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President and Representative Director

## Creating Shared Benefit from Environmental Value and Social Value Expanding the business by helping to create a decarbonized society and linking it to further growth

### A look back at 2020

The COVID-19 pandemic threw social life and business activity into chaos in 2020. Many countries responded with bold fiscal stimulus and monetary easing policies exceeding those of the 2008 financial crisis. This helped support the global economy, which has been showing signs of recovery this year, spearheaded by the United States and China.

The time spent living with the coronavirus triggered significant changes in individual lifestyles and values, and the Sumitomo Forestry Group was affected as well. We were forced to limit the number of visitors at our model homes and restrict our sales activities, and we had no choice but to temporarily suspend production at some of our manufacturing sites overseas. At the same time, however, the crisis gave us a massive opportunity to pivot our business activities in a direction that matches the new lifestyles and values called the “new normal,” through measures such as digital marketing and workstyle reforms that include remote working.

The Housing and Construction Business, our core business in Japan, faced a crisis when a state of emergency was declared from April to May 2020 and the number of visitors to our model homes decreased 80% to almost 90% compared to the same period the year before. Our existing housing sales model for the housing business was no longer viable because it depended on customers visiting the model homes to begin business discussions. Thus we had to fundamentally revise our order receiving processes. We focused on attracting customers online by setting up MYHOME PARK, an online channel that allows visitors to view the construction of Sumitomo Forestry Home houses with variety of content. We also held design consultations and online sites tours. Going further, we endeavored to provide safer, securer and more functional residences such

as houses with floor plans that incorporate remote working spaces or hand-washing areas in the entryway while also featuring attractive interiors rich with the qualities of wood that Sumitomo Forestry is known for. Thanks to these initiatives, we received more than twice the number of requests for information compared to the previous year, and the value of orders received exceeded the value for the same period last year.

At the same time, the Overseas Housing and Real Estate Business, which has grown into one of our revenue pillars, responded flexibly to changes in market environments. While the United States housing market experienced a large drop in inventory for existing homes due to the COVID-19 pandemic, monetary easing policies created historically low interest rates for housing loans and the rise in remote working triggered growth in demand for detached houses in suburban areas. As a result, the market for new detached houses stagnated temporarily and then speedily rebounded. While continuing to develop products suited to each individual business area, the Sumitomo Forestry Group also expanded businesses by entering the market in Atlanta, Georgia, where vigorous demand for housing is expected. The number of units sold in Australia increased as well, backed by governmental housing subsidy policies and low interest rates. These contributed to a new record for profits\* on a consolidated basis in the fiscal year ended December 2020 for the overall Overseas Housing and Real Estate Business.

\* The fiscal year ended December 2020 is an irregular nine-month fiscal year covering the period from April 2020 to December 2020 due to a change in the accounting period. Therefore the record-high profits are based on a comparison with the first three quarters of the previous year.



Message from the President

Results for the fiscal year ended December 2020

	Cumulative 3Q results for year ended March 2020	Results for year ended December 2020	YoY difference	YoY change
Net sales	802.7	839.9	+37.1	+4.6%
Operating income	38.3	47.5	+9.2	+24.0%
Recurring income	43.1	51.3	+8.2	+19.1%
Profit attributable to owners of the parent / Net income	22.6	30.4	+7.8	+34.4%
Recurring income excluding the effect of actuarial differences	43.1	46.5	+3.4	+7.9%

\* The profit and loss recording period for overseas subsidiaries is January to September for the cumulative 3Q results for the year ended March 2020 and April to December for the year ended December 2020.  
\* The Group processes actuarial differences in employee retirement benefit accounting all at once as selling, general and administrative expenses at the end of the year in which they occur.

Business strategies for 2021

The outlook for the final year of the 2021 Medium-Term Management Plan (Medium-Term Plan for short), is not entirely optimistic due to factors such as the resurgence of COVID-19 due to mutant strains, the effects of intensifying natural disasters, and steep price jumps for construction materials such as timber caused by demand increases in countries like the United States and China that have taken the lead in economic recovery. Recognizing that the drive towards realizing a decarbonized society is a business opportunity, we are responding to the “new normal” and moving ahead with a future-oriented business strategy that strives to solve social issues by creating “shared benefit” comprised of an “environmental value” and a “social value.”

In Japan, we are expanding businesses in the Timber and Building Materials Business that are not linked to the number of new housing starts, such as biofuel and exports of domestic timber. In the Housing and Construction Business we aim to further popularize ZEH (Net Zero Energy Houses), streamline construction and reduce construction times, increase competitiveness, and improve profitability. Overseas, we will take advantage of steady demand for housing in the United States and Australia to achieve stable growth in the detached housing business in existing areas while expanding the business in new areas, such as Denver, Colorado. In the real estate development business in the United States, we plan to steadily expand our new investments while keeping an eye on market trends.

Concerning climate change measures, the focal point of the next Medium-Term Management Plan, we are undertaking sustainable forest management, which is gaining attention as sources of carbon sinks, increasing the manufacture and distribution of timber products, popularizing wood construction, expanding the renewable energy business, and linking up with local governments to provide forest management consulting that can contribute to regional revitalization.

Strengthening our business foundations for sustainable growth

The outlook for our business environment remains unclear, and we are committed to strengthening our business foundation to make our operations more resilient. In addition to maximizing the management resources in each business for our growth, we will also press on with digital transformation (DX). We have already launched structural design services for builders and precut factories in the Timber and Building Materials Business, and in the Housing and Construction Business, we have started working on digital marketing that uses real-life data we have collected through model homes and other avenues. Going forward, we intend to go further by rebuilding the structure that allows us to provide the hundreds of thousands of Sumitomo Forestry Group customers with comprehensive services and transforming that into increased customer satisfaction, improved productivity, the creation of added value and the realization of workstyle reform.



Human capital is one of the most important elements of Sumitomo Forestry Group business foundation. Sumitomo Forestry is committed to creating a workplace where a diverse group of employees can flourish. In March 2021, our efforts to encourage women to play active roles in the workplace were recognized with the “Nadeshiko Brand” designation from the Ministry of Economy, Trade and Industry of Japan. This designation is given to enterprises that have been judged to be outstanding at encouraging women’s success at work. By focusing attention on workstyle reform and human resource development, we aim to further increase our competitiveness with strong individuals and a strong organization.

As we expand our businesses, we are placing greater emphasis on compliance and risk management across the Group. One way we are doing this in the growing real-estate-for-sale business is to create a system that allows for stable business expansion with appropriate monitoring that keeps an eye on trends in the market economy. With the growing awareness of ESG thinking ,

companies that seek to merely increase short-term profits are not highly regarded by consumers and investors. With forward-looking sustainable growth as a prerequisite, we will continue to enhance our governance and keep our management highly transparent. In March 2021 we appointed one more female outside director, which resulted in a total of two female directors. As a result, outside directors now constitute one third of the company’s directors.

Financial strategy and shareholder returns

On the financial side, management continues its efforts to enhance shareholders’ equity, along with measures to improve cash flow and return on equity (ROE). Concerning cash flow improvements in particular, we are working to optimize the cash conversion cycle through measures such as maintaining inventory at suitable levels and collecting receivables at an early stage. We will endeavor to carefully select and implement effective investment and lending

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projects that will help improve long-term corporate value, and we will thoroughly examine the cost-effectiveness of our general and administrative expenses. Furthermore, the coronavirus crisis revealed the overall weakness of the supply chain, and thus we are taking steps to guarantee fluidity flexibly and quickly in emergency situations like the suspension of business activities while identifying risks and capital requirements.

We view returns to shareholders as one of our most important management tasks at Sumitomo Forestry, and our basic policy is to provide stable and ongoing returns. The Company is keen to continue to return an appropriate level of profits to shareholders based on recent profit levels and a comprehensive evaluation of the balance between our business foundations, financial conditions and cash flow.

### Towards a decarbonized society

The Japanese government has announced its goal to be carbon-neutral by 2050. This is but one of many actions that various national governments, corporations and investors are accelerating towards the year 2050 in keeping with the Paris Agreement. At the Leaders Summit on Climate 2021, all the participating countries set ambitious targets for reducing greenhouse gases by 2030, with Japan announcing a major increase in its target value from a 26% decrease to a 46% decrease in 2030 compared to 2013. Considering the year 2030 as the final year set for achieving the SDGs and a stepping stone towards 2050, we are positioning the year 2021 as the “the first year of decarbonization,” and are currently formulating medium- to long-term management policies. We intend to start our next Medium-Term Management Plan from 2022 based on those policies. We have already begun to implement climate change measures by announcing our support for the Task Force on Climate-related Financial Disclosures (TCFD), setting Science Based Targets (SBT) for long-term greenhouse gas emissions reduction and joining the RE100 initiative. However, as part of our future medium- to long-term strategy, we believe it will be important to develop businesses that maximize the use of wood and forest resources, which are renewable natural capital with the



ability to absorb CO<sub>2</sub> and fix carbon, in the construction industry and as biomass fuel.

The construction industry is said to account for 38% of all greenhouse gases emitted worldwide. Wood construction, including in the non-residential sector, is becoming the focus of attention in the hopes that it can help reduce the burden on the environment. Around 70% of the greenhouse gases emitted from construction is termed “operational carbon,” which refers to emissions from the energy used when buildings are used. Progress is being made on energy-saving measures to reduce operational carbon such as an increase in ZEH and technological developments in ZEB.<sup>\*1</sup> The other roughly 30% of emissions is called “embodied carbon,” which is generated when raw materials are sourced, processed, transported, constructed or disposed of. Wood construction is expected to emit less embodied carbon than reinforced concrete construction and steel construction. In addition to reducing greenhouse gas

emissions, wood construction is also capable of continuously fixing a large amount of carbon over a long period of time. Thus from the perspective of carbon fixing, increasing wood construction could be compared to converting cities into forests. The Group will pursue a business strategy that seeks to reduce greenhouse gases together with our partners and customers by popularizing wooden buildings for non-residential purposes while also providing wooden ZEH residences.

The Green Growth Strategy established by the government of Japan in December 2020 shows that forest resources play a major role in the achievement of a carbon-neutral society by the year 2050 due to their ability to absorb CO<sub>2</sub> and their use in wood biomass power generation. The Sumitomo Forestry Group promotes sustainable forest management in Japan and overseas. Additionally, with the expanded use of wood products and wood construction, we seek to contribute to the realization of a decarbonized society by taking part in cyclical economic activities, also called a “circular bioeconomy,”<sup>\*\*2</sup> which reduce global warming and avoid placing a burden on the biosphere.

The role forests play as natural capital goes beyond absorbing CO<sub>2</sub> and fixing carbon: they also perform various functions such as preventing landslides and conserving the soil and water sources. Beyond that, they furnish human lifestyles with a high amount of value in a variety of aspects including scenery, recreation, arts and crafts, and traditional culture. While some calculations of shared benefit converted to monetary value suggest a figure of 70 trillion yen, the academic basis for this scientific analysis is still in the development stages and no real link to economic value has been established. In September 2020, Sumitomo Forestry signed an industry-university collaboration agreement with the University of Tokyo. We plan to spend ten years conducting joint research into ways to increase “the value of trees” through such means as quantifying their “shared benefit.” Visualizing the shared benefit provided by forests and the timber that comes from them will not only increase the value of the approximately 280,000 hectares of forest assets held and managed by the Group in Japan and elsewhere but will also increase the value of forests and wood buildings worldwide, contributing to the

creation of a circular bioeconomy that will improve the sustainability of society as a whole.

<sup>\*1</sup> ZEB (Net Zero Energy Building)

<sup>\*2</sup> A circular economic system where resource efficiency is maximized by applying biotechnology and other technologies in order to use renewable biological resources for as long as possible within the ecological boundaries of the ecosystem.

### To our stakeholders

Although countries around the world have begun to administer the coronavirus vaccine, the presence of mutant strains means that the end of the coronavirus crisis remains hard to predict. However, it is certain that societies and economies will make large strides in coping with the “new normal” and creating a decarbonized society once the crisis is past.

“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.” We have set this as our management philosophy. As a Group with the word “Forestry” in our name, realizing a sustainable society that co-exists with nature runs ceaselessly through our DNA, starting from the Large-Scale Reforestation Plan we formulated to revitalize a devastated forest in 1894. Whether they are involved in forest management or wood construction, distributing timber and building materials, renewable energy or elderly care, each of our over 20,000 employees acts with pride and confidence as they work to solve various societal problems through our businesses. The outlook for the future may be uncertain, but we will nevertheless strive to increase our resilience as a corporation in order to live up to the trust our stakeholders have placed in us. We will also continue to develop businesses for a post-COVID world that can contribute broadly upstream and downstream to the achievement of SDGs. It is my sincere hope that all our stakeholders will continue to understand and support us as we strive to make these goals a reality.