Business Environment Analysis

Megatrends

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

- 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

- 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
Mission TREEING 2030 Phase 2

Basic Policies

1. Efforts to Address Decarbonization Challenge
2. Enhancement of Earning Power
3. Deepening of Global Expansion
4. Strengthening Management Base
5. Further Integration of Business Operations and ESG

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

Inputs

(as of December 31, 2025)

Natural Capital

- Energy inputs: 9,799 TJ
- Volume of timber and wood products: 9,134,000 m^3
- Water usage: 2,895,000 m^3
- Forests: 279,000 ha*1

*1 Total area of owned and managed forests in Japan and overseas. Excluding forestry funds and reforestation business in Japan.

Manufactured Capital

- Wood biomass power generation plants: 7 (Japan)
- Sawmills (Timber and Building Materials): 5 (Japan) and 9 (overseas)
- Number of plants in operation in the FITP business*2: 11 (overseas)

*2 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: 27,613 (including 13,369 overseas)
- Training costs per employee:
  173,000 yen (non-consolidated) and 43,000 yen (subsidiaries in Japan)
- First-class architects: 1,078 (non-consolidated) and 387 (subsidiaries in Japan)
- Second-class architects:
  1,471 (non-consolidated) and 1,521 (subsidiaries in Japan)

Intellectual Capital

- R&D spending: 2,760 million yen

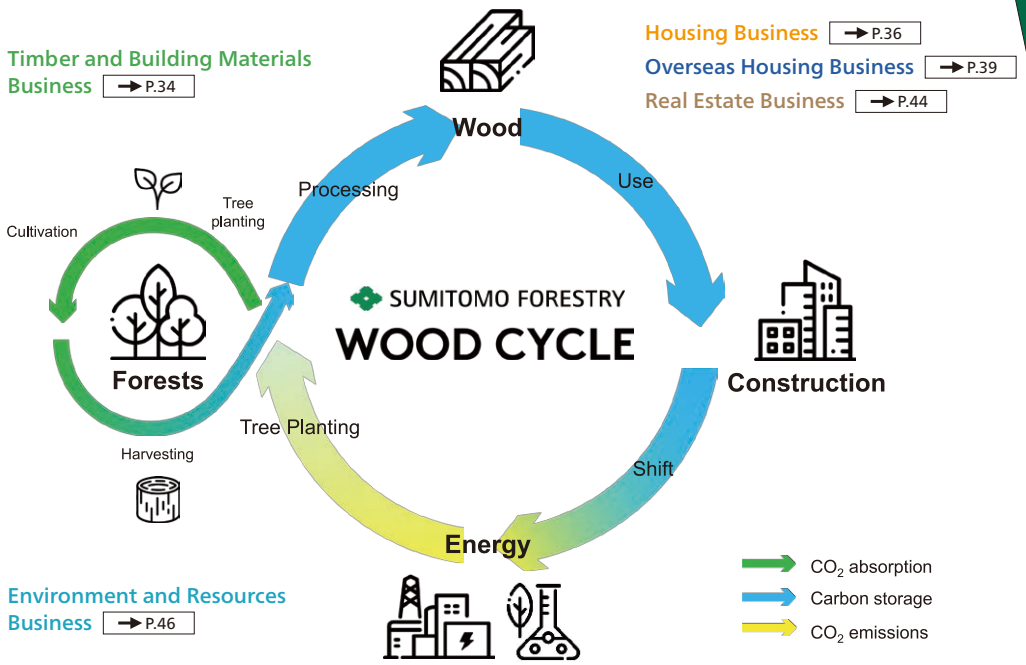
Social Capital

- Accumulated number of homes delivered:
  approx. 370,000 units (Japan) and approx. 140,000 units (overseas)

Financial Capital

- Shareholders' equity: 762.8 billion yen
- Interest-bearing debt: 769.5 billion yen
- Loans and investments: 154.5 billion yen

Business Model



Business policy for achieving Mission TREEING 2030

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

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 four fields of forests, wood, construction, and energy, 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.

The "Wood Cycle" Value Chain →P.7

Value Creation Process

Material Issues
https://sfc.jp/english/sustainability/management/materiality1.html

Outputs

(Fiscal 2025)

Forests — Timber from owned and managed forests*3

Wood — Volume of timber and wood products

Environment and Resources Business →P.46

Japan	Overseas
63,000 m³	980,000 m³

Timber and Building Materials Business →P.34

Distribution	Manufacturing
6,094,000 m³	1,773,000 m³

*3 Timber harvested from forests owned and managed in Japan and overseas. Excluding forestry funds and reforestation business in Japan.

Construction — Annually supplied houses

Housing Business →P.36

Japan*4
8,727

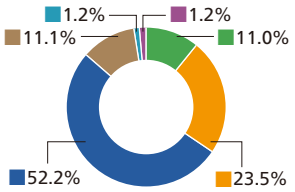
Overseas Housing Business →P.39

United States*5	Australia*6
10,262	7,404

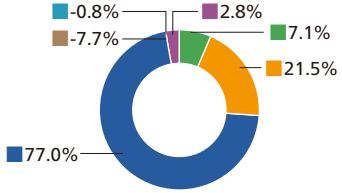
*4 Total of custom-built detached houses, rental houses, and spec homes
*5 Total of spec homes
*6 Total of custom-built detached houses and spec homes

Breakdown by segment*7 (Fiscal 2025)

Net sales **2,267.6 billion yen**



Recurring income **174.9 billion yen**



Timber and Building Materials / Housing / Overseas Housing / Real Estate / Environment and Resources / Others

*7 The composition by segment excludes inter-segment eliminations (net sales of -42.5 billion yen, recurring income of -4.2 billion yen).

Impacts (Outcomes)

(Fiscal 2025)

Natural Capital

Carbon sequestration
- Forests:*8 65,334 thousand tons
- HWP:*9 27,341 thousand tons

*8 Carbon sequestration of forests owned and managed in Japan and overseas. Excluding forestry funds and reforestation business in Japan.
*9 HWP: Abbreviation for Harvested Wood Products. Wood products manufactured from harvested timber that store, as carbon, the CO_2 absorbed by trees during their growth.

Biomass power generation
- Electricity supplied: 1,774,257 MWh

Industrial waste emissions
- Waste and other emissions from new construction sites (Housing Business): 26,687.0 tons

Greenhouse gas emissions
- Scope 1 and 2: 145,779 tons
- Scope 3: 11,220,000 tons

Manufactured Capital

Housing technologies that contribute to reduction of environmental impact
- ZEH order ratio for new custom-built detached homes: 81.3%
- LCCM home sales

Human Capital

Improvement of work-life balance
- Employee satisfaction level: 81.0% (non-consolidated) and 67.2% (subsidiaries in Japan)
- Childcare leave acquisition rate (male): 71.4% (non-consolidated) and 49.0% (subsidiaries in Japan)
- Return-to-work ratio for childcare leave (female): 100.0% (non-consolidated)
- Turnover ratio: 2.2% (non-consolidated)

Promotion of DEI
- Ratio of female employees: 25.2% (non-consolidated) and 33.9% (subsidiaries in Japan)

Intellectual Capital

Technical development of wooden construction
- Elemental technologies for fireproofing, earthquake resistance, etc.
- Increased strength and durability of wood

Expansion of wood applications
- Biorefinery of wood

Social Capital

Sustainability procurement survey implementation rate in the supply chain
- Sustainability procurement survey implementation rate for imported wood product supplier: 100% (Timber and Building Materials Business)
- Sustainability procurement survey implementation rate for suppliers such as building materials and housing equipment manufacturers: 98.2% (Housing Business)

Procurement of sustainable timber and wood products
- Percentage of sustainable timber and wood products handled in distribution business: 100% (Timber and Building Materials Business)
- Percentage of sustainable wood used as the principal structural member of detached houses: 100% (Housing Business)

Efforts to improve customer satisfaction
- Survey at move-in (stand-alone NPS value):*10 56.6pt

*10 NPS (Net Promoter Score). A new indicator that measures customer loyalty (the degree of "trust" or "value" in a company or brand).

Financial Capital

Shareholder return, credit rating and sustainable growth
- Annual dividend per share: 53 yen
- TSR (annualized, past 1 year): -6.1% (past 10 years): 13.1%
- Long-term rating: A+ (Rating and Investment Information, Inc.)