



# Top Commitment

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### Urgent climate crisis measures

The Special Report on Global Warming of 1.5°C was released by the IPCC (Intergovernmental Panel on Climate Change) five years ago in 2018 and the IPCC Sixth Assessment Report was issued in March this year. While policies and environmental regulations in countries around the world have progressed, under current measures, it is highly likely that the global average temperature will soon exceed 1.5°C compared to pre-industrial levels. This underscores the need to achieve targets set out in the Paris Agreement, namely, to reduce global greenhouse gas (GHG) emissions 43% compared to 2019 levels by 2030 and 60% by 2035.

Disruptions in the supply chain triggered by the COVID-19 pandemic have cast a shadow on corporate management. In addition, the business environment has become increasingly uncertain due to soaring energy prices with Russia's invasion of Ukraine, food security issues and the collapse of US financial institutions on a scale not seen since 2008. Regardless, the IPCC Report warns that our actions over the next decade will have an irreversible impact on humanity and the planet that will last thousands of years. Even in these uncertain and difficult times, all actors must respond more boldly and quickly than ever before.

Last February, the Sumitomo Forestry Group announced its long-term vision, Mission TREEING 2030, to help us better respond to global challenges (such as climate crisis, nature loss and growing inequalities), technological advances (such as DX and AI) and changes in consumer preferences. One of the business policies of our long-term vision is maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy. Through our value chain, which we call the Wood Cycle, we are striving to contribute to the decarbonization of not only our own company, but of society as a whole, as well. Specifically, we are accelerating the cyclical forestry business in our forestry operations, promoting wood change in our timber operations and working to standardize decarbonized design in our construction operations. And we are spreading the word about all these



efforts both within and outside the company. Last year was the first year of our Mid-Term Sustainability Targets as part of our 2024 Mid-Term Management Plan. As you may have seen in our Sustainability Report 2023, we made progress on individual goals related to climate crisis initiatives, including a TCFD scenario analysis with a perspective that goes across the entire group and an SBT target of a 54.6% reduction of greenhouse gas emissions by 2030 compared to fiscal 2017 levels. All our efforts are generally proceeding as planned.

## Accelerating initiatives to reduce Scope 3 emissions

One after another, guidance on issues the world needs to address to realize a sustainable future and ways to quantify and target non-financial information are being proposed. The foundation for these guidelines is the GHG Protocol, the de facto standard for organizations to report their GHG emissions. In 2011, in addition to emissions from an organization's operations (Scope 1) and energy purchased (Scope 2), Scope 3 emissions in the value chain were added and the number of disclosing companies is increasing yearly.

At Sumitomo Forestry Group, 96 percent of our GHG emissions are Scope 3, of which more than 60 percent is Category 11 (Use of Sold Products), which in our case, comprises of emissions from air conditioning, lighting and other uses of energy during occupancy of a house. The key to reducing these emissions is the popularization of ZEH (net zero energy houses). In Japan, on a per month basis, we have currently reached our sales share target of 80 percent by the end of 2024. We have also begun offering LCCM (life cycle carbon minus) homes, which go beyond ZEH, and have opened a model house. In August last year, Henley Properties Group in Australia announced that it would become the first major builder to install solar panels on all its custom-built detached houses and make all-electric a standard specification, which would save up to 75 percent of energy consumption. In the United States where our annual number of buildings sold exceeds 10,000 units, 89 percent of our newly built properties in 2022 qualified for Energy Tax Credits (houses that consume 50 percent less energy for heating and cooling compared to 2006 standard levels). With increasing interest in reducing Scope 3 emissions, we are steadily responding in our core business of building and selling detached wooden houses.



## Promoting decarbonization with the construction of medium- to large-scale wooden buildings

Now we must place greater focus on embodied carbon, the GHG emissions that come from the raw material procurement, processing, transport, renovation and disposal of building materials. With the construction sector accounting for approximately 40 percent of the world's GHG emissions and demand for housing growing primarily in emerging countries, the key to decarbonization for the whole of society is reducing embodied carbon. As a first step in this initiative, in August of last year, we began sales of the Japanese edition of One Click LCA, a software that visualizes GHG emissions volume. We have concluded contracts with a wide range of clients, from developers and general contractors to architectural design offices, and from February of this year, we began offering calculation services on a commission basis. We are also promoting the acquisition and popularization of an environmental labeling system for building materials called Environmental Product Declaration (EPD) to support carbon neutral design across the entire construction industry.



Compared to other construction methods that require large amounts of energy to extract, manufacture, process and transport materials, wooden buildings have relatively low embodied carbon, and substituting wood for other materials to avoid emissions provides a reduction contribution effect. Furthermore, because trees absorb carbon dioxide during growth through photosynthesis and store this carbon dioxide even after being harvested, promoting the construction of wooden buildings contributes to the decarbonization of society.

Since 2010, Sumitomo Forestry has been working to promote wooden construction and the use of wood in non-residential buildings, as well. Through our business and capital alliance with Kumagai Group, the addition of Cohnan Kensetsu as a Sumitomo Forestry Group company and the development of Kigurumi CT, an original fire-resistant wooden material, we are focusing our efforts on the construction and development of medium- to large-scale wooden buildings. In May last year, we completed construction of Building 15, a three-story wooden building on the Yotsuya campus of Sophia University that is being enjoyed as a venue for adult education and community mingling. In Melbourne, we will begin construction in September this year of a 15-story wooden net-zero carbon building, which has virtually zero CO<sub>2</sub> emissions during occupancy. We are also pursuing projects in the United States and the United Kingdom and plan to further promote the construction of medium- to large-scale wooden buildings both in Japan and abroad.

To increase the self-sufficiency ratio and utilization of Japanese timber, we are planning to build a timber industrial complex in Shibushi City, Kagoshima, among other areas. We believe these complexes will contribute significantly to the expansion and popularization of medium- to large-scale wooden buildings.

## Accurate visualization of the value of forests in carbon sequestration

Until now, companies have only reported GHG emissions from fossil fuel combustion. GHG emissions/removal from biological sources, such as land use management and conversion for agriculture, forestry and other, have not been included. Emissions from this area account for one-quarter of total emissions, and the fact that they are not included in company reporting has been a concern. For the world to limit the global average temperature increase to within 1.5°C, CO<sub>2</sub> absorption and carbon fixation by forests, as well as technological innovations that remove carbon, are essential. However, there are no common tools to visualize, target and report these numbers. To enable the visualization of efforts being made by companies, a revision of the GHG Protocol that would add to the scope of the calculations is currently under discussion.

At Sumitomo Forestry, we are working to accurately measure the amount of CO<sub>2</sub> absorption and carbon fixation of forests to create high-quality carbon credits, which we want to offer widely through our forestry funds. To visualize these amounts, we are working with a wide range of stakeholders, such as local governments and universities, conducting joint verification tests and publishing papers. We are also participating in GHG Protocol revision pilot tests to contribute to the development of reporting guidelines. Through NeXT FOREST, a company we jointly established in February this year with IHI, we are providing consulting services to promote the appropriate management of tropical peatlands, such as water-level management techniques. It goes without saying that common rules for visualization are a prerequisite for the success of these efforts.



## Seeking both a nature-positive world and human rights initiatives

At COP15 held in Montreal last year, the concept of nature positive was presented as an approach to halt and reverse nature loss. At the same time, Nature-based Solutions (NbS) were similarly highlighted as an approach to address the climate crisis. Both concepts are in line and in strong agreement with Sumitomo Forestry's Wood Cycle, which promotes carbon neutral design through sustainable forest management and the utilization of forests resources that considers the value of natural capital, such as biodiversity and water cycles. Working with the Forest Solutions Group of the World Business Council for Sustainable Development (WBCSD), of which we are a member, we participated in the formulation a roadmap for the forestry sector. Climate crisis and nature loss are correlated. Their impact is greatest on indigenous people and vulnerable populations that directly benefit from forests and nature. In April, Sumitomo Forestry, with a wide range of businesses centered on wood, revised and enhanced the Sumitomo Forestry Group Human Rights Policy formulated in 2019 to also require business partners and others in the value chain to respect human rights. We pledged to offer collaboration and support on an as-needed basis, and we established a grievance mechanism.

Ever since our establishment in 1691, Sumitomo Forestry has sought to provide value not only to the company but also to society as a whole in line with our thinking, "Benefit self and benefit others, private and public interests are one and the same." We consider our ESG initiatives and information disclosure efforts not as costs, but as strategic investments for the future. And we fully utilize various forms of ESG finance, including sustainability-linked loans and ESG funds, to support these initiatives. At Sumitomo Forestry, all our employees, working together with our many business partners and stakeholders both in Japan and overseas, are committed to contributing to the creation of a sustainable and prosperous society.