Message from the Executive Officer in Charge of Corporate Planning and Finance

In the current Medium-term Management Plan, corresponding to Phase 1 of our Long-term Vision Mission TREEING 2030, the basic policy of our financial strategy is to build a robust financial structure and balance investing in growth and returning profits to shareholders. While investing in growth to expand the scale of our business and promote decarbonization, we aim to maintain an equity ratio of 40% or more and a net debt-to-equity ratio of 0.7 times or less as KPIs, and to achieve a stable return-on-equity (ROE) of 15% or more.

In March 2024, I was appointed as a director in charge of corporate planning, finance, and sustainability. I have served as General Manager of the Overseas Administration Department and General Manager of the Corporate Planning Department, and have been involved in business in the United States, Australia, and Asia. I will contribute to the growth of the Group while utilizing the knowledge that I have cultivated.

Financial and capital strategies in the Medium-term Management Plan

Under the current Medium-term Management Plan, we are diversifying our U.S. housing and real estate business, which has been a pillar of earnings, and restoring the earnings power of the domestic housing business, which was an issue in the previous Medium-term Management Plan, as well as promoting investments and initiatives in decarbonization-related businesses. As a period to gain a foothold toward the realization of our Long-term Vision, we believe that it is necessary to build an earnings base and actively invest in growth areas, and that it is important to maintain both financial soundness and profit growth fully aware of capital efficiency. Specifically, we aim to further enhance our corporate value by investing in growth for the future while maintaining financial soundness with an equity ratio of 40% or more and a net debt-to-equity ratio of 0.7 times or less, as well as stably achieving high profitability with ROE of 15% or more.

Message from the Executive Officer in Charge of Corporate Planning and Finance

ROE in excess of the cost of equity

In the fiscal year ended December 31, 2023, net sales totaled 1,733.2 billion yen (up 135.2 billion compared to the initial forecast), recurring income was 159.4 billion yen (up 39.4 billion yen), net income was 102.5 billion yen (up 25.5 billion yen), and ROE was 14.8% (compared to the initial forecast of 11.8%), thanks to growth in the U.S. single-family homes business and improved profitability in the domestic housing business.

We recognize that the Company's cost of equity is approximately 7%, and ROE has been significantly exceeding this cost. As for the target of ROE of 15% or more, the level of difficulty has increased compared to when the Medium-term Management Plan was first formulated due to the increase in foreign currency translation adjustment accounts included in net assets amid the depreciation of the yen, but in order to achieve the target, we must first focus on the profits of the Global Construction and Real Estate segment, which accounts for 70% to 80% of total profits. In particular, we believe it is important to increase profits in the U.S. single-family homes business within this segment, which has a large weighting and relatively high profitability.

In the U.S. housing market, the supply-demand relationship for new homes remains tight against the backdrop of an increase in the population of home buyers, including Millennials and Generation Z, along with a shortage of available existing homes in the market. Although it will be affected by interest rate movements in the short term, we believe that the market will continue to grow in the medium to long term.

In 2023, we expanded into Florida and also actively promoted other initiatives to grow sales and profits, improve profitability, and prepare for labor shortages, such as promoting the FITP*[1] business, which provides integrated panel design, manufacturing, delivery, and installation. In addition to our housing and real estate business in the U.S., over the past few years, we have been promoting countermeasures such as improving profitability in the domestic housing business by reviewing sales prices in response to soaring material prices and by rationalizing building processes, reducing our asset holdings by selling some nursing homes to domestic funds, and reducing cross-shareholdings. With regard to cross-shareholdings, the Board of Directors periodically verifies whether they will lead to an increase in the Company's corporate value, and if it is determined that the rationality or necessity of the shareholdings cannot be confirmed, the cross-shareholdings are reduced. In 2023, we sold eight issues, six of which were sold outright. We will continue to aim for profit growth fully aware of capital efficiency throughout the Group.

*1 Fully Integrated Turn key Provider

Trend in main financial indicators

	2020/3	2020/12*[2]	2021/12	2022/12	2023/12	2024/12 plan*[3]
Equity ratio	32.1%	33.7%	37.7%	40.8%	41.6%	41.7%
Net debt-to-equity ratio (times)	0.5	0.5	0.3	0.4	0.4	–
Return on equity (ROE)	8.8%	8.8%	20.2%	19.4%	14.8%	13.3%
Dividend payout ratio	26.1%	20.9%	17.5%	23.0%	24.7%	25.2%

*2 Due to a change in the fiscal year end, the fiscal year ended December 31, 2020 consisted of the nine-month period from April to December 2020.
*3 Plan as of February 14, 2024.

Increasing P/E and P/B ratios

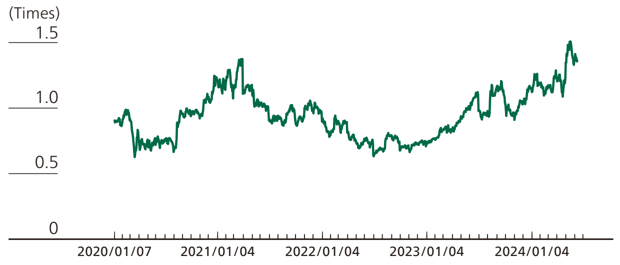
From 2020 to 2022, our P/E ratio was low due to uncertainty about the outlook for the U.S. housing market while EPS grew, but it has improved recently due to increased dividends and enhanced disclosures along with growth in profits. Our P/B ratio has also improved from below 1.0 times to 1.5 times in May 2024.

In order to further improve our P/B ratio, we will improve ROE by increasing profits centered on further growth of our housing and real estate business in the U.S. and investing aggressively with full awareness of asset efficiency. At the same time, we will strive to improve our P/E ratio by further expanding opportunities for dialogue with stock markets, such as by enhancing disclosure of growth businesses and financial and capital strategies.

Trend in P/E ratio

Source: Bloomberg

Trend in P/B ratio



Source: Bloomberg

Actively investing in growth to achieve our Long-term Vision

In order to improve ROE and ROIC, we have adopted IRR as a quantitative criterion for new investments, and in principle, it is a requirement that efficiency indicators such as IRR calculated from the business plan exceed the hurdle rates (WACC, etc.) set by country and business.

Under the Medium-term Management Plan, we plan to invest a total of approximately 300.0 billion yen over the three-year period, of which 62.0 billion yen are allocated for decarbonization-related investments, such as forest funds, timber industrial complexes, and overseas wooden non-residential buildings. The cumulative amount of investments and loans over the past two years has been 178.7 billion yen, and although there are differences by item, overall progress has been steady. Specific investments and loans in the fiscal year ended December 31, 2023 include the acquisitions of JPI, a company that develops and constructs multi-family housing in the U.S., a truss manufacturer related to the FITP business, Southern Impression Homes, which sells single-family rentals in Florida, and investments in overseas wooden office building development projects. We will continue to actively invest in growth based on the business policies set forth in our Long-term Vision.

Accumulating real estate for sale to reach our target annual sales in the U.S. of 23,000 units by 2030

Apart from the aforementioned investment and loan plan, we are also acquiring real estate for sale, mainly land for housing in the U.S., where demand for housing is expected to be resilient, and we are paying particular attention to risk control and improving inventory turnover.

Investment plan

(Billions of yen)

			Total for fiscal 2022 and fiscal 2023	Three years of MTP*[4]	Rate of progress
Main decarbonization-related investments	Timber industrial complex investment		0.5	20.0	2%
	Overseas wooden non-residential investment		11.3	30.0	38%
	Forestry fund related investment		0.7	12.0	5%
Investments and loans by segment outside of the above segments	Timber and Building Materials	Manufacturing business investment, etc.	7.6	35.0	22%
	Global Construction and Real Estate Business	Overseas real estate and land development, etc.	128.9	130.0	99%
	Housing	Model homes and offices, etc.	15.3	25.0	61%
	Environment and Resources	Renewable energy, forestry and afforestation investment, etc.	5.3	30.0	18%
	Others	IT system investment (DX promotion, etc.), etc.	9.4	15.0	62%
Total			178.7	297.0	60%

*4 Former segment classification.

Message from the Executive Officer in Charge of Corporate Planning and Finance

By imposing certain restrictions with an established limit on real estate for sale as an investment rule, we manage the situation to prevent excessive inventory levels. The concept of the investment limit is that even in the event of a certain loss, financial soundness will not be significantly impaired. Based on these concepts and rules, we are controlling the balance of real estate for sale. In addition, by using option contracts and land bankers, we are striving to secure land with less risk. With regard to the procurement of funds for the acquisition of real estate for sale in the U.S., we have established certain covenants for each subsidiary to maintain the financial soundness of subsidiaries and control the balance of real estate for sale.

In order to achieve our target of selling 23,000 units annually in the U.S. by 2030, it is essential to continuously acquire real estate for sale. We will continue to strive for sound growth in our business through a system to control inventory risk as well as our growth strategy.

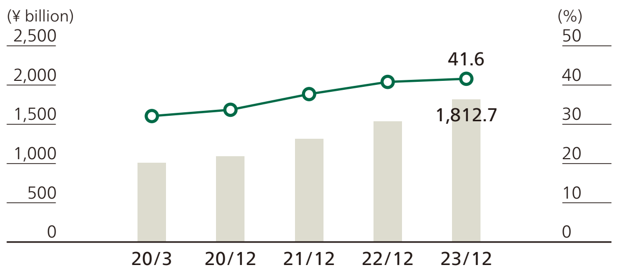
Maintaining financial soundness to support medium- to long-term growth

In order to achieve the Medium-term Management Plan and realize the Long-term Vision, we must maintain financial stability and soundness that can withstand the effects of economic fluctuations. This is especially important in the context of the expansion of our housing and real estate business in the U.S., which is sensitive to market conditions. Over the years, we have been working to maintain financial soundness, and in May 2024, our credit rating from a domestic credit rating agency*1 was upgraded from "A" to "A+" in recognition of our stronger earnings base, particularly in the U.S. housing business. Although the balance of interest-bearing debt has increased due to business expansion, the equity ratio has been maintained at 40% or more and the net debt-to-equity ratio has been kept at 0.7 times or less.

In addition to investing in and financing decarbonization-related businesses as set forth in our Long-term Vision, we expect an increase in demand for funding, including for the acquisition of real estate for sale, mainly in the U.S. housing market, and the expansion of our real estate development business. We will continue to maintain financial discipline while balancing aggressive investment in growth and financial soundness.

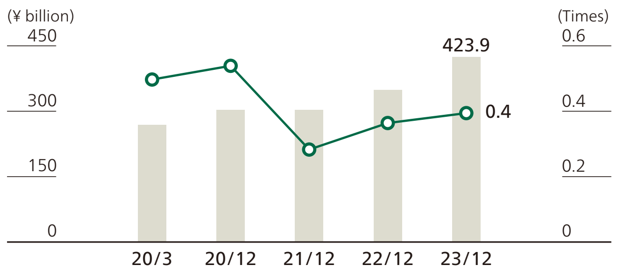
*1 Rating and Investment Information, Inc.

Total assets/Shareholders' equity ratio



Total assets (left axis)
Shareholders' equity ratio (right axis)

Interest bearing debts/Net debt-to-equity ratio



Interest bearing debts (left axis)
Net debt-to-equity ratio (right axis)

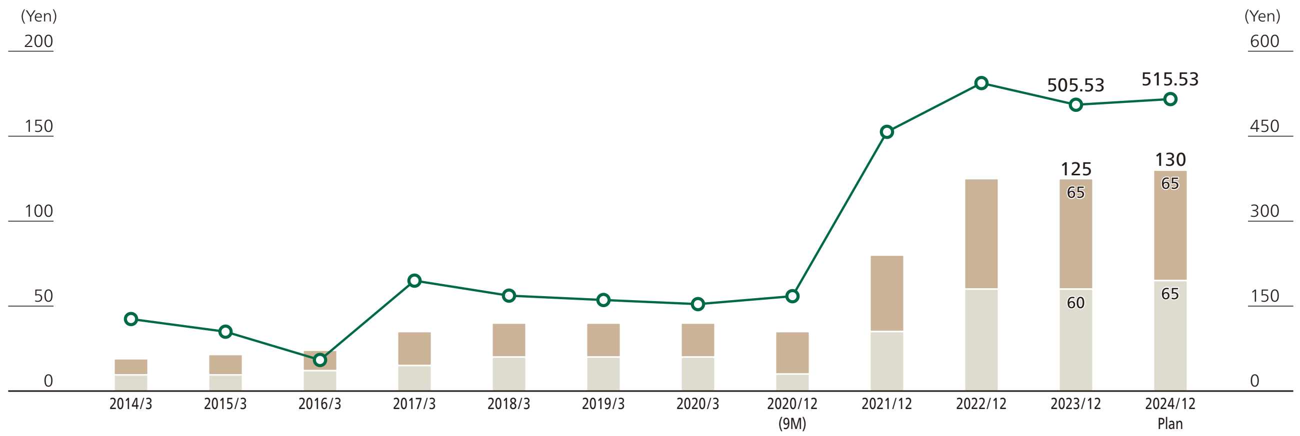
Discussing the next Medium-term Management Plan including shareholder return policy

We recognize that returning profits to shareholders is one of our most important issues, and our current basic policy is to implement this on a continuous and stable basis. In the fiscal year ended December 31, 2023, income decreased, but the annual dividend per share was 125 yen, the same as the previous fiscal year. For the fiscal year ending December 31, 2024, we plan to increase the annual dividend per share by 5 yen to 130 yen per share.

We are currently actively discussing the details of the next Medium-term Management Plan, which begins in 2025, and we would like to present a more concrete path toward achieving our Long-term Vision for 2030. We will continue to invest in growth centered on our housing and real estate business in the U.S. and decarbonization-related businesses, while at the same time improving capital efficiency and providing appropriate shareholder returns.

Our TSR over the past 10 years has been 290.0% cumulatively, outperforming TOPIX. Going forward, we will continue to engage in dialogue with shareholders, investors, and many other stakeholders, and appropriately utilize their suggestions and opinions in the management of the Group, which will lead to an increase in corporate value.

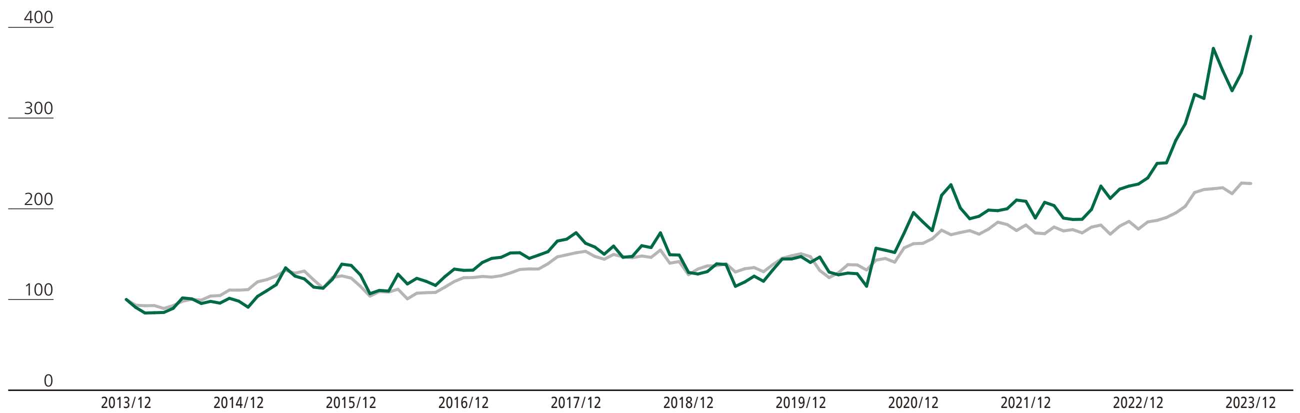
Shareholder returns



Interim dividend (left axis)   Year-end dividend (left axis)   Net income per share (right axis)

* Due to a change in the fiscal year end, the fiscal year ended December 31, 2020 consisted of the nine-month period from April to December 2020.
* Plan figures are for the initial plan as of February 14, 2024.

TSR



Sumitomo Forestry   TOPIX

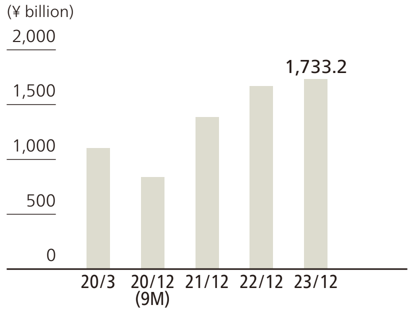
	1 year	3 years		5 years		10 years	
		Cumulative	Annual rate	Cumulative	Annual rate	Cumulative	Annual rate
Sumitomo Forestry	+85.5%	+110.4%	+28.1%	+221.4%	+26.3%	+290.0%	+14.6%
TOPIX	+28.3%	+41.1%	+12.1%	+78.9%	+12.3%	+127.8%	+8.6%

* Total Shareholder's Return (TSR): Comprehensive return on investment including capital gains and dividends.
* The above graph shows the TSR, including dividends and stock price fluctuations, of investments made on December 31, 2013 up to December 31, 2023. The Sumitomo Forestry's chart indicates index figures of investment results (assuming no reinvestment of dividends) by setting investment amounts as of December 31, 2013 as 100. The index for comparison is TOPIX inclusive of dividends, and it is calculated in the same way as the above.
* The above table shows TSR as of December 31, 2023 assuming investments were made one year prior (December 31, 2022), three years prior (December 31, 2020), five years prior (December 31, 2018), and ten years prior (December 31, 2013). Figures for the one-year, three-year, five-year, and ten-year investments are annualized by geometric average of the return on investment for the relevant period.

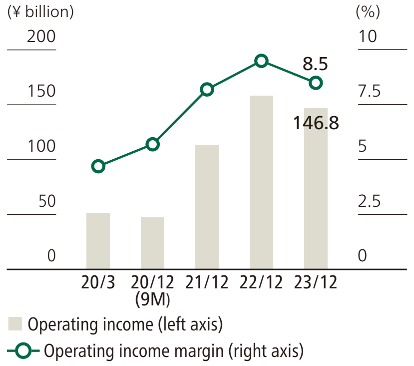
Financial and Non-Financial Highlights

Financial highlights

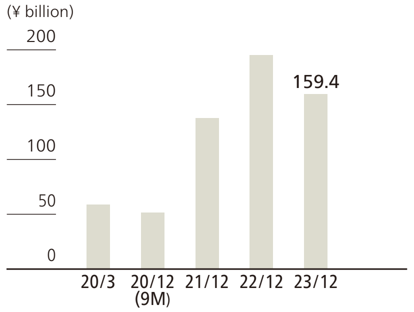
Net sales



Operating income/ Operating income margin

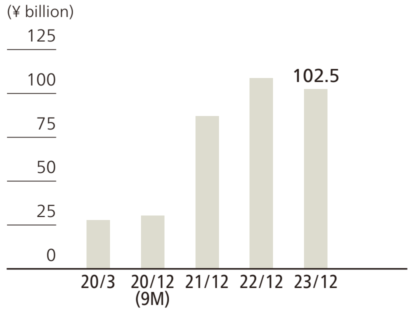


Recurring income



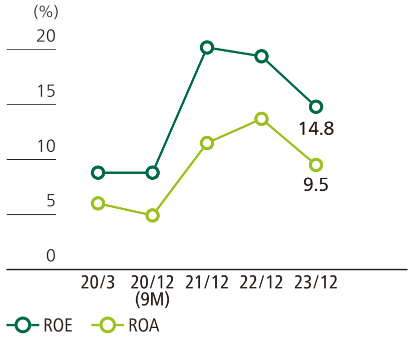
In the fiscal year ended December 31, 2023, the Group's overall net sales were 1,733.2 billion yen, up 3.8% year on year and recurring income was 159.4 billion yen, a 18.2% year-on-year decrease. The downturn in profits was because of a decline in margins due to the decreased sales unit price of the U.S. single family home business on a local currency basis and a decrease in properties for sale in the U.S. real estate development business, despite net sales increasing due to the depreciation of the yen. In 2023, in the U.S. housing market, which has a significant impact on our business performance, we were able to generate earnings that exceeded our initial expectations due to the recovery in demand after a slump in market conditions caused by rising mortgage rates in the second half of 2022, implementing measures in line with market trends as appropriate. In Japan, although the housing business environment was severe, profit margins improved partly due to the effects of price revisions implemented in the previous year. As a result, we were able to post net sales and ordinary income that significantly exceeded our initial forecast.

Net income attributable to shareholders of parent



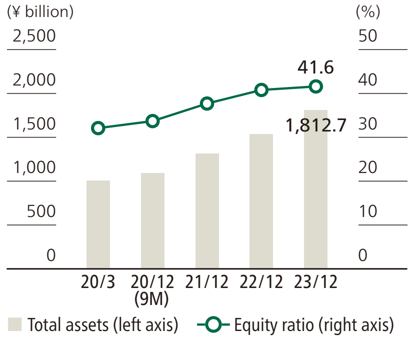
Net income declined 5.7% year on year to 102.5 billion yen.

ROE (Return on equity) / ROA (Return on assets)



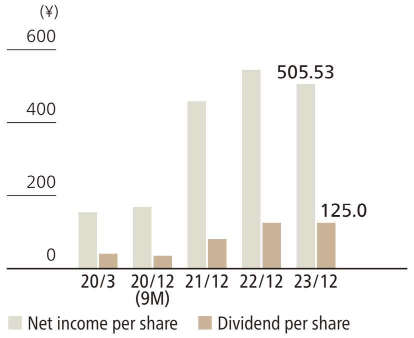
Although ROE is on a downward trend due to the impact of currency translation adjustments, we are working to improve profitability through effective forward-looking investments with a target ROE of 15% or more in mind.

Total assets / Equity ratio



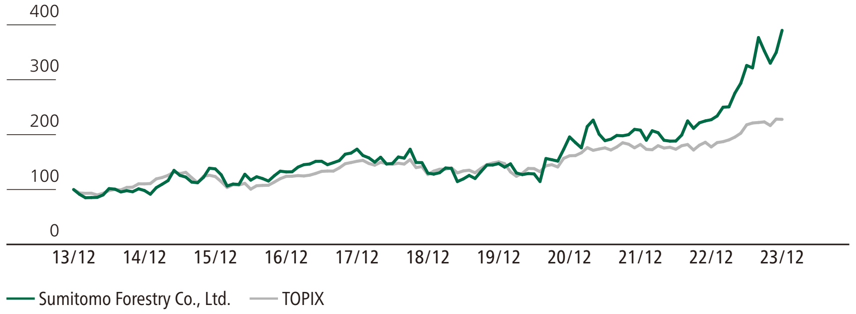
Total assets amounted to 1,812.7 billion yen due to an increase in real estate for sale due to the expansion of the spec-home business in the U.S. The equity ratio was 41.6%.

Net income per share / Dividend per share



The annual dividend per share for the fiscal year ended December 31, 2023 was 125 yen, including an interim dividend of 60 yen and a year-end dividend of 65 yen.

TSR*1

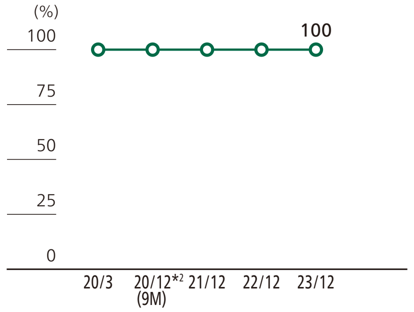


Our TSR has outpaced TOPIX. We will continue to improve profitability and pay stable dividends while striving to achieve TSR that exceeds the cost of equity.

* The end of the fiscal year was changed from March 31 to December 31 starting in the fiscal year ended December 2020. This fiscal year is a nine-month transition period from April 1 to December 31, 2020.
*1 Current market value by TSR is shown as an index figure based on the closing price as of December-end in 2013 set as 100.

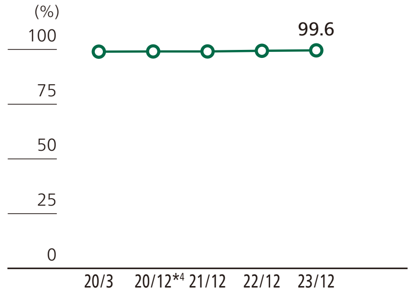
Non-financial highlights

Sustainability procurement survey implementation rate of suppliers of imported timber



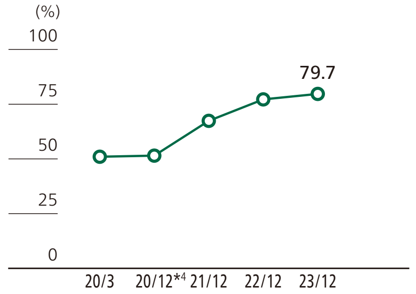
Under the Sumitomo Forestry Group Procurement Policy, we conduct due diligence on suppliers and timber procurement. We confirm the legality of transactions as well as considerations for human rights, labor, biodiversity conservation, and local communities, and practice sustainable procurement.

Recycling rate at manufacturing plants in Japan*3



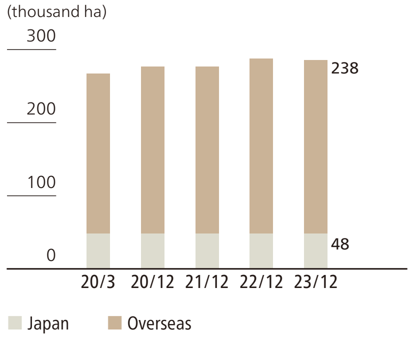
We are continuously working to reduce waste emissions by redoubling the separation of industrial waste at each manufacturing plant and effectively using it as a resource (heat utilization) and selling it for value, without the use of incineration.

Rate of ZEH among new custom-built detached houses*5



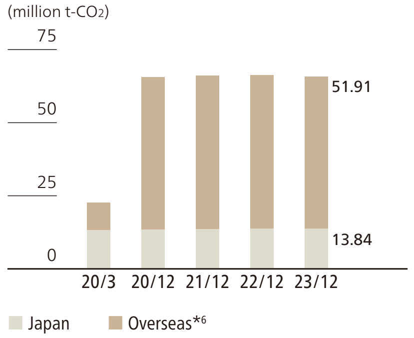
We are promoting the spread of ZEH by further strengthening the thermal insulation performance of buildings and openings and installing solar power generation systems as standard specifications.

Area of forest owned, managed



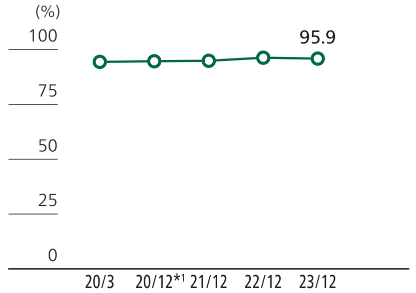
To make permanent use of timber resources while maintaining the public benefit of forests, we are promoting sustainable forest management in Japan and overseas under appropriate management.

Carbon storage amount in area of forest owned and managed (Carbon dioxide equivalent)



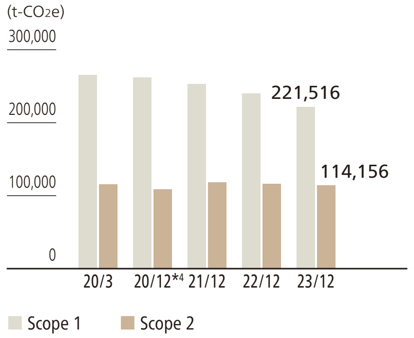
We strive to maintain and improve the public benefit of forests by implementing appropriate management for afforestation, such as tree planting, clearing underbrush, pruning, and thinning of forests that we own and manage.

Ratio of houses certified as Long-life Quality Housing among new custom-built detached houses



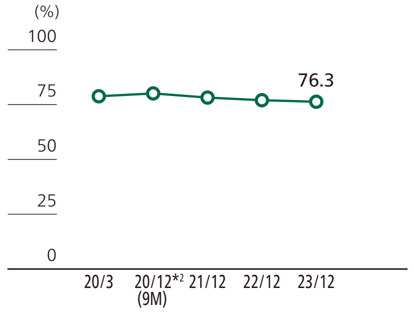
Sumitomo Forestry has set as a standard specification that "Sumitomo Forestry homes" must clear all conditions for certification as "Long-life Quality Housing" with the highest grade (evaluation under the Housing Performance Indication System).

CO_2 emissions



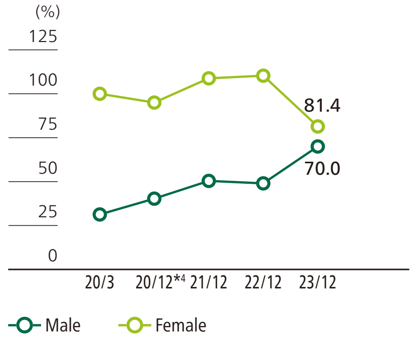
Scope 1 and 2 emissions in FY2023 decreased by 5.7% compared to FY2022 due to a reduction in coal consumption from Mombetsu Biomass Electric Power.

Employee satisfaction (non-consolidated)



The results of the employee satisfaction surveys show that 76.3% of employees answered "absolutely or somewhat agree" to the question "Are you satisfied with your work at the Company?" in FY2023.

Rate of taking childcare leave (non-consolidated basis)*7



The percentage of male employees taking childcare leave was 70%, a significant improvement from 49% in FY2022.

*2 Data collection period: April to December 2020
*3 Sumitomo Forestry Crest, the Agro-Products division of Sumitomo Forestry Landscaping, Japan Bio Energy, Okhotsk Bio Energy, Michinoku Bio Energy
*4 Data collection period: January to December 2020
*5 The above includes Nearly ZEH and has ZEH Oriented in narrow areas since fiscal year ended March 2019, and ZEH Oriented in heavy snowfall areas since fiscal year ended March 2020. Hokkaido has been comprised since fiscal year ended December 2020.
*6 From fiscal year ended December 2020, conservation forests overseas were added to the scope of the collection.
*7 Rate of taking childcare leave = number of persons starting childcare leave in fiscal year/number of persons whose children were born in the applicable each fiscal year.