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The Sumitomo Forestry Group's Wood Cycle value chain contributes to the realization of a prosperous society and a sustainable global environment

In the fiscal year ended December 31, 2022, Sumitomo Forestry achieved record high profits. When I became President in April 2020, the COVID-19 pandemic was spreading worldwide, but now three years later, restrictions on social and economic activities are finally being lifted as Japan, too, transitions to a post-COVID-19 world. However, global energy and food supply crises caused by geopolitical risks and the resulting inflation and economic slowdown are major elements of concern. We understand that this will be a truly critical juncture for the Group to enhance its corporate value over the medium to long term.

Achievement of our Long-Term Vision goes hand in hand with contributing to a decarbonized society

Using the Wood Cycle to provide environmental, social and economic value

I had been passionate about mountain climbing in my university days and I joined Sumitomo Forestry after graduation because I was attracted by the greatness of nature and the allure of mountains. In my eighth year with the company, I was assigned to our office in Seattle, Washington in the United States, where I was mainly in charge of importing timber from natural forests owned by Indigenous Alaskans to Japan. Around that time, Mio Ogawa, a palace carpenter I met, told me that "trees, even if cut down, can continue to live on as buildings for 1,000 years when used carefully," and I also learned that the funds obtained from the sale of timber enrich local communities. This experience provided a major foundation for Mission TREEING 2030, our Long-Term Vision that aims to pass on our planet as a comfortable home to all people and all living things, including future generations, by utilizing the value of forests and trees to provide value for our planet, for people and society, and for the market economy.

In February 2022, we announced Mission TREEING 2030, which incorporated the Group's long-term vision in anticipation of 2030, the target year of the SDGs. The plan's initial three-year period beginning in 2022 has been positioned as Mission TREEING 2030 Phase 1 in order to establish a solid footing, and initiatives are now underway. The first business policy in our Long-Term Vision is

"Maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy." We aim to realize a circular society by promoting the decarbonization of not only our own company but also society as a whole through business activities that implement the Wood Cycle, which is a value chain of the Sumitomo Forestry Group centered on wood. With forests, wood and construction as the three pillars, we will stimulate demand for Harvested Wood Products (HWP) that function to increase CO₂ absorption and carbon storage in forests. Simultaneously, we will implement the Wood Cycle from forest management to timber building material manufacturing and distribution, contracting for detached houses and medium- to large-scale wooden buildings, real estate development, and wood biomass power generation. Spreading such high-quality wooden constructions results in carbon storage over the long-term.

The three cornerstones of our decarbonization business are the acceleration of cyclical forest business, the promotion of "wood change," and standardization of carbon neutral design, and we are making progress in each of these initiatives as we enter the second year of the Medium-Term Management Plan.

[Long-Term Vision > P.14](#) [Value Creation Process > P.30](#)

Message from the President

Progress of our Medium-Term Management Plan

Increasing the area of owned and managed forests and contributing to a decarbonized society with our forestry fund

With regard to the acceleration of cyclical forest business, we have set a goal of increasing the area of owned and managed forests from 277,000 ha when the Medium-Term Management Plan was first formulated to 500,000 ha by 2030. In December 2022, we acquired a company which owns and manages 9,738 ha of mangrove forests*1 in Indonesia. We aim to generate carbon credits by managing these mangroves, which are globally valuable ecosystems, as conservation forests and reducing CO2 emissions by storing it in the mangroves.

In addition, in order to further expand forest area, we established a forest asset management operating company in the United States in October 2022 and set up Forestry Fund I in June 2023 through this new company. Forestry funds began as an alternative investment for pension funds in the United States about four decades ago, but the appetite for such funds is now growing, along with the need for decarbonization. In particular, forest-derived credits are attracting attention from many companies mainly in the energy and transportation industries with large amounts of CO2 emissions, as a means of offsetting CO2 emissions, and we plan to expand the size of assets under management of our Forestry Fund to 100 billion yen by 2030.

In February 2023, we established NeXT FOREST

Corporation, a joint venture with IHI Corporation, with the aim of commercializing the creation of high-quality carbon credits. By combining our management techniques for tropical peatlands*2, the world's first successful case which we built up in Indonesia, with IHI's observation technology using satellites, we will conduct advanced forest management to prevent peat fires by managing water levels with high accuracy. Going forward, by providing consulting services through NeXT FOREST, we will strive to disseminate appropriate management methods for tropical peatlands, and work to establish a system to appropriately evaluate the value of natural capital, such as biodiversity, preservation of the hydrologic cycle, and contribution to local communities, through accurate measurements of CO2 absorption and carbon storage in forests and soil.

*1 A general term for plants that grow in brackish water area in tropical and subtropical regions. It is said that there are more than 110 species of mangroves.
*2 Land consisting of peat deposits which are formed plant debris not decompose in water. When the groundwater level drops and peatland dry out, the peatland can be lost and emit large amount of CO2 by forest fires or peat decomposition. As such, groundwater level management is critical.

Increasing the self-sufficiency rate of domestic timber with "wood change"

In the wood field, we are working to promote the use of wood and wood-derived materials in construction and other areas and to promote the replacement of other materials with trees through "wood change" initiatives. In addition, we are promoting the establishment of timber

industrial complexes that will enable cascade use utilizing every part of timber. Japan's timber self-sufficiency rate is only 40%, and during the 2021 wood shock, it was difficult to source and transport imported timber to Japan due to the tight supply and demand for timber worldwide caused by increased demand for housing construction in the United States, as well as container shortages. Therefore, from the perspective of resource security, too, there is a growing momentum to promote the use of domestic timber. In addition, the use of wood for high-quality homes and furniture leads to long-term carbon storage, which also makes the wood and building materials processing business very important for decarbonization. Currently, we are conducting detailed studies and verifications, such as the early establishment of manufacturing technology for high-strength structural materials using low-strength ones. With Shibushi City, Kagoshima Prefecture as the first project, we are considering candidate sites for timber industrial complexes nationwide. With this approach, we will revitalize the domestic forestry industry and strengthen the competitiveness of domestic timber, including by creating jobs for forestry workers.

Reducing two types of CO2 emissions – operational carbon and embodied carbon – with standardization of carbon neutral design

In the construction field, we plan to increase the annual number of homes sold in Japan and overseas from 27,000 units in 2021 to 50,000 in 2030. Timber is used in wooden buildings and furniture to store carbon for a long period of time. In addition, CO2 emissions (embodied carbon) during construction can be greatly reduced compared to steel or reinforced concrete structures. Furthermore, we will expand the supply of net Zero Energy Houses (ZEH), which reduce CO2 emissions (operational carbon) during daily living to zero by adopting energy-saving and energy-creating technologies and net Zero Energy Buildings (ZEB). In Australia, Group company Henley Properties Group became the first major Australian builder to install solar panels as standard in all custom-built wooden single-family homes. In addition, with the aim of expanding the use of wood for structural framework of medium- to large-sized buildings, we are developing wooden offices using mass timber construction*4 in Atlanta and Dallas in the United States, following Japan, Australia, and the United Kingdom. Looking ahead, we will work to acquire environmental certification (LEED*5) and wellness certification (Fitwel*6) to provide ESG-conscious tenants with high environmental and social added value.

In addition, we have launched sales of One Click LCA, software that visualizes CO2 emissions during construction, in Japan, and are promoting initiatives across the

construction industry. We are accelerating the standardization of carbon neutral design in conjunction with a support project to promote the acquisition of Environmental Product Declaration (EPD) certification for wood and building materials. We will now promote the spread of wooden construction and reduce CO2 emissions during both construction and living.

*4 A structure built using mass timber, an engineered wood of relatively high mass that is formed by combining multiple pieces of wood.
*5 An environmental performance evaluation system for building and site use developed and operated by the US Green Building Council (USGBC).
*6 A system to evaluate and certify the health, working environment, etc. of building users, developed by the U.S. Federal Government's General Services Administration (GSA) and the Centers for Disease Control and Prevention (CDC).

Results in the first fiscal year of the Medium-Term Management Plan and future outlook

In terms of business performance, we aim to achieve recurring income of 250 billion yen by 2030. In the current Medium-Term Management Plan, the recurring income target for the fiscal year ending December 31, 2024, which is the final year of the plan, is 173 billion yen. However, recurring income for the fiscal year ending December 31, 2022, the first year of the Medium-Term Management Plan, was already 195 billion yen, exceeding the target for the final fiscal year. This was largely attributable to the growth of the single-family homes and real estate development businesses in the United States. In addition, we have achieved the targets of the Medium-Term Management Plan, such as ROE of 19.4% (target of 15% or more), equity ratio of 40.8% (40% or more) and net D/E ratio of 0.4 times (0.7 times or less), and we have been able to maintain a high level of financial soundness. From the middle of 2022, interest rate hikes to control inflation in the United States put a brake on orders in our housing business there, but the market environment has been improving from the beginning of 2023. Since the announcement of our Long-Term Vision and Medium-Term Management Plan in February 2022, the business landscape has changed significantly, including heightened geopolitical risks and financial instability, but we will continue to strive to realize our Long-Term Vision by strengthening the business foundation we have cultivated previously and maximizing the management resources of the entire Group.

[Special Feature > P.16](#) [Medium-Term Management Plan > P.34](#)

Mission TREEING 2030

~Making our planet safer and more secure for future generations~

2030 recurring income target **250.0 billion yen**

Current Medium-Term Management Plan		Mission TREEING 2030 Phase 1		
		Fiscal year ended December 31, 2022 to Fiscal year ending December 31, 2024		
		Fiscal 2021 results	Fiscal 2022 results	Fiscal 2024 targets*3
Results in the First Year of the Medium-Term Management Plan	Net sales	1,385.9 billion yen	1,669.7 billion yen	1,770.0 billion yen
	Recurring income	137.8 billion yen	195.0 billion yen	173.0 billion yen
	Net income attributable to shareholders of the parent company	87.2 billion yen	108.7 billion yen	116.0 billion yen

*3 Excludes actuarial differences.

Message from the President

Driving force behind our strengths in the overseas housing business 21 years after our market entry

Promoting business together with partners who share the same values

The year 2023 marks the 21st year of Sumitomo Forestry's entry into the housing business in North America. Both the United States and Australia have a culture of wooden homes, and they have a strong affinity with Sumitomo Forestry, which is why we decided to enter these markets. On the flip side, since the housing business is a local industry, it is very important to have an in-depth understanding of the characteristics of the communities and the ability to procure land closely in tune with the local community. In terms of M&A, during due diligence, including local competitiveness, we began by exploring local management's roles, strengths and weaknesses, and management philosophy, and eventually we spent a considerable amount of time sharing our values and discussing the importance of sustainable corporate growth, and the fact that employee employment should be protected at all costs. By carefully following through with these processes, we can get on the same page and move forward with corporate management as one.

Further growth of the Global Housing, Construction and Real Estate segment

When the Global Financial Crisis struck in 2008, the values of Sumitomo Forestry's inventory of housing and land in the United States at the time fell sharply, and we recorded a substantial loss. Business continuity was discussed internally, but management at the time saw the growth potential of the North American market and decided to continue the business. By remaining in the market, we were able to respond quickly to the subsequent growth of the United States housing market and rebuild our business while accumulating management know-how. Since then, we have continued to expand our business through M&A and organic growth in the Sun Belt area, and in 2022, the Group sold the ninth most housing units in the United States. In January 2023, we added Southern Impression Homes, Inc., a single-family rental housing business in Florida, to the Group to further expand our business footprint. In addition, we are promoting the Fully Integrated Turn-Key Provider (FITP) business, which provides integrated services for homes from panel design to manufacturing, delivery, and construction, and by establishing a panel and truss manufacturing plant in North Carolina, which is scheduled to commence operations in 2024, we aim to build an integrated material and engineering system that can shorten the construction period and streamline construction.

Going forward, we will continue to strengthen our resilience to change in the business landscape and pursue further growth while diversifying revenue sources and expanding synergies between businesses, such as the single-family rentals business, asset management business, medium- to large-scale wooden construction business, and FITP business, centered on the single family homes business and real estate development business.

[Special Feature > P.20](#)

[Global Housing, Construction and Real Estate Segment > P.48](#)

diverse human resources can maximize their abilities. In 2022, we expanded the scope in an effort to improve frontline capabilities by having each individual maintain a high sense of ownership as well as autonomously discover issues and build upon efforts to solve them.

On the other hand, we are only halfway through our process of promoting a more active role of women. The ratio of women in management positions was 6.3% (non-consolidated) in 2022, compared to the target of 8.1% or more in 2024. In 2023, women will account for about 30% of new employees on a non-consolidated basis, but at Group companies in the renovation business the ratio of women in new employees is even higher than that of men, with a number of women active as sales supervisors or branch managers. Utilizing diverse sensibilities and ideas in

business operations is also very beneficial for the company. We are also focusing on encouraging male employees to take childcare leave, and strengthening our programs that make it easier for both men and women to combine childcare or nursing care and work. In addition, thanks to the success of work style reforms and COVID-19 countermeasures, the use of telework and flextime systems is progressing. As a result, we have seen a culture of greater work flexibility for all employees begin to take root.

In order to achieve our Long-Term Vision, we believe that it is important for employees of diverse backgrounds to work with a sense of security and to link up innovation generated from the expertise and values of our diverse human resources to new challenges and growth.

[Human Resources Strategy > P.72](#)

Integrating ESG and business for the benefit of all stakeholders

Sumitomo's Business Spirit provides a nucleus for governance

Sumitomo Forestry is a company with a Statutory Board of Auditors. Outside directors account for one-third of all directors, and two of them are women. The Nomination and Remuneration Advisory Committee, which discusses the appointment and dismissal of directors and executive officers and succession plans, consists of three outside directors, three outside Statutory Auditors, the Chairman of the Board and myself, so most members are outside officers. The chair is also an outside director. Discussions are held on a regular basis. For example, in 2022, we changed the remuneration of officers to a system linked to stock price and sustainability indicators as part of our management's commitment to sustainable growth. In addition, in the rapidly growing Global Housing, Construction, and Real Estate segment, overseas representatives posted to business corporations after acquisitions participate in business operations as directors and verify that operations are conducted according to a stipulated decision-making process. In addition, we are gradually increasing the number of companies that have introduced a business process control system under the internal control reporting system to develop and strengthen our management structure.

When it comes to strengthening governance, simply creating rules and regulations does not go far enough. It is of utmost importance that each and every employee internalizes the Sumitomo Spirit that has been passed down since our founding along with the management philosophy based on it, and act in accordance with Our

Core Values and the Code of Ethics. The Sumitomo Spirit emphasizes that a business can only be successful if it brings benefits not only to the company's own interests but also to society and others. We believe that a company is a public institution and must never pursue short-term gains. We believe that abiding by and embodying the Sumitomo Spirit represents a critical component of our management and business sustainability.

[Corporate Governance > P.80](#)

Vision for the Future of Sumitomo Forestry

Based on the Sumitomo's Business Spirit, I would like to make Sumitomo Forestry a company that further integrates ESG initiatives with business. Our Long-Term Vision sets the goal of achieving three values: value for our planet, value for people and society, and value for the market economy, which is exactly what can be achieved by integrating ESG and business. We have abundant management resources to keep the Wood Cycle in motion continuously. We believe that by utilizing these management resources and steadily engaging in business activities based on the Sumitomo Spirit, we will be able to contribute to the sustainable growth of the company and the decarbonization of society even in times of unpredictable and drastic changes.

I ask for your continued support and understanding of the Group's initiatives to draw out the potential of forests and trees and enhance the sustainability of society as we move forward.

Fostering a liberal and broad-minded culture where each and every employee can show their true value

With regard to human resources, we have set "to create a vibrant environment for all workers" as one of our material issues, and we are promoting initiatives toward this end. As

for human resource development, we launched a project in 2021 to transform our corporate culture with the aim of fostering a liberal and broad-minded culture in which