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President and Representative Director

Maximizing the value of forests and trees through the implementation of the Wood Cycle - the value chain of the Sumitomo Forestry Group, we aim to achieve sustainable growth through our contributions to a decarbonized society.

Our Medium-term Management Plan is designed to consolidate our foothold toward the realization of our Long-term Vision for 2030. In 2023, its second year, our performance exceeded the initial forecast. Now that we find ourselves at a major turning point both in Japan and overseas, we will ensure that all employees in the Group work together to unlock greater growth, under the unwavering Sumitomo's Business Spirit.

Review of 2023

Two years have already passed since the announcement of our Long-term Vision Mission TREEING 2030, which incorporates the ideal state of the Sumitomo Forestry Group into a long-term business concept, and our Medium-term Management Plan Mission TREEING 2030 Phase 1 (2022-2024), which is positioned as a three-year period to establish a foothold for the Long-term Vision. In 2023, the second year of the Medium-term Management Plan, net sales exceeded the initial forecast at 1,733.2 billion yen (up 135.2 billion yen compared to the initial forecast), recurring income was 159.4 billion yen (up 39.4 billion yen), and net income was 102.5 billion yen (up 25.5 billion yen).

In 2023, the U.S. housing market, which has become our main market, experienced a significant decline in affordability due to soaring home prices since the pandemic and rising mortgage rates. On the other hand, inventory of existing homes, which historically accounted for 90% of single-family home sales, was four million units before the Global Financial Crisis and two million units before the COVID-19 pandemic, but has fallen to a low level of about one million units due to the impact of soaring mortgage rates, and newly built single-family homes have now become a way of covering housing demand.

We effectively used an incentive called rate buydown, in which builders cover a portion of the first few years of mortgage interest paid by customers, which led to results

that significantly exceeded initial expectations. While the chronic housing shortage of four to six million units is expected to continue in response to the demand from homebuyers mainly representing Generation Z and Millennials, sustainable growth is expected mainly in the growing market of the Sun Belt.

■ Looking Toward Achieving the Medium-term Management Plan

In 2024, the final year of the current Medium-term Management Plan, the U.S. single-family homes business is expected to grow further, and recurring income is expected to reach 173.0 billion yen, which was the target at the time of formulating the plan. In major advanced economies other than Japan, the business environment has become more severe than at the time of formulating the Medium-term Management Plan due to continued high interest rates to control inflation and rising material and labor costs, but I believe that the fact that we are on track to achieve our performance targets is the result of the strategies and measures we have been working on so far.

The KPIs for financial indicators include ROE of 15% or more, an equity ratio of 40% or more, and a net D/E ratio of 0.7 or less. Although the hurdles to achieving the ROE target are somewhat high, partly due to net assets inflated by an increase in foreign exchange translation adjustments

Message from the President

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 2023 results | Fiscal 2024 targets*1 | |
| Performance during the Medium-term Management Plan | Net sales | 1,385.9 billion yen | 1,669.7 billion yen | 1,733.2 billion yen | 2,065.0 billion yen | |
| | Recurring income | 137.8 billion yen | 195.0 billion yen | 159.4 billion yen | 173.0 billion yen | |
| | Net income attributable to shareholders of the parent company | 87.2 billion yen | 108.7 billion yen | 102.5 billion yen | 105.5 billion yen | |

*1 Excludes actuarial differences. Initial plan as of February 14, 2024.

resulting from the depreciation of the yen and an increase in net assets, we believe that the targets for equity ratio and net D/E ratio can generally be achieved at this point.

Toward the realization of our Long-term Vision Mission TREEING 2030, in the next Medium-term Management Plan, we will continue to actively invest in growth, mainly in the fields of forests, wood, and construction, in order to

continue to expand our business in growing markets such as the U.S., Australia, and Southeast Asia, and to strengthen the competitiveness of our domestic business, while maintaining a strong financial base. At the same time, we will strive to maximize our corporate value by promoting appropriate shareholder returns.

Medium-term Management Plan P.40

Seeking to unlock greater growth centered in the U.S. which offers the highest potential of any housing market in the world

With the aim of achieving annual sales of 23,000 units in the U.S. and 5,500 units in Australia by 2030, as set in our Long-term Vision, based on organic growth we will continue to consider M&A if there are excellent opportunities. In January 2023, in Florida, which ranks second in the U.S. in terms of the number of permits for single-family housing starts, we welcomed Southern Impression Homes, which mainly builds and sells single-family rental houses and develops housing lots, to the Group. This has enabled us to establish a base in Florida,

where we had yet to fully enter the market. Subsequently, Brightland and DRB, two existing housing Group companies, opened branches in Florida and have also entered the single-family homes business there. In addition, in March 2024, we acquired the business of Biscayne Homes, which has a strong relationship with Metro Development Group, the state's No. 1 housing lots developer, and has a substantial housing land pipeline. We aim to sell 5,000 units per year in Florida in 2030, but given the potential of the state's housing market and the Group's

continued and aggressive business development, we believe that there is a good chance that we will achieve our sales target before 2030.

In the U.S. real estate development market, demand for commercial and office properties has been sluggish since the pandemic, and it will take time to see improvements in the capital markets and adjustment in supply and demand for a full-fledged recovery, demand for multi-family rental housing is expected to remain resilient against the backdrop of a shortage of single-family homes and a decline in affordability. In November 2023, we acquired JPI, a developer and builder of multi-family rental housing based in Texas and California. As a result, our multi-family housing starts in the U.S. including Crescent will exceed 8,000 units per year, and during the next Medium-term Management Plan, our supply capacity for multi-family rental housing will exceed 10,000 units each year. Accordingly, this is expected to be the second pillar after the single-family homes business.

Actively expanding into new areas and acquiring land requires that we improve the overall governance system and the management capabilities of individual subsidiaries. In addition, we will promote rationalization and productivity improvement through joint purchasing of materials and system integration, build a resilient earnings structure that surpasses that of major listed homebuilders, and accelerate the construction of a business model that is resilient to market changes. One example of this is the expansion of the FITP*2 business. We will promote shortening of construction timelines and cost reductions through the FITP business, which covers the entire process from manufacturing to construction of structural members such as trusses, floors, and wall panels, and build a solid earnings base for single-family houses and multi-family housing. The FITP business, which helps to address labor shortages and stabilize supply chains, will contribute to the establishment of a sales capability for 23,000 units. As of December 31, 2023, we had five plants already in operation in Maryland, Texas and other states, and a new plant started operations in North Carolina in May 2024. We will continue to expand our area coverage in the future.

Special feature 1: Strengthening our global expansion P.26

*2 Fully Integrated Turn key Provider

■ Implementing structural reforms in the domestic housing business with a sense of urgency

The number of new housing starts in Japan in 2023 totaled approximately 819,000 units, below 900,000 units for the fourth consecutive year, and the number of owner-occupied

housing construction starts continued to fall below the previous year. Timber prices have returned to pre-pandemic levels, but rising energy costs have led to soaring prices of building materials other than timber, which has resulted in a difficult business environment coupled with chronic labor shortages. Against this backdrop, the gross profit margin of the non-consolidated Housing segment in 2023 improved significantly to 23.4%, up 4.2 points year-on-year, thanks in part to the effects of the revision of the price for custom-built detached houses that have been implemented in stages since 2021. Recurring income in the Housing segment as a whole reached a record high of 32.8 billion yen, thanks in part to the contributions of the spec home business, real estate brokerage, rental management, and the greening business, and we were able to achieve a certain level of success even under difficult circumstances.

One of the strengths of our housing business is the ability to deliver full-fledged custom-designed houses with wood textures that can meet the needs of our customers based on the high-quality Big-Frame (BF) Structure offering high seismic and environmental performance. Sumitomo Forestry's homebuilding is supported by a large number of employees and a system of cooperating building contractors, from the ability to procure materials such as wood to sales, design, construction, and after-sales maintenance. The number of new housing starts in Japan is expected to decline from the current level of 800,000 units to 600,000 units by 2040. By further refining our strengths, we intend to consolidate our stable supply capacity of approximately 10,000 custom-built houses, rental housing, and spec home units per year, and increase our share of the domestic housing market in the process. In 2023, our market share of custom-built detached houses rose to 3.69%, a significant increase from 2020 (2.92%) before the start of the current Medium-term Management Plan.

In Japan's construction industry, labor shortages are becoming more serious against the backdrop of the aging of trades workers and the problem of finding successors to contractors who support on-site workers. The environment surrounding our business is changing drastically due to soaring labor costs caused by these labor shortages and rising material costs, which are expected to exacerbate further. We also need to respond with a sense of urgency more than ever before in human resources development and the development and rationalization of construction systems, and we will strive to improve profitability while making full use of DX and AI technologies.

Specifically, in 2023, we established the Innovation Strategy Department to collect and organize the current

Message from the President

business flow from receiving orders to design and construction in the custom-built housing business, thoroughly analyzing the profit structure, and comparing it with peers. In order to resolve the issues that emerged from this, we will review our business processes and embark on a drastic reform of our business model unbound by conventional framework. In addition, we will implement “business structural reforms” or “business value engineering” free from established approaches, such as reviewing products and specifications, proposing additional added value which will lead to improved customer satisfaction, and streamlining construction and improving productivity which will lead to work style reforms for employees and on-site workers. In terms of new growth areas, efforts toward building non-residential wooden constructions are also indispensable. The wooden conversion rate in the domestic housing market is already about 80%, but the wooden conversion rate in the non-residential market, such as schools and offices, is still less than 10%, and we believe that this is a market with high potential in the future, partly due to the government’s support for wooden construction.

Our detached houses have a great advantage known as our proprietary Big-Frame Structure. In addition to being able to ensure strong seismic performance through streamlined structural calculations, it is one of most competitive construction methods because the entire supply chain, from material procurement to processing, has already been built around the structural frame, and a nationwide construction system is also in place. The key to promoting the use of wood in the non-residential sector is the expansion of Big-Frame Structure, and we are working to develop a system for this purpose. In May 2024, we launched “The Forest Barque,” a wooden commercial

construction brand that uses Big-Frame Structure, and we are making steady progress with it. Big-Frame Structure is a unique strength of our Group that is not possessed by developers or general contractors with a proven track record in wooden construction. In order to accelerate the development of Big-Frame Structure into ZEH condominium-type rental housing and non-residential properties by utilizing the efficient design and production system and supply chain of Big-Frame Structure, we have formed a task force team and will steadily promote the development of technologies that will enable the construction of a four-story building of 3,000 m².

In order to realize our Long-term Vision, we will maintain the annual number of construction starts at 8,000 units in our mainstay custom-built housing business and restore profitability, and also implement a clear growth strategy to expand our businesses such as rental housing, non-residential construction, spec homes, renovation, real estate brokerage and management, and environmental greening, which have significant room for growth. We believe we can double recurring income in the Housing business from the current level of approximately 30 billion yen to 60 billion yen in 2030. In dialogue with shareholders and investors, we sometimes receive opinions that we should concentrate our management resources on overseas businesses, which are relatively profitable within the Group, but we expect that the domestic wooden constructions market will expand mainly for non-residential properties due to the trend toward decarbonization in the construction industry. Together with the Environment and Resources and Timber and Building Materials businesses, we consider this to be one of the businesses that are indispensable for the future growth of the Group as a whole.

Housing Business P.92

Evolving the Wood Cycle and accelerating decarbonization businesses

In our Long-term Vision, we aim to simultaneously enhance the three following values through our business activities: value for our planet, value for people and society, and value for the market economy, and one of our business policies is “Maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy.”

Trees have an important function called “carbon storage” that allows them to store absorbed CO₂ internally as carbon. As harvested trees continue to be used as wood products

such as for wooden buildings and furniture over a long period of time, the absorbed CO₂ cannot be emitted into the atmosphere for a long time. The Group is developing business activities centered on wood, from forest management to timber distribution, wooden constructions, and biomass power generation. This makes Sumitomo Forestry an extremely rare company whose business itself contributes to a decarbonized society. By further promoting our businesses in the fields of forests, wood, and



construction in our unique value chain of the Wood Cycle, we will contribute to the absorption and fixation of CO₂ not only by our Company but also by society as a whole.

In terms of progress in 2023, in the area of forests, in June, we established the Eastwood Climate Smart Forestry Fund I, a forest fund targeting forest assets in North and Central America. Ten Japanese companies, including Sumitomo Forestry, will invest in the project, with assets of approximately 60 billion yen and a plan to invest for 15 years. The acquisition of forest assets after the formation of the fund is also progressing smoothly, and a total of 112,580 acres (approximately 45,600 hectares) of forest assets have been acquired so far. We aim to expand the area of forests owned and managed to 500,000 hectares by 2030. We are also working on the formation of a second fund in Japan, Southeast Asia, South America, Oceania, and other regions. By utilizing the fund mechanism, we will appropriately manage forests on an area and capital scale that cannot be realized by an individual company, and implement global climate change countermeasures. In addition, through these forest funds, we will increase the CO₂ absorption capacity of forests, contribute to the realization of a decarbonized society by creating and

returning high-quality carbon credits, and increase the value of forests as natural capital, such as maintaining biodiversity and conserving water resources.

In the field of wood, we are working to expand the use of wood by promoting its carbon fixation function and the diverse value it offers to society. In particular, there is an urgent need to utilize domestic timber from forests planted after World War II when it is due to be cut down, and we are working to expand the use of domestic logs and ensure a stable supply of wood products through the establishment of a timber industrial complex. In November 2023, in Iwaki City, Fukushima Prefecture, three companies, Koei Shizai Co., Ltd., Wada Timber Ltd., and Sumitomo Forestry, established KowanoMori Co., Ltd to manufacture timber and processed wood products, mainly from domestic cedar. The company’s new plant is scheduled to start operations in March 2026. It will contribute to the revitalization of the timber market by strengthening the supply chain in which raw timber is supplied by upstream forest owners and material production companies, and timber and processed wood products are distributed to sawmills, pre-cut factories, and downstream housing manufacturers in collaboration with local stakeholders.

Message from the President

In the field of construction, we are working on medium- to large-scale wooden constructions underway in Japan and overseas. Nearly 40% of global CO₂ emissions come from the construction sector, but wooden buildings can make a significant contribution to the reduction of embodied carbon, which is CO₂ emissions during the procurement of raw materials, processing, transportation, construction, and disposal of building materials, compared to reinforced concrete and steel structures. There is also ample room for growth as a business opportunity for us. As a specific example of construction last year, we completed a 15-story partially reinforced concrete wooden office building in Melbourne, Australia, in October 2023. In 2024, we plan to complete wooden office buildings in the U.S. and U.K. In Japan, in addition to accelerating collaboration with Kumagai Gumi Co., Ltd. and other general contractors on timber hybrid construction, we are promoting wooden construction for lodging facilities and other facilities through real estate development projects.

In Japan and overseas, various stakeholders have

expressed a high level of interest and expectations for the future of our efforts to implement the Wood Cycle in the fields of forests, wood, and construction. At the same time, we have received requests to show more concrete contributions to a decarbonized society. So far, we have shown that harvesting trees, replanting them, and utilizing wood can contribute to decarbonization by increasing the amount of carbon storage in society as a whole, using Japanese cedar as a model. In the next Medium-term Management Plan, which begins in 2025, we will present a specific model for the forests owned and managed by Sumitomo Forestry in Japan and overseas, the manufacture of wood products, and the spread of wooden buildings. On top of that, we would like to quantify the contribution to decarbonization by specific businesses, such as forest funds, timber industrial complexes, and medium- to large-scale wooden constructions, and show that the promotion of our business creates value for the planet, value for people and society, and value for the market economy.

Timber and Building Materials Business P.90

Sumitomo Forestry's human capital management

Our business is supported by employees who put into practice Sumitomo's Business Spirit of placing prime importance on integrity and sound management. This is not limited to employees in Japan, but also partners and employees of overseas operating companies who share the same values. The fact that many of our employees devote themselves to their work with a sincere attitude at all times is one of our strengths that is indispensable for the long-term growth of the Group.

Many of the initiatives in the fields of forests, wood, and construction set forth in the Long-term Vision run across existing business segments, and require innovation based on ideas and actions that are not bound by conventional frameworks and ways of thinking. It is a challenge to continuously develop employees who can strive for self-improvement, remain dedicated to achieving goals, have a spirit of challenge, promote the transformation of existing businesses, and have the power to "shape" new businesses, in addition to sincerity.

Against this backdrop, the Group has established a human resources strategy based on three pillars: (1) securing and developing human resources who will transform and create businesses; (2) a system to maximize

employee performance and a free and open corporate culture; and (3) promotion of health management. At the same time, we have introduced a new personnel and evaluation system from 2024 that aims to maximize the overall strength of the organization, such as enabling the early selection of excellent employees.

In organizations of the past, it was considered efficient and good for everyone to work together under the command of a single leader, but in today's era where diverse values are mixed and the absolute answer is unknown, I believe that it is very important to create an organization in which each individual can make decisions and act in the course of daily work, while maintaining the same direction as a whole.

In April 2024, Sumitomo Forestry established the Sumitomo Forestry Group Declaration on Diversity, Equity and Inclusion, which clarifies the significance of this area. We have already stated in our Code of Conduct that we respect diversity and create work from new perspectives, but by establishing this Declaration, we aim to have all Group employees take ownership to create a work environment where each and every employee is respected, in an equitable environment, and accepted in an

organizational society.

By promoting human capital management unique to Sumitomo Forestry through the establishment of a human resources strategy, the introduction of a new personnel

evaluation system, and this Declaration, we will further strengthen the management foundation of the Sumitomo Forestry Group as a whole and strive for sustainable growth.

Human Resources Strategy P.62

Enhancing corporate value through stakeholder engagement

In our financial results presentation for the second quarter of 2023, we formulated and disclosed measures to realize management that is mindful of equity cost and share price. Since the disclosure, there has been much feedback from shareholders and investors, and much dialogue on equity cost and capital policy. In addition, in February 2024, the Tokyo Stock Exchange featured Sumitomo Forestry as one of the best examples of a company working to improve the P/B ratio evaluated by investors, and there have been cases where new investors have approached us for IR meetings.

I believe that dialogue with various stakeholders, including shareholders and investors, is essential for enhancing corporate value, and I have been actively promoting IR activities since I became President. Soon after my appointment, I used to communicate with overseas investors through an interpreter, but I switched all dialogue to English because I had realized firsthand the importance of direct dialogue in my own words through my long work experience, including overseas assignments. We have been able to build a relationship of trust with investors, and fortunately, there have been cases where investors have

acquired our shares after the IR meeting.

The P/B ratio was around 0.7x at the beginning of 2023, but has recently continued to exceed 1.0x and rose to 1.5x in May 2024. By demonstrating sustainable growth scenarios and achievements in the future, we believe that our P/B ratio has ample potential to exceed the current level and aim for even greater heights. We recognize that it is our responsibility as a company to continue to stably record profits in our overseas businesses, including the U.S., Australia, and ASEAN markets, where strong growth is expected, and to contribute to a decarbonized society while enhancing the competitiveness of our domestic businesses and improving profitability. In addition, I believe that we must clearly present the financial and capital strategies that support these scenarios, and to make the clear-cut shareholder return policy, which we have received opinions on from shareholders and investors, easier to understand. Going forward, I would like to continue to work with our stakeholders toward enhancing our corporate value.

Stakeholder Engagement P.68

Sumitomo's unwavering Business Spirit calls for pursuing growth consistently

While the long-standing threat of COVID-19 has passed, globally, geopolitical risks are rising, such as Russia's military invasion of Ukraine, the protracted Hamas-Israeli conflict, and tensions in the Taiwan Strait. Now we have reached a major turning point: the prolonged tightening of monetary policy to tame inflation in major advanced economies has turned into a focus on interest rate cuts, and in Japan the Bank of Japan's negative interest rate policy was lifted.

Since our founding in 1691, we have aimed to provide value not only to our Company but also to society as a whole, based on the idea of "benefit self and benefit others,

private and public interests are one and the same." In these times of rapid change, we are reminded of the importance of pursuing further growth based on Sumitomo's Business Spirit of placing prime importance on fairness, integrity and sound management, and not pursuing immoral business. The Sumitomo Forestry Group will work together as one to actively promote DX and SX (Sustainability Transformation) to achieve Mission TREEING 2030, and contribute to the creation of a sustainable and prosperous society together with our many business partners and stakeholders in Japan and overseas.