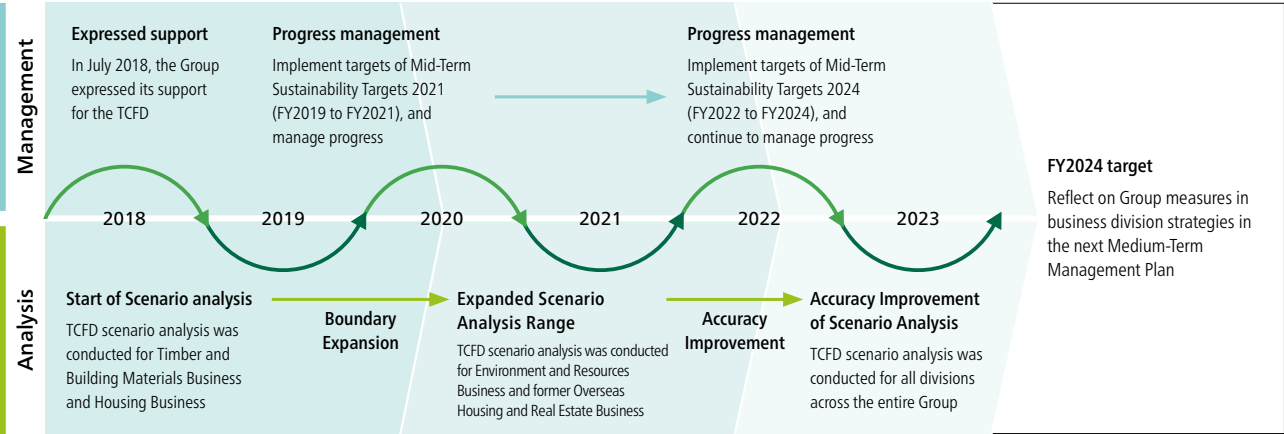
arise in daily operations and report on the progress of those measures to the Risk Management Committee each quarter while the Sustainability Committee formulates measures for risk with the potential to arise in the medium to long term. Risks with the potential to high impact business are reported to the Board of Directors to discuss their countermeasures.

Responding to TCFD



In July 2018, the Sumitomo Forestry Group recognized the risks and opportunities associated with climate change and expressed its support for the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board. In the same year, we conducted an initial scenario analysis for the Timber and Building Materials Business and the Housing Business based on the TCFD recommendations, assessing

the risks and opportunities that climate change issues pose to society and our businesses, as well as the resilience of our strategies. Since then, as shown in the figure below, we have been expanding the scope of scenario analysis and improving its accuracy every year. Looking ahead, we will further improve the accuracy of scenario analysis to build resilient corporate strategies that can respond to all future uncertainties.



Responding to the Environment Issues and Climate Change

Governance

The Sumitomo Forestry Group promotes the response to issue of climate change centered on the Sustainability Committee, similarly as other ESG challenges. The Sustainability Committee, chaired by the President and composed of members made up of executive officers, also appointed as directors and each divisional manager, formulates and promotes initiatives for medium- to long-term ESG challenges related to the sustainability of the Sumitomo Forestry Group in addition to analyzing risks and opportunities, conducting progress management of the Mid-Term Sustainability Targets, which incorporate business strategies toward achieving the SDGs, including monitoring of implementation and effectiveness of the Our Group’s Values and Code of Conduct. It also reports all proceedings at committee meetings to the Board of Directors. In February 2022, Sumitomo Forestry revised of the Executive Remuneration System in order to further integrate business with ESG. We have included remuneration linked to rate of achievement of sustainability indicators in the Executive Remuneration. In the event that the Sumitomo Forestry Group fails to meet its greenhouse gases emissions reduction target defined the Mid-Term Management Plan and based on the Science Based Targets (SBT), the amount of remuneration paid will be reduced.

Executive Remuneration System > P.84

Strategy

The Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) states unequivocally that human activity causes climate change, that it causes extreme weather and increases the frequency of occurrence, and that greenhouse gases emissions are strongly related to changes in ice sheets and sea levels. In light of this, society’s expectations of the CO2 absorption and carbon storage functions of forests, the carbon stock and CO2 emissions reduction from wood


products and wooden construction, and the unused forest resource for biomass power generation. The Sumitomo Forestry Group contributes to the realization of a decarbonized society, by effectively utilizing forest resources, which are renewable natural capital, and providing “shared benefit” through forest management, manufacturing and distribution of timber and building materials, and wooden construction and renewable energy businesses.

Risk Management

The Sumitomo Forestry Group has established the Risk Management Committee, which is chaired by the President and CEO and consists of all other executive officers. The Sustainability Committee, which is chaired by the President and CEO, is composed of executive officers concurrently serving as directors, and the divisional managers of each business unit. Each of these committees meets four times a year, and each department decides on specific countermeasures and evaluation indicators for risks that may arise in the short term in daily operations, and reports progress to the Risk Management Committee on a quarterly basis. The Sustainability Committee discusses social, environmental, and governance medium and long-term risks, including climate change comprehensively for the entire value chain.

Metrics and Targets

Based on the Mid-Term Sustainability Targets, which incorporate the SBTs and the RE100 initiative, each company and division within the Group sets annual targets. > P.69



Please visit our website for more information on the transition plan.

<https://sfc.jp/english/sustainability/environment/climate-change/climate-initiative.html>



Identifying and Evaluating Risks and Opportunities

Based on the results of scenario analyses conducted in the past by division, the Sumitomo Forestry Group conducted this analysis from a company-wide, cross-sectional perspective, covering all divisions in 2022: Timber and Building Materials; Housing; Global Housing, Construction, and Real Estate; Environment and Resources; and Lifestyle Services. We considered the situation in 2030 using two scenarios: the 4°C scenario, in which no further progress is made in tackling climate change, and the 1.5/2°C scenario, in which progress is made in transitioning the society toward decarbonization.

The relevant departments and each division of our company collaborated to identify risks and opportunities of each division, conducted financial impact assessments, and discussed countermeasures for items that were identified as significant risks and opportunities. In addition, the five divisions jointly discussed countermeasures to address cross-cutting issues that affect multiple divisions.

We will closely examine cross-sectional countermeasures in cooperation with related departments to reflect them in the next Medium-Term Management Plan and other business plans to be launched in 2025.

Assumptions for Scenario Analysis

In conducting scenario analysis, we used the following two scenarios from the International Energy Agency (IEA) and the United Nations Intergovernmental Panel on Climate Change (IPCC).

Adopted scenario	For transition risks	For physical risks
4°C Scenario	Stated Policies Scenario (IEA)	SSP5-8.5 (IPCC)
1.5/2°C Scenario	Sustainable Development Scenario (IEA), Net Zero Emissions by 2050 (IEA)	SSP1-2.6 (IPCC), SSP1-1.9 (IPCC)

Cross-organizational Financial Impact Analysis Scoping All Divisions

Among the risks and opportunities identified through the business-by-business analysis, those below are affecting more than one business and have particularly large financial impacts. The increasing operating costs associated with the introduction of the carbon tax, environmental regulations, and the intensification of weather-related disasters will affect the Timber and Building Materials Business and all divisions, while the growing preferences of customers for decarbonization will present opportunities for the Environment and Resources Business and all divisions.

	Factors	Factors of Particular Impact*	Related Business
Transition Risks	Policy and Regulations	Risks ● Increase in business costs due to the introduction of carbon tax imposition and emission trading system (Timber and Building Materials, Environment and Resources)	● Timber and Building Materials ● Housing ● Global Housing, Construction and Real Estate ● Environment and Resources ● Lifestyle Services
		Risks ● Increase in wood procurement costs due to payment of logging tax, logging fees, etc. (Timber and Building Materials, Environment and Resources) ● Increase in domestic wood costs due to the shift of reforestation costs as a result of mandatory reforestation, etc. (Timber and Building Materials)	● Timber and Building Materials ● Environment and Resources
		Risks ● Increase the cost of introducing heavy equipment and trucks (Environment and Resources) Opportunities ● Sales increase due to the growing demand for environmentally conscious housing retrofits in response to stricter regulations on buildings (Housing) ● Increase in sales due to increased demand for environmental certifications/low-carbon housing in response to stricter regulations on buildings (Global)	● Timber and Building Materials ● Housing ● Global Housing, Construction and Real Estate ● Environment and Resources ● Lifestyle Services
	Markets	Opportunities ● Increase in sales due to increased demand/use of domestic wood by utilizing wood industrial complex and laminated engineered wood plants (Timber and Building Materials) ● Increase in sales due to higher unit prices for logs and wood, associated with increased demand for renewable raw materials and products (Environment and Resources)	● Timber and Building Materials ● Housing ● Global Housing, Construction and Real Estate ● Environment and Resources ● Lifestyle Services
		Risks ● Increase in raw material costs due to higher energy costs (Timber and Building Materials)	● Timber and Building Materials ● Housing ● Global Housing, Construction and Real Estate
	Technology	Risks ● Decrease in sales due to lower demand for wood as a result of progress in research and development of decarbonization of steel materials and concrete, which are competitors of wood (Timber and Building Materials)	● Timber and Building Materials ● Housing ● Global Housing, Construction and Real Estate ● Environment and Resources
Physical Risks	Acute	Risks ● Decrease in sales due to increased demand for robust buildings using building materials other than wood and decreased disruption for wooden buildings (Housing) ● Cost increase due to higher purchase prices caused by supply chain damage (Global)	● Timber and Building Materials ● Housing ● Global Housing, Construction and Real Estate ● Environment and Resources ● Lifestyle Services

* The amount of impact is 10% or more of each division's ordinary income

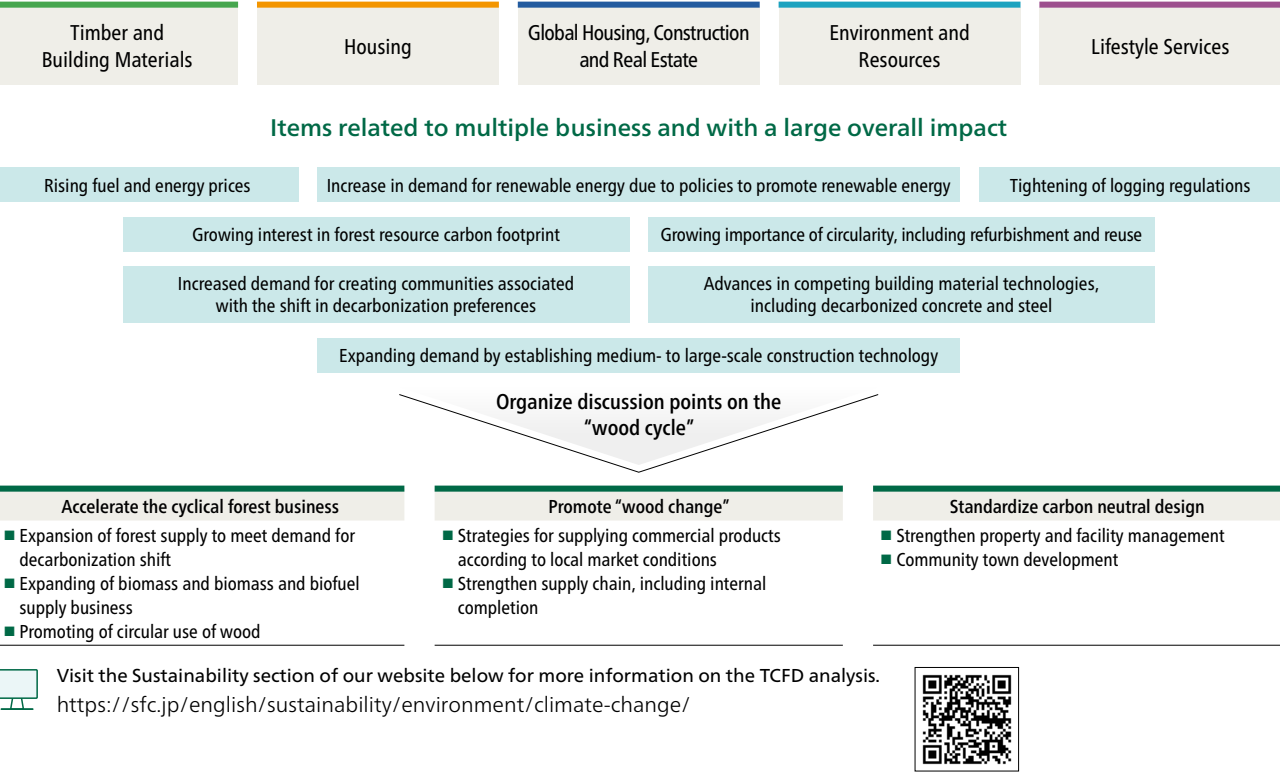
Responding to the Environment Issues and Climate Change

Cross-organizational Issues Related to All Divisions and Countermeasures to Address Them

Addressing financial impacts across multiple businesses requires a company-wide approach. In addition to climate change, we have also identified cross-organizational issues

that need to be strategically addressed in light of international trends and future market forecasts toward the realization of a sustainable society, including natural losses, human rights issues, and changing customer preferences.

Relationship Between Cross-organizational Issues/Countermeasures and the Wood Cycle



Formulation of Our SBTs (Science Based Targets)

2°C target (SBT*1 Approved)

- Scope 1&2: 21% reduction of greenhouse gas emissions compared to 2017 (base year) by 2030.
- Scope 3: 16% reduction of total greenhouse gas emissions from Category 1 and Category 11 compared to 2017 (base year) by 2030.

1.5°C target (Medium-Term Management Plan)

- Scope 1&2: 54.6% reduction of greenhouse gas emissions compared to 2017 (base year) by 2030.
- Scope 3: 16% reduction of total greenhouse gas emissions from Category 1 and Category 11 compared to 2017 (base year) by 2030.

*1 Abbreviation of Science Based Targets. Established in 2015 by the UN Global Compact, CDP, WRI (World Resources Institute), and WWF (World Wide Fund for Nature) to promote science-based greenhouse gas emission reduction targets to limit the temperature increase from pre-industrial times to less than 2°C.

As the impact of climate change becomes more urgent globally, companies are being asked to reduce their emissions of greenhouse gases. The Sumitomo Forestry Group has established Group-wide greenhouse gases reduction targets (Scope 1, 2, and 3) for the target year of 2030 and the targets were approved as SBT in July 2018. In order to accelerate our decarbonization efforts, we have raised our greenhouse gases reduction targets (Scope 1 and 2) from 21% to 54.6%, which aligns with the 1.5°C target, with a view to achieving net zero emissions by 2050. The target is set in the Medium-Term Management Plan that starts in 2022. In order to ensure the implementation of these initiatives, we also formulated a transition plan through 2030 to achieve the 2030 target and realize a carbon-neutral society by 2050.

Achievement of 2030 targets (Scope 1 and 2: -54.6% by 2030 compared to 2017) and path to carbon neutrality*2 (summary version)

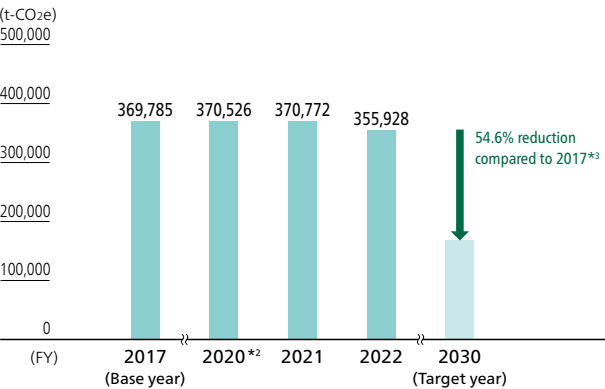
Items	Measures (Greenhouse Gases Reduction Items)	Greenhouse Gases Emissions Reduction Rate	Notes
Measures to achieve - 54.6% compared to 2017	Electricity from renewable energy sources (RE100); excluding New Zealand	-26.9%	
	Priority 1: Installation of solar power generation equipment		Installation at own facility, including PPA model
	Priority 2: Purchase of RE100-compliant electricity		Procurement through Sumirin Denki in Japan
	Priority 3: Purchase of renewable energy certificates		
	Reduction of coal co-firing rate at Mombetsu Biomass Power	-10.2%~ -25.8%	If reducing coal co-firing rate at Mombetsu Biomass Power to 10%: -10.2% If reducing coal co-firing rate at Mombetsu Biomass Power to 0%: -25.8%
	Introduction of electric vehicles in company-owned vehicles in Japan (powered by RE100-compatible electricity)	-2.8%	
	Introduction of electric vehicles for sales personnel (in Japan) (powered by RE100-compatible electricity)	-0.3%	Assuming a 30% adoption rate in 2030 to achieve the Japanese government's goal of 100% electric vehicles in new car sales by 2035.
	Subtotal	-40.0%~ -55.6%	With coal co-firing rate at Mombetsu Biomass Electric Power 10%: -40.0% (additional - 14.6% required) 0%: -55.6% (target achieved with 1.0% in excess)
Additional measures to achieve the 2030 target or to become carbon neutral	Reduction of coal co-firing rate at Mombetsu Biomass Power	-15.6%~0%	Reduction of coal co-firing rate for Mombetsu Biomass Electric Power (10% to 0%): - 15.6%
	Electrification of energy other than electricity (RE100 compatible electricity), etc.	-9.2%	
	Manufacturing plants, etc.: equipment, heavy machinery, vesseles, boilers, backup power sources, etc.	-4.4%	
	Introduction of electric vehicles for sales personnel's private cars for sales use: 100%	-1.7%	
	Heating of offices and exhibition halls, and laboratory experiments, etc.	-0.9%	
	Introduction of electric vehicles in company-owned vehicles (overseas)	-0.8%	
	Use of natural gas in nursing homes	-0.7%	
	Forestry Business: Heavy equipment, motor boats, fuel for power generation, etc.	-0.5%	
	Biomass power generation/start at power generation	-0.2%	
	Biomass power generation/wood fuel (dinitrogen monoxide, methane)	-31.6%	Consideration of creating new credits using BECCS*3, offsetting by forests, etc.
	Manufacturing facilities/biomass boilers, etc. (dinitrogen monoxide, methane)	-1.2%	Same as above
	New Zealand (country) electricity RE100 conversion	-2.4%	Target: to be achieved in 2035
	Performance and business growth		In principle, increase will be absorbed by each division unit, since business conditions nor scale (emission volume) are unknown.
	Emission trading		Consider trading of emission credits based on achievement of SBT lines at division unit level, if necessary.
	Subtotal	-60.0%~ -44.4%	
	Total	-100%	

*2 Transition plan formulated by Sumitomo Forestry to achieve the fiscal 2030 target set in the Medium-Term Management Plan.
*3 Bioenergy with Carbon Capture and Storage. Technology to capture CO2 emitted during the use of biomass fuels and store it underground.

Responding to the Environment Issues and Climate Change

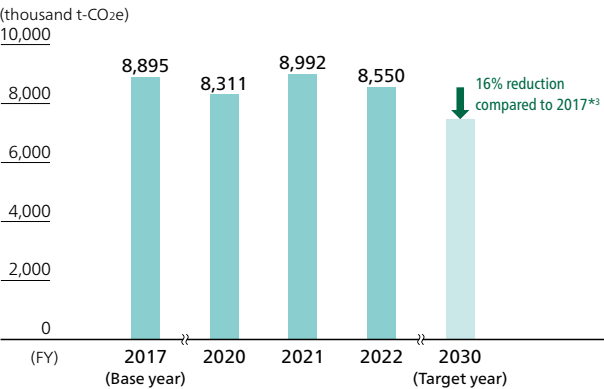
■ Progress Towards the SBT

Scopes 1 and 2



^{*1} The calculation method for Category 1 emissions of Scope 3 was revised to apply Accounting Standards for Revenue Recognition (Corporate Accounting Standard No. 29) as of fiscal 2019.
^{*2} Data collection period for the total emissions is from January to December of each year since fiscal 2020.
^{*3} Greenhouse gas reduction targets for the target year of 2030 in the Medium-Term Management Plan.

Scope 3 (Categories 1^{*1} and 11)



Participation in Race to Zero

Race to Zero is an international campaign calling on companies, municipalities, investors, universities, and other nongovernmental actors around the world to commit to halving their emissions by 2030 and achieving virtually zero greenhouse gas emissions by 2050, and to take immediate action to achieve this goal.

Sumitomo Forestry participated in the Race to Zero through Business Ambition for 1.5°C in September 2021, ahead of the 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26) held in Glasgow, UK. By signing the Business Ambition for 1.5°C, we are declaring our commitment to net zero by 2050, and our participation in Race to Zero was announced at COP26, held in October through November 2021.

Utilizing Sumirin Denki Solar Power Generation for Domestic Electricity Use

Sumitomo Forestry started the “Sumirin Denki” service in November 2019 for owners of Sumitomo Forestry and Sumitomo Forestry Home Tech’s homes. The service offers surplus electricity purchase and power supply agency sales for owners whose solar power generation purchase period expires under the feed-in tariff (FIT) for renewable energy.

We are working to allocate this “Sumirin Denki” to the electricity used by the Sumitomo Forestry Group in Japan. We promote the RE100 initiative by utilizing the surplus solar power purchased from the owners with “Sumirin Denki” at our offices and model homes. As of December 2022, the number of contracts was 3,061, an increase of 1,522 from fiscal 2021. In addition, from 2021, we have been supplying electricity purchased from owners to model homes in Kinki area (38 model homes covered as of December 2022). In the future, we will accelerate the promotion of the “Sumirin Denki” services to the owners and aim to allocate the renewable energy in all areas in 2023.

Progress Toward the RE100

The Sumitomo Forestry Group has positioned “realizing carbon neutrality by leveraging forests and wood resources” as one of its Nine Material Issues, and aims to achieve 100% renewable energy for electricity used in its business activities and fuel used in its power generation

operations by 2040. In March 2020, we joined RE100^{*4}, an international initiative aiming to convert 100% of electricity used to renewable energy sources, and we are accelerating our efforts to reduce greenhouse gas emissions. In FY2022, renewable energy introduced for



electricity used in the Sumitomo Forestry Group’s business activities accounted for 17.5% of the Group’s total electricity use, 0.3 percentage points higher than in FY2021. This renewable energy includes solar panels installed at model homes and internal use of electricity generated by biomass power generation plant (including an adjacent manufacturing plant of wood chips for fuel). In addition, biomass-derived fuel accounts for 89.7% of

the fuel used in power generation operations (calorific value equivalent).

^{*4} RE100 is an international initiative run jointly by The Climate Group, a global environmental NGO, and the CDP.

Visit our website for more information on the management of each target.
<https://sfc.jp/english/sustainability/management/materiality2.html>



Policies and Initiatives for Biodiversity Conservation

In July 2015, Sumitomo Forestry created the Sumitomo Forestry Group Environmental Policy as an integration of the Environmental Philosophy, the Environmental Policy, the Sumitomo Forestry Group Declaration of Biodiversity, and the Sumitomo Forestry Group’s Biodiversity Action Guidelines. Therefore, biodiversity initiatives are also operated based on this integrated policy. The Sumitomo Forestry Group’s initiatives to conserve biodiversity are carried out in accordance with the environmental management system under the final responsibility of the President of Sumitomo Forestry and with overall management tasked to the General Manager of the Sustainability Department, both of which manage the activities of the Sumitomo Forestry Group companies.

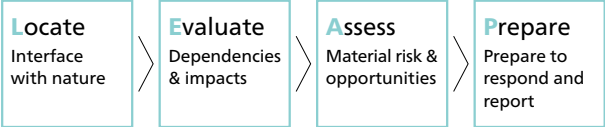
Initiatives for the LEAP Approach to TNFD Disclosure

The Sumitomo Forestry Group’s business is dependent on the blessings provided by biodiversity, and it is extremely important to work toward the conservation of ecosystems in order to realize a sustainable and prosperous society. The Group has been closely monitoring initiatives related to biodiversity and the natural environment, and has endorsed and signed the Call to Action by Business for Nature in September 2020. In February 2022, we participated in the TNFD Forum, a collective of stakeholders supporting the discussions of the Task Force on Nature-related Financial Disclosures (TNFD), and we are working to gather information for TNFD through various domestic and international networks. In conjunction with its disclosure framework, the TNFD recommends the LEAP^{*5} approach, a method for analyzing and evaluating a company’s dependence and impact on nature, as well as risks and opportunities. The Sumitomo Forestry Group has adopted this LEAP approach on a trial basis for future TNFD disclosures.

^{*5} It stands for Locate, Evaluate, Assess, and Prepare and is composed of four phases: Locating the interface with nature (L), Evaluating dependencies and impacts (E), Assessing material risks and opportunities (A), and Preparing to respond and report (P)

Interaction between Business and Biodiversity

The Sumitomo Forestry Group is engaged in the distribution business, which purchases and sells wood from Japan and overseas; the wood building materials manufacturing business in Japan and overseas; the construction and sale of detached houses in Japan, the United States, and Australia; the development of multi-family housing and commercial and mixed use complexes; and medium- to large-scale construction projects. In looking at the supply chain as a whole within these Sumitomo Forestry Group businesses, we decided to go forward with the trial of the LEAP approach with respect to our wood procurement business, which depends on and has impact on biodiversity and natural capital in the most extensive and significant volumes around the world.



Actions for Biodiversity Conservation

In order to coexist in harmony with nature, the Sumitomo Forestry Group is implementing various initiatives to achieve Nature Positive, which aims to reduce the loss of nature to zero and to turn it into a recovery. We have organized those activities in accordance with the framework of actions to achieve nature positivity recommended by SBT for Nature, as follows.

Visit our website for more information on our biodiversity conservation policies and initiatives.
<https://sfc.jp/english/sustainability/environment/biodiversity/>



Material issue

Results

Ratings in the table below
Achieved: ○ Not achieved but improved from previous year: △ Not achieved and declined compared to previous year: ×

6 To create a vibrant environment for all workers

3

Improve productivity

5

Improve safety

8

Improve environment

Indicators for Evaluation (numerical targets)		Managing department	FY2022 Targets	FY2022 Results	FY2022 Value
Paid Leave Usage Ratio	Non-Consolidated	Personnel Department	70.0%	68.4%	△
	Consolidated in Japan		61.6%	66.6%	○
Male childcare leave acquisition rate	Non-Consolidated	Personnel Department	80.0%	49.0%	×
	Consolidated in Japan		33.0%	25.4%	×
Female officer ratio	Non-Consolidated	Personnel Department	13.8%	13.8%	○
Training costs per employee	Non-Consolidated	Personnel Department	125,000 yen	105,000 yen	△
	Consolidated in Japan		57,000 yen	35,000 yen	△

Human resources development policy

Sumitomo Forestry’s basic policy for human assets development is to “nurture employees who learn by themselves, think about the essence of things, and take action” and “create a workplace culture that allows people to be energetic and vigorous.” By supporting the growth of employees with high morale and pride, and by fostering a open minded and energetic corporate culture, we aim to realize our Corporate Philosophy.

Sumitomo Forestry strives to nurture human resources to entrust with business operations as business expands overseas. For this reason, we have created an overseas human resource development program. This individual program allows employees who were in charge of overseas-related businesses for many years including those posted overseas to provide 1-on-1 guidance to

employees who would like to work abroad with extraordinary business performance. In addition, a new course dealing with international affairs in general has been established since fiscal 2022. Since fiscal 2018, a total of 83 employees have graduated, with 35 of those trainees participating in fiscal 2022.

With regard to the training of management personnel, Sumitomo Forestry conducts selective training for employees who are at least 35 years old. In fiscal 2021, 96 employees took part in 17 programs, and 130 people took part in 23 programs in fiscal 2022.

For details about our human resources development, see our corporate website.
<https://sfc.jp/english/sustainability/social/employment/career-support.html>

Diversity and Inclusion (D&I)

The Sumitomo Forestry Group promotes diversity and inclusion with “respecting diversity and creating a free and vigorous corporate culture” as one of Our Values. In order to link innovation brought about by the diverse abilities and values of our diverse human resources to new challenges and growth, we have defined “To create a vibrant environment for all workers” as one of our material issues, and are managing it by incorporating it into the annual activity policies and measures of the administrative divisions.

Promoting the Active Involvement of Female Employees

We established the Sumitomo Forestry Group Declaration on Empowering Women to expand opportunities for women in the workplace and integrate a diverse range of

values that will spur innovation. As of the end of 2022, the ratio of female managers stood at 6.3% (non-consolidated) and 8.9% (domestic subsidiaries). From 2022, in the Mid-Term Sustainability Targets and the third phase of the Act on the Promotion of Women’s Active Engagement in Professional Life, we are working to improve our systems relating to childcare, education and training, increase the rate of male employees taking childcare leave, and promote the use of various systems in order to achieve a ratio of females in managerial positions to 8.1% or more by the fiscal year ending December 31, 2024.

LGBTQ initiatives

The Sumitomo Forestry Group regards LGBTQ measures as an important initiative that underlies diversity and inclusion, and conducts training for officers and

managers and promotes the development of relevant systems and mechanisms. In January 2022, Sumitomo Forestry first established the Partnership System Regulations and applied the same internal systems and benefits to same-sex partners and de facto partners as those of spouses. In addition, we established an “External Grievance Desk” to provide individual consultations. In recognition of these initiatives, in November 2022 Sumitomo Forestry received the gold certification, the highest ranking in the PRIDE Index 2022, which evaluates companies’ engagement with the LGBTQ community. We will continue to work to create an environment where everyone can work comfortably and actively.

Promoting the Employment of Persons with Disabilities

Sumitomo Forestry promotes the employment of people with disabilities, giving the highest priority to matching the individuality of each person with a disability with the workplace and business activities. The ratio of disabled employees as of the end of December 2022 was 2.40% (Sumitomo Forestry alone) and 2.23% (domestic subsidiaries). Furthermore, to improve the retention rates for current employees, the Company provides regular face-to-face meetings as well as phone interviews and career advice as required.

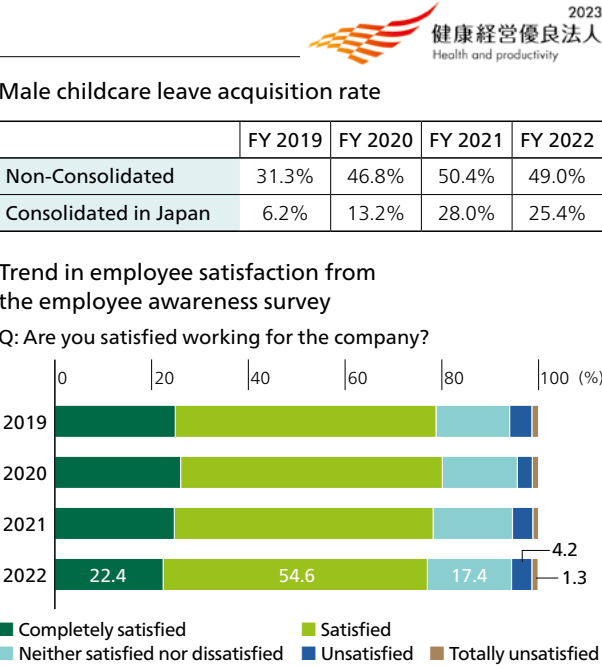
For details about our approach to diversity and inclusion, see our corporate website.
<https://sfc.jp/english/sustainability/social/employment/>

Health management and work-life balance

The Sumitomo Forestry Group believes that maintaining and improving the health of employees not only contributes to the happiness of each and every employee, but also leads to improved productivity and work efficiency. Based on this policy, on October 1, 2021, we established the Sumitomo Forestry Group Declaration on Health Management.

The Workstyle Diversification Department run by the Personnel Department operates all desks for work style and career assistance to support the physical and mental health of employees. As numerical targets, in the Mid-Term Sustainability Targets, we have set targets for improving employee satisfaction, increasing the rate of taking paid leave, and reducing long working hours, and we are promoting initiatives including at our subsidiaries in Japan.

The Sumitomo Forestry Group Declaration on Health Management
<https://sfc.jp/english/corporate/philosophy/healthmanagement.html>



Employee Voices

Taking childcare leave made me more aware of my involvement in work and family life

In November 2021, I took one month of childcare leave. The main reason was because my wife’s parents could not come to help due to the COVID-19 pandemic. As a sales designer, I have the freedom to make decisions on my own, and this flexible work system enabled me to take childcare leave. During my leave, I was able to spend a lot of time with my older child, who was three years old at the time, and by doing housework in general, I became more aware of my place in my family’s childcare and housework. Even after returning to work, I have been able to work flexible working hours and increase the time I have with my family. This makes me really glad that I took it. In addition, many of our customers showed a deep understanding when it comes to taking childcare leave and made accommodations. In the future, I hope it will become easier for employees to take childcare leave, including by fostering the right attitude among supervisors, so that more employees can make this choice.



Jun Teraoka
Assistant Manager
Renovation Engineer Section Acting Manager
Kyoto Chuo Branch
Sumitomo Forestry Home Tech Co., Ltd.

Human Rights Initiatives

Material Issue

Results


Ratings in the table below
Achieved: ○ Not achieved but improved from previous year: △ Not achieved and declined compared to previous year: ✕


5 To improve the livelihood of the local communities where we operate				
Indicators for Evaluation (numerical targets)	Managing department	FY2022 Targets	FY2022 Results	FY2022 Value
Efforts related to grievance mechanism	Sustainability Department	Structure Composition	Operational Structure under consideration	△

Basic Policy on Human Rights

Recognizing that respect for human rights is an important duty of companies, the Sumitomo Forestry Group participated in the UN Global Compact in 2008 and formulated the Sumitomo Forestry Group Human Rights Policy in July 2019. We also support and respect international norms such as the International Bill of Human Rights (Universal Declaration of Human Rights and International Covenants on Human Rights), the core labor standards of the International Labour Organization (ILO), and international rules such as the United Nations Guiding Principles on Business and Human Rights. We also participate in the United Nations Global Compact (including the HRDD Subcommittee) and the WBCSD (World Business Council for Sustainable Development). In addition, the “Sumitomo Forestry Group Code of Conduct,” which is

based on these international norms, states respect for human beings and the realization of a healthy workplace. In addition, the Code calls for the respect of the human rights of all individuals, including women, children, indigenous people, minorities and other socially vulnerable people and stipulates that there will be no discrimination whatsoever on the basis of race, ethnicity, nationality, gender, religion, ideology, disability, sexual orientation, gender identity or other. The Code also does not permit forced labor or child labor in any form.

The Sumitomo Forestry Group Human Rights Policy
<https://sfc.jp/english/sustainability/social/human-rights/>



Respect for Human Rights in Overseas Forestry Business

Indonesian Group companies PT. Wana Subur Lestari (WSL) and PT. Mayangkara Tanaman Industri (MTI) concluded an advisory agreement with the International Finance Corporation (IFC), an agency of the World Bank, in 2012. Since then, they have been engaging in businesses that carefully consider human rights and the environment, as shown on the right.

2012

Sumitomo Forestry signed an advisory agreement with the IFC. Along with the IFC, we conducted surveys of business locations to understand whether land usage plans at business sites were being properly implemented and adequate consideration is made for the livelihoods of local residents while respecting the rights of indigenous people and protecting cultural assets.

2013 and 2015

Public hearings were held with invitations sent to local residents, neighboring companies, academics, NGOs, government officials and other stakeholders.

Since 2018

With help from the IFC, Sumitomo Forestry set up grievance mechanisms at WSL and MTI to collect information and opinions from local residents. In 2022, we began operating these grievance mechanisms with coverage including PT. Kubu Mulia Forestry.

Papua New Guinea

Open Bay Timber Ltd.: Set up a suggestion box that is accessible to anyone in the community, including inside and outside the company. The company accepts consultations not only from employees but also from local residents. Providing a way for employees to communicate their problems and opinions to the company contributes to improving trust in the company.

New Zealand

Tasman Pine Forests Ltd.: The company keeps records of important interactions with stakeholders such as local community residents and subcontractors. Communicating with them based on an understanding of the past history helps to build smooth relationships.

Implementation of Due Diligence and Managing Important Risks

Through human rights due diligence, the Sumitomo Forestry Group identifies factors that may have a negative impact on human rights and works to prevent or reduce them.

Internal Sustainability Survey of the Sumitomo Forestry Group

With respect to sustainability initiatives in each Group company, in fiscal 2022, the Sumitomo Forestry Group conducted an annual survey on human rights training and the relevant help desks for 59 primary Group companies in Japan and overseas. As a result, 49 of these companies are conducting human rights training and 46 have setup a help desk while 59 are engaging in measures to mitigate risk to human rights. In addition, there were no reports of human rights violations as defined in the Sumitomo Forestry Group Code of Conduct.

Respect for Human Rights Through Sustainability Survey in supply chain

Under the Sumitomo Forestry Group Procurement Policy, we conduct fair and responsible procurement activities. In particular, we import and procure timber with consideration given to human rights, labor, biodiversity, and local communities through questionnaires of suppliers and on-site interviews. In fiscal 2022, we held a study session on the theme of “Human Rights and the Supply Chain” for timber procurement personnel of the Sumitomo Forestry Group in order to share human rights issues internally.

Identifying and Managing Human Rights Risks

In order to strengthen initiatives in human rights due diligence, each business division maps risks associated with stakeholders in value chain and identifies important human rights risks for each group. we reviewed the mapping in fiscal 2020, considering the impact of spread of new coronavirus infection as a new risk factor. We identified important risks as follows: The Environment and Resources Division - “Infringing indigenous or community land rights and managing related laws” as well as “Occupational safety and health management in mountain forests (dangerous work, etc.)”. The Timber & Building Materials Division - “Infringing indigenous land rights”, “Occupational safety and health management at factories (fires, dust explosions, etc.)”, and “Child labor at planted forests (including dangerous operations)”. The Housing and Construction Division and the Overseas Housing and Real Estate Division - “Labor conditions of migrant workers (forced labor, etc.)”. Regarding the identified risks, we take measures to reduce and correct risks for each business. For example, we have identified more risks in fiscal 2020, of which we have verified the condition of respect for human rights of foreign technical trainees which is the particular importance and of major social interest in Japan. Third-party agencies gathered feedback from partner building contractors and organizations supervising technical trainees, verified materials, and interviewed technical trainees from overseas learning skills in Japan. As a result, we confirmed there were no major human rights violations. In fiscal 2021, regarding “respect for rights of indigenous peoples and communities”, in order to further reduce risks and build better relationships with stakeholders in the business development areas, we confirmed the initiatives and identified places to be corrected regarding the operational status of grievance mechanism in the overseas resource environment business. As a result of online review conducted by a third-party organization, we verified that continuous consultations with government agencies and communities have been conducted by operating appropriate grievance mechanisms at three overseas tree planting sites in Indonesia, Papua New Guinea, and New Zealand. On the other hand, it was found that it is necessary to improve initiatives such as expanding external information disclosure and reflecting it in the mechanism through dialogue with rights holders. In fiscal 2022, the Sumitomo Forestry Group Human Rights Policy was revised with input from third parties to ensure that business partners are committed to respecting human rights and to comply with international guidelines.

* A system for processing complaints and resolving issues that allows persons or regions that have been damaged to file claims and seek redress over negative impacts related to a company.

Employee Voices



Arisa Eshita
Sustainability Department

Revision of the Human Rights Policy

In April 2023, our Group revised the Human Rights Policy first formulated in July 2019. Nearly four years have passed since its establishment, and stakeholders now strongly demand that human rights issues be addressed, not only in our own businesses but also across the entire value chain. For this reason, we have revised the content of the Human Rights Policy. Specifically, it mentions rightsholders (human rights entities that should be respected) who are subject to human rights protection, and discusses support and cooperation for human rights initiatives by business partners. Going forward, in order to strengthen human rights initiatives based on this policy, we will first establish an internal system.

Material Issues

Results

Ratings in the table below
Achieved: ○ Not achieved but improved from previous year: △ Not achieved and declined compared to previous year: ✕

3 To realize a circular bioeconomy by leveraging forests and wood resources

11

12

15

Indicators for Evaluation (numerical targets)	Managing department	FY2022 Targets	FY2022 Results	FY2022 Value
Sustainability procurement survey implementation rate in suppliers of imported wood products	Timber and Building Materials Division	100%	100%	○
Percentage of sustainable timber and timber products handled	Timber and Building Materials Division	–	100%	○
Sustainability procurement survey implementation rate in the supply chain of the domestic housing department	Housing Division	97.0%	97.2%	○

Supply chain management

The Sumitomo Forestry Group engages in responsible timber procurement activities in accordance with our Timber Procurement Basic Policy formulated in 2005 and our Timber Procurement Principles and Policies formulated in 2007. In 2015 with the Sumitomo Forestry Group Procurement Policy, we expanded our scope beyond timber to include a wide range of other procured products, such as metals, ceramics, resin and other building materials, and based on this policy, are engaged in procurement activities that take into consideration the economy, society and environment.

The Sumitomo Forestry Group Procurement Policy (Excerpt)

The Sumitomo Forestry Group utilizes wood as a renewable natural resource in its business operations. To contribute to a sustainable society, we are committed to procurement activities that take into account economic, environmental and societal interests and comply with the following policy:

1. Procurement based on legal and highly reliable supply chains
2. Procurement based on fair opportunity and competition
3. Procurement of sustainable timber and wood products
4. Communication

Timber procurement management

The Sumitomo Forestry Group established the Wood Procurement Committee, chaired by the officer in charge of sustainability promotion at Sumitomo Forestry and comprising managers from departments in charge of timber procurement. The committee discusses issues related to group-wide timber procurement, including procurement standards and risk assessments for illegal logging.

In fiscal 2022, the Wood Procurement Committee met four times, as planned, to confirm the legality and conduct a “Sustainability Survey” for all 171 directly-imported suppliers subject to screening and suppliers with whom overseas Group companies (distribution) do business. Regularly (once a year or once every two years), we confirm the legality and sustainability of both new and ongoing parties we conduct business with.

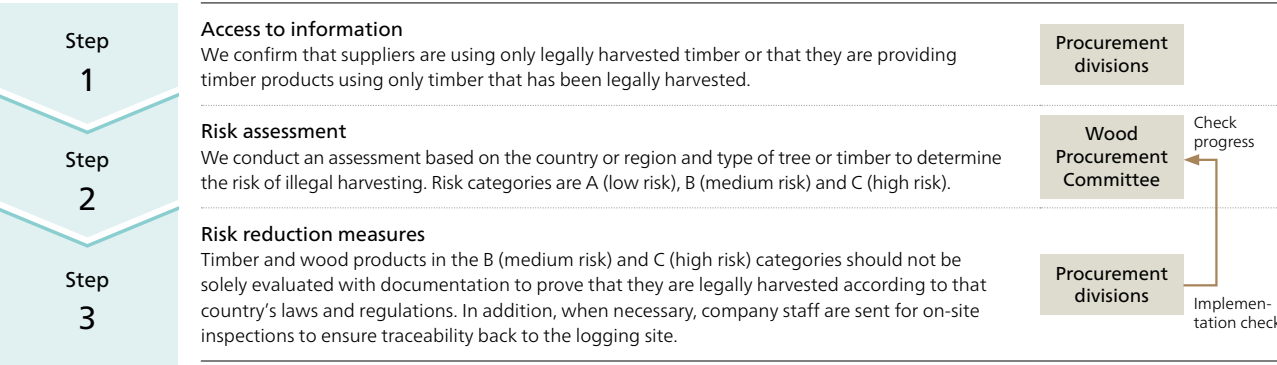
Initiatives for enabling sustainable timber procurement

Based on the Sumitomo Forestry Group Procurement Policy, the Group carries out due diligence to ensure the legality of our timber procurement and to ensure that sustainable timber procurement is being put into practice, including considerations for human rights, labor practices, biodiversity preservation and local communities. Each division that procures timber reports to the Wood Procurement Committee on the progress with this due diligence, and works to promote continual improvement in the supply chain.

Consideration for Biodiversity Conservation, Labor Practices and Human Rights, and Local Communities

Following items are checked, through Sustainability Procurement Surveys to suppliers and local interviews for the products that are being procured.

- Whether the rights of workers, local and indigenous community are abused in the area where we procure the products and their raw materials from. If this is the case, whether suppliers check their logging practices take place with consideration for these rights.
- Whether the high conservation values forests are included in the area where we procure the products and their raw materials from. If this is the case, whether suppliers check their logging practices with consideration to forests with high conservation value.



* In addition, issues other than legality are verified via questionnaires and/or interviews

Strengthening sustainability initiatives for timber and wood products

Amid growing concerns over deforestation as a factor in climate change, the Sumitomo Forestry Group established a new Action Plan in May 2019, in addition to its own timber procurement due diligence mechanism. We have reinforced and newly implemented sustainability evaluation standards for timber procurement.

In September 2021, we suspended contracts with suppliers who did not meet our procurement standards and whose sustainability could not be confirmed through repeated dialogues, thereby achieving 100% handling of sustainable timber and wood products on a contract basis. We will continue to thoroughly implement sustainable wood procurement. The same due diligence is also applied to wood biomass fuels such as pellets and PKS as to timber and wood products to promote sustainable procurement.

Policy on “Sustainable Timber and Wood Products”

To confirm the legality as precondition, we define timber and wood products as sustainable if they fulfill one of the following:

Sustainable

=

Environmental: No contribution to deforestation

Social: No violation of human rights such as occupational safety, forced labor, indigenous rights, etc.

1

Certified timber and pre-certified timber: FSC, PEFC, and SGEC
(Regardless of CoC connection, we place emphasis on certification at time of production and promote a shift to certified timber)

2

Timber from plantation forests

3

Natural timber where forestry management and distribution can be assessed as sustainable.
(This does not include timber from conversion forests. = timber harvested from natural forests that were converted to farm land such as oil palm plantations)

4

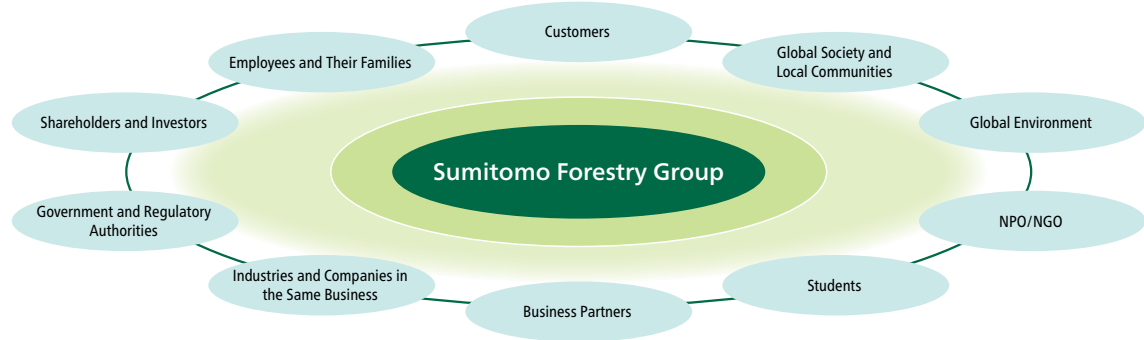
Recycled wood

* SGEC-COC (Trademark License No. SGEC/31-32-86), PEFC-COC (Trademark License No. PEFC/31-32-86)

Stakeholder Engagement

The Sumitomo Forestry Group is involved with various stakeholders because the business activities conducted by the Group are in a broad range of global businesses from the upstream to the downstream with wood—as a renewable natural resource—at the core. Our basic policy is always on communication as well as taking into account the direct and indirect relationships between stakeholders while we are engaged with our business activities, and sincerely responding to their expectations and requirements.

Stakeholders of the Sumitomo Forestry Group



Dialogue with Employees

Casual Discussions

Casual Discussions have been held on a regular basis as a platform for discussion between the President and employees in the Sumitomo Forestry Group since 2007. In FY2022, President Mitsuyoshi held a discussion with five employees who are active at the forefront of decarbonized initiatives within the Sumitomo Forestry Group under the theme of “Mission TREEING 2030—Turning the Wood Cycle”. The video of the event was filmed and distributed to convey the president’s strong enthusiasm for realizing a decarbonized society and the passion of the employees for the project. This activity is an opportunity for direct dialogue between the president and employees and leads to increased communication among the group.



Dialogue with Shareholders and Investors

Dialogue with Outside Directors and Institutional Investors

Sumitomo Forestry Group places great importance on engagement from the perspectives of properly assessing the corporate value and earning trust from the market. The Group discloses a wide range of information, including non-financial information, in a timely and transparent manner to facilitate understanding among stakeholders of our management policies and business strategies, while regularly feeds back the opinions and requirements of investors who are a vital stakeholder into operations to put in place measures toward sustainable growth. On December 26, 2022, we organized a dialogue session between outside directors and institutional investors at our head office. Active discussions were held on the topics of human resources strategy, supply chain, and human rights in our growth strategy.



Dialogue with Business Partners

Promotion of Initiatives Toward Responsible Materials Procurement

Sumitomo Forestry Group recognizes its duty to ensuring human rights and addressing environmental issues in the supply chain of its businesses. We are contributing to the realization of a sustainable society throughout the entire supply chain by promoting the standardization of certified wood in the market. The Housing Division began subjecting new suppliers to an annual Sustainability Procurement Survey in addition to the Green Procurement Survey that has been required, such as building materials and housing equipment manufacturers since FY2019. The FY2022 survey was conducted on 85 companies (97.2% of the purchase amount of the previous fiscal year from the target manufacturers). Prior to the survey, in July 2022, we held a briefing session on the sustainability procurement survey through our website to share our approach to responsible procurement, such as the Sumitomo Forestry Group Code of Conduct and the Sumitomo Forestry Group Procurement Policy, and to promote mutual understanding.

Dialogue with Customers

Customer Surveys

At Sumitomo Forestry, in order to provide our customers with even greater satisfaction and service, we conduct questionnaires three times during when residents move into their home and the second and tenth years of moving in, and receive the opinions and impressions of the owners. In FY2022, the satisfaction ratio in these surveys was 97.4% in the survey of new owners, and 96.3% in the survey of second-year owners. Furthermore, Sumitomo Forestry has adopted the Net Promoter Score (NPS)* advocated by the housing industry for the purpose of enhancing customer satisfaction. We will continue to provide high-quality products and services which bring sensation to our customers by further leveraging customer feedback through the NPS survey analysis.

* NPS is a new index used to measure customer loyalty (the amount of trust and affinity for the company and brand)

Stakeholder	Responsibilities	Communication Methods	Relevant Performance
Customers	<ul style="list-style-type: none">Providing safe, high-quality products and servicesDisclosing timely and accurate information and providing accountabilityUnderstand the requests and needs and improve satisfaction through communication	<ul style="list-style-type: none">Sumitomo Forestry Call CenterCustomer Satisfaction SurveyWebsites and media, news magazines, etc.Exhibitions and various other events	<ul style="list-style-type: none">Number of calls received by the call center FY2022 result: 124,930Customer satisfaction ratio (surveyed when residents move in) FY2022 result: 97.4%
Employees and Their Families	<ul style="list-style-type: none">Creating a fair work environment with respect for human rights and no discriminationProviding and developing a workplace that promotes the emotional and physical well-being of employees and their families, as well as allowing individuals of various backgrounds and circumstances to maximize their potentialEqually and fairly evaluating personnelEstablishing educational systems able to drive and improve skillsEstablishing measures, policies and other regulations to enhance the work-life balance	<ul style="list-style-type: none">Conducting regular consultations and performance reviewsConducting employee satisfaction surveysConducting stress checksInstalling a compliance hotlineImplementing briefings during policy revisions and enhancing inquiry methods (use of AI chatbots, etc.)EAP (Employee Assistance Program) serviceCarrying on a dialogue (casual discussions) between the president and employeesHolding Family Open DayCarrying out meetings with management made up of both labor and management committee membersPublishing internal magazines, creating an internal website	<ul style="list-style-type: none">Overtime working hours FY2022 result (Comparted to FY2017) (Non-consolidated): 13.8% reductionEducation expense per employee FY2022 result (Non-consolidated): 105,000yen
Shareholders and Investors	<ul style="list-style-type: none">Disclosing timely and accurate informationPursuing informational transparency and accountabilityExecuting the appropriate premium redemption to shareholders	<ul style="list-style-type: none">Holding general meetings of shareholders, financial results briefings, investor briefings, analyst briefings, on-site briefings, and other relevant meetingsCommunicating information on websites, integrated reports, shareholder correspondence, briefing materials and in other relevant formsResponding to surveys for assessment and research agencies related to ESG, etc.	<ul style="list-style-type: none">Individual meeting for institutional investors (in and outside Japan) FY2022 results: 254Full-year dividend per share FY2022: 125yen
Business Partners	<ul style="list-style-type: none">Building equal and fair relationships with business partnersImproving the occupational health and safety environmentComplying with all relevant laws	<ul style="list-style-type: none">Engaging in purchasing and procurement activitiesConducting safety conferences, safety patrols and building contractor meetingsConducting workshops and informational exchange meetingsConducting supplier evaluations (surveys and questionnaires)	<ul style="list-style-type: none">Sustainability procurement survey implementation rate of suppliers of imported timber: 100%Evaluation and feedback based on the Supplier Evaluation Standards Implementation rate: 100%
Global Environment	<ul style="list-style-type: none">Preserving the natural environment and biodiversityReducing the environmental impact of business activitiesDeveloping and providing products and services with minimal environmental impact	<ul style="list-style-type: none">Providing an environment for businessSupplying and standardizing environmentally-conscious housingActing as volunteers in building forests such as in reforestationCarrying on a dialogue with NPOs/NGOsConducting environmental and social contribution activities linked up with NPOs/NGOs	<ul style="list-style-type: none">Percentage of orders for ZEH out of new custom-built detached housings FY2022 result: 77.2%Percentage of sustainable timber and wood products handled FY2022 result: 100%
Global Society and Local Communities	<ul style="list-style-type: none">Contributing to solutions to both global and local challenges in society	<ul style="list-style-type: none">Participating in employee volunteer activitiesSupporting the formation of communities through social contribution activitiesPreparation of Regional Infrastructure	<ul style="list-style-type: none">Expenditure on social contribution activities FY2022: Approx.53million yenCumulative number of visitors to Mt. Fuji Manabi no Mori FY2022: 1,636

Stakeholder Engagement
<https://sfc.jp/english/sustainability/management/stakeholder.html>

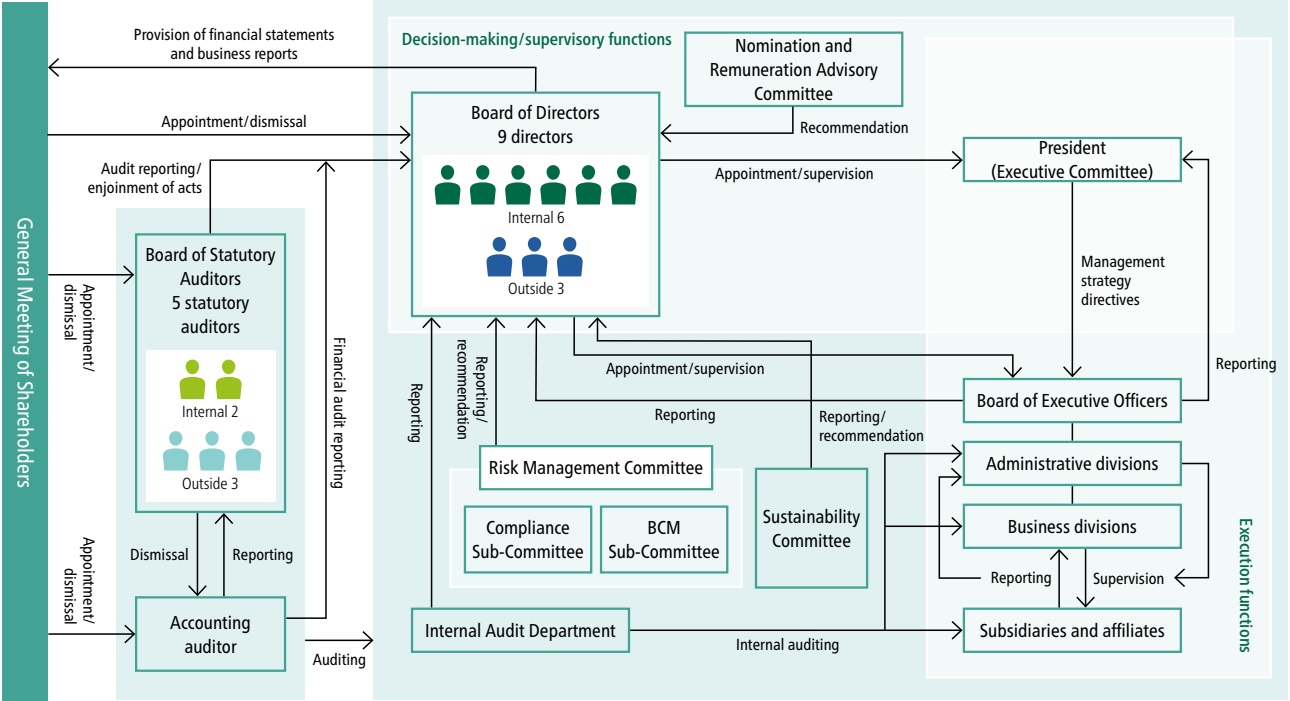




(Back row) Ikuro Takahashi Director, Tatsumi Kawata Director, Yuko Toyoda Outside Director, Izumi Yamashita Outside Director, Mitsue Kurihara Outside Director, Tatsuru Satoh Representative Director, Atsushi Kawamura Director

(Front row) Akira Ichikawa Representative Director, Chairman of the Board, Toshiro Mitsuyoshi Representative Director, President

Corporate governance system



Material Issues and Related SDGs	Value for the market economy	9 To establish a robust business structure	Contributing to a stable economy by continuously providing value with a structure that is resilient to contingent circumstances.
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Approach to Corporate Governance

In order to carry out its material issue “To establish a robust business structure,” the Sumitomo Forestry Group seeks to ensure management transparency, sound and legal business practices as well as rapid decision-making and business execution based on its Corporate Philosophy. By further enhancing and strengthening its corporate governance through these efforts, the Company aims to continuously increase its corporate value and conduct management that lives up to the expectations of various stakeholders around the Group.

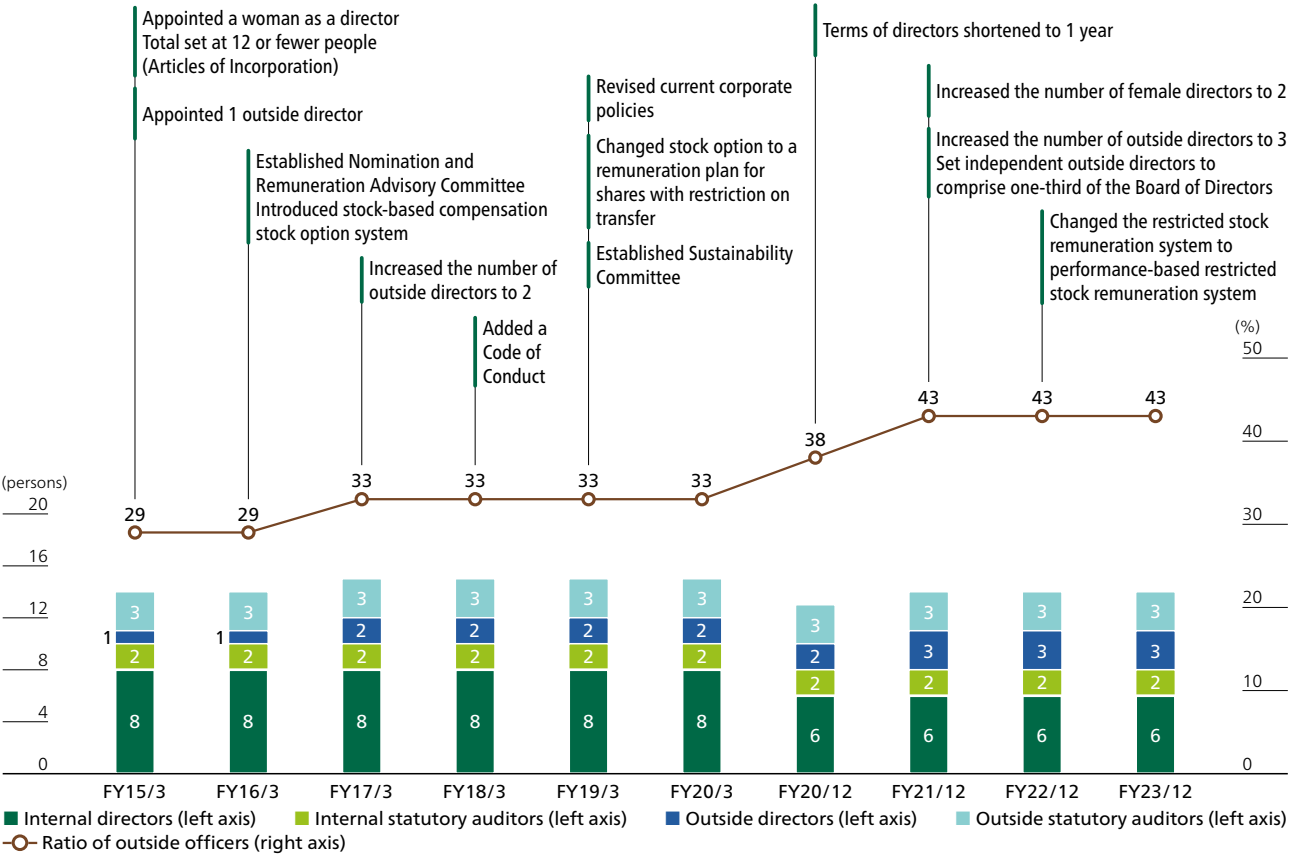
The Company has adopted the structure of a company with a board of statutory auditors and has a Board of Directors comprising 9 directors, including 3 outside directors, and a Board of Statutory Auditors comprising 5 statutory auditors, including 3 outside statutory auditors. Under this organizational structure, we have introduced an executive officer system to separate decision making and management oversight functions from operational execution functions.

Outline of the corporate governance system

Organizational structure	Company with a board of statutory auditors
Number of independent officers	6
Number of Board of Directors meetings (fiscal year ended December 2022)	15 times
Adoption of the executive officer system	Yes
Nomination and Remuneration Advisory Committee	Yes
Accounting auditor	Ernst & Young ShinNihon LLC

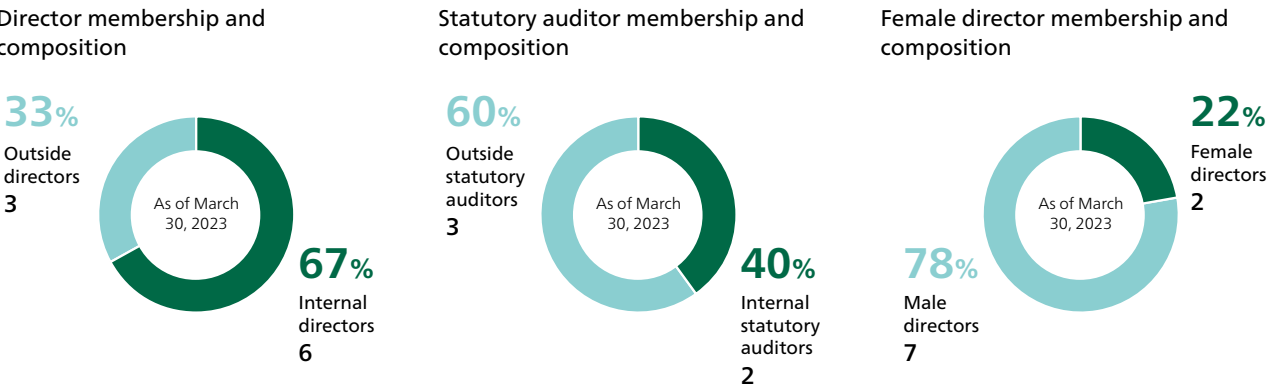
Sumitomo Forestry Basic Policy on Corporate Governance
<https://sfc.jp/english/ir/management/pdf/CorporateGovernance.pdf>

Initiatives for Corporate Governance



Corporate Governance

Role and Structure of the Board of Directors, Statutory Audit System, and Audit Institutions



Board of Directors and Executive Committee

The Board of Directors is comprised of 9 directors (7 male and 2 female), including 3 outside directors (1 male and 2 female). It usually meets once a month, making decisions on important issues, checking up on performance and other matters, and carrying out its supervisory functions. Prior to Board of Directors meetings, the Executive Committee, an advisory body to the President, generally holds meetings twice a month to ensure that important issues have been sufficiently discussed in advance. Executive Committee meetings are attended by those directors who also serve as executive officers, as well as full-time statutory auditors. The Board of Directors met 15 times and the Executive Committee met 26 times in the fiscal year ended December 2022. Directors and statutory auditors strive to maintain a Board of Directors meeting attendance rate of at least 75%.

Statutory Audit System

The Board of Statutory Auditors is comprised of 5 statutory auditors (5 male), including 3 outside statutory auditors (3 male). Each statutory auditor audits the directors' execution of duties utilizing the deep insights and diverse perspectives they have acquired from their various backgrounds.

As assistants to the statutory auditors, permanent staff, who assist in the audit operations of statutory auditors, and auditing inspectors, who double as senior managers of major departments, are assigned with a particular focus on enhancing the function of audits from a practical perspective. Under this system, the statutory auditors attend important meetings such as Board of Directors and Executive Committee meetings, where they can obtain accurate information regarding the managerial decision-making process. To enhance the effectiveness of audits, the statutory auditors strive to cooperate with the financial auditing company as well as the Internal Audit Department.

They also receive reports regularly from the divisions responsible for risk management and compliance, accounting, and labor, and monitor and verify internal control functions.

The statutory auditors are also provided with opportunities to express their opinions regarding the directors' execution of operations whenever needed. In addition, the Group Board of Statutory Auditors, attended by the Company's full-time statutory auditors and the statutory auditors of major subsidiaries, meets regularly in an effort to strengthen the monitoring functions regarding the status of execution of Group management. Furthermore, in conjunction with the monthly Board of Statutory Auditors meeting, opportunities are provided for the assigned executive officers to explain matters discussed at Executive Committee meetings so that all statutory auditors and outside directors can understand important matters in detail. The statutory auditors and representative directors also exchange opinions regularly.

This system ensures that the statutory auditors can provide adequate monitoring functions of the directors' execution of operations from the perspective of shareholders. The Board of Statutory Auditors met 14 times and the Group Board of Statutory Auditors met 5 times in the fiscal year ended December 2022.

Nomination and Remuneration Advisory Committee

The Board of Directors establishes a Nomination and Remuneration Advisory Committee as an advisory body from which it seeks opinions to ensure fairness and transparency in matters including the selection of candidates for the Board of Directors and auditing posts, the selection of executive officers, the dismissal of board members, statutory auditors or executive officers, evaluations of the chief executive officer and other

executive officers, and remuneration for board members and executive officers. The Nomination and Remuneration Advisory Committee will consist of the Chairman, the President, and all outside executives (3 outside directors and 3 outside statutory auditors) where the majority must be outside executives, and the chairperson must be an outside director.

Officer Skill Matrix

The table below outlines the skills (expertise, experience) that the Company takes into special consideration for each of the Directors and Statutory Auditors.

Visit our website for the reason for the selection of the skills.
<https://sfc.jp/english/sustainability/governance/governance.html>

Expertise and experience of directors and statutory auditors

	Name	Title	Expertise and experience								
			Corporate management	Resources/ Environment	Construction/ Real estate development	Global	Finance/ Accounting	Human resources development/ D&I	Legal affairs/ Risk management	IT, DX	Industrial policy
Directors	Akira Ichikawa	Representative Director, Chairman of the Board	●			●	●	●	●	●	●
	Toshiro Mitsuyoshi	Representative Director, President/ Director, Corporate Officer	●	●	●	●					
	Tatsuru Satoh	Representative Director, Executive Vice President and Executive Officer	●	●			●	●	●	●	
	Tatsumi Kawata	Director, Senior Managing Executive Officer	●	●		●	●	●			
	Atsushi Kawamura	Director, Senior Managing Executive Officer	●	●	●	●					
	Ikuro Takahashi	Director, Managing Executive Officer	●		●						
	Izumi Yamashita	Outside Director	●			●	●			●	●
	Mitsue Kurihara	Outside Director	●	●		●	●				●
Yuko Toyoda	Outside Director				●			●			
Statutory Auditors	Akihisa Fukuda	Senior Statutory Auditor	●		●	●	●			●	
	Toshio Kakumoto	Statutory Auditor				●			●		
	Yoshitsugu Minagawa	Outside Statutory Auditor		●				●			●
	Yoshimasa Tetsu	Outside Statutory Auditor					●				
	Makoto Matsuo	Outside Statutory Auditor				●			●		

Evaluation and its Results on the Effectiveness of the Board of Directors

The Company carries out regular self-analysis and self-evaluation of the effectiveness of the Board of Directors.
We strive to enhance the effectiveness of the Board of

Directors by making continuous efforts to improve any issues identified.

Main Issues in the Effectiveness Evaluation Performed in the Fiscal Year Ended December 2021

Effectiveness Evaluation and its Results for the Fiscal Year Ended December 2022

Future Issues

- Optimize the management of the Board of Directors by means such as further improving materials for the Board of Directors meetings
- Regular monitoring of progress on the Medium-Term Management Plan by the Board of Directors

Method of evaluation

- Questionnaire for all directors and statutory auditors (the method of response was anonymous with responses sent directly to an outside organization, which maintained anonymity) and outside evaluation of the survey results
- Confirmation by the Board of Directors of the status of implementation as to the role of the Board of Directors as designated by the Sumitomo Forestry Basic Policy on Corporate Governance
- Exchanging opinions with directors and statutory auditors

Results of evaluation

- The Company's Board of Directors was found to be functioning effectively

Efforts to address matters recognized as issues during the evaluation for the fiscal year ended December 2021

- The Company prepared and distributed materials on issues to be discussed at the Executive Committee meetings, which are held in advance of the Board of Directors meetings to clarify discussion points and improve the management efficiency of Board of Director meetings
- The progress of the Medium-Term Management Plan is regularly discussed at board member gatherings, which aim to enhance Board of Directors meetings and the content of discussions conducted there

- Monitoring of succession plans for top management
- Development of effective measures to counter new operational risks with the expansion of our business fields, etc.

Executive Remuneration System

At the Board of Directors meeting held on February 14, 2022, in addition to formulating the Sumitomo Forestry Group's long-term vision and a new Medium-Term Management Plan, we also revised the officer remuneration system with the aim of further heightening the motivation of every officer to achieve the Medium-Term Management Plan.

The remuneration of directors of the Company is designed in accordance with the following policies:

- The remuneration plan should be highly linked not only to short-term performance but also to medium- to long-term performance and improvement of corporate value;
- The plan should be linked to the value to be newly created and provided in the course of promoting the ESG integrated management;
- The plan should be designed to be linked to the shareholder value of the Company;
- The remuneration level should be such that the Company can secure and maintain the human resources necessary to achieve its long-term vision; and
- The plan should ensure transparency and objectivity in the remuneration determination process.

Remuneration for directors (excluding outside directors) and executive officers

Remuneration for directors is composed of three types: (i) fixed remuneration commensurate with the director's responsibilities and roles, (ii) annual performance-based bonus as a short-term incentive, and (iii) performance-based restricted stock remuneration as a medium- to long-term incentive. Thus, the remuneration plan is designed to encourage management efforts from a short-term, and medium- to long-term perspective and to appropriately reward the results of such efforts.

The Company will determine the amount of fixed remuneration for each director position in accordance with their responsibilities and roles and pay fixed remuneration as monthly remuneration. The amount of annual performance-based bonus will be judged comprehensively and determined by multiplying the standard bonus amount stipulated for each position with a payout ratio that fluctuates in proportion to the base profit for each business year (the amount obtained by deducting actuarial differences regarding employees' retirement benefit obligation and net income attributable to non-controlling interests from consolidated recurring income for the relevant fiscal year).

The performance-based restricted stock remuneration is structured to reflect the Company's performance during each period (three years) of the Medium-Term

Remuneration composition ratio of directors (illustration using base profit of 100 billion yen)

(1) Fixed remuneration 60%

(2) Bonus 25%

(3) Stock-based remuneration 15%

40%

Formula for calculating annual performance-based bonus

Bonus paid = Standard bonus amount by position x Payment rate *1

Payment rate (%)

*1 The payout ratio range will be from 0% (lower limit) to 180% (upper limit).

Formula for calculating performance-based restricted stock remuneration

(1) Amount equivalent to two-thirds of the standard stock compensation amount by position x payout ratio (growth rate of Company's market capitalization during the period of the Medium-Term Management Plan/TOPIX growth rate during the same period)*2

(2) One-third of the standard stock remuneration amount by position x payout ratio (percentage of achievement of Medium-Term Management Plan SBT greenhouse gas emission reduction targets)*3

(1) Remuneration linked to market capitalization growth rate

(2) Remuneration linked to the sustainability index achievement rate

*2 The payout ratio range will be from 0% (lower limit) to 120% (upper limit).

*3 The payout ratio range will be from 0% (lower limit) to 100% (upper limit).

Total Remuneration Paid to Directors and Statutory Auditors (Fiscal 2022)

Category	Total amount by type of remuneration (¥ million)	Total remuneration (¥ million)				Number of eligible officers	
		Monthly remuneration	Performance-linked remuneration (bonuses)	Non-monetary remuneration			
				Former system (Before March 2022)	New system (Since March 2022)		
				Restricted stock remuneration	Performance-based restricted stock remuneration		
Directors*4	489	267	163	8	51	7	
Statutory auditors*4	50	50	—	—	—	2	
Outside directors	41	41	—	—	—	3	
Outside statutory auditors	33	33	—	—	—	3	

*4 Excludes outside directors and outside statutory auditors.

*5 The above includes one director who retired at the conclusion of the 82nd Ordinary General Meeting of Shareholders held on March 29, 2022.

*6 The total amount of non-monetary remuneration for directors is respectively (i) 8 million yen, the amount to be expensed in the current financial year in respect of the allotment of restricted shares granted to six directors (excluding outside directors) under the old system (a remuneration plan for shares with restriction on transfer before March 2022) and (ii) 51 million yen, the amount to be expensed in the current financial year in respect of the allotment of restricted shares under the new system (performance-based remuneration plan for shares with restriction on transfer after March 2022), which is the estimated amount of monetary compensation claims based on the estimated number of shares to be delivered after the three-year evaluation period.

Total consolidated remuneration per officer (for officers receiving over 100 million yen)

Director remuneration amounts for the fiscal year ended December 2022 are as follows.

Name	Total amount of consolidated remuneration (¥ million)	Officer classification	Company classification	Total amount by type of consolidated remuneration (¥ million)			
				Monthly remuneration	Bonuses	Restricted stock remuneration	Performance-based restricted stock remuneration
Akira Ichikawa	118	Director	Sumitomo Forestry Co., Ltd.	65	39	2	12
Toshiro Mitsuyoshi	117	Director	Sumitomo Forestry Co., Ltd.	64	39	2	12

84 Sumitomo Forestry Co., Ltd. Integrated Report 2023

Sumitomo Forestry Co., Ltd. Integrated Report 2023 85

Corporate Governance

Management Plan in the level of vesting in order to promote management emphasizing medium- to long-term improvement of shareholder value. The standard stock remuneration amount prescribed for each position consists of ‘a portion linked to the growth rate of the Company’s market capitalization relative to TOPIX (two-thirds of the standard stock remuneration amount by position)’, and ‘a portion linked to the achievement rate of the greenhouse gas emission reduction target based on SBTs (Science Based Targets) (one-third of the standard stock remuneration amount by position)’, each during the relevant period.

The amount of remuneration for outside directors,

consisting only of monthly remuneration as fixed remuneration, will be determined in accordance with their responsibilities and roles.

Statutory auditor remuneration

Compensation for Statutory Auditors consists only of monthly compensation as basic compensation. In addition, we use results of a survey conducted by a third party for directorship remuneration at domestic corporations in order to set an appropriate remuneration level from the perspective of ensuring objectivity and appropriateness of executive remuneration.

posted to our website four weeks prior to the General Meeting of Shareholders. Furthermore, shareholders can use the Internet and other electronic means to exercise their voting rights. We also make use of the electronic proxy voting platform for institutional investors operated by ICJ, Inc. for proxy voting.

Disclosure of a wide range of information

At the General Meeting of Shareholders, we endeavor to provide reports and explanations that are easy to understand. Additionally, we display accounting-related information such as summaries of accounts, fact books and financial results overviews on our website, together with a wealth of IR information in Japanese and English such as information about monthly orders in the housing business.

We also display detailed information about sustainability initiatives on the website in both English and Japanese.

Since the fiscal year ended March 2017, the Sumitomo Forestry Group has published the Integrated Report with the objective of improving the disclosure of financial information and ESG-related non-financial information about its initiatives to increase value created over the medium- to long-term. Apart from the Integrated Report, Sumitomo Forestry proactively offers information by publishing Japanese and English translations of its Notices of Convocation of the Ordinary General Meeting of Shareholders, among other documents, in print as well as on its website.

Visit our website for information about future IR activities and events organized.

IR calendar
<https://sfc.jp/english/ir/calendar.html>



Strategically-held shares

Article 5 of Sumitomo Forestry’s Basic Policy on Corporate Governance cross-shareholding is as follows.

- 1 The Company may acquire and hold shares in its business partners and counterparties when the Company determines that such shareholdings will contribute to mid- to long-term enhancement of the Company’s corporate value from the perspective of, among others, maintenance and reinforcement of long-term and stable business relationships with those partners and counterparties as well as expansion of the Company’s business as a result of such closer ties with those parties.
- 2 At meetings of the Board of Directors, the Company will regularly examine whether the holdings of the shares under the preceding paragraph (the “Strategically-held shares”) lead to the improvement of its corporate value through analyzing the relationship between the profits/risks associated with such holdings and the cost of capital, and will verify the purpose and rationale of such holdings. When the Company judges that the rationale and necessity of

such holdings cannot be confirmed, it will reduce the number of such Strategically-held shares.

- 3 The Company will appropriately exercise its voting rights pertaining to the Strategically-held shares in accordance with its voting criteria and based on its comprehensive judgment from the perspective of the improvement of its corporate value.
- In addition, to verify the rationality and necessity of cross shareholdings, the Board of Directors compares the returns of each Strategically-held share to the hurdle rates set by the Company and also confirms whether the holdings of such shares lead to higher corporate value by verifying the status of transactions with the companies of the Strategically-held shares.
- If a business partner or counterparty of the Strategically-held shares company suffers a long-term slump in business performance or seriously violates laws or causes scandal, the Company will judge how to exercise its voting rights pertaining to the Strategically-held shares by gathering information through dialogue with such counterparties.

Corporate Governance Code Compliance Status

The Company complies with all Principles of the Corporate Governance Code issued by Tokyo Stock Exchange, Inc., and includes this information in its Corporate Governance Report.

Please see our website to view the Corporate Governance Report.

Corporate Governance Report
https://sfc.jp/english/sustainability/governance/pdf/Corporate_Governance_Report_2023.pdf



Succession Plan

Starting in 2022, the Nomination and Remuneration Advisory Committee has continued discussions on the succession plan for upper management as of its meeting. At its meeting held on August 30, 2022, the Nomination and Remuneration Advisory Committee exchanged opinions on the succession plan for top management and discussed the pool of potential successor candidates.

Ensuring Management Transparency

Basic policy on disclosure

To increase transparency in management, we actively disclose not only the information required to be disclosed by various laws and regulations, but also other items deemed useful to shareholders and investors, actively and in a swift and fair manner.

Initiatives to encourage execution of voting rights

The Company sends out notices three weeks prior to the General Meeting of Shareholders so that a greater number of shareholders can participate. In addition, as a measure for the electronic provision of materials for general meetings of shareholders, these materials are

Material Issues

Results

Ratings in the table below
Achieved: ○ Not achieved but improved from previous year: △ Not achieved and declined compared to previous year: ✕

9 To establish a robust business structure				
Indicators for Evaluation (numerical targets)	Managing department	FY2022 Targets	FY2022 Results	FY2022 Value
New introduction of business process control (internal control)	Global Housing, Construction and Real Estate Division	Full-scale introduction (2 companies)	Implementation	○
Strengthening information security level of overseas affiliated companies*	IT Solutions Department	20%	39.1%	○
Implementation of external evaluation of effectiveness of the Board of Directors	General Administration Department	Examination	Implementation	○
Conduct scenario analysis and disclosure consistent with guidance from the Task Force on Climate-related Financial Disclosures (TCFD)	Sustainability Department	New implementation in two divisions including the Environment and Resources Division and Global Housing, Construction and Real Estate Division	New implementation in two divisions including the Environment and Resources Division and Global Housing, Construction and Real Estate Division	○

* Sumitomo Forestry Group's unique security base level achievement rate

Risk management

Risk management system

To strengthen the risk management system for the entire Group, the Company has laid down the Risk Management Basic Regulations. In accordance with the Regulations, the President has been appointed as the highest authority on risk management for the Sumitomo Forestry Group. Each executive officer in charge of a head office department or business division is appointed to the position responsible for risk management in the area of their own responsibility. Additionally, each general manager is responsible for risk management in the department under their jurisdiction. The regulation also comprehensively deals with risks from the aspect of ESG. According to the Regulations, the Risk Management Committee, which is comprised of all executive officers, must meet once every quarter. The Committee identifies the risks the Company should be aware of, analyzes them, shares and discusses countermeasures,

and assesses the status of execution. Under the umbrella of the Risk Management Committee, the Company has the Compliance Subcommittee and the Business Continuity Management (BCM) Subcommittee, which improve the effectiveness of risk management pertaining to Group-wide compliance risks and business interruption risks.

These activities are reported to the Board of Directors, and the findings are reflected in the execution of business, such as by the performance of management reviews. In the fiscal year ended December 2022, the Risk Management Committee convened four times, the Compliance Subcommittee twice, and the BCM Subcommittee twice, and the Board of Directors received reports from them four times.

We keep developing specific activities to improve the effectiveness in our response to environmental, social, and governance risks and emerging risks described in the Sumitomo Forestry Group's Code of Conduct. With respect to climate

change, for example, international trends are considered together with the business condition of each Division in order to evaluate risks and opportunities that are thought to have a severe financial impact at the corporate and divisional levels.

Rapidly identifying and responding to risks

The Sumitomo Forestry Group operates Two-hour Rule system designed to quickly and accurately communicate information to management in the event of an emergency situation that may have a grave impact on company management. In addition to the regular reporting line, it utilizes communication via the Division responsible for risk

management. Through this system, management can take the best decision speedily, ensuring an initial response which avoids loss and controls the situation. Moreover, it serves a role in collecting and accumulating reported cases and assists in improved business practice and prevention of recurrence.

Furthermore, the structure is organized so that, by sharing information with the public relations departments, important situations are disclosed to stakeholders properly and in a timely manner.

Visit our website for further details about risk management.
<https://sfc.jp/english/sustainability/governance/risk.html>



Business Continuity Management

Business Continuity Management System

The Sumitomo Forestry Group has established BCM Subcommittee in order to respond to business interruption risks, such as natural disasters and the spread of infectious diseases, which are extremely difficult to prevent through corporate efforts and may have a significant impact on functions of the head office. We disseminate and strengthen the Business Continuity Management System (BCM system) and formulate, review, and improve the Business Continuity Plan (BCP), and conduct training based on the plan. In fiscal 2022, the BCM Subcommittee met two times. To deepen understanding of decision making required during a disaster and the information that should be collected, we conducted initial response scenario training led by an outside instructor and carried out inspections on the status of business continuity systems of the Group companies, and provided commentary on the future direction of these systems based on the inspection results.

building a system that enables the continuation of important operations at the two bases in Tokyo and Osaka, and working to minimize the impact, such as preparing IT equipment for emergencies, we also take measures such as remote backup of various systems and data necessary for the execution of operations in an emergency.

At each disaster site, even in a situation where the chain of command with the head office is disconnected, it is necessary for the responsible person to make flexible decisions and respond quickly to the initial response. Therefore, "Simulated Initial Response Training" is implemented to enhance response-ability. Online training was implemented for a total of 53 operational managers of different sites in 2022.

Strengthening Supply Chain Business Continuity Plan

In readiness for potential disruption of its Housing Business supply chain following a disaster, Sumitomo Forestry shares the specifications and processes for property construction along with site progress status information with business partners including component makers and building contractors. By enabling advanced procurement of materials and production, the Company is striving to reduce the risk of a disruption to operations.

Visit our website for further details about Business Continuity Management.
<https://sfc.jp/english/sustainability/governance/bcp.html>



Compliance

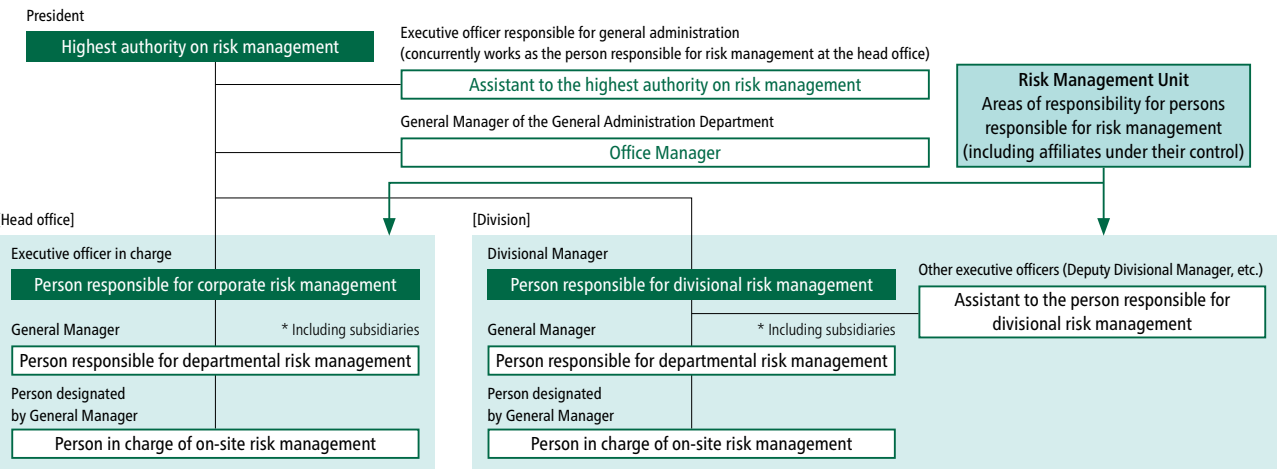
Compliance promotion system

Sumitomo Forestry established the Compliance Subcommittee as a subordinate organization under the Risk Management Committee, chaired by the general manager of the General Administration Department and comprised of the persons responsible for risk management, including those from the responsible departments at each group company. As a cross-cutting organization across the

group, the subcommittee promotes responses to compliance risk. It has established the group standard risk management system and tools to ensure compliance with the Construction Business Act of Japan and other laws throughout the group, for efficient response to compliance risk.

Meetings were held by the committee twice in FY2022 to continuously improve the compliance system through the

Risk management structure of the Sumitomo Forestry Group



Risk Management and Compliance

following activities. Through these efforts, compliance officers of the entire group are able to coordinate their viewpoints from the bottom up and share a sense of crisis.

These activities are outlined and reported to the Board of Directors once every quarter to build a system to reflect this

- Across-the-board inspection of compliance with the Construction Business Act, Act on Architects and Building Engineers and Real Estate Brokerage Act
- Across-the-board inspection of operation management system safety
- Across-the-board inspection of compliance with the Subcontract Act
- Across-the-board inspection of responses to administrative procedures and legal requirements specific to Tsukuba Research Institute and Group companies
- Explaining and sharing information about the Unfair Competition Prevention Act and Antimonopoly Act
- Explaining and sharing information about laws (Whistleblower Protection Act, Act on the Protection of Personal Information, Road Traffic Act, etc.) scheduled to be revised

information into the execution of our businesses. In addition to making monthly activity reports to auditors and internal audit divisions, any particularly important initiatives or risk information

that is common to the Group is shared with the auditors in each Group company via the meetings of statutory auditors of Sumitomo Forestry and its subsidiary companies. Thus, the Group has developed a system for promoting compliance in its lines of business execution using internal and external approaches.

Whistleblowing Mechanism (Compliance Hotline)

The Sumitomo Forestry Group is committed to creating a workplace environment equipped with a self-corrective function for catching any misconduct concealed in day-to-day operations at an early stage. The Group established the Compliance Hotline (advice desks) in 2002 to allow for the reporting of compliance violations. Furthermore, in October 2019, we put in place a whistleblowing mechanism shared with our main overseas Group companies as our Group expands businesses around the world. An external multilingual operator is used for this reporting system to receive reports in English, Chinese, Indonesian, Vietnamese, and Thai.



Visit our website for further details about compliance.

<https://sfc.jp/english/sustainability/governance/compliance.html>



Internal Control System at Overseas Subsidiaries

In our Global Housing, Construction, and Real Estate Business, expatriate employees are dispatched to participate in business operations as directors. All 10 of our major U.S. and Australian subsidiaries have created rules concerning official authority to clarify decision-making processes, and expatriates monitor that business operations are conducted in accordance with business operating agreements and these rules. With regard to business process control related to the internal control and reporting system, we are promoting initiatives to identify problems through the visualization of daily operations by creating and preparing business memos. Going forward, based on the post-acquisition situation and local circumstances, we will gradually increase the number of subsidiaries that have

introduced business process controls under the internal control and reporting system and improve and strengthen our management system. In addition, we have introduced a whistleblowing mechanism at operating companies in the U.S. and Australia, as well as at Dalian Sumirin Information Technology Service Co., Ltd. (Dalian ITS) in China.

Managing Real Estate Investment Risks

In addition to management based on the Real Estate Investment Risk Management Regulations, we monitor the real estate holdings of each business segment so that we can respond flexibly to market conditions.

Voice of an Overseas Group Company CEO



John Winniford
Brightland Homes LTD.
President & CEO

Promoting sustainable development, the foundation of Sumitomo's Business Spirit, as a 10-year member of the Sumitomo Forestry Group

In May of 2024, we will celebrate our 10th Anniversary as a part of the Sumitomo Family. Over the course of the last decade, we have strived to honor Sumitomo Forestry's corporate philosophy and core values. At Brightland Homes we believe in fairness, integrity, and that high ethical standards are at the center of a successful business.

We share Sumitomo Forestry Group's passion for sustainability and the "good of society" and demonstrate that in our actions and how we conduct ourselves in the communities in which we live and serve. We plant trees for every home we deliver to support reforestation, support worthy causes in our communities and promote developments where families can live and thrive for generations to come.

Last year we launched an intranet site to ensure our employees are up to date on news and developments within our company, our markets, and our sector. We included a page solely dedicated to the Sumitomo Forestry Group's corporate philosophies and "Business Spirit" for the benefit of our employees. This only reinforces our commitment to the obligations we each have to uphold these principles.