Management Environment Analysis

Mega Trends

- Climate change and biodiversity conservation
- Resources and energy issues
- Values and lifestyles
- Demographic and household trends
- Regional revitalization
- Respect for human rights
- Trend of globalization
- Political and economic situation
- Advancements in digitalization

Risks and opportunities behind the Nine Material Issues

Risks for Sumitomo Forestry

- Diminishing value of forests caused by increasing severity of natural disasters, and fiercer competition due to the market entry of companies from other industries into industries making use of forests and wood
- Growing stakeholders' requests and pressure for responses to climate change
- Increased environmental impact and impairment of natural capital caused by the use and disposal of unsustainable resources
- Changes in demographics and reduction in consumer needs
- Disruptions to business expansion owing to the negative impact brought forth on communities
- Occurrence of occupational injuries and declining employee satisfaction and productivity
- Loss of business opportunities due to delayed responses to growing markets
- Destruction of existing business value caused by technological innovation
- More profound impact on business activities resulting from unforeseen circumstances, such as natural disasters, infectious diseases, financial crises, and others

Opportunities for Sumitomo Forestry

- Expansion of business opportunities and stronger sources of competitiveness due to the maximization of value of forests and wood
- Creation and expansion of business opportunities contributing to carbon neutrality through the use of forests and wood
- Expansion of business opportunities using the characteristics of trees which are naturally renewable cyclically
- Increase of business opportunities that capture the diversifying needs for housing and living associated with societal changes
- Co-prosperity of communities and the Company through co-existence
- Productivity improvements and innovation creation through increased workforce vitality and the promotion of diversity, equity and inclusion
- Growing overseas housing markets and creation of new business opportunities using forests and wood
- Productivity improvements in the Company and the whole market driven by DX and innovation as well as creation of innovative value in customer experiences
- Contribution to sustainable economic growth through resiliently built business operations and structures

Strategies

Long-term Vision, Business Policy

1. Maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy
2. Advancing globalization
3. Striving for transformation and the creation of new value
4. Transforming our business foundation for growth

Medium-term Management Plan Basic Policy

1 Efforts to address decarbonization challenges using wood resources

- Develop new businesses domestically and internationally that pursue the value of forests as carbon sinks
- Promote initiatives that enhance the competitiveness of domestic wood
- Expand our medium- to large-scale wooden construction business

2 Promotion of a more resilient earnings base

- Regain profitability of our housing business and our timber and building materials business and promote transformation that enables us to anticipate and respond to future market changes
- Improve asset efficiency

3 Acceleration of global expansion

- Expand our housing and real estate business operations in the United States and Australia and create a profit base in Asia

4 Strengthen management base for sustainable growth

- Promote digitalization
- Enhance the securing and nurturing of personnel and improve employee engagement
- Reinforce risk management

5 Further integration of business operations and ESG

- Steadily implement initiatives to achieve RE100/SBTs (Science-Based Targets)

Nine Material Issues

Value for our planet

1. To enhance the value of forests and wood through sustainable forest management
2. To realize carbon neutrality by leveraging forests and wood resources
3. To realize a circular bioeconomy by leveraging forests and wood resources

Value for people and society

4. To provide comfortable and secure spaces for society at large
5. To improve the livelihood of the local communities where we operate
6. To create a vibrant environment for all workers

Value for the market economy

7. To create new markets with forests and wood
8. To transform markets through DX and innovation
9. To establish a robust business structure

Value Creation Process

Corporate Philosophy

The Sumitomo Forestry Group utilizes wood as a healthy and environmentally friendly natural resource to provide a diverse range of lifestyle-related services that contribute to the realization of a sustainable and prosperous society. All our efforts are based on Sumitomo's Business Spirit, which places prime importance on fairness and integrity for the good of society.

Inputs

(Fiscal 2023)

Natural Capital

- Energy inputs: 10,302 TJ
- Volume of timber and wood products: 8,050,000 m^3
- Water usage: 2,916,000 m^3

Manufactured Capital

- Wood biomass power generation plants: 6 (Japan)
- Sawmills (Timber and Building Materials): 4 (Japan) and 9 (overseas)
- Number of plants in operation in the FITP business*1: 5 (overseas)

*1 Fully Integrated Turn-Key Provider (FITP) business providing integrated services from panel design to manufacturing, delivery and construction

Human Capital

- Employees on a consolidated basis: 24,815 (including 11,315 overseas)
- Training costs per employee: 117,000 yen (non-consolidated) and 42,000 yen (subsidiaries in Japan)
- First-class architects: 1,052 (non-consolidated) and 406 (subsidiaries in Japan)
- Second-class architects: 1,376 (non-consolidated) and 1,484 (subsidiaries in Japan)

Intellectual Capital

- R&D spending: 2,878 million yen

Social Capital

- Accumulated number of homes delivered: approx. 350,000 units (Japan) and approx. 110,000 units (overseas)

Financial Capital

- Shareholders' equity: 613.4 billion yen
- Interest-bearing debt: 423.9 billion yen
- Loans and investments: 116.1 billion yen

The Wood Cycle

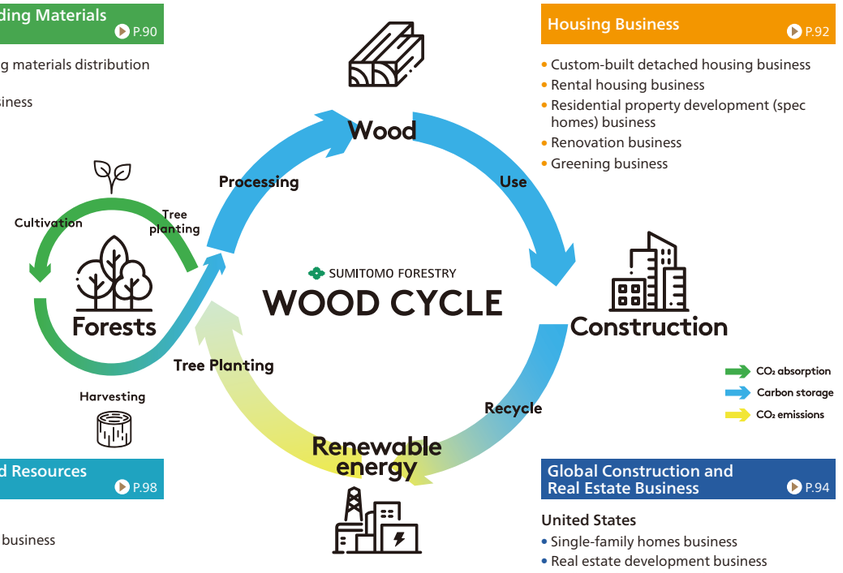
The Wood Cycle refers to the Sumitomo Forestry Group's value chain from upstream to downstream centered on wood, spanning from forest management to the manufacture and distribution of timber and building materials, wooden construction, and wood biomass power generation. By promoting decarbonization projects in the three fields of forests, wood, and construction, and by implementing the Wood Cycle, we aim to contribute to the realization of a decarbonized society by promoting CO_2 absorption and carbon storage not only for the Group but also for society as a whole.

Timber and Building Materials Business P.90

- Timber and building materials distribution business
- Manufacturing business

Housing Business P.92

- Custom-built detached housing business
- Rental housing business
- Residential property development (spec homes) business
- Renovation business
- Greening business



Environment and Resources Business P.98

- Forestry business
- Renewable energy business

Global Construction and Real Estate Business P.94

United States
- Single-family homes business
- Real estate development business
- Medium- to large-scale wooden construction business
- FITP business

Australia
- Single-family homes business
- Medium- to large-scale wooden construction business
- Greening business

Business activities

Medium-term Management Plan Basic Policy P.41

1 Efforts to address decarbonization challenges using wood resources
2 Promotion of a more resilient earnings base
3 Acceleration of global expansion
4 Strengthen management base for sustainable growth
5 Further integration of business operations and ESG

Forests

Environment and Resources Business

Owned/managed forest area

(As of December 31, 2023)

Japan	Overseas
approx. 48,000 ha	approx. 238,000 ha

Wood

Timber and Building Materials Business

Volume of timber and wood products

(Fiscal 2023)

Distribution	Manufacturing
5,152,000 m^3	1,658,000 m^3

Construction

Housing Business / **Global Construction and Real Estate Business**

Annually supplied houses

(Fiscal 2023)

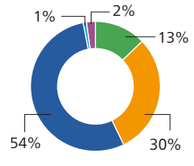
Japan	United States	Australia	Others*2
9,295	10,221	3,402	1,501

*2 Total for multi-family housing/single family homes business, etc. in real estate development in the U.S., Australia, Europe, and Asia, including those via JVs.

Outputs

Breakdown by Segment*3

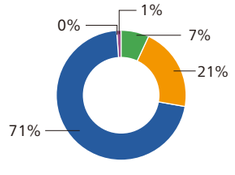
(Fiscal 2023)



- Timber and Building Materials
- Housing
- Global Construction and Real Estate
- Environment and Resources
- Others

Net sales **1,733.2 billion yen**

Recurring income **159.4 billion yen**



*3 The composition by segment excludes inter-segment eliminations (net sales of -35.9 billion yen, recurring income of 0.2 billion yen).

Outcomes

(Fiscal 2023)

Value for our planet P.24

- Carbon stock of forests: 65,744 thousand tons*4
- HWP*5 existing carbon stock: 25,300 thousand tons
- Sustainability procurement survey implementation rate for imported wood product supplier: 100% (Timber and Building Materials segment)
- Sustainability procurement survey implementation rate in the supply chain: 97.0% (Housing segment)
- Percentage of sustainable timber and wood products handled in the distribution business: 100% (Timber and Building Materials segment)
- Percentage of sustainable wood used as the principal structural member of detached houses: 100% (Housing segment)
- ZEH order ratio: 79.7% (Housing segment)

Value for people and society P.62

- Employee satisfaction level: 76.3% (non-consolidated basis) 59.3% (subsidiaries in Japan)
- Ratio of female employees: 23.8% (non-consolidated basis) 36.1% (subsidiaries in Japan)
- Childcare leave acquisition rate*6 (male): 70.0% (non-consolidated basis) 28.0% (subsidiaries in Japan)
- Childcare leave acquisition rate*6 (female): 81.4% (non-consolidated basis) 96.8% (subsidiaries in Japan)
- Ratio of Certified as Long-life Quality Housing*7: 95.9%
- Questionnaire at the time of moving in (Non-consolidated NPS value*8) : 53.5 pt

Value for the market economy P.43

- Annual dividend per share: 125 yen
- Total shareholder return (TSR; annualized): 85.5% for trailing one year and 14.6% for trailing 10 years

*4 Method to calculate carbon stock of forests
Cumulative amount x Bulk density x Biomass magnification factor x (1+ratio of underground area as a ratio of above ground area) x Carbon content (utilizing the specific number of each tree species)
*5 Harvested Wood Products (HWP)
*6 The number of childcare leavers starting in the respective fiscal year divided by the number of employees who had a baby in respective fiscal year
*7 Limited to private house and applicable floor area or more
*8 Net Promoter Score (NPS)
NPS is an index used to measure customer loyalty (the amount of trust and affinity for the company and brand)

Explanation of Value Creation Process

The Sumitomo Forestry Group is developing business activities based on the Wood Cycle, a value chain centered on wood, from forest management to wood processing and distribution, construction of wooden houses, and wood biomass power generation. We will contribute to the absorption and fixation of CO_2 not only by our Company but also by society as a whole, by planting trees and by increasing the amount of CO_2 absorbed by forests, promoting carbon fixation inside wood, and using wood in buildings and furniture to store carbon over a long period of time.

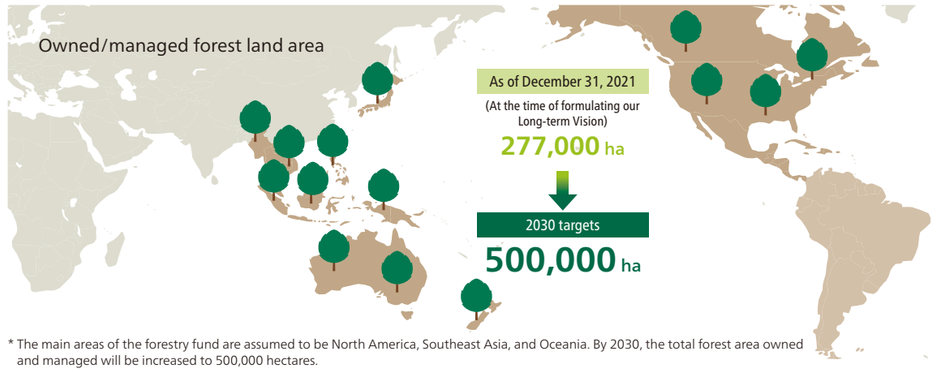
Environment and Resources Business

P.98

Forests

Accelerate the cyclical forest business

In the Environment and Resources business, we own and manage approximately 48,000 hectares of forest land in Japan and approximately 238,000 hectares overseas, based on the sustainable forest approach, in which trees are planted, grown, harvested, and replanted. Forests are divided into protected forests for the purpose of biodiversity and landslide prevention, and economic forests that go through a cycle of afforestation and logging. The Group firmly zones protected forests and economic forests, and promotes cyclical forest management in a sustainable manner in economic forests. In the future, we will establish a global forestry fund to protect and expand forests and peatlands, and build a mechanism for allocating carbon credits (emission credits) to contribute to the decarbonization of society. In addition, we will address global environmental issues through innovative forest management technologies developed through the NeXT FOREST Project in collaboration with IHI Corporation.



* The main areas of the forestry fund are assumed to be North America, Southeast Asia, and Oceania. By 2030, the total forest area owned and managed will be increased to 500,000 hectares.

Forestry fund formation: Contributing to the realization of a decarbonized society

In June 2023, Eastwood Forests, LLC, a member of the Group, established the Eastwood Climate Smart Forest Fund I, a large-scale forestry fund for decarbonization, with investments from 10 Japanese companies. The fund will acquire forest assets, mainly in North America, where the market for forest asset transactions has been established and the carbon credit system is in place, and will produce timber from appropriate forest management and generate carbon credits. The acquisition of forest assets after formation of the fund is also progressing smoothly, and as of February 2024, approximately 45,600 hectares of forest assets have been acquired. Through the fund's mechanism, the Sumitomo Forestry Group and participating companies will contribute to the realization of a decarbonized society by appropriately managing forests in terms of area and assets that cannot be achieved on its own, and by maximizing the conservation of biodiversity and the CO_2 absorption and fixation functions of forests.

Timber and Building Materials Business

P.90

Wood

Promote wood change

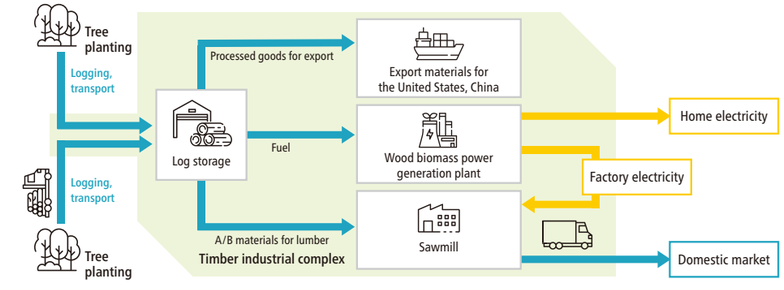
The Timber and Building Materials business encompasses the procurement, manufacture and supply of timber and wood products. Based on our unique procurement policy, we utilize the global network we have built up over many years of expanding our distribution business to stably procure and distribute legal and sustainable timber and wood products. Wood is lightweight, strong, resistant to deterioration, and has excellent heat insulation, as well as the ability to store absorbed carbon even after product processing. In addition, compared to steel and concrete, wood can significantly reduce CO_2 emissions during manufacturing. As the leading trading company in the domestic timber and building materials distribution markets in terms of volume, we will further advocate the various forms of value of wood to society, promote wood change through the establishment of timber industrial complexes, and expand the volume of harvested wood products (HWP) handled and manufactured, which will lead to an increase in carbon storage for society as a whole.

Establishment of timber industrial complexes: Aiming to expand the use of domestic timber

In timber industrial complexes, the value of low-grade and offcuts is maximized through the cascade use of all raw timber. The Group aims to build a cyclical business by promoting the substitution of wood-derived materials in various fields such as single-family homes and non-residential buildings, and to increase the value of forests and expand the use of domestic timber. By collaborating with business partners in each area and mutually complementing their functions, we will realize the Wood Cycle and contribute to improving Japan's wood self-sufficiency rate and benefit local communities.

In February 2022, Sumitomo Forestry and Shibushi City, Kagoshima Prefecture, signed a basic agreement on the location of a new plant. With the aim of building a plant that can process logs for export and manufacture high-strength structural materials that can be used not only for residential but also for non-residential buildings, we are formulating a business plan and selecting equipment. In addition, in November 2023, we established KowanoMori Co., Ltd, aiming to build a new plant in the Iwaki-yotsukura Central Industrial Park in Fukushima Prefecture. KowanoMori Co., Ltd is actively promoting the use of domestic timber for housing materials, which use a high proportion of imported timber, and aims to increase the ratio. In particular, we will work to convert dimensional lumber, which has a low proportion of domestic timber, to domestic materials.

Timber industrial complex overview



Explanation of Value Creation Process

Housing Business

P.92

Construction

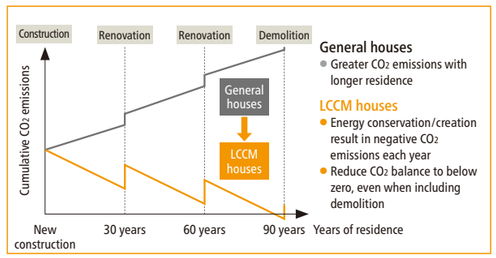
Standardize carbon neutral design

Since entering the custom-built detached housing business in Japan in 1975, the Sumitomo Forestry Group has been promoting long-life, high-quality wooden houses, thereby providing a good living environment. Currently, we are developing a wide range of businesses related to housing and lifestyles, such as rental housing, community development (spec homes), the greening business, and the renovation business, utilizing the design and technical capabilities cultivated in the detached custom-built housing business. The Group will contribute to the decarbonization of society by reducing CO_2 emissions in the area of living by promoting the use of its own Big-Frame Structure and the spread of ZEH (Net Zero Energy House), LCCM (Life Cycle Carbon Minus)*1 housing, and ZEB (Net Zero Energy Building). Going forward, we will continue to contribute to the realization of a sustainable society by expanding sales of environmentally friendly housing and promoting the standardization of decarbonized design.

*1 A house that reduces CO_2 emissions and generates renewable energy during construction, residence, and demolition, resulting in a negative CO_2 balance throughout the entire life cycle of the house, including at the time of construction.

LCCM housing: Able to reduce CO_2 emissions much more than ordinary houses

Our LCCM houses are made of wood, which reduces CO_2 emissions from raw material procurement to construction, and the structural frame is made of domestic timber that uses renewable biomass fuel for the drying process, making it possible to reduce CO_2 emissions even more. In addition, Big-Frame Structure is characterized by high variability that makes it easy to change the floor plan and renovate, and contributes to long-term carbon fixation by extending the life of the house.



Benefits of ZEH and Big-Frame Structure

	ZEH		ZEH and Big-Frame Structure		Benefits
Economical	Reduction of utilities costs	×	LS30*2 design reduces maintenance costs	=	Able to live in the house for 10, 20 or 30 years at reduced cost
Health	Advanced insulating performance	×	Wood insulation is better than iron and wooden spaces are gentle on the mind and body	=	Able to live a healthy life at a comfortable room temperature throughout the year
Disaster prevention	Solar power generation system	×	Earthquake resistance of shelter-class*3 Securing water for daily use	=	Sense of security that you can remain at home in the event of an emergency

*2 The exterior of the building is a highly weather-resistant "LS (Long Support) 30" specification that does not require maintenance for 30 years from the date of completion, preventing deterioration of the roof and exterior walls and reducing the time and cost required for maintenance.

*3 Seismic performance equivalent to that of disaster prevention bases (equivalent to seismic grade 3).

Global Construction and Real Estate Business

P.94

Construction

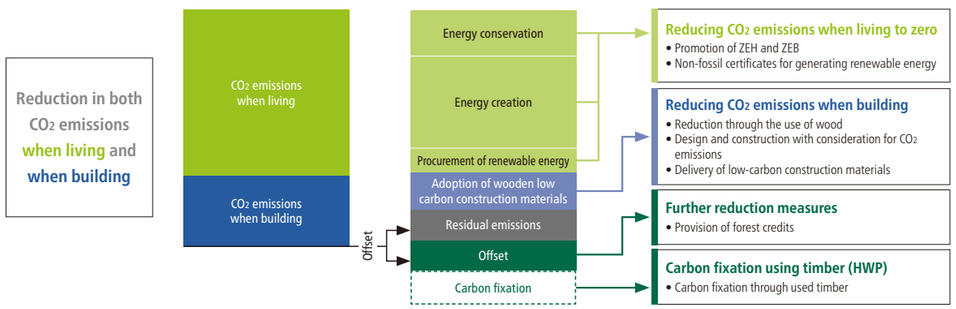
Standardize carbon neutral design

Since the Sumitomo Forestry Group began its Housing business in the United States in 2003, it has been actively pursuing new entry into promising growth markets. Currently, we are developing housing, construction, and real estate businesses in Australia and other parts of Asia. We value construction that suits the culture and climate of each region, and we are also working on the development of environmentally conscious housing overseas, such as a zero-emission house*4 in Australia and landed houses (single family homes) with solar panels as a standard feature in Indonesia. In addition, since wooden construction stores carbon absorbed by wood for a long time, we are developing medium- to large-scale wooden constructions, which are attracting increasing attention both in Japan and overseas. By widely disseminating high-quality wooden buildings globally, we are contributing to the realization of a decarbonized society.

*4 Environmentally friendly housing that can be expected to have an energy-saving effect of 70% or more compared to conventional housing.

Standardizing carbon neutral design: Helping to reduce CO_2 emissions across the construction industry

Global energy-based CO_2 emissions in 2021 totaled 36.3 billion tons*5, of which 37% were in the construction sector, making decarbonization of the construction sector a top global issue. First, the Group will promote the reduction of CO_2 emissions generated during daily life, which account for 70% of the construction sector, by expanding the use of ZEH and ZEBs. In addition, as the world's building area is expected to double by 2060 due to the economic development of emerging countries, we will promote decarbonization at both the construction stage and in housing and operation by focusing on the development and diffusion of LCCM housing. Due to the economic development of emerging countries, there will be an increasing emphasis on reducing CO_2 emissions when building in the future. As the sole distributor in Japan for One Click LCA, a software that calculates CO_2 emissions at the time of construction, we have started a calculation contract business and promoted the acquisition of the EPD environmental certification label to support the decarbonization of the construction industry as a whole.



*5 Source: Global Alliance for Buildings and Construction (2022)