

**Integrated Report**  
**2022**



 **SUMITOMO FORESTRY CO.,LTD.**

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## Editorial policy

The Sumitomo Forestry Group publishes an Integrated Report every year to inform shareholders, investors and all other stakeholders about its yearly performance and medium to long-term initiatives for corporate value enhancement. It is issued with the aim of sparking opportunities for further dialogue.

The Integrated Report for 2022, a report on performance for the fiscal year ended December 2021, was compiled with the primary focus of explaining the long-term vision and medium-term management plan that were newly formulated in February 2022. Based on this long-term vision, the Group will endeavor to achieve sustainable growth by maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy. This report will explain the concepts behind the vision and the efforts each business is making to achieve it. It will also report systematically on last year's performance and the ESG initiatives that formed the basis of those results.

We hope this report will serve as a basis for deeper discussions with all of our stakeholders.

## Scope of reporting

### Reporting period

Fiscal year ended December 2021  
(January 1, 2021 to December 31, 2021)

\*The report also includes some activities from outside the reporting period.

### Scope of reporting

Sumitomo Forestry Co., Ltd. and Group companies

### Framework and guidance referred to

- International integrated reporting council (IIRC) International integrated reporting framework
- "Guidance for collaborative value creation" issued by Japan's Ministry of Economy, Trade and Industry




### Regarding change of fiscal term

The Sumitomo Forestry Group is changing the end of its fiscal year from March 31 to December 31, beginning after the fiscal year ended December 31, 2020. As a result of this change, fiscal 2020 refers to the irregular nine-month fiscal period that starts on April 1, 2020 and ends on December 31, 2020.

## Information disclosure

Sumitomo Forestry proactively discloses information to enhance the transparency of management. Since the fiscal year ended March 2017, the Sumitomo Forestry Group has published the Integrated Report with the objective of improving the disclosure of financial information about its initiatives to increase corporate value, as well as non-financial information related to ESG. Our ESG initiatives are available in both Japanese and English on the Company's website. Sumitomo Forestry also publishes on its website Japanese and English translations of its business activity reports and Notices of Convocation of the Ordinary General Meeting of Shareholders, among other documents.

 Corporate, IR, Sustainability information <https://sfc.jp/english/>



### Third-party assurance regarding ESG information

With the aim of ensuring the appropriateness and objectivity of non-financial information disclosed, some environmental and social performance indicators that are disclosed on the Sumitomo Forestry sustainability report website have been assured by a third-party assurance provider, KPMG AZSA Sustainability Co., Ltd. Please refer to the Company's sustainability report website to view the independent third-party assurance report.

[https://sfc.jp/english/sustainability/gri/pdf/2022\\_csr-report\\_third-party\\_en.pdf](https://sfc.jp/english/sustainability/gri/pdf/2022_csr-report_third-party_en.pdf)

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## 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.

## Our Values

We provide high-quality products and services that bring joy to our customers.

We create new businesses that lead to happiness for generations to come with a fresh perspective.

We promote a free and open-minded corporate culture that respects diversity.

We set and strive to achieve ambitious goals through ongoing effort.

We do work that wins us the trust of society with fair and honest conduct.

## Sumitomo Forestry Group Code of Conduct

### Purpose and scope of application

Based on its Corporate Philosophy and Our Values, the Sumitomo Forestry Group shall manage its operations, including the supply chain, in accordance with this Code of Conduct.

### Fair and transparent corporate activities

- |  |  |
|--|--|
| 1.Strict adherence to laws and regulations | 8.Relationships with companies we do business with |
| 2.Prevention of corruption                 | 9.Protection of intellectual property rights       |
| 3.Fair business transactions               | 10.Protection of personal information              |
| 4.Fair accounting procedures               | 11.Responsible advertising/promotional efforts     |
| 5.Communication with stakeholders          | 12.Healthy relationship with the government        |
| 6.Maintaining confidentiality              | 13.Stance on organized crime                       |
| 7.Information security                     | 14.Establishment of a whistleblowing mechanism     |

### Ethical conduct


- |  |   |
|--|---|
| 15.Avoidance of a conflict of interest               | 18.Appropriate gift giving and entertainment        |
| 16.Prohibition of misappropriation of company assets | 19.Prohibition of political or religious activities |
| 17.Prohibition of insider trading                    |   |

### A respectful, healthy workplace

- |   |                                   |
|---|-----------------------------------|
| 20.Respect for human rights                                     | 26.Occupational health and safety |
| 21.Prohibition of discrimination and the promotion of diversity | 27.Human resources development    |
| 22.Prohibition of forced labor and child labor                  | 28.Prohibition of harassment      |
| 23.Freedom of association and collective bargaining rights      | 29.Protection of privacy          |
| 24.Appropriate working hours and wages                          |                                   |
| 25.Work/life balance  |                                   |

### Business activities that respect society and the environment

- |                                      |  |
|--------------------------------------|--|
| 30.Customer satisfaction and safety  | 32.Contribution to the local community |
| 31.Co-existence with the environment |  |

 **Sumitomo Forestry Group Code of Conduct** <https://sfc.jp/english/corporate/philosophy/code.html>







While it is unclear when the COVID-19 pandemic that began in 2020 will end, we are finally beginning to see a return to normal daily life thanks to vaccinations, restrictions on activities and other measures. Nonetheless, the fragmentation to the supply chain that the pandemic caused continues to disrupt the balance of supply and demand, causing chaos in the distribution network, soaring wood prices and other issues. In addition, countries worldwide are experiencing a shortage of supplies and inflation with worsening geopolitical risks.

At COP26 held last year in Glasgow, the world made its first real step toward realizing a decarbonized society with member countries agreeing to limit global warming to 1.5°C compared to pre-industrial levels. In these turbulent times, companies are being tasked to play an increasingly important role in the sustainable development of society.

Sumitomo Forestry Group's origins go back to 1691 with the opening of the Besshi Copper Mine where we managed forests to procure wood for fuel and mining wood. In the more than 330 years since, we have operated our businesses based on Sumitomo's Business Spirit, which places prime importance on fairness and integrity for the good of society. In 1894, we formulated the Great Afforestation Plan to begin rejuvenating the surrounding forests that were damaged from smoke and other factors from copper smelting. In a time when there was no awareness of ESG or SDGs, our predecessors strove to conduct business that was in harmony with public interest. Their DNA continues to be passed down to this day as reflected in our Group's Corporate Philosophy and Our Values.

Sumitomo Forestry Group has long contributed to the global environment and people's lifestyles through a wide range of business activities centered on wood, such as forest management, wood building materials manufacturing, distribution, wood building construction and biomass power generation. In a world grappling with climate change and energy problems, now more than ever before, we must adhere to the values handed down from our predecessors and create businesses that resolve societal issues in a way that only Sumitomo Forestry Group can. With the aim to be an integral element of people's lives, we are committed to contributing to a sustainable and prosperous society through our business activities.

**Akira Ichikawa**  
Representative Director, Chairman of the Board



# Our sustainable business model draws out the potential of trees

# 1691

## Founding of Sumitomo Forestry

Opening of the House of Sumitomo Besshi Copper Mine  
Beginning of copper mine forestry business

# 1600s



Picture scroll depicting the Besshi Copper Mine in Iyo Province, present-day Ehime Prefecture (Sumitomo Historical Archives Collection)



Picture scroll depicting the Besshi Copper Mine in Iyo Province, present-day Ehime Prefecture (Sumitomo Historical Archives Collection)

### The Sumitomo Business Spirit which started it all, passed down through generations

The Monjuin Shiigaki left by Masatomo Sumitomo (1585-1652), founder of the House of Sumitomo. The preamble of this brief explanation of philosophical business rules states, "Do your best prudently and meticulously, not only in business, but in every aspect of your life." He emphasizes that care should be exercised in all matters and everything should be done with consideration and respect.

Sumitomo also left behind writings such as "Value trust and make certainty a principle" advocating the importance of integrity, "Refrain from the pursuit of easy gains" which warns against being blinded by thirst for quick profits, and "Harmony between your interests and those of the public" with which Sumitomo urges harmony with the public interest - between the individual, the nation and society.

These words through which our predecessors have kept the company marching forward throughout its long history, as well as the thoughts behind them, are devotedly observed as the *Sumitomo Spirit* even in the present day.

**1865**

Saihei Hirose appointed manager of Besshi

**1882**

Rules of Governing the House of Sumitomo established

**1894**

Teigo Iba appointed manager of Besshi  
Launched the Large-Scale Reforestation Plan

**1899**

Masaya Suzuki appointed manager of Besshi  
Established the sustainable forestry approach



Teigo Iba (stored among Sumitomo Historical Archives)

**1909**

House of Sumitomo mountain forestry business transferred to Sumitomo Sohonten upon its establishment

**1919**

Forestry Section established at Sumitomo Sohonten

**1948**

Six companies formed (established) from the Forestry Department of Sumitomo under the government's zaibatsu dissolution order  
After two mergers, they became two companies: Toho Agriculture and Forestry (Toho Norin) and Shikoku Forestry (Shikoku Ringyo)

# 1800s



The Besshi Copper Mine was in a state of degradation during the Meiji era due to the effects of mining operations (stored among Sumitomo Historical Archives)



Mount Besshi in the present day

# 1900s

### Sumitomo Forestry's origin in the copper mine forestry business

Sumitomo Forestry was established back in 1691 with the opening of the Besshi Copper Mine in present-day Niihama, Ehime Prefecture. It began with the management of forests surrounding the Besshi Copper Mines in order to procure timber for fuel and wood to support mine walls, which was essential to the copper smelting business, and also timber and other materials for the construction of housing for people who lived and worked in mining and smelting.

### Start of the Large-Scale Reforestation Plan and sustainable forestry

In the late 19th century, the forests surrounding the Besshi Copper Mine were in danger of being devastated after a long period of

excessive logging and smoke pollution. The then manager of the mine, Teigo Iba, believed "allowing this land to be degraded while moving forward with business made possible by its fruits runs counter to the proper course of our relationship with nature. We must return all the mountains of Besshi to their verdant state." With this belief, he launched the Large-Scale Reforestation Plan in 1894 to restore the forests that had been lost.

Through a process of trial and error, and by implementing large-scale planting efforts of a maximum of more than two million trees per year, the mountains were eventually returned to a state of rich greenery. This concept of sustainable forestry has been passed on to the present day.



# The history of Sumitomo Forestry

## Expanding business in response to the needs of the times

During the over 330 years since our establishment, we have expanded our business areas to meet the needs of the times and built our current global business structure. While keeping our corporate philosophy rooted and drawing out the potential of trees, we will respond to diversifying values and social changes and aim to achieve sustainable growth.



**1964**  
Established a dedicated plywood production company in Japan

**1986**  
Full-scale operation of MDF production plant by Nelson Pine Industries Ltd. (NPIL) in New Zealand



NPIL plant

**2003**  
Started housing business in the United States



Spec homes in Seattle

**2005**  
Developed first wooden beam Rahmen structure (Big-Frame construction method) in Japan

**2011**  
Entered medium- and large-scale wooden construction business  
Started renewable energy business



Sophia University Building 15



Mombetsu Biomass Power Plant

**2018**  
Started full-scale real estate development business in the United States  
Unveiling of W350 Plan aimed at realizing "Environmentally-friendly and timber-based cities"



Example of Crescent Communities construction in the United States

**1955**  
Toho Norin Co., Ltd. and Shikoku Ringyo Co., Ltd. merge with Shikoku Ringyo Co., Ltd. as the surviving company to form Sumitomo Forestry Co., Ltd. Nationwide network to procure and sell domestic timber established

**1956**  
Started the timber import business



Waterfront at the Port of Vancouver  
Sumitomo Forestry employees performing inspections at timber yard facility

**1970**  
Established PT. Kutai Timber (KTI) and launched full-scale construction materials business mainly for plywood

**1975**  
Started the custom-built wooden housing business

**1977**  
Entry into the greening business

**1991**  
Tsukuba Research Institute established, unified the R&D organization for building materials, housing, and resources



New research building at Tsukuba Research Institute

**2007**  
Full-scale entry to the elderly care business

**2008**  
Started housing business in Australia

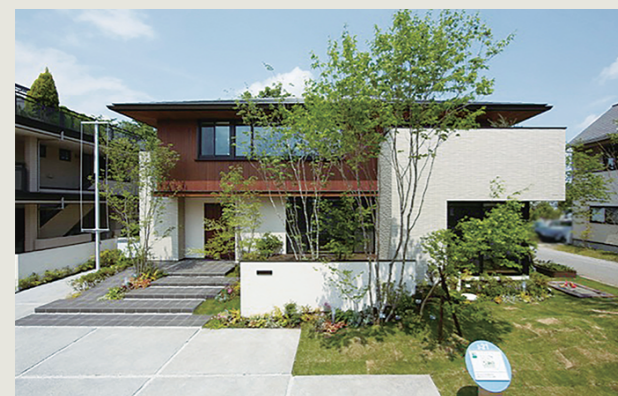


Gran Forest Kobe Mikage

**2021**  
Full-scale entry into the detached apartment housing development business in the United States

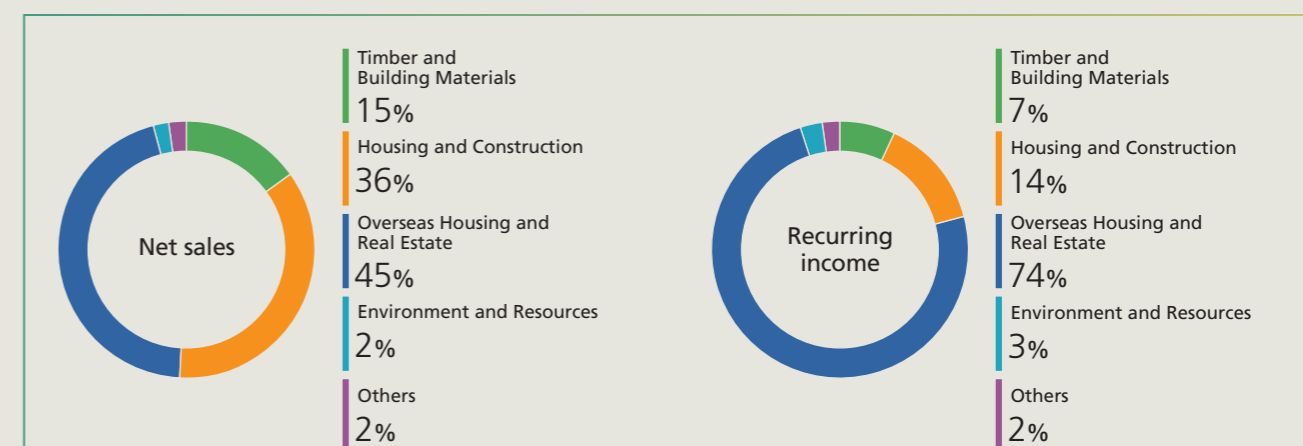


Harmon Foxbank project



Custom-built wooden housing

## Composition by segment (fiscal year ended December 31, 2021)







*Toshiro Mitsuyoshi*  
Toshiro Mitsuyoshi  
President and Representative Director

## Mission TREEING 2030, our long-term vision to guide us through an uncertain future

While the COVID-19 pandemic wreaked havoc on societal and economic activities around the world, restrictions are gradually being relaxed in the US and Europe. Even in Japan, hopes that life will return to normal are beginning to emerge. In the beginning of 2020, the spread of the pandemic triggered lockdowns in various countries, semiconductor shortages and supply chain disruptions due to a slowdown of marine transport, shaking the foundation of business activities in all sectors. In Japan, we are still experiencing wood shortages and soaring prices – in other words, the wood shock – as well as shortages in building materials and housing equipment. In addition, Russia's military invasion of Ukraine in February 2022 has brought about resource, energy and food insecurities. Sudden inflation has had a huge impact on the global economy and may disrupt world order. Companies with global operations are facing a very uncertain future.

At COP26 held in November 2021 in Glasgow, the United Kingdom, member countries agreed to limit global warming to 1.5°C compared to pre-industrial levels and to steadily phase down coal power. Ahead of this in September, Sumitomo Forestry Group signed Business Ambition for 1.5C°, a campaign led by the Science Based Targets (SBT) Initiative in partnership with the UN Global Compact and other organizations and set a goal to achieve net zero carbon emissions by 2050. In February 2022, we announced Mission TREEING 2030, our long-term vision to provide value for our planet, for people and society and for our market economy to make our planet safer and more secure for current and future generations of people and all living beings.

### A look back at fiscal 2021

For the December 2021 fiscal term, the final year of our previous Medium-Term Management Plan, total net sales increased 25.5% from the previous term to 1,385.9 billion yen thanks to the strong performance of our Overseas Housing and Real Estate Business – in particular, our US housing operations. Recurring income increased 134.2% to 137.8 billion yen and profit attributable to shareholders of the parent company soared 213.0% to 87.2 billion yen, a record high profit that significantly exceeded our forecasts.

In the Timber and Building Materials Business, despite a tight supply and soaring prices of timber worldwide, sales and profits of imported lumber products, imported plywood and domestic lumber grew. In the Housing and Construction Business, thanks to successful digital marketing efforts of our main custom-built detached housing business, orders received and the ratio of ZEH (net-zero energy houses) rose, which combined with an increase in unit sales prices and new housing starts, resulted in higher net sales. However, rising wood and other building material costs held down profits.

The Overseas Housing and Real Estate Business, which drove our performance, registered significant increases in both sales and profit thanks to a strong new housing market in the United States, increases in the number of units sold and per unit prices, and robust real estate development operations. Through M&As and investments these past several years, we have been actively positioning ourselves in a growth market that is expanding both in terms of scale and diversity. As a result, we have been able to capitalize on this booming market to steadily lead the increase in overall Group revenues.

The Environment and Resources Business benefited from the strong performance of our overseas forestry business in New Zealand and Indonesia as well as rising timber prices in our domestic forestry business. In addition, the start of operations of the Kanda Biomass Power Plant



## Message from the President

and our other wood biomass power generation plants contributed to profits.

In our Lifestyle Service Business, the two elderly-care facility companies continued operations throughout the COVID-19 pandemic thanks to thorough preventive measures. We also opened the VISON Hotel in Taki, Mie Prefecture, in July 2021.

Despite the COVID-19 pandemic, we were able to respond flexibly to changes in our operating environment to register record high profits for each of the three years\* of our previous Medium-Term Management Plan. In terms of sales, profit and all major financial indices, we significantly exceeded forecasts.

\* The December 2020 fiscal term was nine months due to a change in the fiscal year, and we achieved record high third quarter profits.

### Formulating our long-term vision

The world is facing an uncertain post-COVID future with Russia's invasion of Ukraine, decarbonization efforts and numerous other factors. It is precisely during times like these that the Sumitomo Forestry Group must continue to contribute to resolving societal issues and realizing a

sustainable society through our business activities. By providing value for our planet, for people and society, and for the market economy, we want to make our planet safer and more secure for current and future generations of people and all living beings.

In preparation for 2030, the target year of our SDGs, we have formulated Mission TREEING 2030, our long-term vision that sets out what type of company we want to be. In drawing up this long-term vision, we surveyed our customers, business partners, investors, Group employees and other stakeholders from both within and outside the Company. In addition to incorporating their hopes and expectations for the Sumitomo Forestry Group, we held repeated internal discussions with mixed groups of employees, both young and management level. Through these processes, we were able to identify three values we want to provide – value for our planet, value for people and society, and value for the market economy. We are committed to promoting business activities that simultaneously enhance all three values without sacrificing any of the other values.

Based on these discussions, we also developed four

different themes for 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; and 4) Transforming our business foundation for growth.

For our first theme, maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy, our Group's business operations both in Japan and overseas are pursuing the capacity of wood resources to absorb and reduce CO<sub>2</sub> and contribute to the realization of a decarbonized society. For our second theme, advancing globalization, we are further expanding our overseas operations with the United States, Australia and Asia as our core overseas business platforms. For our third theme, striving for transformation and the creation of new value, we are promoting digitalization and other forms of business innovation and rebuilding the revenue base of our main businesses in Japan to restore profitability. For our fourth theme, transforming our business foundation for growth, we are working to hire, nurture and retain talented people who can respond to the increasing globalization and diversification of our operating environment. We are also enhancing employee engagement and reinforcing our risk management systems.

Through these and other initiatives, Sumitomo Forestry Group will strive to contribute to the decarbonization of society and expand to have a Group recurring income of 250 billion yen by 2030.

### Contributing to the realization of a decarbonized society

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. To achieve this, we are going beyond decarbonization initiatives and setting goals that not only provide economic value, but also appropriately protect precious natural resources, such as biodiversity and water. Trees absorb carbon dioxide from the atmosphere in the growth process of photosynthesis, and even after harvesting, store large amounts of carbon. Utilizing wood for high-quality housing, furniture and other uses stores carbon for long periods of time and is the concept of HWP (harvested wood products) outlined in the

Kyoto Protocol. In October 2021, the Forestry Agency released guidelines for construction and other companies on how to calculate carbon fixation amounts. By planting trees after logging, the younger trees more effectively absorb and store carbon as they grow. In addition, wooden buildings have significantly lower CO<sub>2</sub> emissions compared to steel frame or concrete buildings. Construction waste from building demolitions, unutilized wood from woodlands, and sawdust and wood chips from manufacturing facilities can be utilized for biomass power generation as an alternative to fossil fuels, further reducing CO<sub>2</sub> emissions. This cycle of harvesting trees, replanting them and then utilizing the wood they produce can make a significant contribution to realizing a decarbonized society.

For our long-term vision, we are pursuing initiatives in three fields – forests, wood and construction. In the area of forests, we have established a forestry fund to increase the sustainable forest area we own or manage worldwide from the current approximate 280,000 ha to 500,000 ha. In addition to forest management for sustainable timber production, we want to create high-quality carbon credits by appropriately maintaining and managing natural forests and tropical peatlands. Establishing this type of circular forestry business will support decarbonization for both countries and companies.

In the field of wood, we are promoting higher domestic self-sufficiency and greater use of wood, what we call wood change. To manage the growing stock of forests in Japan, we are establishing timber industrial complexes that fully utilize domestic wood using the cascade method, from wood product manufacturing to fuel for biomass power generation. As a first step, we have begun the operation of a wood processing plant in Shibushi, Kagoshima Prefecture.

In the field of construction, we are working to visualize CO<sub>2</sub> emission reduction amounts and standardize decarbonized design. Specifically, we will implement an environmental labeling system called EPD (environmental product declaration) for building materials and equipment. We will also establish a design method that visualizes a building's life cycle CO<sub>2</sub> emissions using One Click LCA, a software that enables life cycle assessment calculations related to construction. The construction sector accounts for almost 40% of the world's CO<sub>2</sub> emissions. Of this, 70% is operational carbon (CO<sub>2</sub> during occupancy), which is the

# Mission TREEING 2030

~ Making our planet safer and more secure for future generations~



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



## Message from the President

CO<sub>2</sub> from energy usage in houses and offices. We are working to reduce operational carbon with the popularization of renewable energies, ZEH (net-zero energy houses) and ZEB (net-zero energy buildings). The remaining 30%, called embodied carbon (CO<sub>2</sub> during construction), is the CO<sub>2</sub> from the raw material procurement, processing, transport, construction, repair and disposal of building materials. With an increase in construction in developing countries and other parts of the world, reducing embodied carbon will become a critical issue. As the efforts of any one company alone would be insufficient, the construction industry as a whole must advance initiatives to reduce CO<sub>2</sub> emissions, such as promoting the visualization of CO<sub>2</sub> emissions for each building material and method. Our Company is promoting the standardization of decarbonized design by acquiring EPD for the construction industry and popularizing One Click LCA.

Ever since our establishment in 1691, our Company has been involved in a wide variety of businesses both in Japan and overseas centered on wood. With the ongoing operation of the wood cycle where trees are nurtured, utilized and then replanted, we believe we can contribute to decarbonization and resource recycling for not only our own Company, but for society as a whole.

### Our new Medium-Term Management Plan

Our new Medium-Term Management Plan, which started in fiscal 2022, is positioned as Mission TREEING 2030 Phase 1, part of our long-term vision. During this time frame, we will create the foundation for future growth and decarbonization. In our previous Medium-Term Management Plan, we were able to significantly expand our Overseas Housing and Real Estate Business, a major pillar of earnings, and enhance the competitiveness of materials, labor and other costs. For our new Medium-Term Management Plan, we will recover the profitability of our domestic operations, which was a remaining issue in our previous Medium-Term Management Plan. In addition, we will invest in our Resources and Environment Business, which forms the core of our decarbonization efforts, and strengthen the foundation needed to realize our long-term vision. In the Timber and Building Materials Business, we will build processing plants as a first step to creating timber

industrial complexes that better utilize domestic timber. In addition, we will actively invest in decarbonization, DX promotion and other new businesses that have the potential to become a pillar of our operations. In the Housing and Construction Business, we will promote digital marketing and rationalization of construction methods to further increase the competitiveness and market share of our custom-built detached housing business. We will also expand our spec home business, our non-residential building business and renovation business. In the Environment and Resources Business, we will actively expand the area of forest land we manage both in Japan and overseas.

### The further growth of our Overseas Housing and Real Estate Business

The further growth of our core Overseas Housing and Real Estate Business is a critical factor in achieving our Medium-Term Management Plan targets. In our main US market, rising policy interest rates are driving higher mortgage rates, which is resulting in declining affordability. However, demand for housing is expected to remain strong for the mid- to long-term due to an increase in the first home-buying population, such as Millennials, Generation Z and other demographic groups, and a housing shortage of four to six million units. Our Group is developing properties in regions with above-average population growth. Of the top 10 cities building the most new homes, we have a presence in eight. Furthermore, these cities have a lower-than-average home-price-to-income ratio, which gives us reason to believe that the market will continue to grow.

In addition to the United States, our Group considers Australia and ASEAN countries to be important markets where the population and economy are expected to grow steadily in a post-COVID era. By carefully selecting land plots and developing products that match the area's characteristics, we plan to increase the number of single-family homes we sell to 20,000 units per year. In addition, with the expansion of our detached rental housing business, we are broadening our business field and at the same time, enhancing our cost competitiveness through better rationalization of materials and construction to build a business structure that can secure stable profits in any

type of operating environment. To realize decarbonization through the construction of wooden buildings, which have a low environmental impact, we are also developing mid- and large-scale non-residential wooden building operations in the United States, Australia, the United Kingdom and other countries.

### A resilient organization that works with a diverse range of stakeholders

Sumitomo Forestry Group is undertaking a number of initiatives to grow and transform into a resilient organization that values diversity. As part of management's commitment to sustainable growth, our director compensation system is now linked with ESG management indices and specific long-term CO<sub>2</sub> emissions reduction targets. To ensure that employees from a diverse range of backgrounds can work with a sense of security and harness their individuality, we introduced a new financial-performance-linked evaluation system that better promotes goal achievement and employee growth. In October 2021, we also announced our Declaration of Health Management to promote workstyle reform.

To work with a diverse group of stakeholders, we must actively pursue alliances, join organizations and pay close attention to emerging sentiment while sharing our own company's knowledge, technologies and future vision. To begin fully promoting the understanding and utilization of biodiversity and other natural assets, we became a member of the Taskforce on Nature-related Financial Disclosures (TNFD). Compared to a year ago, interest in embodied carbon reduction and decarbonization through forest utilization has grown. More than ever before, we are meeting with business partners and new companies we have had no past contact with about opportunities for collaboration.

### To our stakeholders

The Sumitomo Business Spirit is an integral element of our corporate philosophy and within it, there is the phrase, "Benefit self and benefit others, private and public interests are one and the same." Behind this is the conviction that Sumitomo's business must benefit the nation and society and emphasize harmony with public interest, and the belief



that companies are simultaneously both private entities and public institutions. By revitalizing forests and popularizing wooden construction, we want to contribute to the decarbonization of the world. This is our 21st century interpretation of benefiting self and benefiting others. As we work tirelessly to pursue these goals, we kindly ask our stakeholders for their ongoing understanding and support.





PART

# 1 Our Long-Term Vision and Medium-Term Management Plan

## Our Long-Term Vision and Medium-Term Management Plan

### Our Long-Term Vision for 2030 and Phase 1 of our Medium-Term Management Plan

In February 2022, Sumitomo Forestry Group announced Mission TREEING 2030, our long-term vision outlining our direction, our business policies and what type of company we want to be in 2030, the final year of our SDGs. Our Group aims to contribute to the global environment and people's lifestyles through business activities that provide a variety of values. With the emergence of urgent, global-scale societal issues, such as climate change and energy problems, companies must manage their operations with a longer-term perspective. In this environment, we

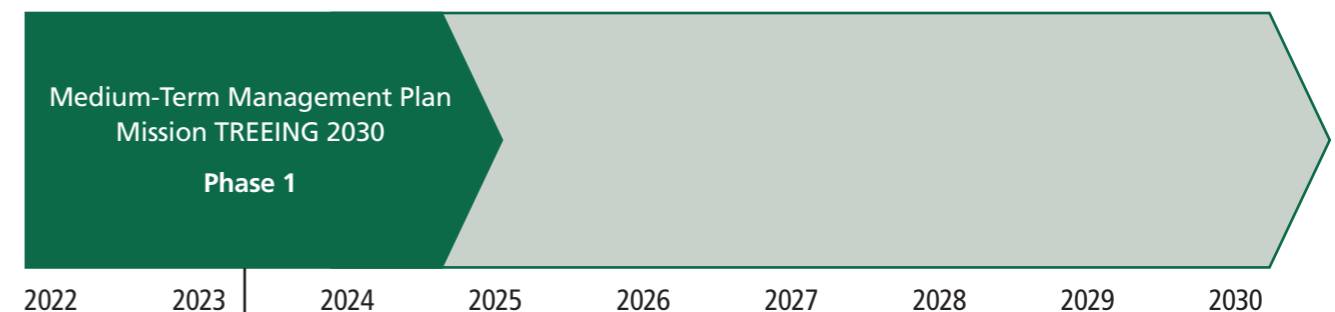
recognize the need to pursue further growth and value creation for the overall Group.

The three years of Mission TREEING 2030 Phase 1 (2022~2024) are being positioned as the period to build a foundation that will secure future growth and enable us to contribute to decarbonization. To achieve this, we are actively expanding our Overseas Housing and Real Estate Business, recovering the profitability of our domestic operations and further investing in our Environment and Resources Business, the core of our decarbonization efforts.

#### Long-Term Vision

## Mission TREEING 2030

~Making our planet safer and more secure for future generations~



#### Three years building a foundation for future growth and decarbonization

- Further expanding our Overseas Housing and Real Estate Business, which has become a pillar of earnings, and recovering the profitability of our domestic operations
- Investing in our Environment and Resources Business, the core of our decarbonization efforts, and strengthening our foothold to realize our long-term vision



# Mission TREEING 2030

~Making our planet safer and more secure for future generations~

By providing value for our planet, for people and society, and for the market economy, we at Sumitomo Forestry Group will strive to make our planet safer and more secure for current and future generations of people and all living beings. With our long-held strengths in harnessing and expanding the value of forests and wood, we will create change for a new future.



## Nine material issues and related SDGs

Value for our planet	To enhance the value of forests and wood through sustainable forest management	Nurturing forests to enhance and harness the value of wood and other forest resources.	13 Climate Action, 15 Life on Land
	To realize carbon neutrality by leveraging forests and wood resources	Contributing to the decarbonization of society by reducing our own GHG emissions, by offering timber and wood products that sequester carbon, and by providing low-carbon/carbon-free products and services.	7 Affordable and Clean Energy, 13 Climate Action
	To realize a circular bioeconomy by leveraging forests and wood resources	Realizing a circular society by making the most of wood, a renewable and natural resource from the forest ecosystem.	11 Sustainable Cities and Communities, 12 Responsible Consumption and Production
Value for people and society	To provide comfortable and secure spaces for society at large	Providing safe, comfortable and secure spaces to society at large.	3 Good Health and Well-being, 9 Industry, Innovation and Infrastructure, 11 Sustainable Cities and Communities
	To improve the livelihood of the local communities where we operate	Creating jobs through our businesses and contributing to the development of local communities.	3 Good Health and Well-being, 8 Decent Work and Economic Growth, 11 Sustainable Cities and Communities
	To create a vibrant environment for all workers	Creating a work environment where everyone throughout the supply chain is safe, healthy and motivated.	3 Good Health and Well-being, 5 Gender Equality, 8 Decent Work and Economic Growth
Value for the market economy	To create new markets with forests and wood	Creating new markets that enrich the economy through the resourceful use of forests and wood.	9 Industry, Innovation and Infrastructure, 11 Sustainable Cities and Communities
	To transform markets through DX and innovation	Enhancing economic efficiency and added value through business transformation brought about by DX and innovation.	9 Industry, Innovation and Infrastructure
	To establish a robust business structure	Contributing to a stable economy by continuously providing value with a structure that is resilient to contingent circumstances.	16 Peace, Justice and Strong Institutions

## Business policy

- 1 Maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy**

In addition to reducing operational carbon in all areas domestically and abroad, we will pursue the CO<sub>2</sub> reduction effect of wood resources and contribute to the decarbonization of society through our businesses.

By highlighting the CO<sub>2</sub> sequestration capabilities of forests and HWP, we will revitalize the Japanese forestry industry and expand our medium- to large-scale wooden architecture business to dramatically elevate the value of timber resources and realize a circular bioeconomy primarily for domestic timber.
- 2 Advancing globalization**

With our US, Australian and Asian operations as our core platform, we will expand the business areas and scale of our overseas group operations.
- 3 Striving for transformation and the creation of new value**

With business transformation and innovation, such as the promotion of digitalization, we will rebuild the revenue base of our domestic operations.
- 4 Transforming our business foundation for growth**

In addition to improving our ability to continually retain, nurture and engage human resources who can respond to globalization and the diversification of our businesses, we will reinforce our risk management system.

## Financial performance target

**2030 recurring income target**  
**250.0 billion yen**

To realize a decarbonized society, Sumitomo Forestry Group newly formulated Mission TREEING 2030, our long-term vision that sets out what type of company we want to be by 2030, the same year as our SDGs target year. We also drew up Mission TREEING 2030 Phase 1 (2022 ~ 2024), our Medium-Term Management Plan. Under Mission TREEING 2030, we defined three areas the Group can provide value – for our planet, for people and society, and for the market economy. We also specified nine material issues. In addition, we set out four business policies: 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; and 4) Transforming our business foundation for growth. To achieve this long-term vision, we will pursue business activities throughout the Group that increase "value for our planet," "value for people and society" and "value for the market economy" simultaneously without compromising any of them.

In terms of financial performance, we are aiming for growth that will enable us to reach 250.0 billion yen in recurring income by the December 2030 term (137.8 billion yen as of the December 2021 term).



## Forests, a key element to realizing a decarbonized society

With the adoption of the Paris Agreement at the 21st United Nations Climate Change Conference held in Paris, France in 2015, the world began the move to realize a decarbonized society. In October 2020, Japan declared that it would strive to be carbon neutral by 2050. To realize carbon neutrality by 2050, we must not only reduce greenhouse gas emissions. We must also offset the greenhouse gases we emit through other types of reduction and absorption efforts.

An important key to doing so is increasing the CO<sub>2</sub> absorption volume of forests. Trees absorb CO<sub>2</sub> from the atmosphere in the growth process of photosynthesis and store that CO<sub>2</sub> as carbon. In other words, forests play an important role in carbon absorption and storage.

Since 1990, the world's forests have been declining at a faster rate than they are increasing. Because deforestation is directly related to lower forest CO<sub>2</sub> absorption volume, we must increase forest area to achieve carbon neutrality. This is why forest protection is gaining increasing focus.

On the other hand, forests in Japan are aging, which presents a different problem. Younger trees absorb more CO<sub>2</sub> than older trees. About 40 percent of Japan's forests are man-made forests that were planted after World War 2, and about half of those forests are more than 50 years old. To increase CO<sub>2</sub> absorption in Japan, mature trees must be harvested, effectively utilized and then replanted with seedlings to promote the rejuvenation of forests.

## Long-term carbon storage using wood

To realize a decarbonized society, we must increase CO<sub>2</sub> absorption amounts by stopping deforestation around the world and promoting the rejuvenation of working forests in Japan. In addition, we must effectively utilize harvested trees to store carbon over the long term. The carbon that trees absorb in the growth process continues to be stored in the wood buildings, wood furniture and other products that the harvested trees are made into. By producing high-quality wood products, we can retain for long periods of time the large amounts of carbon the trees absorbed when they were growing.

But the benefits of using wood do not stop here. For example, when we compare the CO<sub>2</sub> emitted when building with steel or concrete frames versus when

building with wood, markedly less energy is consumed when using wood when we trace back to the production of raw materials. In other words, using wood to construct building structures will significantly reduce CO<sub>2</sub> emissions.

Forests produce not only wood. They also absorb and store CO<sub>2</sub>, protect biodiversity, recharge water sources, conserve soil, prevent landslides and provide many other public benefits. With the rediscovery of the value of forests, people in Japan are beginning to better understand the importance of healthy forest management and effective wood production and utilization. We believe that promoting the use of wood in all aspects of society and increasing carbon storage amounts will help lead to a decarbonized society.

### POINT 1

To increase CO<sub>2</sub> absorption amounts, we must stop deforestation and rejuvenate working forests.

World issue  
Reduced CO<sub>2</sub> absorption due to deforestation



Primarily,  
Conserve and increase conservation forests  
Manage and expand forests

Conservation forests =

Forests with an emphasis on public benefits, such as biodiversity conservation, mountain disaster prevention, health culture and other

Some of the world's forests are working forests, and some of Japan's forests are conservation forests. Forest management must be conducted optimally with appropriate zoning.

Japan issue  
Reduced CO<sub>2</sub> absorption due to aging forests



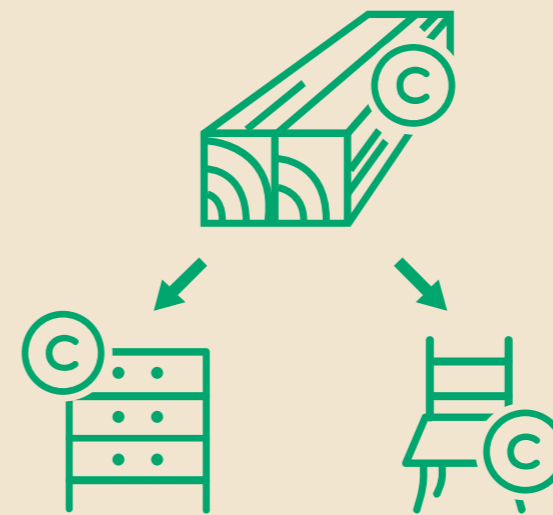
Primarily,  
Rejuvenate working forests  
Harvest and replant forests

Working forests =

Forests that are harvested and reforested to secure stable production of building materials, furniture and other

### POINT 2

Utilize wood for long-term carbon storage



### Carbon Storage

Carbon storage refers to the ability of trees to absorb CO<sub>2</sub> and store it internally as carbon. By utilizing harvested wood to produce wood buildings, furniture and other wood products, carbon is stored for long periods of time without being released into the atmosphere.

Wooden buildings with their low CO<sub>2</sub> emissions and bioenergy also suppress fossil-fuel derived CO<sub>2</sub> emissions.

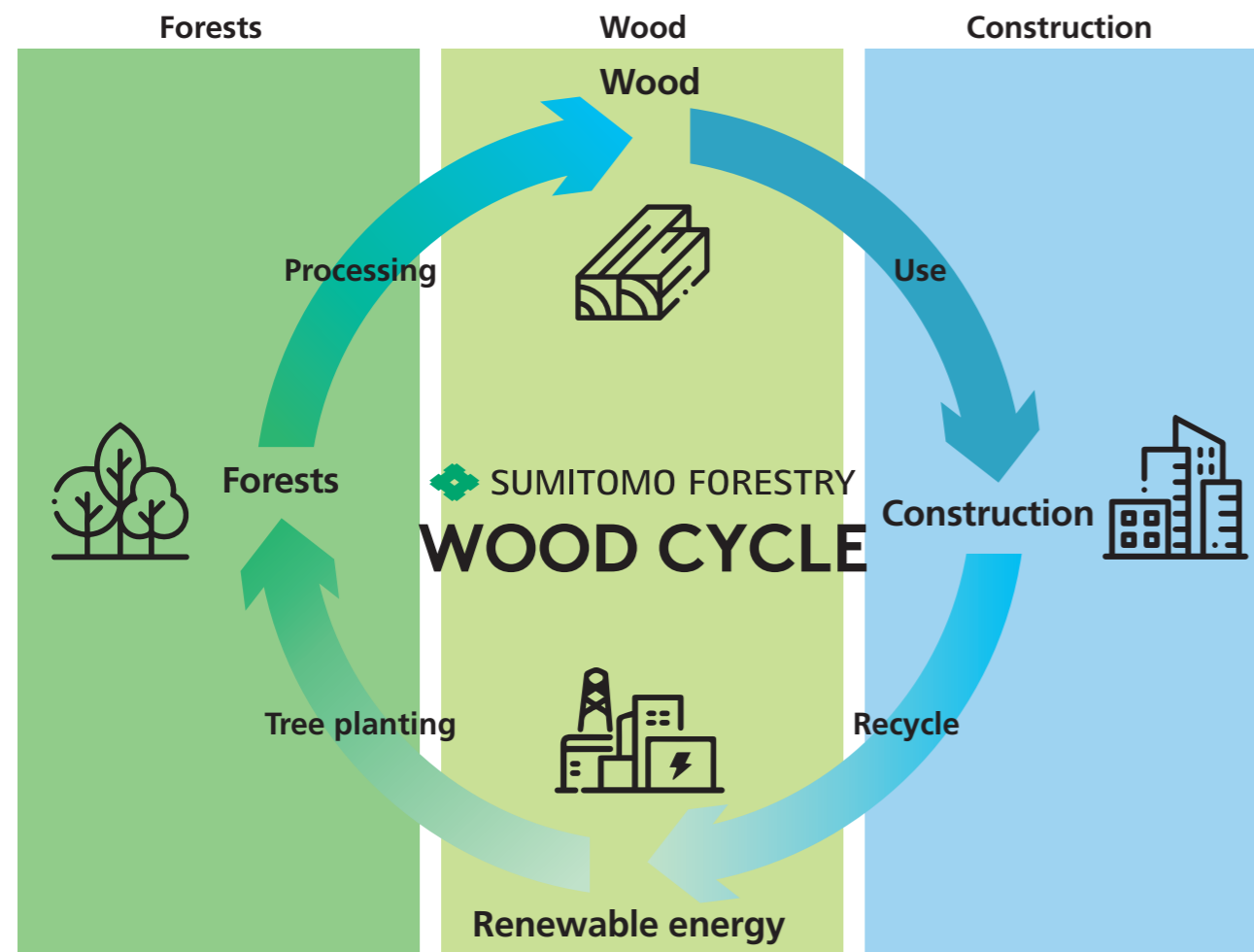


## The three pillars of our Wood Solution – forests, wood, construction

Our Group is involved in businesses centered on wood, a renewable, natural resource. One of the main characteristics of our operations is that we are involved in all aspects of the wood cycle value chain, from upstream to downstream. By rejuvenating forests through sustainable forest management that effectively harvests and replants trees while protecting biodiversity, we are maintaining and increasing the ability of forests both in Japan and abroad to absorb and store CO<sub>2</sub>. We process trees into timber that can be used for a variety of applications and distribute it widely throughout society. Through the active use of wood in housing and medium- to large-scale non-residential buildings, we are working to promote long-term carbon storage. In addition, we are

utilizing construction waste and leftover timber as fuel for biomass power generation. Our Group is developing all these operations to help realize a decarbonized society.

Our growth strategy has three pillars: in the area of forests, we will accelerate the cyclical forest business; in the area of timber, we will promote wood change; and in the area of construction, we will standardize carbon neutral design. This is our unique Wood Solution. With numerical goals for each of these pillars, we will actively pursue initiatives that will enable us to achieve these goals so that we can contribute to not only our own growth, but to a sustainable and prosperous society, as well.



## Sumitomo Forestry's Wood Solution

Summary	Forests Accelerate the cyclical forest business	Wood Promote wood change	Construction Standardize carbon neutral design
	We will promote zoning forest management to expand conservation forests, which absorb CO <sub>2</sub> , and accelerate harvesting/replanting of working forests, which encourage carbon storage. With carbon offsets, we want to contribute to the decarbonization of other companies and society and realize a sustainable business.	We will enhance the competitiveness of domestic timber while pursuing the value of wood in carbon storage. We want to promote the use of wood throughout society to contribute to decarbonization.	We will promote carbon neutral buildings by popularizing LCCM houses both in Japan and abroad, and by establishing and standardizing carbon neutral design methods to contribute to decarbonization of other companies and entities.
Concept	We will create a global forestry fund to expand forest area worldwide, with an emphasis on Asia. Through carbon offsets, we will contribute to other companies and society.	We will make Japanese forestry and wood product manufacturing more efficient with timber industrial complexes and promote the transition to wood-derived alternatives that increase carbon storage amounts.	We will popularize ZEH, ZEB and LCCM housing and net-zero carbon buildings and establish carbon neutral design (One Click LCA*1 x EPD*2) to contribute to the decarbonization of other companies and entities.
Beneficiaries	New customers who are seeking the value of CO <sub>2</sub> absorption	Supply chain partners	Building owners (general consumers, companies)
Contributions	CO <sub>2</sub> absorption	CO <sub>2</sub> reduction (Scope 3, Category 1)	CO <sub>2</sub> reduction (Scope 3, Category 11)
2024 investments**	2024 Forestry fund related investments(~2024) <b>12.0 billion yen</b>	2024 Timber industrial complexes investments(~2024) <b>20.0 billion yen</b>	2024 Overseas non-residential wooden building investments(~2024) <b>30.0 billion yen</b>
2030 targets	2030 Owned/managed forest area <b>500,000 ha</b>	2030 Timber industrial complexes domestic timber usage <b>1.0 million m<sup>3</sup> /year</b>	2030 Number of housing units supplied yearly <b>50,000 units</b>

\*1 A software that visualizes CO<sub>2</sub> emissions during construction. Our Company signed an exclusive agency agreement for Japan.  
\*2 An environmental labeling system based on quantitative environmental data evaluated and certified by a third party.  
\*3 Total investment from FY22/12 to FY24/12





Wood Solution ① Forests

Accelerate the cyclical forest business

Forests are categorized as either conservation forests, which should be protected for biodiversity, landslide prevention and other public benefits, or working forests, which should be effectively harvested and replanted in a cycle. Our Group conducts forest management both in Japan and overseas by appropriately zoning conservation forests and working forests and promoting sustainable cyclical forest management for working forests.

In addition, through the establishment of a global forestry fund, we will protect and expand the world's forest and peatland areas in Asia, Oceania and North America, create a carbon credit allocation system, and contribute to the decarbonization of society. We are also collaborating with IHI on the NeXT FOREST Project to develop innovative forest management technologies that will help resolve global environmental problems.

2030 targets

Forestry fund assets under management  
**100.0 billion yen**

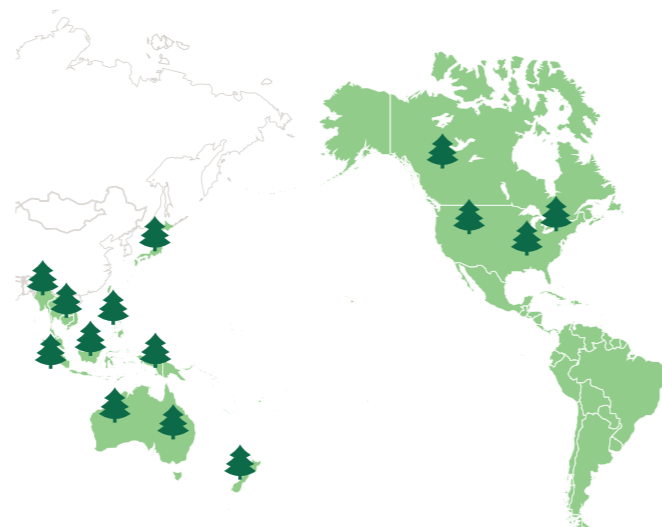
Owned/managed forest land area target  
**277,000 ha → 500,000 ha**

Investment plan

2024 forestry fund related investments (~2024)  
**12.0 billion yen**

Expanding owned/managed forest area

Our Group has approximately 48,000 ha of Company-owned forests in Japan, equivalent to about 1/800th of Japan's total land area. In addition, we own or manage a total of 229,000 ha of forest area in Indonesia, New Zealand, Papua New Guinea and other countries overseas. We conduct sustainable forest management under strict surveillance so that we can utilize forests resources in perpetuity while maintaining their public benefit. Through the global forestry fund, we plan to increase the area of forest land that Sumitomo Forestry Group owns or manages to about 500,000 ha by 2030.

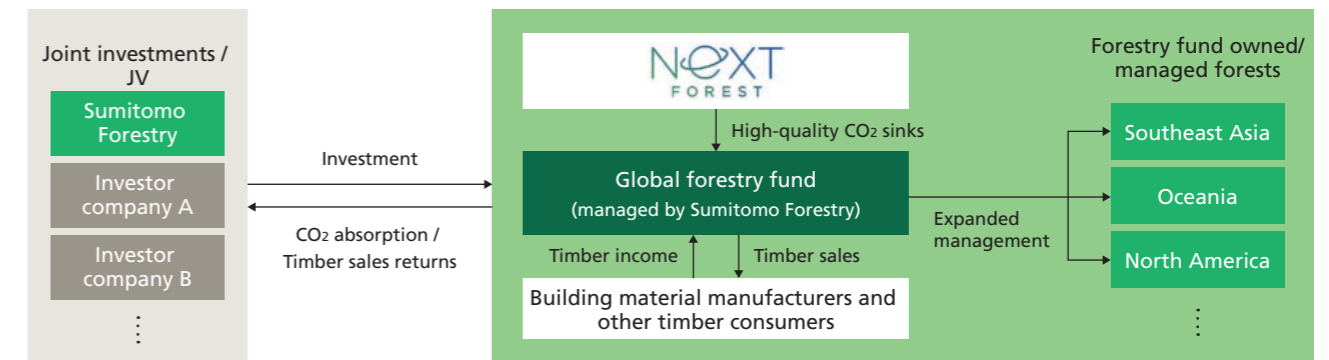


Establishing a global forestry fund

Our Group is planning to establish a global forestry fund. We will expand our sustainable forestry operations through owning or managing forests in Asia, Oceania and North America. In addition, we will create a carbon credit allocation system to contribute to the decarbonization of

industries where drastic reductions of CO<sub>2</sub> emissions are difficult. Our goal for this forestry fund is to have 100.0 billion yen in assets under management.

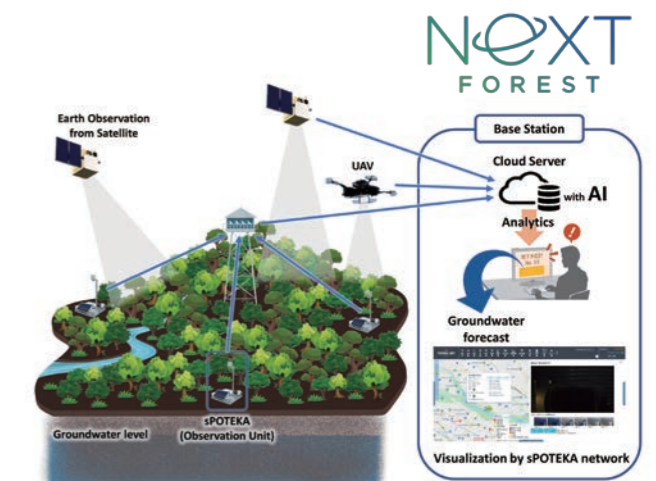
\* At the time of preparation of this material, no specific decisions, including details and timing etc., have been made other than those described above.



Promoting the NeXT FOREST Project

In June 2021, we concluded a business alliance agreement with IHI Corporation and began working on the NeXT FOREST Project. We will bring our experience in managing the world's only successful example of a peatland management technology we built in Indonesia with IHI's expertise in satellite observation technologies to provide consulting services to countries, regional government organizations and companies that are fighting to stop deforestation and peatland destruction. In addition, we hope our work will help create higher quality carbon credits by appropriately assessing not just the value of forests and soil in terms of carbon absorption, but also the value of natural resources, such as biodiversity and water cycle conservation and regional contributions.

Management system diagram





## Wood Solution ② Wood Promote wood change

In the area of wood, we are promoting wood change – in other words, the use of wood and wood-derived materials for construction and other purposes as well as the use of wood as an alternative to other materials.

Wood is light, strong, resistant to deterioration and has thermal insulative properties. Even after it is made into different products and shapes, it continues to retain the CO<sub>2</sub> it absorbed. Compared to steel or concrete, wood produces significantly lower CO<sub>2</sub> emissions during manufacturing. As the number one timber and building materials company in Japan, we will pursue the many values that wood has to offer by establishing timber industrial complexes and leading the wood change movement. These initiatives will help stimulate the Japanese forestry and wood manufacturing industries to become more efficient and competitive. At the same time, by increasing the volume of harvested wood

products (HWP) we handle and manufacture, we will increase carbon storage for the whole of society.

### 2030 target

Timber industrial complexes  
Domestic timber usage volume  
**1 million m<sup>3</sup>/year**

### Investment plan

2024 timber industrial complexes  
investment amount(~2024)  
**20.0 billion yen**

## Wood change overview

Sumitomo Forestry is the No. 1 domestic timber and building materials company in terms of transaction amount

Japanese timber has low price competitiveness due to a shortage of forestry workers and lack of infrastructure.

Increasing the volume of harvested wood products (HWP) we handle and manufacture to promote carbon storage in society

Japan relies on imports for most of its wood products and with the wood shock, experienced shortages and price increases.

**HWP:**  
Harvested Wood Products

Wood products processed from harvested wood. Because trees absorb CO<sub>2</sub> and store it as carbon, promoting the use of wood products advances the decarbonization of society.

We want to establish timber industrial complexes, which are built on the premise of cascade utilization of Japanese timber, to raise productivity of wood manufacturing, secure a stable supply of wood products and ultimately, increase price competitiveness.

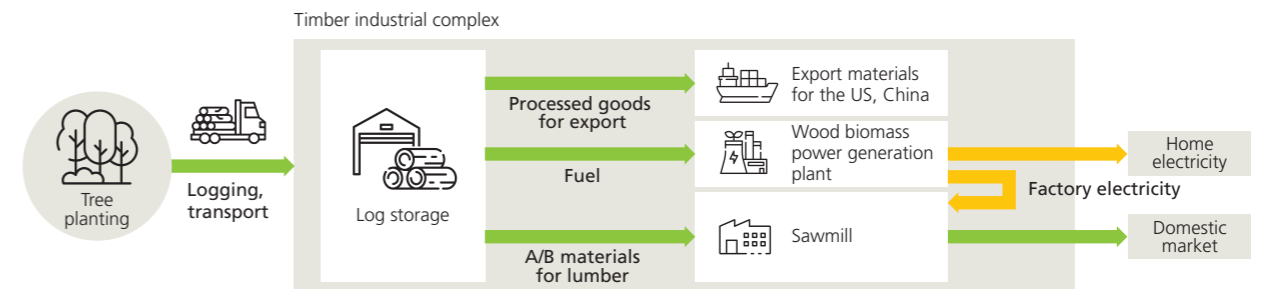
## Establishing timber industrial complexes

Timber industrial complexes are facilities where all functions necessary for the timber industry are consolidated in one location, from log storage, manufacturing and processing to biomass power generation for the supply of electricity and heat, and port facilities for shipping and foreign export. Timber industrial complexes help to revitalize the forestry industry, increase competitiveness of domestic timber, stabilize timber prices and supply, and raise Japan's wood

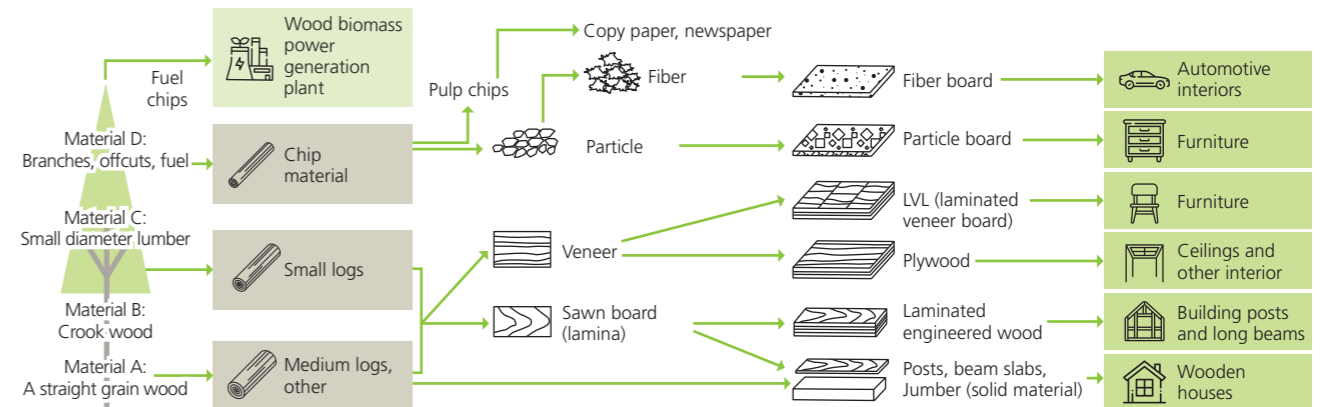
self-sufficiency ratio. This promotes wood change, which in turn, contributes to the decarbonization of society.

As a first step, we concluded a letter of agreement with Shibushi, Kagoshima Prefecture, and are now beginning feasibility studies to construct a wood processing factory and biomass power generation plant that use domestic timber. After formulating concrete operational plans and selecting equipment, we are aiming to begin operations in 2025.

### Timber industrial complex overview



### Cascading flow



### Ripple effect of timber industrial complexes

An increase in the carbon storage period that contributes to decarbonization

An increase in the added value of wood and the creation of employment opportunities for forestry workers

A stable supply of domestic timber and the enhancement of price competitiveness





Wood Solution ③ Construction

Standardize carbon neutral design

In the area of construction, we are promoting the standardization of carbon neutral design. Of the world's CO<sub>2</sub> emissions (approximately 31.5 billion tons annually), 37% is attributed to the construction sector. Hence, decarbonization in the construction sector is an important societal issue. We will first try to tackle this by popularizing ZEH (net-zero energy houses), ZEB (net-zero energy buildings) and similar types of buildings to reduce the CO<sub>2</sub> emitted during occupancy, which is about 70% of the construction sector's CO<sub>2</sub> emissions.

With the economic development of emerging countries, the world's building area is expected to double by 2060, which will make decarbonization during construction increasingly important. To respond to this, our Group is developing and popularizing LCCM (life cycle carbon minus)

homes that realize negative CO<sub>2</sub> emissions during the house's life cycle. We want to promote decarbonization during construction as well as occupancy and operation.

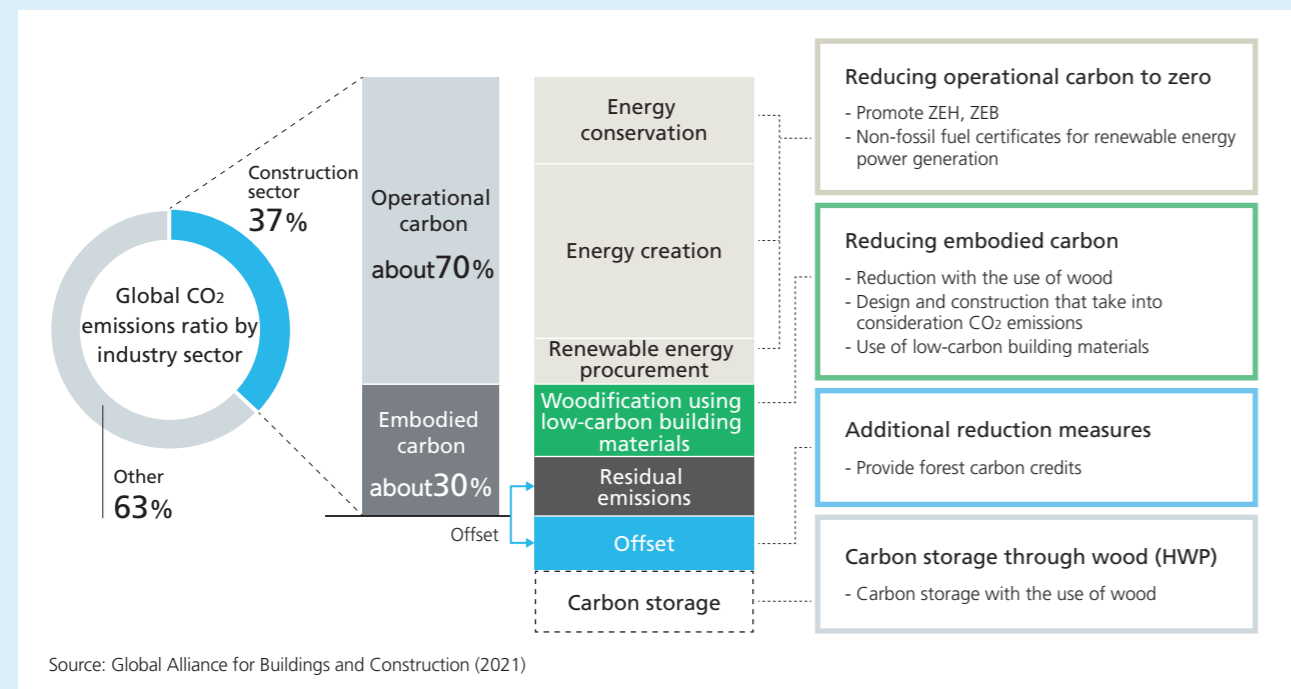
2030 target

Annual housing units supplied  
27,000 units → 50,000 units

Investment plan

2024 overseas non-residential wooden building investments (~2024)  
30.0 billion yen

Reducing two types of CO<sub>2</sub> emissions – operational carbon\*1 and embodied carbon\*2



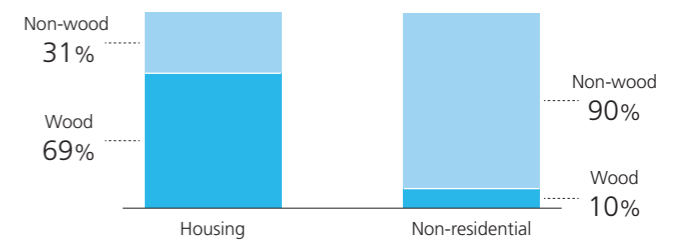
\*1 Reducing CO<sub>2</sub> emitted during occupancy  
\*2 Reducing CO<sub>2</sub> emitted during construction

Domestic housing market targets

Wood structures account for 69% of the domestic housing market and 10% of the non-residential market (on a floor area basis). We want to increase this ratio for both residential and non-residential buildings to contribute to reducing CO<sub>2</sub> emissions.

Expand share with an annual goal to sell 10,000 units of custom-built and for sale housing. Also, actively increase the supply of non-residential buildings, such as roadside stores, public facilities and nursing homes.

- Further promote ZEH and popularize LCCM houses for decarbonization of operational carbon and embodied carbon



- Further promote ZEB for decarbonization of operational carbon
- Increase share of wooden buildings by using One Click LCA to visualize CO<sub>2</sub> emissions
- Woodification of non-residential buildings = Reduces embodied carbon

Overseas housing market targets

Expand market share in the United States and Australia, the world's largest wooden housing markets. Promote wood buildings to transform cities into forests.

In the housing market, aim to supply 40,000 units annually, approximately 23,000 units up from current figures. In the non-residential market, accelerate the development of medium- to large-scale wooden commercial, office and other types of buildings.

Region	United States	Australia	Other
2021	11,230 units	3,169 units	2,534 units
2030	23,000 units	5,500 units	11,500 units

2030 Housing units supplied overseas  
40,000 units



Wood Solution ③ Construction  
Standardize carbon neutral design

Selling LCCM houses

LCCM houses are homes that result in negative CO<sub>2</sub> emissions during the entire house's life cycle, from construction to occupancy and demolition. Our Company further reduces CO<sub>2</sub> emissions by utilizing biomass fuel for the timber drying process. In addition to superior thermal

insulative properties and environmentally conscious equipment and appliances, LCCM houses feature a passive design that controls light and heat and flexible room layouts that contribute to a decarbonized society both during the construction and occupancy stages.



Exterior view of an LCCM house

LCCM house overview

1. Long-term carbon storage using the original BF (big frame) construction method
2. Strong skeletal structure using the BF construction method, which enables flexible changes according to life stage
3. Passive design that controls light and heat
4. Environmentally conscious equipment that is both energy-saving and economical
5. Domestic material specifications using domestic Japanese cypress and larch
6. Timber drying with biomass fuel

Expanding ZEB supply overseas

Our Group is working to increase the supply of ZEB, which utilizes energy conservation and energy creating technologies to realize net-zero energy consumption. We are also expanding the use of wood in skeletal structures. At the end of 2021 in Melbourne, Australia, we began construction of a 15-floor office building where the 6th

floor and higher will be made from wood. This building will use 4,000m<sup>3</sup> of timber, which will result in 3,000 tons (on a CO<sub>2</sub> base) of carbon storage. In London, we are also involved in the construction of a net-zero carbon 6-floor wooden office building, which is scheduled for completion in 2024.



15-floor wooden office building in Melbourne

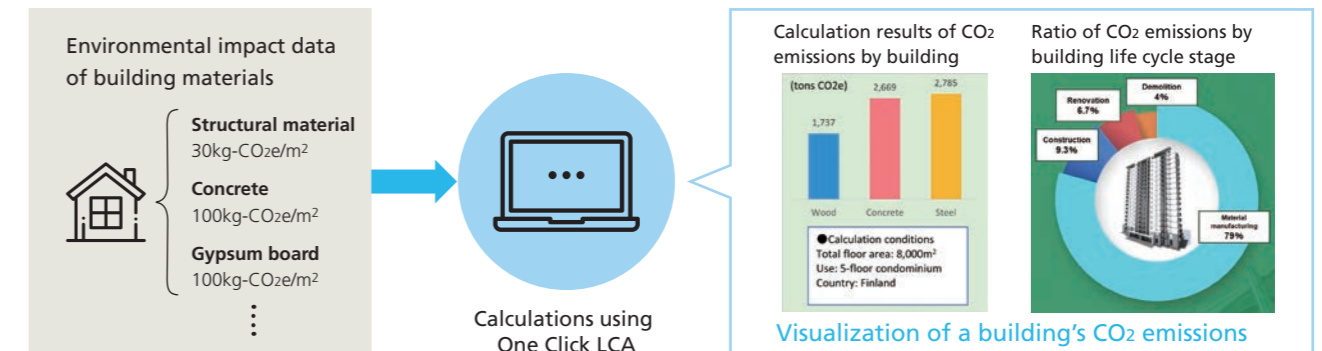


6-floor wooden office building in London

Visualizing CO<sub>2</sub> emissions with One Click LCA

In January 2022, our Company became the exclusive Japan agent of One Click LCA (life cycle assessment), a software that enables the visualization of a building's CO<sub>2</sub> emissions. This software is utilized in 130 countries around the world and complies with ISO, European Standard and more than

50 other global environmental certification schemes, standards and requirements. With One Click LCA, we will work with the Japanese housing and real estate industry to build a foundation for calculating decarbonization during construction.



Popularizing the EPD environmental certification labeling system

EDP (Environmental Product Declaration), an environmental certification labeling system for materials, is gaining popularity in Europe and other countries as one means to visualize CO<sub>2</sub> emissions during construction. As a leading company in the timber and building materials industry, our

Company is creating a system to support companies seeking EPD certification. With One Click LCA and our consulting services to reduce CO<sub>2</sub> emissions of buildings, we are promoting the popularization of environmentally conscious buildings that achieve net-zero CO<sub>2</sub> emissions.





### Contributing to the realization of a decarbonized society through the "wood cycle" of our business activities

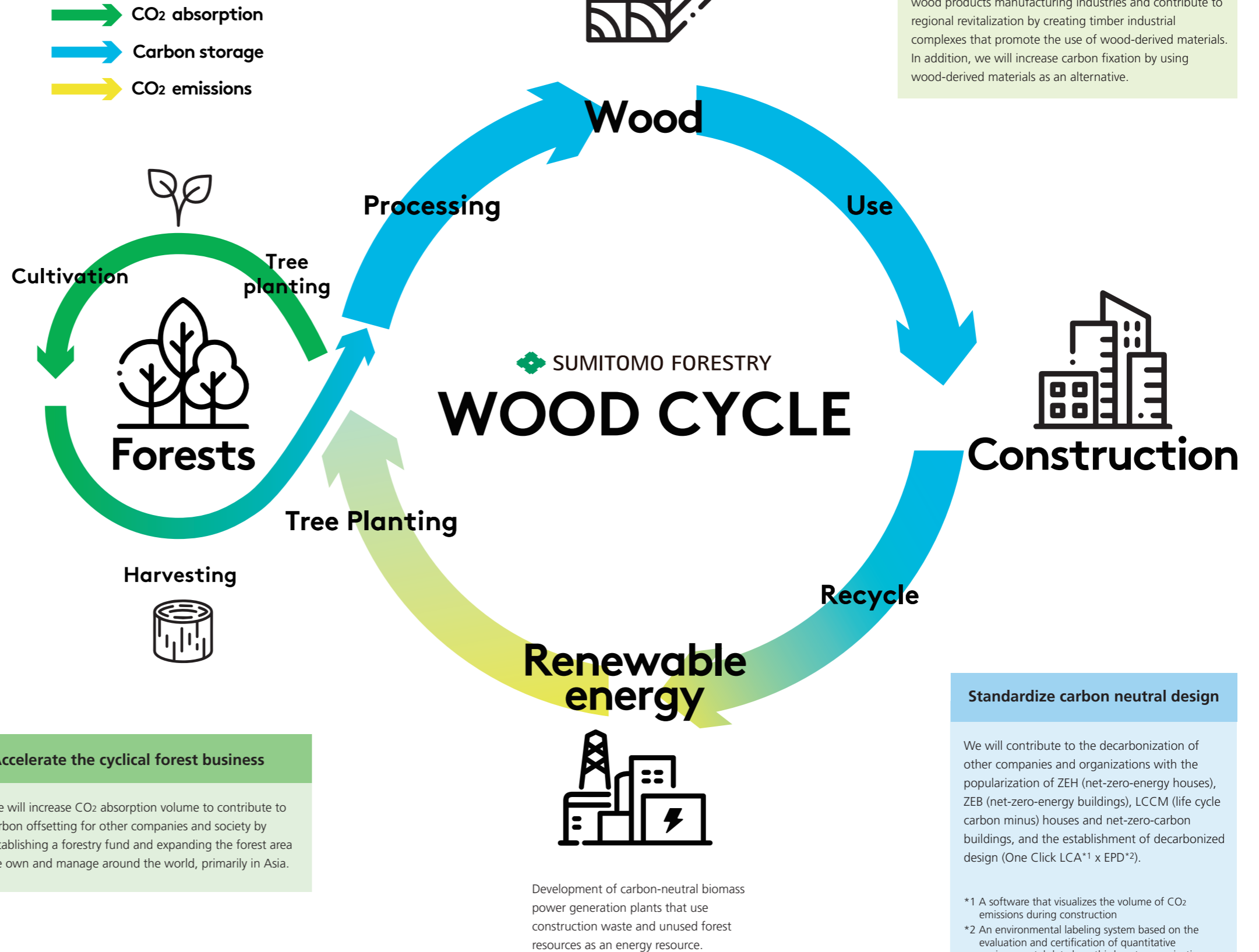
Wood is a sustainable material that can be planted, nurtured, cut down, utilized and then replanted. In addition, not only do forests produce wood, but they also have numerous functions that provide public benefit, such as absorbing and storing CO<sub>2</sub> (which causes global warming), protecting biodiversity, recharging water sources, conserving soil and preventing landslides.

Sumitomo Forestry Group contributes to maintaining the public benefit of forests through our forest management operations and is involved in a wide range of global businesses, such as wood processing, distribution, wooden construction and biomass power generation. By utilizing renewable natural forest resources that store absorbed CO<sub>2</sub> through the wood cycle, we will contribute to the shift to wood and decarbonization for not only our own company, but also for the whole of society.

#### The carbon cycle of forests and wood that supports a circular society

Trees absorb CO<sub>2</sub> and release oxygen as part of the growth process. In addition, harvested wood products and wood constructions continue to store large amounts of carbon. Compared to materials that emit large volumes of CO<sub>2</sub> during their raw material procurement to manufacturing stages, using wood as an alternative helps to reduce emissions.

In addition, long-term use of wood products and housing leads to long-term carbon fixation. Even as waste, wood used as fuel for biomass power generation releases only the CO<sub>2</sub> that was absorbed during the growth process, making biomass power generation carbon neutral.



**Promote wood change**

We will enhance the efficiency of the Japanese forestry and wood products manufacturing industries and contribute to regional revitalization by creating timber industrial complexes that promote the use of wood-derived materials. In addition, we will increase carbon fixation by using wood-derived materials as an alternative.

**Accelerate the cyclical forest business**

We will increase CO<sub>2</sub> absorption volume to contribute to carbon offsetting for other companies and society by establishing a forestry fund and expanding the forest area we own and manage around the world, primarily in Asia.

**Standardize carbon neutral design**

We will contribute to the decarbonization of other companies and organizations with the popularization of ZEH (net-zero-energy houses), ZEB (net-zero-energy buildings), LCCM (life cycle carbon minus) houses and net-zero-carbon buildings, and the establishment of decarbonized design (One Click LCA\*1 x EPD\*2).

\*1 A software that visualizes the volume of CO<sub>2</sub> emissions during construction  
 \*2 An environmental labeling system based on the evaluation and certification of quantitative environmental data by a third-party organization

**Renewable energy**

Development of carbon-neutral biomass power generation plants that use construction waste and unused forest resources as an energy resource.

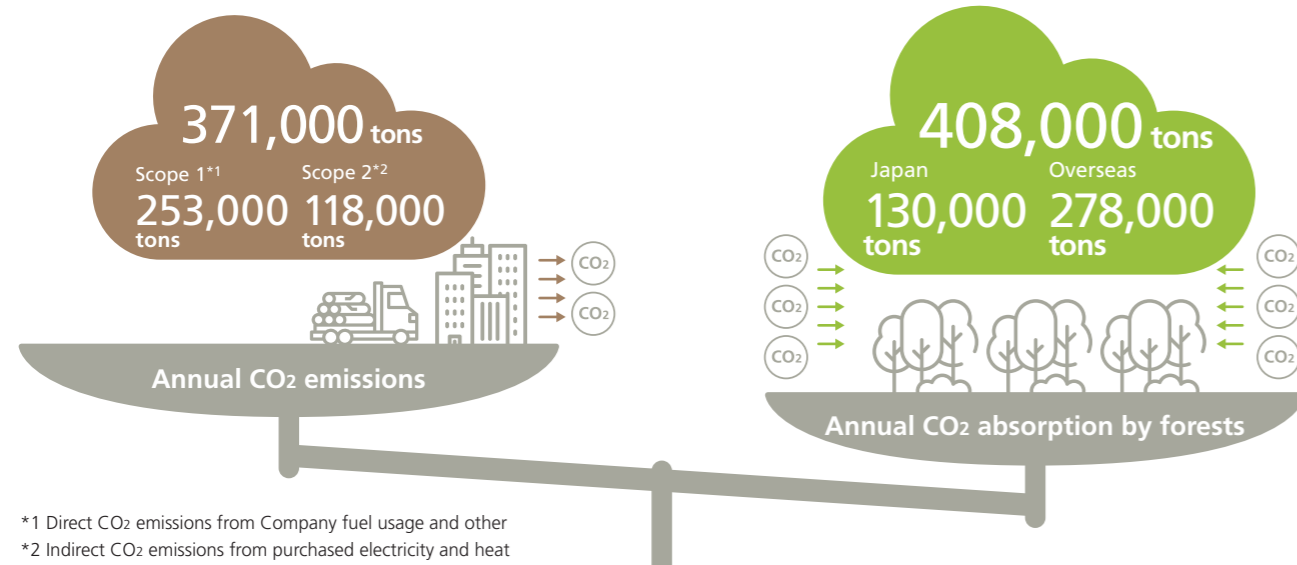


## Data on Sumitomo Forestry Group's contributions to a decarbonized society

### Sumitomo Forestry Group's CO2 emissions and absorption volumes \*Data collection period, January ~ December 2021

#### Our Company's CO2 emissions (annual)

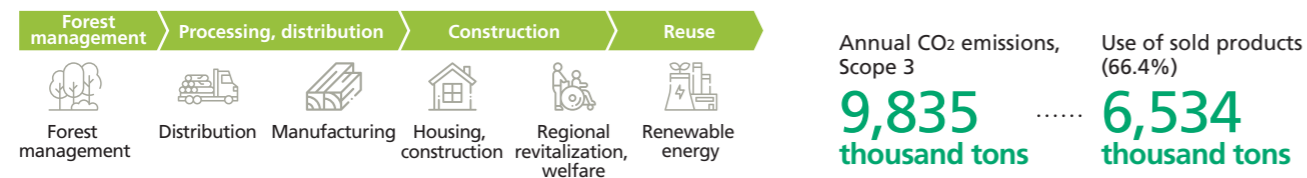
Thanks to the CO2 absorption volume of the forests we own and manage, the Company is carbon negative (Scope 1, Scope 2)



\*1 Direct CO2 emissions from Company fuel usage and other  
\*2 Indirect CO2 emissions from purchased electricity and heat

#### CO2 emissions in the value chain

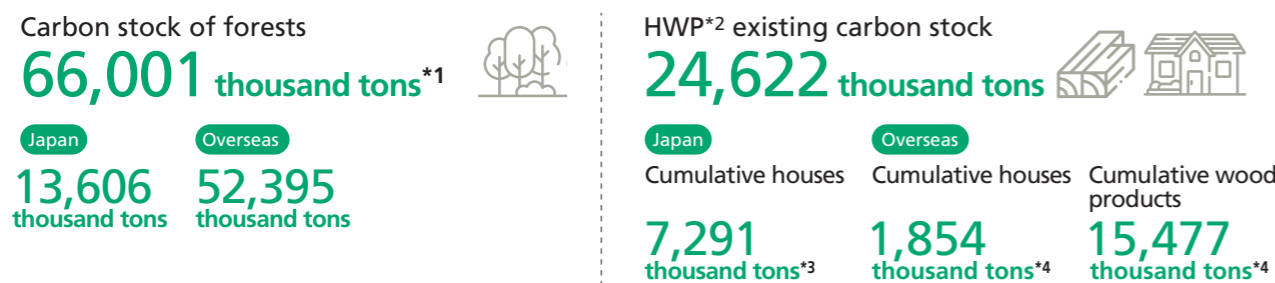
For Scope 3, we aim to reduce CO2 by actively proposing products and services that lead to decarbonization for our customers and business partners.



\*Most Scope 3 emissions are CO2 emissions from Category 11 (use of sold products) and Category 1 (purchased goods and services).

### Sumitomo Forestry Group potential carbon stock (as of December 2021)

Carbon stock of owned and managed forests and currently standing wooden buildings and other HWP



\*1 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)

[Sustainable forest management](https://sfc.net/english/sustainability/environment/forest/)  
<https://sfc.net/english/sustainability/environment/forest/>

\*2 HWP (Harvested Wood Products)

\*3 Carbon stock of Japanese housing HWP was calculated with the cooperation of Tokyo University of Agriculture and Technology based on the number of housing unit starts, the number of owners, and wood usage per floor area to determine carbon stock and amounts of change from housing.

\*4 HWP carbon stock from overseas housing and manufacturing facilities was calculated with the cooperation of Tokyo University of Agriculture and Technology using figures for Japanese housing as reference.

### Forests

- Area of owned forests in Japan: **Approximately 48,000 ha**
- Area of owned/managed forests overseas: **Approximately 229,000 ha**
- Ratio of Company-owned forest area harvested annually: **Approximately 1%**
- Domestic and overseas reforestation rate: **100%**
- Number of trees planted annually:
  - Japan: **340,000 trees**
  - Overseas: **8.63 million trees**
- Number of seedlings produced annually:
  - Japan: **Approximately 1.9 million capacity** (6 locations nationwide)
  - Overseas: **Seedling production Approximately 9.96 million**
- Ratio of domestic forests that are sustainably managed with consideration to biodiversity: **100%**
- Forest certification acquisition rate:
  - Japan: **100%**
  - Overseas: **91.3%**

\*Data collection period, January ~ December 2021

### Wood

- Sustainability procurement survey implementation rate for imported wood product suppliers: **100%**
- \*Ratio of suppliers who completed the sustainability procurement survey among all suppliers who were subject to timber procurement due diligence by the Company's Timber Procurement Committee.
- Recycling rate of manufacturing site waste:
  - Japan: **99.1%**
  - Overseas: **98.5%**
- Volume of wood and wood products handled: **8,383,000 m<sup>3</sup>**
- Power supply from wood biomass power generation (converted to number of households): **334,000 households**
- \*Total power supply from the five wood biomass power generation facilities in Japan. 211,000 households when converted to ownership ratio.

### Construction

- ZEH order ratio of new, custom-built detached houses in Japan: **67.4%**
- \*Order-based value that includes ZEH, Nearly ZEH, ZEH Oriented
- Ratio of new, custom-built detached houses in Japan that have acquired long-life quality housing certification: **94.9%**
- \*A certification system established by the Ministry of Land, Infrastructure, Transport and Tourism to popularize houses that contribute to the realization of a stock-type society
- Recycling rate of waste from housing demolition sites: **94.6%**
- Cumulative number of houses transferred:
  - Japan: **Approximately 340,000 units**
  - Overseas: **Approximately 80,000 units**



# Mission TREEING 2030 Phase 1

(Fiscal Year Ending December 2022~Fiscal Year Ending December 2024)

## Three years to build a foundation for future growth and for contributing to decarbonization

In 2022, the Sumitomo Forestry Group launched a new medium-term management plan, "Mission TREEING 2030 Phase 1" as the first step towards achieving its long-term vision of "Mission TREEING 2030." Under this medium-term management plan, we are positioning the next three years as a period for building a foundation for future growth and for contributing to decarbonization, and we have established the following five themes as the basic policy for the plan:

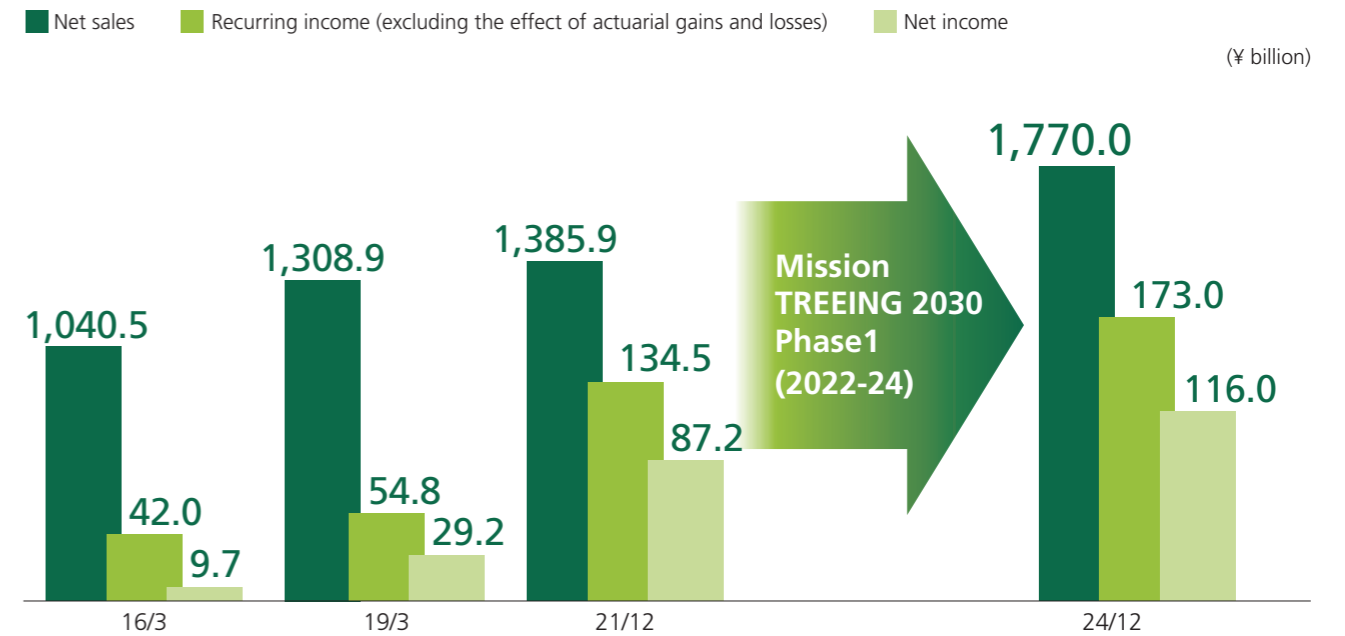
- 1) Efforts to address decarbonization challenges using wood resources,
- 2) Promotion of a more resilient earnings base,
- 3) Acceleration of global expansion,
- 4) Strengthen management base for sustainable growth,
- 5) Further integration of business operations and ESG.

As our performance targets by the fiscal year ending December 2024, the final year of the medium-term management plan, we are aiming for 1,770 billion yen in net sales, 173 billion yen in recurring income (excluding actuarial difference regarding employees' retirement benefit obligation), 116 billion yen in net income attributable to shareholders of parent, and at least 15% in ROE. While continuing to devote ourselves to non-financial initiatives connected to ESG (Environment, Society, Governance) such as harmony with the environment, improving customer satisfaction, respecting human rights and diversity, and strengthening risk management, compliance and governance, the Sumitomo Forestry Group will work to further enhance corporate value as we contribute to the realization of a sustainable society.

### Basic policy

1	Efforts to address decarbonization challenges using wood resources	<ul style="list-style-type: none"> <li>Develop new businesses domestically and internationally that pursue the value of forests as a carbon absorption</li> <li>Promote initiatives that enhance the competitiveness of domestic wood</li> <li>Expand our medium- and large-scale wooden construction business</li> </ul>
2	Promotion of a more resilient earnings base	<ul style="list-style-type: none"> <li>Regain profitability of our housing and construction and timber and building materials businesses and promote transformation that enables us to anticipate and respond to future market changes</li> <li>Improve asset efficiency</li> </ul>
3	Acceleration of global expansion	<ul style="list-style-type: none"> <li>Expand our housing and real estate business operations in the United States and Australia and create a profit base in Asia</li> </ul>
4	Strengthen management base for sustainable growth	<ul style="list-style-type: none"> <li>Promote digitalization</li> <li>Enhance the securing and nurturing of human resources and improve employee engagement</li> <li>Reinforce risk management</li> </ul>
5	Further integration of business operations and ESG	<ul style="list-style-type: none"> <li>Steadily implement initiatives to achieve RE100/SBTs (Science Based Targets)</li> </ul>

### Performance targets



### Segment targets

	Net sales			Recurring income		
	2021/12	2024/12	Percent of change	2021/12	2024/12	Percent of change
Timber and Building Materials	216.9	264.0	+21.7%	10.0	11.5	+15.2%
Housing and Construction	510.9	547.0	+7.1%	19.6	32.0	+62.9%
Overseas Housing and Real Estate	644.6	954.0	+48.0%	104.3	129.0	+23.6%
Environment and Resources	22.3	26.5	+18.8%	3.9	4.0	+1.8%
Others	23.9	29.0	+21.1%	3.0	5.0	+66.0%
Adjustments	(32.7)	(50.5)	-	(3.1)	(8.5)	-
<b>Total</b>	<b>1,385.9</b>	<b>1,770.0</b>	<b>+27.7%</b>	<b>137.8</b>	<b>173.0</b>	<b>+25.6%</b>
			(Reference)	134.5	173.0	+28.6%
			Excluding the effect of actuarial gains and losses			





We will maintain the stability of our financial base while enhancing our forestry fund and decarbonization-related investments, and aim for further profit growth.

Tatsumi Kawata  
Director and  
Senior Managing Executive Officer

Review of FY ended December 2021

Earned record profits, recurring income exceeded 100.0 billion yen for the first time

In the fiscal year that ended in December 2021, which was also the final year of the previous medium-term management plan, the Timber and Building Materials business and Housing and Construction business did not meet their targets, mainly in the Japanese market. However, buoyed by strong sales in the Overseas Housing and Real Estate Business, mainly in the USA, the Group as a whole posted net sales of 1,385.9 billion yen, with recurring income of 137.8 billion yen. Recurring income far exceeded the

previous medium-term management plan's target of 85.0 billion yen and set a new record by crossing 100.0 billion yen for the first time ever.

On the financial side, our financial indicators improved greatly. We achieved our stated target of making total free cash flow positive and attaining an ROE of over 10%. We also achieved an equity ratio of 37.7% by accumulating profits and carrying out our first public offering in 48 years.

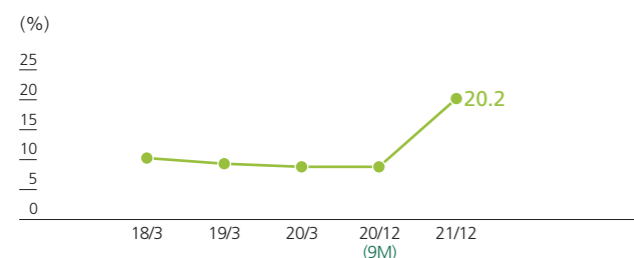
Initiatives for the Mission TREEING 2030 Phase 1 medium-term management plan  
Achieve stable ROE of 15% or more

The new medium-term management plan that began in 2022 forms Phase 1 of the Mission TREEING 2030 long-term vision, and we have positioned the next three years as a period for creating the foundation for contributing to future growth and decarbonization. To secure a foothold for realizing our long-term vision, we will diversify the Overseas Housing and Real Estate Business, which has become the pillar of our revenue, and strive to enhance cost competitiveness for material and labor costs. At the same time we will work to recover the earning power of our domestic businesses,

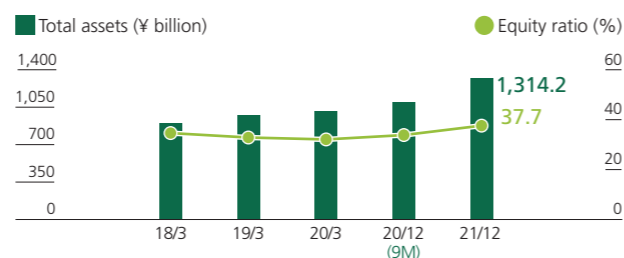
which remained an issue in the previous medium-term management plan, and we will also accelerate investments in the environment and resources business which will form the core of decarbonization.

Financially, we will strive to maintain of an equity ratio of at least 40% and a net DE ratio of 0.7 or less while making future-oriented growth investments, and we have also set a new target of stably achieving an ROE of 15% or more, exceeding the target of the previous medium-term management plan.

ROE (Return on equity)



Total assets / Equity ratio



Planned investments of 300.0 billion yen in three years in decarbonization and other fields

We plan to invest a total of 300.0 billion yen over a three-year period. Out of that, we intend to spend 62.0 billion yen on decarbonization-related investments such as non-residential buildings overseas, forestry funds and timber industrial complexes.

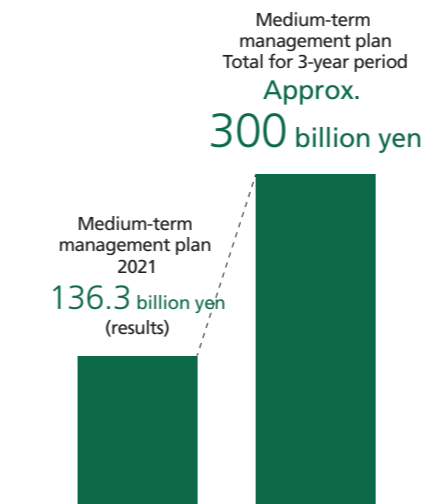
Furthermore, apart from the 300.0 billion yen investment plan, we will continue to acquire real estate for sale particularly in the United States where we expect to see robust demand, and by the end of December 2024, the final year of the medium-term management plan, we plan to have a balance of 560.0 billion yen, a 220.0 billion yen increase over the 340.0 billion yen recorded at the end of the previous year. We will seek growth investments exceeding the results of the previous medium-term management plan and aim to expand our businesses even further.

The Sumitomo Forestry Group pursues investment projects that

guarantee returns higher than the capital costs. To increase the ROE and ROIC that serve as KPIs, we use IRR or NOI yields as quantitative evaluation standards when making new investments or withdrawing from businesses. Generally speaking, the condition for undertaking a new business investment or remaining in a business is that the IRR and other efficiency indicators calculated from the business plan must be higher than the hurdle rate (such as WACC).

From the fiscal year ending in December 2022 and onwards, we have changed from determining the hurdle rate by country to setting it by country and by business. We have also newly established two types of standards, Project IRR and Equity IRR, which we have begun to apply. We hope to increase corporate value even further by establishing selection standards that better suit investment projects.

Investment plan



Main decarbonization-related investments



Category	Sub-category	Amount (billion yen)
Timber and building materials	Manufacturing, etc.	Approx. 35.0
Overseas housing and real estate	Overseas real estate and residential land development, etc.	Approx. 130.0
Housing and construction	Model homes, offices, etc.	Approx. 25.0
Environment and resources	Forestry, afforestation investments, etc.	Approx. 30.0
Others	System investments (DX promotion), etc.	Approx. 15.0

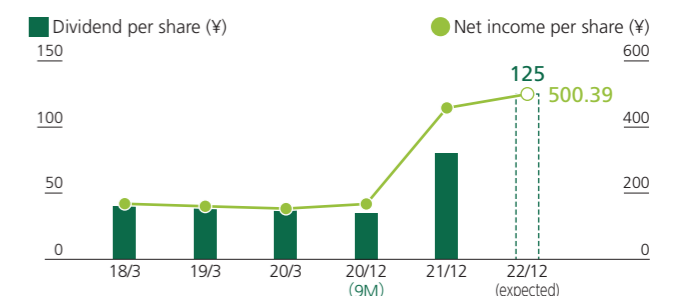
\*The amounts for the investment plans listed above do not include amounts for acquiring real estate for sale.

Continuing to provide appropriate returns to shareholders based on profits

At Sumitomo Forestry, we view returns to shareholders as one of our most important tasks, and it is our basic policy do so in a stable and ongoing manner.

Going forward, we will endeavor to increase our ROE and enhance our equity ratio by using our internal reserves efficiently in effective investment and R&D activities that help increase long-term corporate value while also paying out the appropriate level of returns based on our profit situation, taking the balance of our management base, financial position and cash flows into comprehensive account.

Dividend per share/Net income per share

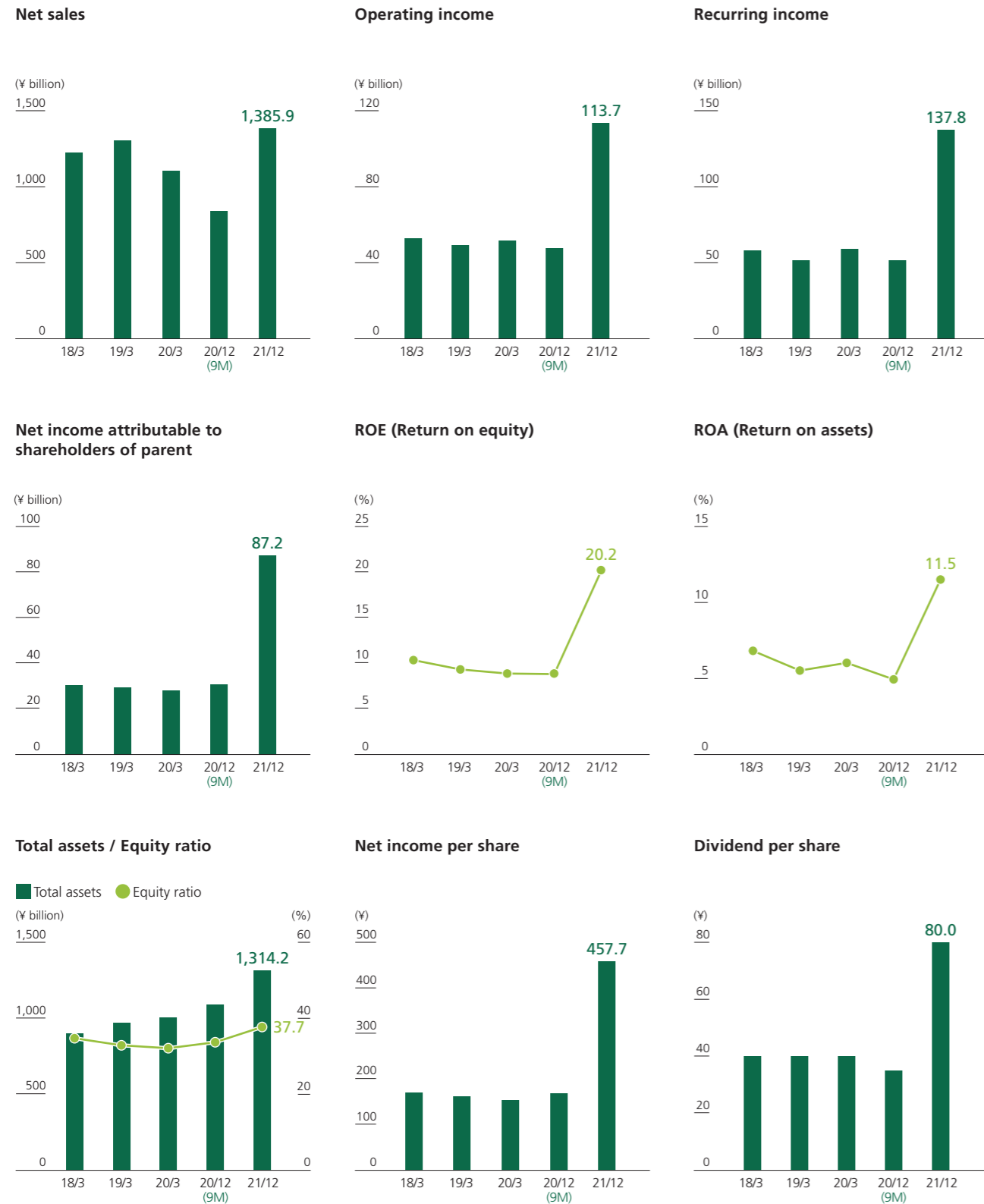


\*Expectations for FY22/12 are expected values as of August 9, 2022. Visit our website for information about the latest expectations. <https://sfc.jp/english/ir/>

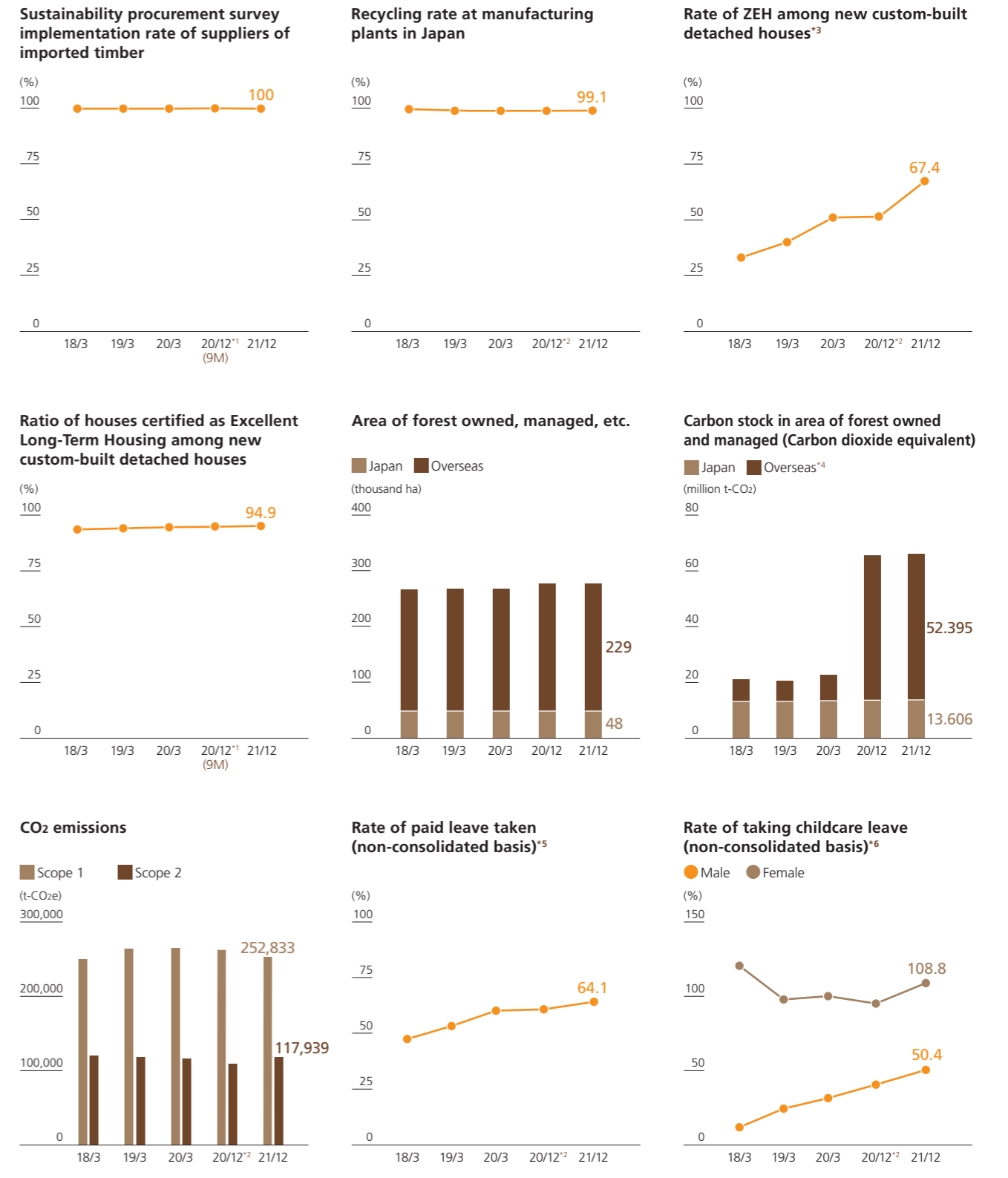


# Financial and non-financial highlights

## Financial highlights



## Non-financial highlights



\*1 Regarding the application of the Accounting Standard for Revenue Recognition, the Sumitomo Forestry Group has been applying the Accounting Standard for Revenue Recognition (ASBJ Statement No.29) from the FY ended March 2020. From this fiscal year, primarily in the Timber and Building Materials Business, for transactions where the Company's role in providing the product to the customer is fulfilled by an agent, sales are displayed as a net amount instead of transaction totals. In addition, in regard to construction contracts in the Housing and Construction Business and the Overseas Housing and Real Estate Business, revenue is recognized for all construction over a fixed period as performance obligations are fulfilled.  
 \*2 The end of the fiscal year was changed from March 31 to December 31 starting in the FY ended December 2020. This fiscal year is a nine-month transition period from April 1 to December 31, 2020 for the change in the start and end of our fiscal year.

\*1 Calculation period: April to December 2020  
 \*2 Calculation period: January to December 2020  
 \*3 It includes Nearly ZEH and has included ZEH Oriented in narrow areas since FY ended March 2019, and ZEH Oriented in heavy snowfall areas since FY ended March 2020. It has included Hokkaido since FY ended December 2020.  
 \*4 From FY ended December 2020, conservation forests overseas were added to the scope of calculation.  
 \*5 Paid leave is granted in January every year, so the figures in the table represent the results for the calendar year. Rate of paid leave taken = number of days of paid leave taken/number of days of paid leave granted.  
 \*6 Rate of taking childcare leave = number of persons starting childcare leave in the applicable fiscal year/number of persons to whom children were born in the applicable fiscal year.



# Timber and Building Materials Segment Timber and Building Materials Business



**Koji Tanaka**  
Managing Executive Officer  
Divisional Manager of Timber and Building  
Materials Division



Based on a global network built up over years of developing operations worldwide, the timber and building materials distribution business sources stable supplies of high-quality timber from properly managed forests. As the No. 1 share company in the domestic timber and building materials distribution markets, Sumitomo Forestry operates a broad range of businesses, from procurement to the manufacture and distribution of timber and building materials.

The Group's manufacturing operations in Japan produce furniture and fixtures, wood interior fittings and staircases. Overseas, from our bases in Southeast Asia, Oceania and North America, we also produce wooden board products such as plywood, medium-density fiberboard (MDF) and particle board and various building materials such as flooring, furniture and kitchen cabinets. We supply them all over the world including Japan.

## Review of FY ended December 2021

In the face of a rapid worldwide increase in demand for wood, the timber and building materials distribution business leveraged its domestic and international procurement power and focused on maintaining a stable supply system for our customers. Moreover, to diversify our revenue sources, we endeavored to increase our handling of wood fuel for use in biomass power generation and undertook measures to use domestically-produced timber while also striving to expand sales of plywood and building materials made from sustainable plantation timber. The segment performed strongly as a result.

On the other hand, business was sluggish in the manufacturing business due to soaring manufacturing costs, including raw materials in Japan. Overseas, the particle board business for the Indonesian market performed well locally, but the plywood business and construction material business both produced disappointing

results. In New Zealand, the effects of city-wide lockdowns led to fewer sales of MDF, leading to poor performance.



Sumitomo Forestry Crest Co., Ltd., Kashima Plant

## Initiatives for the medium-term management plan (FY 22/12 - FY 24/12)

In the timber and building materials distribution business, we will utilize supply chains for sustainable procurement of timber to promote sales of environmentally conscious products like plantation timber. We will also continue to expand our efforts in the non-residential building construction market while working to build a stable supply system for

wood fuel used in biomass power generation.

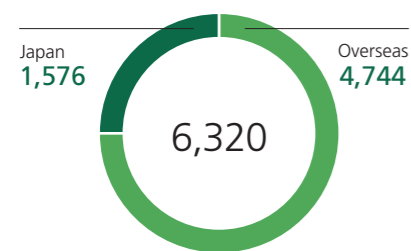
In the manufacturing business, we aim to increase profitability by linking up with the timber and building materials distribution business to further integrate sales and manufacturing, and by developing high-value-added products that satisfy customer needs.

### Basic policy

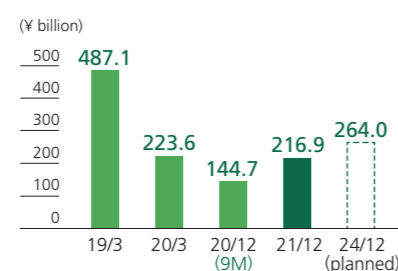
- Domestic timber business**
  - Establish a circular material supply system with timber industrial complexes as central pillars
  - Expand forest harvesting and reforestation by enhancing the functions of Sumitomo Forestry Wood Products Co., Ltd.
- Promote decarbonization**
  - Visualize LCA for products handled and thereby create new businesses
  - Deepen involvement in environment-related businesses
  - Expand biomass fuel business
- Domestic distribution business**
  - Create new functions and services using digital transformation
- Overseas manufacturing and distribution businesses**
  - Build value chains and expand business areas in North America, Southeast Asia and other regions

## Data

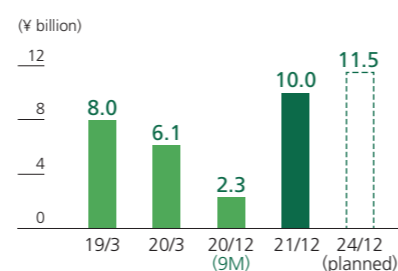
### Number of employees



### Net sales



### Recurring income



\* Starting in the FY ended March 31, 2020, Sumitomo Forestry adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29). For transactions where the Company's role in providing the product to the customer is fulfilled by an agent, instead of the total amount, revenue is now recognized in the net amount.

## Signed agreement with Shibushi City in Kagoshima Prefecture for the construction of a new plant

Sumitomo Forestry and Shibushi City in Kagoshima Prefecture have concluded a basic agreement on location for the construction of a new plant and biomass power plant at the Shibushi City Seaside Industrial Park.

As the steep rise in timber prices worldwide and the aging of forest resources in Japan become issues to be tackled, Sumitomo Forestry aims to establish a new plant to process the timber and thinnings that are shipped from Shibushi Harbor as logs into value-added products in order to reinforce the stable supply system in Japan and export products to Asia, North America and other regions. Moreover, the factory will help increase the value of domestic timber and encourage its use by using wood fully without waste for everything from the manufacture of wood products to the use of wood as fuel for biomass power generation.

We plan to commence operations in 2025 after formulating detailed business plans and selecting equipment.



Overview of Shibushi Port

Source: Shibushi Port Office, Kyushu Regional Development Bureau, Ministry of Land, Infrastructure, Transport and Tourism



# Housing and Construction Segment Housing and Construction Business



**Ikuro Takahashi**  
Director, Managing Executive Officer  
Divisional Manager of Housing and Construction  
Division



The Sumitomo Forestry Group has been providing quality living environments by doing our part to increase the prevalence of high-quality homes that last a long time. "Sumitomo Forestry Home Houses," made from advanced construction methods while fully expressing the attractiveness and qualities of wood, is a leading brand in custom-built wooden detached homes. They have received high accolades for being gentle on the environment, and as comfortable, safe and secure homes that can be lived in for a long time.

Furthermore, leveraging the designing and technological capabilities it accumulated in the custom-built detached housing business, Sumitomo Forestry has diversified its

operations into the apartment business, residential property development (spec homes) business, landscaping business, and existing homes business, offering the unique comfort of wood. The use of wood in non-residential building construction fields has increased in recent years, contributing to the expansion in the production and consumption of timber promoted by the Japanese government.

The Sumitomo Forestry Group will continue to offer abundant lifestyles by providing high-value-added products and services while harnessing synergies in housing-related businesses.

## Review of FY ended December 2021

The custom-built detached housing business further improved its digital marketing as part of its measures to strengthen sales in the face of the coronavirus crisis. We also focused on utilizing our design capabilities to offer plans tailored to changes in our customers' lifestyles. Additionally, in response to our customers' growing awareness of environmental issues, we endeavored to undertake more orders for zero net energy consumption houses (Net Zero Energy Houses, or ZEH), resulting in a high level of orders. When it comes to construction, although the COVID-19 crisis threw the supply chain into chaos, we pressed on with the equalization of housing starts and are working to build a stable construction system. As a result of these factors, while sales rose, performance was sluggish due to a decline in profits caused by a global increase in building material costs, especially wood.

Despite efforts to continue receiving orders through the "Town

Square" model room, the apartment business performed sluggishly due to the effects of the same rise in building material costs that affected custom-built detached houses. The spec homes business performed solidly, buoyed by vigorous purchasing demand as well as success in obtaining prime land. In the renovation business, we focused energy on boosting orders for earthquake resistance renovations which leverage our advanced technical expertise rooted in the Group's original seismic resistance and seismic-vibration damper construction methods, and we also stepped up sales activities directed at owners of "Sumitomo Forestry Home houses".

In addition to this, we welcomed COHNAN KENSETSU INC. to the group in January 2021, reinforcing our medium- to large-scale construction business and the use of wood in non-residential building construction fields.

## Initiatives for the medium-term management plan (FY 22/12 - FY 24/12)

By promoting digital marketing and streamlining construction, we aim to improve our competitiveness and increase the market share of the custom-built detached housing business while continuing to

expand the spec homes business, renovation business and non-residential building business.

### Basic policy

- Custom-built detached housing business**
  - Expand sales of ZEH and LCCM (Life Cycle Carbon Minus) homes
  - Promote digital marketing
  - Streamline construction
  - Develop new materials
- Apartment business**
  - Expand sales of high added-value apartments such as ZEH-M
- Residential property development (spec homes) business**
  - Carefully select sites to purchase
  - Improve information-gathering on sites to purchase
  - Strengthen brand by obtaining environmental certifications
- Renovation business**
  - Accelerate the development of infrastructure and mechanisms aimed at maintaining ties with owners
- The use of wood in non-residential building construction fields**
  - Selection and concentration in sales
  - Secure and develop human resources with technological skill
  - Increase synergy with Kumagai Gumi Co., Ltd. and COHNAN KENSETSU INC.

### ZEH popularization target: 80% by fiscal 2025

Fiscal year	17/3	18/3	19/3	20/3	20/12	21/12	22/12 Plan
ZEH rate (%)	32.0	33.0	40.0	51.0	51.5	67.4	75.0

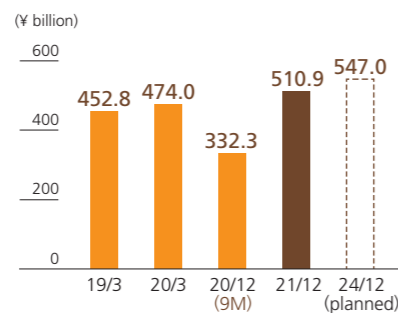
- \* It includes Nearly ZEH and has included ZEH Oriented in narrow areas since FY ended March 2019 and ZEH Oriented in heavy snowfall areas since FY ended March 2020.
- \* It has included Hokkaido since FY ended December 2020.
- \* Calculation period: Accounting period (January 2020 - December 2020 for FY ended December 2020 only)

## Data

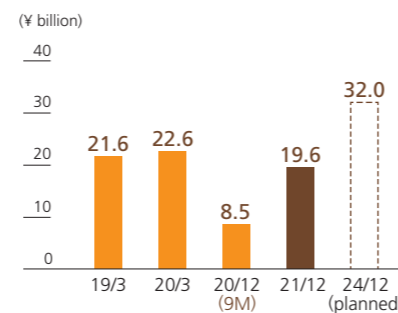
### Number of employees



### Net sales



### Recurring income



\* Starting in the FY ended March 31, 2020, Sumitomo Forestry adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29). For transactions where the Company's role in providing the product to the customer is fulfilled by an agent, instead of the total amount, revenue is now recognized in the net amount.

### Toho Gakuen Munetsugu Hall wins the Forestry Agency Director-General Award

Toho Gakuen Munetsugu Hall, designed and constructed as a joint venture between Sumitomo Forestry and Maeda Corporation, won the Forestry Agency Director-General Award in the Outstanding Facilities Using Timber Contest for 2021. The facility is a musical hall that features CLT (cross-laminated timber) in its design, construction and acoustics. Among other things, it was praised for the construction of flat surfaces such as the ceiling and walls in a bent folding screen shape to increase strength, for the pillarless space spanning 17m and for creating a sound environment overflowing with the essence of wood.



Toho Gakuen Munetsugu Hall

According to our estimates, 1,757t of CO<sub>2</sub> was emitted from the production of the materials used in the main structural framework of Toho Gakuen Munetsugu Hall, representing a reduction of 21% compared to a steel-frame structure and 29%, compared to a reinforced concrete structure.



**Atsushi Kawamura**  
 Director, Managing Executive Officer  
 Divisional Manager of Overseas Housing  
 and Real Estate Division



Since the launch of the detached housing business in the United States in 2003, the Group has actively entered into promising growth markets, and it is currently conducting businesses in the United States, Australia, and Asia. In these regions, it is expected that demand for housing will be solid in the medium to long term against the backdrop of their stably growing populations.

The detached housing business, which mainly targets actual demand, is a business with strong local characteristics that is required to accommodate local customs and lifestyle habits. Therefore, we manage this business by making full use of the knowledge of our Group companies in each region and their ability to propose products tailored to the needs of those regions.

In the real estate development business, in the United States, we are progressing with the detached apartment development business which is expected to synergize with the detached housing business. In Australia and the UK, we are participating in medium- to large-scale wooden construction projects to help realize a decarbonized society. Additionally, we are working to visualize and reduce CO<sub>2</sub> emissions in the construction industry through life cycle assessment.

We will continue to leverage the comprehensive strength of the Group to increase profitability by procuring materials, streamlining construction and moving into peripheral businesses such as land development and landscaping. We will also strive to bolster governance and manage in a way that fosters group-wide unity.

## Review of FY ended December 2021

In the detached housing business in the United States, all the Group companies performed strongly thanks to increased housing prices due to low mortgage interest rates and rising interest in moving from urban areas to the suburbs. Profits rose significantly in the real estate development business as properties sold briskly due to the increased willingness of investors to invest in the real estate market.

In the detached housing business in Australia, we experienced a major increase in orders received due to the effects of governmental housing purchase subsidy policies implemented up to March 2021. The sector therefore performed solidly despite the effects of lockdowns to counter the spread of COVID-19. Furthermore, as parts of our efforts towards a decarbonized society, in October 2021, we decided to participate in a project for the

development of a wooden office building on the outskirts of Melbourne. This marks the start of our initiatives to realize Net Zero Carbon Buildings.

In Southeast Asia, the coronavirus crisis caused delays in the construction and selling plans for the landed houses and condominium projects we are working on in Vietnam, Indonesia and Thailand. In our new project, a large-scale housing development in the city of Makassar in Indonesia, we intend to develop environmentally conscious housing in Southeast Asia as well through designs that bring out the power of nature and through the use of building materials with a low energy loss, both of which are elements we have cultivated through our domestic housing businesses.

## Initiatives for the medium-term management plan (FY 22/12 - FY 24/12)

In the single family home business, we plan to move into new growth areas, carefully select lands to purchase and develop products tailored to the characteristics of the area so as to greatly increase the number of units sold.

In the real estate development business, we will promote the

development of medium- to large-scale wooden construction in the United States, Australia and Europe while at the same time continuing to obtain environmental certifications and pursuing developments with regional communities in mind. We will establish a structure to stabilize revenue.

### Basic policy

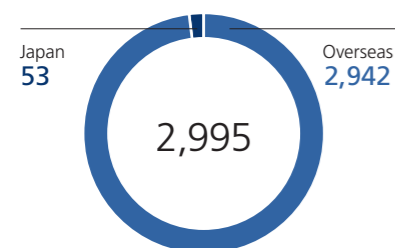
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|---|---|
| <p><b>Housing business in the United States</b></p>                 | <ul style="list-style-type: none"> <li>Establish a system for constructing 16,000 units a year (one of the top 10 in the United States)</li> <li>Obtain land after careful selection and develop products tailored to the characteristics of the area</li> <li>Off-balance assets through joint ventures, land banks and other means</li> <li>Enter the construction contract business and the manufacturing business for items like structural panels, and expand our contract work business with a focus on single-family rentals.</li> </ul> |
| <p><b>Real estate development business in the United States</b></p> | <ul style="list-style-type: none"> <li>Continue to obtain environmental certifications and pursue developments with regional communities in mind</li> <li>Use structures such as joint ventures and funds to constitute and promote businesses with high capital efficiency</li> <li>Full-scale deployment of the detached apartment development business</li> </ul>  |
| <p><b>Housing business in Australia</b></p>                         | <ul style="list-style-type: none"> <li>Establish a system to construct 4,000 units a year through market share expansion</li> <li>Expand business portfolio (enter landscaping business, promote development of medium- to large-scale wooden constructions)</li> </ul>   |
| <p><b>Housing business in Asia</b></p>                              | <ul style="list-style-type: none"> <li>Use the Group's technology and knowhow to add value to existing businesses and obtain new projects</li> <li>Prepare a system for the company to be able to carry out business independently; build a revenue structure to bring in medium- to long-term growth</li> </ul>  |
| <p><b>Real estate development business in Europe</b></p>            | <ul style="list-style-type: none"> <li>Perform market research and search for business opportunities using "decarbonization" and "wood construction" as keywords</li> </ul>   |

### Quantitative targets

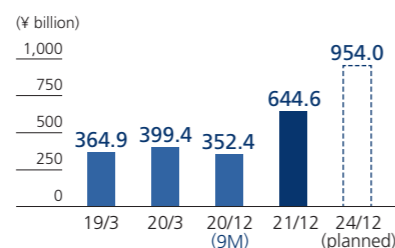
<p>Housing in U.S.</p>	<p>Results in FY 21/12 <b>11,230</b> units</p>	➔	<p>Targets for FY 24/12 <b>16,000</b> units</p>	<p>New detached apartments from Crescent Communities to be commercialized</p> <p><b>3-year total (2022-2024)</b> <b>1,700</b> units</p>
<p>Housing in Australia</p>	<p>Results in FY 21/12 <b>3,169</b> units</p>	➔	<p>Targets for FY 24/12 <b>4,000</b> units</p>	

## Data

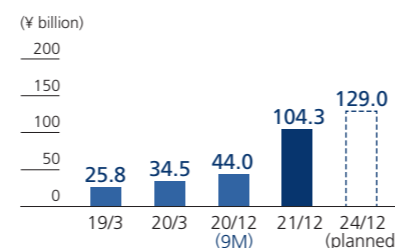
### Number of employees



### Net sales



### Recurring income



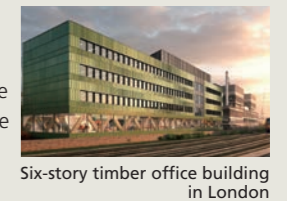
\* Starting in the FY ended March 31, 2020, Sumitomo Forestry adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29). For transactions where the Company's role in providing the product to the customer is fulfilled by an agent, instead of the total amount, revenue is now recognized in the net amount.

### Participating in an environmentally conscious six-story timber office building development project in London, England

As part of our drive to achieve net-zero carbon emissions, Sumitomo Forestry has set up a joint venture company with Bywater Properties Limited, a real estate development company in the UK, to participate in the development of an environmentally conscious six-story timber office project in London.

In this project, the first for the overseas housing and real estate business in Europe, we intend to achieve an about 80% reduction in CO<sub>2</sub> emissions at all stages from raw material procurement to construction and demolition compared to typical reinforced concrete structures in the UK. Moreover, the CO<sub>2</sub>-fixing effect of wood, the use of energy-saving and energy-creating technology and the use of renewable energy make this an extremely advanced initiative that is expected to emit net-zero carbon for approximately 60 years from the end of construction even accounting for the added CO<sub>2</sub> emissions from the use of the building.\*

\*Based on the British standard for environmental performance assessment of buildings (BS EN15978).



Six-story timber office building in London



Overview of regional development overseas

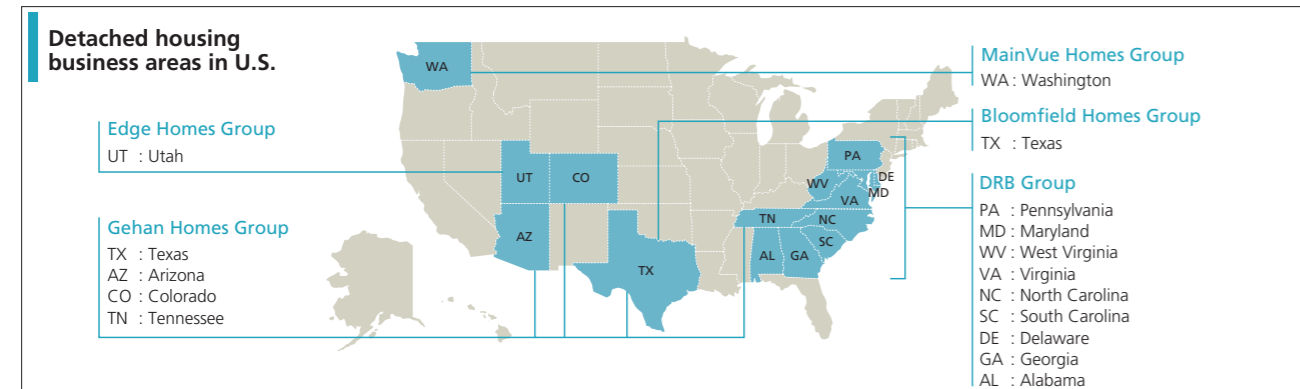
United States

Conducting a detached housing business and a real estate development business over a wide region, from the west coast to the east coast

The Group started construction and sales of specs homes in 2003 in Seattle, Washington, the site of the distribution base with more than 50 years' experience in timber and building materials. This marked our entry into the United States, the world's largest housing market. We have built long-term partnerships and expanded our business by adding leading local builders to the group, accumulating knowhow while valuing the United States' unique housing culture, customs, and construction methods. In 2021,

Gehan Homes Group entered the Nashville, Tennessee market, expanding our business area. We also leveraged our strengths as a Group with both detached housing and real estate development businesses to enter the detached apartment development business in earnest. Going forward, we will promote advancement into peripheral businesses like panel manufacturing, framing construction and asset management. We will also search for business opportunities involving the development of medium- to large-scale wooden buildings.

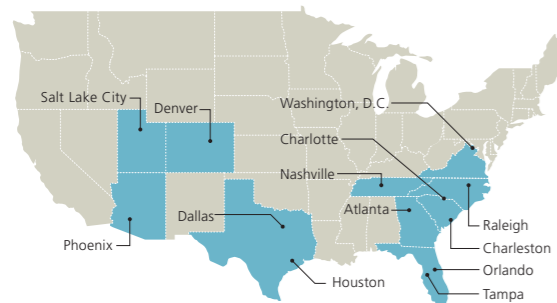
Based on the relationships of trust with the management team of each company, which we have established by sharing our management philosophy and business policy, we are working to improve construction quality, environmental performance and design features. Moreover, we are further progressing business expansion and development and providing living environments and communities that meet the needs of our business areas.



Detached housing business companies of the Sumitomo Forestry Group



Crescent Communities business areas



Crescent Communities (NC/SC/DC/GA/TN/FL/TX/AZ/CO/UT)

Australia

Expanding our detached housing business throughout Australia

In Australia we mainly construct and sell order home housing and spec homes. Since launching our housing business there in 2008, we have been steadily expanding our business area. We currently operate in all the major five cities - Melbourne, Brisbane, Sydney, Adelaide, and Perth. Utilizing a network spanning all Australia, we are building and selling high-quality housing. In Australia, where the population is expected to grow in the medium to long term, we are offering housing that meets the needs of a wide range of demographics by developing multiple brands, each with their own characteristics.

In 2021, we launched a wooden office building development project in Melbourne. This project aims to receive the maximum 6-star rating in Australia's Green Star environmental certification and be certified net-zero carbon according to Australian standards, furthering efforts to create a decarbonized society.

We also entered the landscaping business by adding Regal Innovations to the Group in April 2022, helping us diversify our businesses.

Detached housing business areas in Australia



Detached housing business companies of the Sumitomo Forestry Group



Asia

Developing real estate including multi-family housing, commercial and mixed-use facilities, and detached housing

Asia is a region that is expected to experience medium- to long-term economic growth along with a rise in housing demand, so we have positioned it as the third pillar of the overseas housing and real estate business after the United States and Australia and are working to strengthen our revenue bases there.

We are currently engaged in joint development of condominiums for sale and the landed homes business with local companies in Vietnam, Indonesia, and Thailand. Utilizing our accumulated design expertise in the effective use of spaces, the improvement of functionality and the creation of attractive interiors rich with the essence of wood, we provide high-quality living environments that improve people's quality of life. In 2021, we joined a large-scale residential development project in Makassar City, Indonesia. This is the first time a foreign company has undertaken a large-scale residential project in Makassar, and we aim to develop environmentally conscious detached homes. We will use this opportunity to accelerate the development of environmentally



conscious residences and real estate in Southeast Asia as well.

We intend to stabilize our business foundation while capturing housing demand that is strong during this time when infrastructure is being rapidly established, populations are increasing, and income levels are rising.

# Environment and Resources Segment Environment and Resources Business



**Masanobu Nishikawa**  
Managing Executive Officer  
Divisional Manager of Environment and Resources Division



The environment and resources business deploys businesses that maximize the use of forest resources in Japan and overseas. In the forestry business, Sumitomo Forestry owns a total of approximately 48,000 hectares of forest in Japan, which is approximately 1/800th of the country's land area, for which we engage in sustainable forestry management based on a "sustainable forestry" approach of planting, growing, logging, and utilizing trees, and then replanting trees. This includes acquiring forestry certification from the Sustainable Green Ecosystem Council (SGEC). In Indonesia, Papua New Guinea, and New Zealand, we own and manage approximately 229,000 hectares of plantation forests,

including forests that have acquired third-party forestry certification such as FSC®, while we are also contributing to preserving biodiversity and developing local communities. As awareness of climate change countermeasures rises globally, we also manage renewable energy businesses in Japan that use mainly wood resources in an effective way. In 2022, we established the Forest Carbon Sink Business Department to undertake efforts such as expanding the area of forests we own and manage in order to achieve our long-term "Mission TREEING 2030" vision that seeks to decarbonize all of society. (FSC® license code: FSC-C113957)

## Review of FY ended December 2021

In the renewable energy business, Kanda Biomass Energy K.K. commenced operations in June 2021. Including Kanda Biomass Energy, our five wood biomass generation plants around Japan operated stably, but the end of the government's drastic mitigation measures under FIT (the feed-in tariff system) resulted in a need to revise contracts with energy buyers, which affected performance negatively.

The overseas forestry business posted solid results due to rising domestic and foreign demand for timber in New Zealand. Additionally, to reinforce the forestry business domestically and

internationally, in June 2021 we concluded a business partnership agreement with IHI Corporation. This partnership will allow us to set up a consulting business to manage tropical peatland properly and also create and sell high-quality carbon credits by correctly assessing the value of natural capital like forest and soil carbon storage.

Through such initiatives, coupled with strengths such as the forest management technology we have accumulated in Japan and elsewhere and the tropical peatland management technology we gained in Indonesia, the Sumitomo Forestry Group will continue to contribute to the achievement of a decarbonized society.

## Initiatives for the medium-term management plan (FY 22/12 - FY 24/12)

Japan, along with many other countries, has declared the goal of reducing greenhouse gas emissions to virtually zero by 2050, and society at large is working towards decarbonization. To help attain a

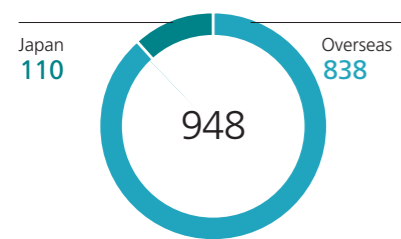
carbon-neutral future, the Environment and Resources department will use the three-year period until 2024 to expand existing businesses and make new investments that use forest resources efficiently.

### Basic policy

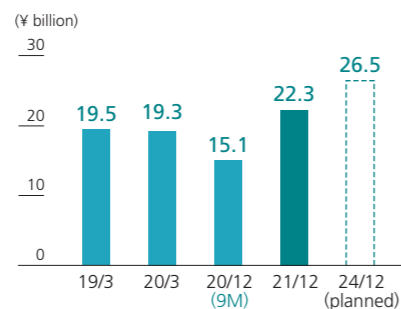
- Domestic forestry business**
  - Promote reforestation and the stable supply of seedlings to expand sustainable forestry
  - Expand business contracting from municipalities to revitalize the forestry and wood industry, and create carbon sink businesses for private businesses
  - Increase safety and productivity of operations by upgrading forest management technology and enhancing human resource development
- Overseas forestry business**
  - Increase value of forests by increasing forest area managed, diversifying tree species and strengthening connections with businesses outside the Group
  - Pursue new uses and new purchasers for wood based on medium- to long-term predictions of demand
  - Increase safety and productivity of operations by upgrading forest management technology and enhancing human resource development
- Renewable energy business**
  - Maximize profits from the development of power sources in light of the FIT system and select optimum power sources from a post-FIT viewpoint
  - Take post-FIT business continuation measures for existing biomass generation businesses by, for example, developing low-cost fuels
  - Secure and develop expert personnel
- Decarbonization initiatives**
  - Develop high-precision measurement technology to create high-quality carbon credits and thereby promote the visualization of CO<sub>2</sub> absorption amounts
  - Expand business by creating new forest value to form the core component of carbon sink businesses

## Data

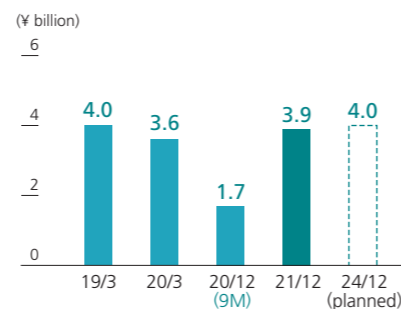
### Number of employees



### Net sales

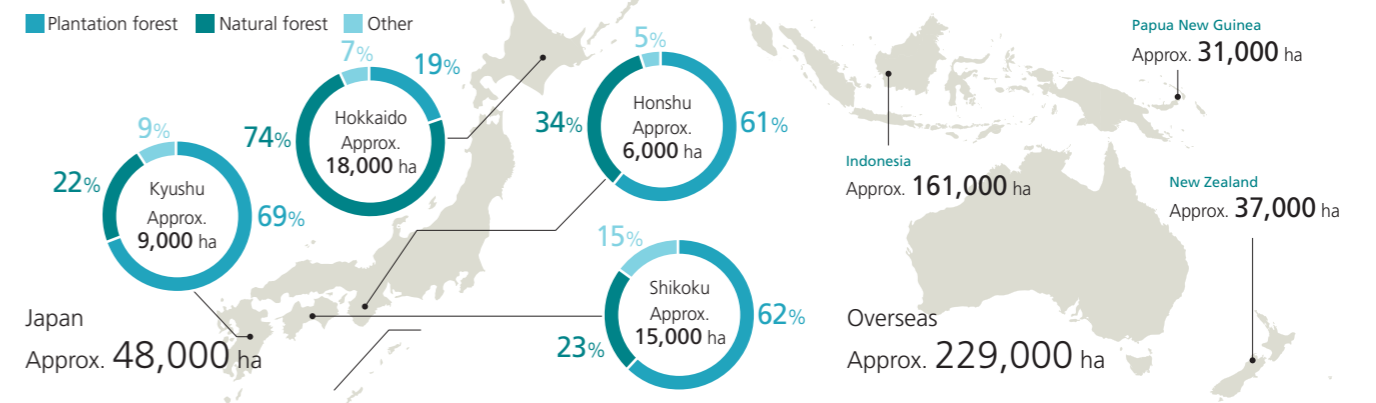


### Recurring income



\* Starting in the FY ended March 31, 2020, the Environment and Resources Business was transferred from the "Other" segment.

### Area of forest owned and managed (as of end of December 2021)



### Our wood biomass power plants (as of end of December 2021)

	Kawasaki Biomass	Mombetsu Biomass	Tomakomai Biomass	Hachinohe Biomass	Kanda Biomass	Morinomiyako Biomass
Service areas	Kawasaki City, Kanagawa Prefecture	Mombetsu City, Hokkaido	Tomakomai City, Hokkaido	Hachinohe City, Aomori Prefecture	Kyoto, Fukuoka Prefecture	Sendai City, Miyagi Prefecture
Start of operation	February 2011	December 2016	April 2017	April 2018	June 2021	November 2023 (planned)
The Company's investment ratio	34%	51%	20%	52%	41.5%	15.0%
Power generation capacity	33MW	50MW	6.2MW	12.4MW	75MW	75MW
Fuel	Construction waste and others	Unused forest resources and others	Unused forest resources and others	Unused forest resources and others	Imported wood pallets and others	Imported wood pallets and others



# Other Segment Lifestyle Services Business



**Kunihiko Takagiri**  
Managing Executive Officer  
Divisional Manager of Lifestyle Service  
Division



In the lifestyle services business, the Group offers a wide range of living-related services centered on our elderly care business. Japan is currently confronted with a multitude of social issues. One particularly glaring issue is the country's rapidly accelerating birthrate decline and aging population. The Sumitomo Forestry Group operates services such as private-pay elderly care facilities and home care services, catering to a wide variety of needs. Our private-pay elderly care facilities leverage our expertise in creating spaces with the comforting effect of wood and lifestyles that incorporate the greenery of the seasons, in order to offer our residents

comfortable places to live that are fulfilling for both mind and body.

The decline of Japan's rural areas due to depopulation is also a serious problem. In response, our Group is actively involved in regional revitalization initiatives to spur regional economies, including participation in the development of commercial facilities opened as an industry-government-academia collaborative project. With the comfortable living environments that we build in communities throughout the country, we are doing our part to keep Japanese society attractive into the future.

## Review of FY ended December 2021

In July 2021, we opened a new lodging and accommodations business at VISON, the largest commercial resort facility in Japan in the town of Taki, Mie Prefecture. VISON is an industry-government-academia joint project centered on the keywords of food, knowledge, and health, with the goals of promoting industry and creating jobs utilizing local resources.

Our private-pay elderly care facilities business performed strongly, maintaining high occupancy rates.



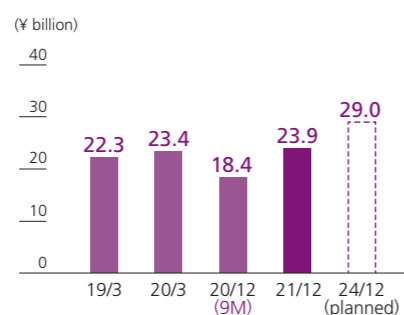
VISION

## Data

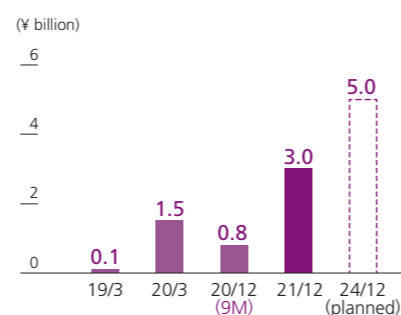
### Number of employees



### Net sales



### Recurring income



\* Starting in the FY ended March 31, 2020, Sumitomo Forestry adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29). For transactions where the Company's role in providing the product to the customer is fulfilled by an agent, instead of the total amount, revenue is now recognized in the net amount. We also separated the Environment and Resources Business as an independent category from the Other segment in the FY ended March 2020. Net sales and recurring income up to the FY ended March 2018 correspond to the categories before this change. The Other segment covers the elderly care services business, insurance agency business related to homes, and various other service businesses. Recurring profit includes equipment-method investment income from Kumagai Gumi Co., Ltd.

## Initiatives for the medium-term management plan (FY 22/12 - FY 24/12)

In our elderly care business, we provide spaces with the comforting effect of wood and nursing care geared toward each individual. We help to maintain and improve the health and lifestyle of the users of our services, and reduce the caretaking burden on their families. We are also continuously engaged in human resources development for our staff, and are constantly looking for ways to further improve our occupancy rates and achieve business stability. Working together with local communities to deliver advanced, high-quality services, we help to create a society in which people can enjoy vibrant, healthy lives.

When running a lodging business at VISON, which was opened as a new business to trigger regional development and revitalization, our aim is stable management and an increase in earning power through cooperation with commercial establishments. Working together with multiple companies and government agencies participating in the project, Sumitomo

Forestry intends to expand business opportunities and contribute to local revitalization by deploying open innovation to solve problems in communities.



Marché VISON

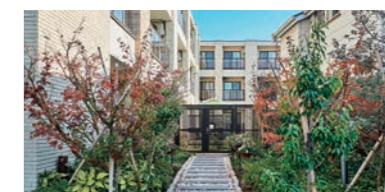
### Sumirin Fill Care

Number of private-pay elderly care facilities operated: 16

Number of day care business facilities operated: 3

(As of end of December 2021)

Sumirin Fill Care Co., Ltd. operates 16 private-pay elderly care facilities and three day care business facilities, mainly in the Greater Tokyo area, advocating "the warmth of people and trees" and "elderly care services for changing times." With the introduction of advanced systems that use ICT to improve the quality and efficiency of our services, the company is actively undertaking initiatives that use the latest technology for elderly care.



Gran Forest Gakugei Daigaku

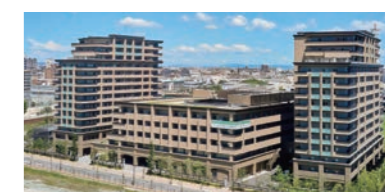
### Sumirin Care Life

Number of private-pay elderly care facilities operated: 3

Number of private-pay elderly care facilities (residences that include living support services) operated: 1

(As of end of December 2021)

In May 2020 we opened large-scale private-pay elderly care facility Elegano Nishinomiya with 309 rooms in Nishinomiya, Hyogo Prefecture. We now operate four large-scale private-pay elderly care facilities and seven stations that provide home care services. Our private-pay elderly care facilities offer various forms of recreation, as well as living support services tailored to the life stages of residents through partnerships with medical institutions.



Elegano Nishinomiya



# PART 2 ESG management as a foundation for growth

## The board of directors



(Back row)

**Ikuro Takahashi**  
Director

**Tatsumi Kawata**  
Director

**Mitsue Kurihara**  
Outside Director

**Junko Hirakawa**  
Outside Director

**Izumi Yamashita**  
Outside Director

**Tatsuru Satoh**  
Representative Director

**Atsushi Kawamura**  
Director

(Front row)

**Akira Ichikawa**  
Representative Director,  
Chairman of the Board

**Toshiro Mitsuyoshi**  
Representative Director,  
President

The Sumitomo Forestry Group seeks to ensure management transparency as well as the appropriateness and legality of its business and strives to promote expeditious decision-making and business execution based on its corporate philosophy. Through these efforts, the Company aims to continuously increase its corporate value and conduct management that lives up to the expectations of the various stakeholders of the

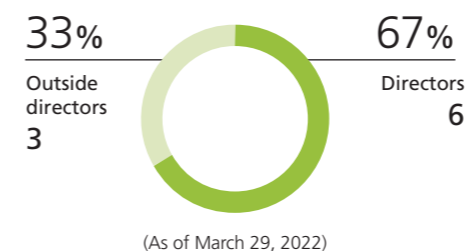
Sumitomo Forestry Group by enhancing and strengthening corporate governance.

Furthermore, we adjusted the ratio of outside directors on the Board of Directors to one-third, and we will carry out a self-analysis and self-evaluation of the effectiveness of the Board of Directors on a regular basis and strive continuously to resolve any recognized issues in order to further improve effectiveness.

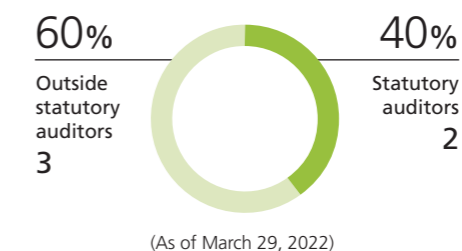
### Outline of the corporate governance system

Organizational structure	Company with a board of statutory auditors
Number of independent officers	6
Number of board of directors meetings (fiscal year ended December 2021)	16 times
Adoption of the executive officer system	Yes
Nomination and remuneration advisory committee	Yes
Accounting auditor	Ernst & Young ShinNihon LLC
Sumitomo Forestry basic policy on corporate governance	<a href="https://sfc.jp/english/ir/management/pdf/CorporateGovernance.pdf">https://sfc.jp/english/ir/management/pdf/CorporateGovernance.pdf</a>

### Number of directors and composition ratio



### Number of statutory auditors and composition ratio



### Outside directors' board of directors meeting attendance rate (Fiscal year ended December 2021)





## Introducing the Board of Directors and Statutory Auditors (As of March 29, 2022)

**Director** \* is an independent officer. "Attendance" is the number of Board of Directors meetings attended in the fiscal year ended December 2021. "Company shares held" is current as of December 31, 2021.



### Akira Ichikawa

Representative Director, Chairman of the Board (Born Nov. 12, 1954)

#### Career history

Apr. 1978 - Joined the Company  
Jun. 2007 - Executive Officer  
Jun. 2008 - Director  
Managing Executive Officer  
Apr. 2010 - Representative Director (current position)  
President/Director  
President and Executive Officer  
Apr. 2020 - Chairman of the Board (current position)

[Important concurrent jobs] Outside director at KONICA MINOLTA, INC .

Attendance: 16/16 Company shares held: 77,000

#### Reason for appointment

Akira Ichikawa has abundant experience and achievements related to the Sumitomo Forestry Group's business, serving as President and Director as well as Chairman of the Board.



### Toshiro Mitsuyoshi

Representative Director, President (Born May 23, 1962)

#### Career history

Apr. 1985 - Joined the Company  
Jun. 2010 - Executive Officer  
Apr. 2011 - Managing Executive Officer  
June 2014 - Director  
Apr. 2018 - Senior Managing Executive Officer  
Apr. 2020 - Representative Director (current position)  
President/Director (current position)  
President and Executive Officer (current position)

Attendance: 16/16 Company shares held: 20,000

#### Reason for appointment

Toshiro Mitsuyoshi has abundant knowledge and management experience related to the Sumitomo Forestry Group's business. He was appointed to a leading management position of the Group as President and Director in April 2020.



### Tatsuhiro Satoh

Representative Director (Born Dec. 14, 1955)

#### Career history

Apr. 1978 - Joined the Company  
Jun. 2012 - Executive Officer  
Apr. 2013 - Managing Executive Officer  
Jun. 2013 - Director  
Apr. 2016 - Senior Managing Executive Officer  
Apr. 2018 - Representative Director (current position)  
Executive Vice President and Executive Officer (current position)

[Important concurrent jobs] Statutory Auditor at Kumagai Gumi Co., Ltd.

Attendance: 16/16 Company shares held: 38,000

#### Reason for appointment

Tatsuhiro Satoh has abundant experience and achievements related to the Sumitomo Forestry Group's business and management. He was appointed as Director in 2013, serving as an Executive Officer who oversees General Administration, Personnel, and other departments. He currently serves as Executive Vice President and Executive Officer.



### Tatsumi Kawata

Director (Born Oct. 4, 1962)

#### Career history

Apr. 1986 - Joined the Company  
Jun. 2016 - Executive Officer  
General Manager of Corporate Planning Department  
Apr. 2017 - Managing Executive Officer, General Manager of Corporate Planning Department  
Apr. 2018 - Managing Executive Officer  
June 2018 - Director (current position)  
Jan. 2022 - Senior Managing Executive Officer (current position)

Attendance: 16/16 Company shares held: 12,000

#### Reason for appointment

Tatsumi Kawata has abundant experience related to the Sumitomo Forestry Group's business. After successively serving as the General Manager of the Personnel Department, General Manager of the Corporate Planning Department and other roles, he was appointed as Director in June 2018. He currently serves as Senior Managing Executive Officer.



### Atsushi Kawamura

Director (Born Feb. 24, 1965)

#### Career history

Apr. 1987 - Joined the Company  
Jun. 2016 - Executive Officer  
Deputy Divisional Manager of Overseas Business Division  
Apr. 2017 - Managing Executive Officer (current position)  
Apr. 2018 - Deputy Divisional Manager of Overseas Housing and Real Estate Division  
Apr. 2020 - Divisional Manager of Overseas Housing and Real Estate Division (current position)  
June 2020 - Director (current position)

Attendance: 16/16 Company shares held: 17,000

#### Reason for appointment

Atsushi Kawamura has abundant experience related to the Sumitomo Forestry Group's business. After serving as Divisional Manager of the Overseas Housing and Real Estate Department and Deputy Divisional Manager of the Overseas Business Division, he was appointed Director in 2020. He currently serves as Managing Executive Officer and Divisional Manager of the Overseas Housing and Real Estate Division.



### Ikuro Takahashi

Director (Born Oct. 4, 1959)

#### Career history

Apr. 1984 - Joined the Company  
Dec. 2013 - Deputy Divisional Manager of Housing Division  
Apr. 2016 - Director and Managing Executive Officer of Sumitomo Forestry Home Tech Co., Ltd.  
Oct. 2017 - Deputy Divisional Manager of Housing Division  
Jun. 2018 - Executive Officer and Deputy Divisional Manager of Housing and Construction Division  
Apr. 2020 - Managing Executive Officer (current position), Divisional Manager of Housing and Construction Division (current position)  
March 2022 - Director (current position)

Attendance: - Company shares held: 12,000

#### Reason for appointment

Ikuro Takahashi has abundant experience related to the Sumitomo Forestry Group's business, having served as the General Manager of the Engineering Department of the Housing Division and Deputy Divisional Manager in the same division. He was appointed an Executive Officer in 2018 and currently serves as Managing Executive Officer and Divisional Manager of the Housing and Construction Division.



### Junko Hirakawa\*

Outside Director (Born Oct. 9, 1947)

#### Career history

Apr. 1973 - Registered as Attorney at Law admitted in Japan  
Feb. 1979 - Registered as Attorney at Law admitted in the State of New York, U.S.A.  
Oct. 1983 - Partner of Yuasa and Hara  
Jul. 1997 - Established Hirakawa, Sato & Kobayashi (currently City-Yuwa Partners)  
Partner of Hirakawa, Sato & Kobayashi  
Feb. 2003 - Partner of City-Yuwa Partners (current position)  
Jun. 2012 - Outside Statutory Auditor of the Company  
Jun. 2014 - Outside Director of the Company (current position)

Attendance: 16/16 Company shares held: 0

#### Reason for appointment and overview of expected role

As an attorney, she has practical knowledge of corporate law in Japan and abroad, and has been judged to be playing an appropriate role in strengthening the Company's corporate governance based on her experience and insight. The Company expects her to contribute to strengthening the supervisory functions of management by making recommendations to management from an expert's viewpoint.

[Important concurrent jobs] Lawyer / Outside Director of Tokyo Financial Exchange Inc.



### Izumi Yamashita\*

Outside Director (Born Feb. 1, 1948)

#### Career history

Jul. 1971 - Joined the Bank of Japan  
Apr. 1998 - Director-General of Financial Markets Department, Bank of Japan  
Mar. 2002 - General Manager of Financial Marketing Division, Accenture Japan Ltd.  
Apr. 2003 - Executive Director of Japan Post  
Apr. 2005 - Deputy Governor of Japan Post  
Oct. 2007 - President, CEO, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd.  
Jun. 2012 - Chairman, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd.  
Jun. 2013 - Resigned as Chairman, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd.  
Jun. 2016 - Outside Director of the Company (current position)

Attendance: 16/16 Company shares held: 0

#### Reason for appointment and overview of expected role

Izumi Yamashita has abundant experience in the finance industry and deep insight as a corporate manager, based on which he has been judged to play an appropriate role in strengthening the Company's corporate governance. The Company expects him to contribute to strengthening the supervisory functions of management by using his experience and insight to make recommendations to management.

[Important concurrent jobs] Outside Director of AEON Bank, Ltd.



### Mitsue Kurihara\*

Outside Director (Born Apr. 7, 1964)

#### Career history

Apr. 1987 - Joined the Japan Development Bank (now Development Bank of Japan Inc.)  
Jun. 2008 - Visiting fellow at the Freeman Spogli Institute for International Studies, Stanford University, U.S.A.  
Jun. 2010 - Assistant Director of Finance, Development Bank of Japan Inc.  
May 2011 - Section chief in Corporate Finance 4th Medical & Lifestyle Office, Development Bank of Japan Inc.  
Apr. 2013 - 6th Divisional Manager of Corporate Finance, Development Bank of Japan Inc.  
Feb. 2015 - Full-time Statutory Auditor, Development Bank of Japan Inc.  
Jun. 2020 - Chairman and Representative Director, Value Management Institute, Inc. (current position)  
Mar. 2021 - Outside Director of the Company (current position)

Attendance: 13/13 (after assuming office in March 2021)  
Company shares held: 0

#### Reason for appointment and overview of expected role

Mitsue Kurihara is playing an appropriate role in strengthening the Company's corporate governance based on her deep insight and abundant experience in the field of finance. Based on this experience and insight, the Company expects her to help strengthen the supervisory functions of management by making recommendations to management from an expert point of view.

[Important concurrent jobs] Chairman and Representative Director of Value Management Institute, Inc., Outside Director of Chubu Electric Power Co., Inc., Outside Director of Japan Finance Corporation



## Introducing the Board of Directors and Statutory Auditors (As of March 29, 2022)

### Statutory Auditors <sup>\*</sup> is an independent officer. "Attendance" is the number of Board of Directors meetings (left), and Board of Statutory Auditors meetings (right) attended in the fiscal year ended December 2021.

#### Akihisa Fukuda

Senior Statutory Auditor (full-time) (Born Apr. 16, 1957)

##### Career history

Apr. 1981 - Joined the Company  
Jun. 2010 - Executive Officer  
Apr. 2011 - Managing Executive Officer  
June 2014 - Director  
Oct. 2015 - Divisional Manager of Timber and Building Materials Division  
Apr. 2020 - Executive Officer  
Jun. 2020 - Senior Statutory Auditor (current position)

Attendance: 16/16, 14/14

##### Reason for appointment

Akihisa Fukuda has abundant experience related to the Sumitomo Forestry Group's business, having served as Director, as an Executive Officer who oversees Corporate Planning, Finance and Information Systems, and as Divisional Manager of Timber and Building Materials Division among other positions.

#### Noriaki Toi

Statutory Auditor (full-time) (Born Feb. 22, 1956)

##### Career history

Apr. 1979 - Joined the Company  
Jun. 2009 - General Manager of Internal Audit Department  
Apr. 2015 - Executive Officer in charge of internal audits  
Jun. 2015 - Statutory Auditor (current position)

Attendance: 16/16, 14/14

##### Reason for appointment

Noriaki Toi has served as a statutory auditor since 2015 and has a wealth of experience in financial and accounting matters.

#### Yoshitsugu Minagawa\*

Outside Statutory Auditor (Born Apr. 27, 1954)

##### Career history

Apr. 1978 - Joined Ministry of Agriculture and Forestry (currently Ministry of Agriculture, Forestry and Fisheries)  
Jul. 2010 - Director-General of Forestry Agency, Ministry of Agriculture, Forestry and Fisheries  
Sep. 2012 - Vice-Minister, Ministry of Agriculture, Forestry and Fisheries  
Aug. 2015 - Adviser, Ministry of Agriculture, Forestry and Fisheries  
Mar. 2016 - Resigned as Adviser to Ministry of Agriculture, Forestry and Fisheries  
Jun. 2016 - Outside Statutory Auditor of the Company (current position)

Attendance: 15/16, 13/14

##### Reason for appointment

Yoshitsugu Minagawa has abundant experience and deep insight in the agricultural, forestry and fishing sectors, and the Company believes that he is utilizing these assets in his auditing duties.

#### Yoshimasa Tetsu\*

Outside Statutory Auditor (Born Dec. 23, 1948)

##### Career history

Nov. 1976 - Joined Daichi Audit Corporation (currently Ernst & Young ShinNihon LLC)  
Aug. 1981 - Registered as a Certified Public Accountant  
May 1987 - Joined Century Audit Corporation (currently Ernst & Young ShinNihon LLC)  
Aug. 1997 - Representative partner of Century Audit Corporation (currently Ernst & Young ShinNihon LLC)  
Jun. 2011 - Resigned from ShinNihon LLC (currently Ernst & Young ShinNihon LLC)  
Jun. 2018 - Outside Statutory Auditor of the Company (current position)

Attendance: 16/16, 14/14

##### Reason for appointment

As a certified public accountant, Yoshimasa Tetsu has a high level of specialized knowledge and a wealth of experience in financial and accounting matters, which we have determined is being utilized in the Company's audit operations.

#### Makoto Matsuo\*

Outside Statutory Auditor (Born May 28, 1949)

##### Career history

Apr. 1975 - Registered as Attorney at Law admitted in Japan  
Mar. 1979 - Registered as Attorney at Law admitted in the State of New York, U.S.A.  
Sep. 1980 - Partner of Ozaki & Momo-o  
Apr. 1989 - Established Momo-o, Matsuo & Namba  
Partner of Momo-o, Matsuo & Namba (current position)  
Jun. 2018 - Outside Statutory Auditor of the Company (current position)

Attendance: 16/16, 14/14

##### Reason for appointment

As a lawyer with extensive experience in corporate legal affairs both in Japan and abroad, he is expected to appropriately execute the Company's audit operations with his specialized perspective.

### Executive Officers <sup>\*</sup> Doubles as Director and Executive Officer

Position	Name	Responsibility
President	Toshiro Mitsuyoshi*	
Executive Vice Presidents	Tatsuru Satoh*	Administering Lifestyle Services Division, in charge of General Administration, Secretary, External Relations, Personnel, IT Solutions, Intellectual Property and Internal Audit
Managing Executive Officers	Tatsumi Kawata*	Administering Environment and Resources Division, in charge of Corporate Planning, Finance, Corporate Communications and Sustainability
Managing Executive Officers	Atsushi Kawamura*	Administering Timber and Building Materials Division, in charge of the Tsukuba Research Institute, Divisional Manager of Overseas Housing and Real Estate Division
	Ikuro Takahashi*	Divisional Manager of Housing and Construction Division
	Kanpei Tokunaga	President and Director of Sumitomo Forestry Home Engineering Co., Ltd.
	Takahisa Higaki	Deputy Divisional Manager of Housing and Construction Division (Overseas Customer Relations Department and Production Process Innovation Department, Construction Materials Development Department)
	Kunihiko Takagiri	Divisional Manager of Lifestyle Service Division
	Koji Tanaka	Divisional Manager of Timber and Building Materials Division
	Masanobu Nishikawa	Divisional Manager of Environment and Resources Division

Position	Name	Responsibility
Executive Officers	Junko Saishu	In charge of Empowerment of Woman and Diversity, General Manager of Intellectual Property Department
	Kazutaka Horita	President and Director of Sumitomo Forestry Crest Co., Ltd.
	Yoichi Hosoya	Deputy Divisional Manager of Timber and Building Materials Division (Oversees new business)
	Yutaka Kamiya	President and Director of Sumitomo Forestry Landscaping Co., Ltd.
	Atsushi Iwasaki	Deputy Divisional Manager of Overseas Housing and Real Estate Division (In charge of North American Business) and Sumitomo Forestry America, Inc. (President and General Manager of Housing Department)
	Takumi Shimahara	President and Director of Sumitomo Forestry Home Tech Co., Ltd.
	Tomio Tozaki	General Manager of IT Solutions Department
	Nobuyuki Otani	General Manager of Corporate Planning Department and Productivity Enhancement Department
	Yuko Iizuka	General Manager of Sustainability Department
	Kenji Inui	Deputy Divisional Manager of Overseas Housing and Real Estate Division (Oversees Design and Construction Department), General Manager of Asia and Oceania Business Department

### Experience and expertise of directors and statutory auditors

The table below shows the expertise and experience expected of directors and auditors in particular.

	Name	Title	Expertise and experience							
			Corporate management	ESG, sustainability	Global	Real estate development, construction	Finance, accounting	Law, risk management, internal auditing	IT, DX	Industrial policy
Directors	Akira Ichikawa	Representative Director, Chairman of the Board	●	●	●		●	●	●	●
	Toshiro Mitsuyoshi	Representative Director, President, and Executive Officer	●	●	●	●				
	Tatsuru Satoh	Representative Director, Executive Vice President	●	●			●	●	●	
	Tatsumi Kawata	Representative Director, Executive Vice President	●	●	●		●			
	Atsushi Kawamura	Director, Managing Executive Officer	●	●	●	●				
	Ikuro Takahashi	Director, Managing Executive Officer		●		●				
	Junko Hirakawa	Outside Director		●	●			●		
	Izumi Yamashita	Outside Director	●	●	●		●		●	●
Mitsue Kurihara	Outside Director	●	●	●		●			●	
Statutory Auditors	Akihisa Fukuda	Senior Statutory Auditor	●	●	●	●	●		●	
	Noriaki Toi	Statutory Auditor		●	●			●		
	Yoshitsugu Minagawa	Outside Statutory Auditor		●						●
	Yoshimasa Tetsu	Outside Statutory Auditor		●				●		
	Makoto Matsuo	Outside Statutory Auditor		●	●				●	

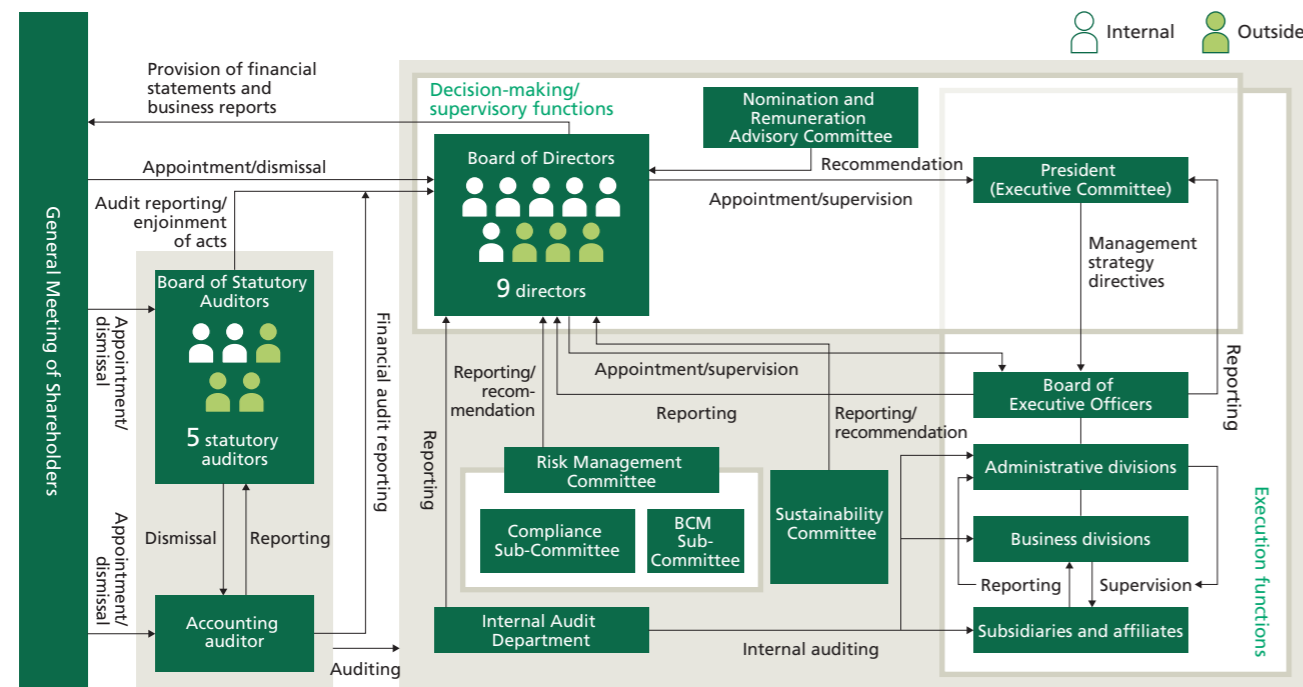


### Corporate governance system

The Company has adopted the structure of a company with a board of statutory auditors and has a Board of Directors comprising 9 directors (7 male and 2 female), including 3 Outside Directors (1 male and 2 female), and a Board of Statutory Auditors comprising 5

statutory auditors (5 male), including 3 Outside Statutory Auditors (3 male). Under this organizational structure, we have introduced an executive officer system to separate decision-making and supervisory functions from execution functions.

#### Corporate governance system



#### Reforms to corporate governance (from 2014)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Corporate Philosophy				• Added a Code of Conduct	• Revised current corporate policies				
Director	• Appointed a woman as a director • Total set at 12 or fewer people (Articles of Incorporation)							• Increased the number of female directors to 2	
Outside Director	• 1 person appointed		• Increased to 2 people					• Increased to 3 people, making outside directors comprise 1/3 of the Board of Directors	
Executive remuneration/personnel		• Established Nomination and Remuneration Advisory Committee • Introduced stock-based compensation stock option system			• Changed stock option to a remuneration plan for shares with restriction on transfer		• Terms of directors shortened to 1 year		
Various committees					• Established Sustainability Committee				• Revised executive remuneration system

#### Board of Directors and Executive Committee

The Board of Directors usually meets once a month, making decisions on important issues, checking up on performance and other matters, and carrying out its supervisory functions. Prior to the Board of Directors meetings, the Executive Committee, an advisory body for the president, generally holds a meeting twice a month to ensure that important issues have been sufficiently discussed in advance. Executive Committee meetings are attended by those directors who also serve as executive officers, as well as the full-time statutory auditors.

The Board of Directors met 16 times and the Executive Committee met 26 times in the fiscal year ended December 2021. Directors and statutory auditors strive to maintain a Board of Directors meeting attendance rate of at least 75%.

#### Statutory Audit System

Each statutory auditor audits the directors' execution of duties utilizing the deep insights and diverse perspectives they have acquired from their various backgrounds.

As assistants to the statutory auditors, ten auditing inspectors, who double as senior managers of major departments, are assigned particularly to enhance the function of audits from a practical perspective. Under this system, the statutory auditors attend important meetings such as Board of Directors and Executive Committee meetings, and are able to obtain accurate information regarding the managerial decision-making process at appropriate times. To enhance the effectiveness of audits, the statutory auditors strive to cooperate with the accounting auditor as well as the Internal Audit Department. They also receive reports regularly from the divisions responsible for risk management and compliance, accounting and labor, and monitor and verify that internal controls are functioning effectively.

The statutory auditors are also provided with opportunities to express their opinions regarding the directors' execution of operations whenever needed. In addition, the Group Board of Statutory Auditors, attended by the Company's full-time statutory auditors and the statutory auditors of major subsidiaries, meets regularly in an effort to strengthen the monitoring functions regarding the status of execution of Group management. Furthermore, in line with the monthly Board of Statutory Auditors meeting, opportunities are provided for the assigned executive officers to explain matters discussed at the Executive Committee meeting so that all statutory auditors and outside directors can understand important matters in detail. The statutory auditors and representative directors also exchange opinions regularly.

This system ensures that the statutory auditors can provide adequate monitoring functions of the directors' execution of operations from the perspective of shareholders. The Board of Statutory Auditors met 14 times and the Group Board of Statutory Auditors met 5 times in the fiscal year ended December 2021.

#### Nomination and Remuneration Advisory Committee

The Nomination and Remuneration Advisory Committee has been established as an advisory body to the Board of Directors to ensure transparency and fairness, and solicit opinions, in the nomination of director and statutory auditor candidates and executive officers; the removal of directors, statutory auditors and executive officers; the evaluation of the Chief Executive Officer and other executive officers; and decisions about remuneration for directors and executive officers. The committee is comprised of the Chairman of the Board, the President, and all of the outside executives (3 outside directors and 3 outside statutory auditors) so that the majority of members are outside executives. An outside director serves as the committee chair.

#### Nomination and Remuneration Advisory Committee members

	Position <sup>*1</sup>	Name	Nomination and Remuneration Advisory Committee <sup>*2</sup>	
			Number of meetings attended (times)	Attendance rate (%)
Committee Chairperson	Director (Outside)	Junko Hirakawa	2	100
	Director (Outside)	Izumi Yamashita	2	100
	Director (Outside)	Mitsue Kurihara	1 <sup>*3</sup>	100 <sup>*3</sup>
Committee members	Statutory Auditor (Outside)	Yoshitsugu Minagawa	2	100
	Statutory Auditor (Outside)	Yoshimasa Tetsu	2	100
	Statutory Auditor (Outside)	Makoto Matsuo	2	100
	Representative Director, Chairman of the Board	Akira Ichikawa	2	100
	Representative Director, President	Toshiro Mitsuyoshi	2	100

\*1 Positions are current as of March 29, 2022.

\*2 The number of Nomination and Remuneration Advisory Committee meetings attended and the attendance rate for FY 2021 is listed.

\*3 The person's status is listed since becoming a director on March 30, 2021.



## Analysis/evaluation and its results on the effectiveness of the Board of Directors

The Company carries out regular self-analysis and self-evaluation of the effectiveness of the Board of Directors. We strive to further enhance the effectiveness of the Board of Directors by making continuous efforts to improve any issues identified.

### Main Issues in the Effectiveness Evaluation performed in the fiscal year ended December 2020

- Strengthening collaboration between the Internal Audit Department and outside executives
- Improving materials of the Board of Directors meeting
- Establishing rules for the reappointment of outside directors

### Effectiveness Evaluation and its Results for the fiscal year ended December 2021

#### Evaluation method

- Questionnaire for all directors and statutory auditors (response method: anonymous format, answers were sent directly to an external party to protect anonymity) and external party assessment of questionnaire results
- Confirmation by the Board of Directors as to the status of implementation of the role of the Board of Directors as designated by the Sumitomo Forestry Basic Policy on Corporate Governance.
- Exchanging opinions with directors and statutory auditors

#### Results of evaluation

- The Company's Board of Directors was found to be functioning effectively.

#### <Efforts to address matters recognized as issues during the evaluation for the fiscal year ended December 2020>

- Established a reporting line for the Internal Audit Department to report directly to the Board of Directors on issues pertaining to internal audits and held discussion sessions between the Internal Audit Department and outside officers to strengthen cooperation between the two parties
- Established criteria for the reappointment of outside executives

#### <Future issues>

- Optimize the management of the Board of Directors by means such as further improving materials of the Board of Directors meeting
- Regular monitoring of progress on the medium-term management plan by the Board of Directors

## Executive remuneration

Along with formulating Sumitomo Forestry Group's "Mission TREEING 2030" long-term vision and a new three-year medium-term management plan that started from January 2022, "Mission TREEING 2030 Phase 1," we also revised the executive remuneration system at the Board of Directors' meeting held on February 14, 2022 with the aim of establishing an executive remuneration system that could further heighten the motivation of every executive to achieve the medium-term management plan.

From the perspective of ensuring objectivity and appropriateness of the executive remuneration, the level of remuneration for directors of the Company will be set with

reference to the levels of other companies as surveyed by outside professional organizations, with the aim of achieving the mid-to-high level of remuneration in companies of similar size. The Company will revise the remuneration levels as necessary in response to changes in the external environment.

### Remuneration for directors (excluding outside directors) and executive officers

Remuneration for directors, excluding outside directors, is comprised of basic remuneration and performance-based remuneration. Basic remuneration comprises monthly remuneration

and remuneration paid as restricted stocks (referred to below as "restricted stocks").

The remuneration for directors and executive officers of the Company, excluding outside directors, comprises fixed remuneration commensurate with the director's responsibilities and roles, an annual performance-based bonus as a short-term incentive, and performance-based restricted stock remuneration as a medium- to long-term incentive.

The Company will determine the amount of fixed remuneration for each position of directors and executive officers in accordance with their responsibilities and roles and pay the fixed remuneration as a monthly remuneration. The amount of the annual performance-based bonus will be determined through comprehensive judgment based on the amount obtained by multiplying the standard bonus amount determined for each position by the payment rate which varies in proportion to the base

profit for each business year.

The performance-based restricted stock remuneration is structured to reflect the Company's performance during each period of the medium-term management plan in the level of vesting. The standard stock remuneration amount prescribed for each position consists of 'a portion linked to the growth rate of the Company's market capitalization relative to TOPIX (two-thirds of the Standard Stock Remuneration Amount by Position)', and 'a portion linked to the achievement rate of the greenhouse gas emission reduction target based on SBTs (Science Based Targets) (one-third of the Standard Stock Remuneration Amount by Position)', each during the subject period.

### Outside director remuneration

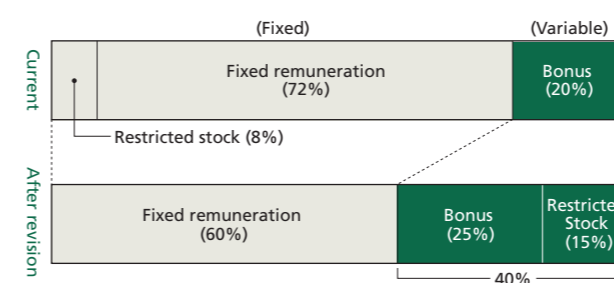
The amount of remuneration for outside directors, consisting only of monthly remuneration as fixed remuneration, will be determined in accordance with their responsibilities and roles.

### Statutory auditor remuneration

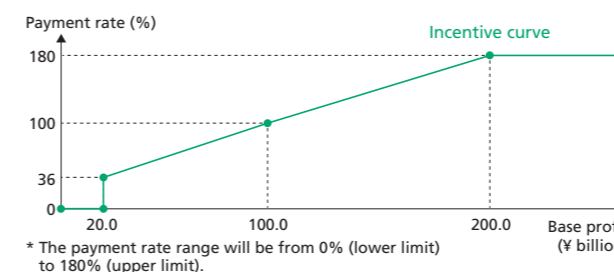
Statutory auditor remuneration consists solely of monthly remuneration as basic remuneration. A resolution was approved by the 74th Ordinary General Meeting of Shareholders on June 20, 2014, that limits this monthly remuneration to no more than ¥8 million per month.

At the 65th Ordinary General Meeting of Shareholders held on June 29, 2005, the Company abolished the executive retirement bonus system. We reference the results of a third-party assessment of executive remuneration at Japanese companies to ensure the objectivity and fairness of executive remuneration including for outside executives and set an appropriate level of remuneration.

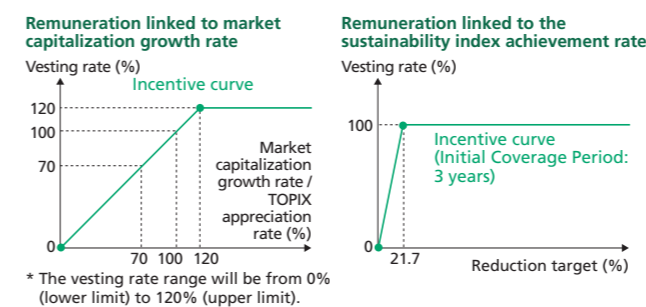
### Remuneration composition ratio of directors at the time of standard remuneration payment (image)



### Formula for calculating annual performance-based bonus



### Formula for calculating performance-based restricted stock remuneration



### Remuneration (fiscal year ended December 2021)

\* Excluding outside directors and outside statutory auditors (¥ million)

Category	Total remuneration	Basic remuneration			Number of eligible executives
		Monthly remuneration	Non-monetary remuneration (restricted stock)	Performance-linked remuneration (bonuses)	
Directors*	463	267	31	165	6
Statutory auditors*	48	48	—	—	2
Outside directors	35	35	—	—	3
Outside statutory auditors	30	30	—	—	3

- \* The total remuneration for directors does not include compensation as an employee or a compensation for the execution of other duties.
- \* The total amount of performance-based bonus resolved for directors at the 82nd Ordinary General Meeting of Shareholders held on March 29, 2022 was ¥165 million.
- \* The total amount of non-monetary remuneration represents a cost of ¥31 million paid to six directors excluding outside directors in the form of restricted stock.



## Strategically held shares

Article 5 of the Sumitomo Forestry Basic Policy on Corporate Governance states the following concerning strategically-held shares:

1. The Company may acquire and hold shares in its business partners and counterparties when the Company determines that such shareholdings will contribute to mid- to long-term enhancement of the Company's corporate value from the perspective of, among others, maintenance and reinforcement of long-term and stable business relationships with those partners and counterparties as well as expansion of the Company's business as a result of such closer ties with those parties.
2. At meetings of the Board of Directors, the Company will regularly examine whether the holdings of the shares under the preceding paragraph (the "strategically held shares") lead to the improvement of its corporate value through analyzing the relationship between the profits/risks associated with such holdings and the cost of capital, and will verify the purpose and rationale of such holdings. When

the Company judges that the rationale and necessity of such holdings cannot be confirmed, it will reduce the number of such strategically held shares.

3. The Company will appropriately exercise its voting rights pertaining to the strategically held shares in accordance with its voting criteria and based on its comprehensive judgment from the perspective of the improvement of its corporate value.

In addition, to verify the rationality and necessity of cross shareholdings, the Board of Directors compares the returns of each of the strategically held shares to the hurdle rates set by the Company and also confirmed whether the holdings of such shares led to higher corporate value by verifying the status of transactions with the companies of the strategically held shares.

If a business partner or counterparty of the strategically held shares company suffers a long-term slump in business performance or seriously violates laws or causes scandal, the Company will judge how to exercise its voting rights pertaining to the strategically held shares by gathering information through dialogue with such counterparties.

## Risk management

### Establishment of internal controls system

The Company has enacted a basic policy on the establishment of an internal controls system at the Board of Directors meeting and has instituted Our Values to embody our corporate philosophy as well as the Code of Conduct that all officers and employees of the Group should follow. The Company has also established a system to secure the soundness of our business in accordance with the Companies Act.

### Risk management system

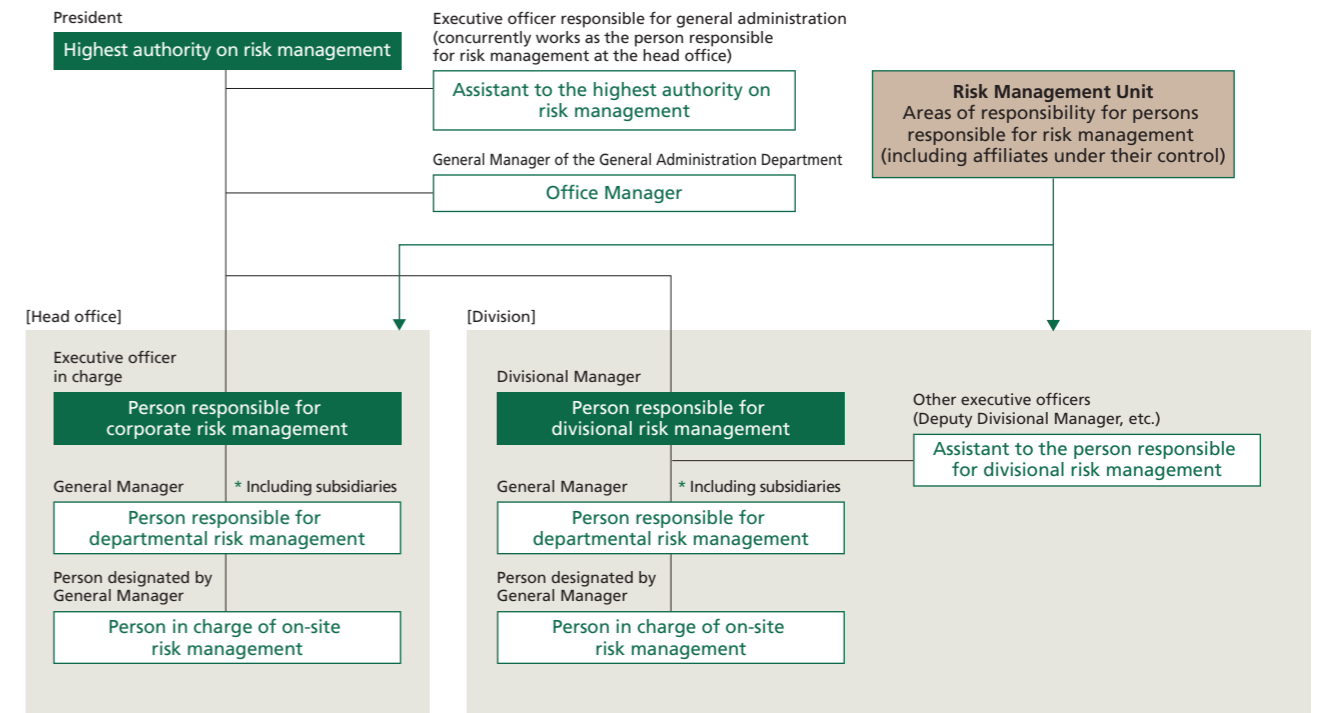
To strengthen the risk management system for the entire Group, the Company has laid down the Risk Management Basic Regulations. In accordance with the Regulations, the President has been appointed as the highest authority on risk management for the Sumitomo Forestry Group. Each executive officer in charge of a head office department or business division is appointed to the position responsible for risk management in the area of their own responsibility. Additionally each general manager is responsible for risk management in the department under their jurisdiction. The

regulation also comprehensively deals with risks from the aspect of ESG.

According to the Regulations, the Risk Management Committee, which is comprised of all executive officers, must meet once every quarter. The Committee identifies the risks the Company should be aware of, analyzes them, shares and discusses countermeasures, and assesses the status of execution. Under the umbrella of the Risk Management Committee, the Company has the Compliance Subcommittee and the Business Continuity Management (BCM) Subcommittee, which improve the effectiveness of risk management pertaining to Group-wide compliance risks and business interruption risks.

These activities are reported to the Board of Directors, and the findings are reflected in the execution of business, such as by the performance of management reviews. In the fiscal year ended December 2021, the Risk Management Committee convened four times, the Compliance Subcommittee twice, and the BCM Subcommittee twice, and the Board of Directors received reports from them four times.

## Risk management structure of the Sumitomo Forestry Group



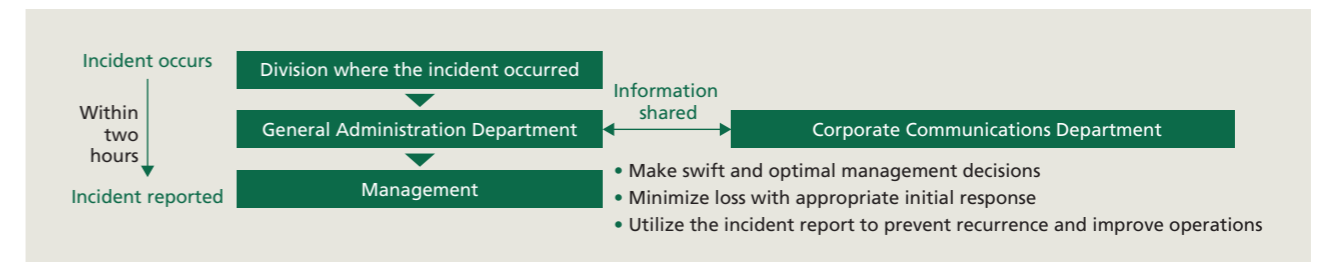
### Rapidly identifying and responding to risk

In addition to the normal reporting line, we have a "two-hours reporting rule," which is a system designed to convey critical information promptly and properly to the management via the headquarters' risk management division, in the event of an emergency situation that may cause a serious impact on the Company.

This enables the Company to make swift and optimal

management decisions and take immediate action in order to avoid or minimize losses. The reported information is also collected and stored and studied for useful case studies, which are shared to prevent recurrence of the same incident and improve business operation. When a critical issue arises, the information is shared with the Corporate Communications Department and disclosed to stakeholders in a timely and appropriate manner.

### Two-hours reporting rule and use of risk information



## Managing business continuity

### System for managing business continuity

The Sumitomo Forestry Group has established the BCM Subcommittee to address risks presented by events or emergency situations, such as major natural disasters or the spread of emerging infectious diseases, which are extremely difficult for a company to prevent on its own and which can have serious impacts on headquarters' functions. The BCM Subcommittee is responsible for spreading awareness of and strengthening the business continuity management structure (BCM), formulating, revising and improving Business Continuity Plans (BCP), and conducting drills based on BCP. In the fiscal year ended December 2021, the committee met twice, encouraging each department and subsidiary to tackle BCM proactively and voluntarily by explaining to each organization through the committee members that a Group-wide coordinated effort has a great impact on the effectiveness of BCPs.

In response to the global spread of the COVID-19, the Sumitomo Forestry Group has established a task force headed by the President and has made efforts to tackle the pandemic since March 2020. After the state of emergency declared on all prefectures was lifted, the task force was dissolved on March 31, 2021. The Company is continuing infection control measures in its normal business operations. For example, we have a one-stop consultation counter where employees can ask any questions about the Company's infection control measures and leave of absence. We also store hygiene supplies such as non-woven masks and hand sanitizers. In addition these measures, in the summer of 2021, we held workplace vaccinations against COVID-19 in Tokyo, Nagoya and Osaka for officers and employees of the Group, their families and the employees of affiliated construction companies.

### Ensuring employee safety

In an emergency situation, the Company gives the highest priority to the safety of employees and their families as a general rule. To that end, along with preparing emergency contact networks within each organization, all Group companies in Japan have introduced systems linked to disaster information that automatically issue safety confirmation messages in order to obtain as much information as possible about the safety of employees before communication lines become congested or interrupted due to the effects of the disaster.

Moreover, we regularly inform employees of what they should do and prepare for their safety through delivering an easily-understood Safety Confirmation Handbook. Safety confirmation drills are also conducted at domestic Group companies every year. In the fiscal year ended December 2021, a total of 15,332 people participated in these drills.

Additionally, in 2019 we introduced a safety confirmation system for employees stationed overseas so that they can quickly confirm their safety in emergency situations, such as major earthquakes, acts of terrorism or volcanic eruptions, in the country they are in. We also have a crisis management portal website for

employees and their families where they can find all kinds of information about the disaster or the Company's ongoing countermeasures. The website is accessible from outside of the company's private network. Through these measures, we endeavor to prevent secondary disasters and other incidents.

### Continuation of important duties

The Sumitomo Forestry Group established its BCM regulations in October 2019 and formulated a BCP based on the assumptions listed below.

1. Occurrence of an emergency situation which can have serious impacts on headquarters' functions.
2. Occurrence of an emergency situation that may cause severe damage to a number of residences and buildings at the same time or/and on a regional scale.

In our BCPs, we identify the important duties, such as confirming the safety of employees and keeping up payments to our suppliers. We are able to perform these duties in Osaka instead of the headquarters in Tokyo so that we can minimize the impact even if the headquarters are disabled by damage from a crisis. Additionally, we have prepared remote backups of the data and the systems essential for the execution of the duties.

In each workplace, the person in charge on site needs to make decisions on case-by-case basis to make a right and speedy first response to the disaster. In emergency situation, the chain of command from the headquarters could be interrupted, making it difficult for those who are in charge on site to get instructions from the Company. Therefore we conduct "First response drills" to train them by sharpening their decision-making skills and abilities. This drill has been conducted since 2011 and although it was postponed in 2020 due to COVID-19 concerns, we re-conducted the drill on the web in 2021 and total of 81 persons in charge on site took part.

Additionally, in preparation for a major earthquake that requires employees to walk long distances back home or stay at the office because of difficulties returning home, each workplace stores emergency supplies such as water, foods and portable toilets according to the guidelines the Company determines. In the capital area and major cities, such as Osaka and Nagoya, where it is assumed that there will be many people with difficulty returning home, we have stockpiled emergency supplies with the assumption of a three-day stay in the office.

Apart from these, from the perspective of disaster prevention and mitigation, a person in charge of disaster prevention from the head office participates in the selection of a new office, and we also take measures to prevent business machinery from falling and to stop multifunction machines on casters from moving around.

### Supply chain business continuity

In preparation for the potential disruption of its Housing and Construction Business supply chain following a disaster, Sumitomo Forestry shares the specifications and processes for property construction along with site progress statuses and other information with business partners, including component makers and building contractors. By enabling advanced procurement of materials and production, the Company is striving to reduce the risk of a disruption to operations.

When a natural disaster such as an earthquake or an accident such as a fire occurs at a supplier, we share the disaster status of the factory, distribution point or other location and help them to quickly plan and execute countermeasures aimed at ensuring supply. We are also endeavoring to build a structure where as a principle we can procure the same parts or material from two or more companies (including a structure where we can secure two or more production sites for the same component) as a way of guarding against a lack of supply.

However, due to complex factors such as the coronavirus pandemic that spread around the globe and the shortage of various parts, especially semiconductors, there are ongoing delays in the procurement of parts for water heaters and other items. As a result, Sumitomo Forestry has asked its suppliers to stockpile inventories of

materials that experienced delays, as a short-term preparation. For medium- to long-term preparations, Sumitomo Forestry will discuss with its suppliers how to reduce risk by geographically dispersing their production bases, moving from having them (including secondary suppliers) in a single country, toward establishing bases in other countries.

Sumitomo Forestry added items related to business continuity, such as whether there is a system in place to ensure alternate supply routes during an emergency, to the supplier evaluation it conducts every year to determine whether to continue transactions with each supplier. Through these efforts, the Company strives to further reduce the risk of business disruption.

### Maintaining customer service

Sumitomo Forestry has set up call centers in Tokyo and Okinawa that are able to provide 24-hour after-sales services. We are also developing a mechanism whereby either call center can back up the functions of the other call center in the event of a disaster. We strive to enable a quick response to requests for repairs by managing information for each base through a unified emergency system which allows the Company to share disaster information pertaining to owners.

### Obtained the "Resilience Certification"

In July 2021, Sumitomo Forestry obtained the Certificate for an Organization that Contributes to National Resilience (Resilience Certification) granted to a company that proactively works towards business continuation and social contributions.

Obtaining the Resilience Certification was one of the evaluation indicators of our medium-term sustainability targets to see the progress on reinforcing our risk management and compliance structures. Therefore, we have been working to review and improve our BCM structure since fiscal 2019.

Furthermore, since the Great East Japan Earthquake in 2011, we have been working towards building safe and secure towns, revitalizing regions and resolving regional social issues based on the agreements between local governments and the Wooden Home Builders Association of Japan, of which the Company is a major member. We received the certificate in recognition of these efforts.

To minimize the risks of stoppage or interruption of our business continuity caused by various emergency situations, we will continue to improve our business resilience going forward.



## Compliance

### Compliance promotion system

To respond to compliance risk across the Group, the Compliance Subcommittee was established as a sub-organization of the Risk Management Committee. Chaired by the general manager of the General Administration Department, the subcommittee is comprised of staff in charge of risk management, including those of the departments supervising Group companies. The subcommittee has set Group standards, including management systems and tools needed for legal compliance with the Construction Business Act and other laws and regulations, and efficiently responds to compliance risk.

The subcommittee was convened twice in the fiscal year ended December 2021 and undertook ongoing improvement of the compliance system through inspections and the activities listed below. Through these approaches, the subcommittee provides opportunities for individuals in charge of compliance on site to keep up with up-to date knowledge, improve their skills, work on the same level as others, and develop a shared awareness of risks.

- Across-the-board inspection of compliance with the Construction Business Act, Act on Architects and Building Engineers and Real Estate Brokerage Act
- Across-the-board inspection of on-site management systems to avoid traffic accidents and violations
- Across-the-board inspection of compliance with the Subcontract Act
- Across-the-board inspection of state of compliance on site with the requirements of various business licenses
- Explaining and sharing information about the Unfair Competition Prevention Act and Antimonopoly Act
- Explaining and sharing information about laws scheduled to be revised

These activities of the subcommittee are relayed and reported quarterly to the Board of Directors, putting a system in place to reflect the findings in business execution. The activities are also reported to the statutory auditors and the Internal Audit Department monthly. Critical Group-wide matters and risk information are shared with the statutory auditors of each Group company through the Group Board of Statutory Auditors. We maintain a compliance promotion framework through an approach on and off the business execution line.

### Internal Auditing

The Internal Audit Department conducts an internal audit at around 60 of the approximately 200 business sites of the Group every year based on a risk assessment. These business sites are given priority and selected based on two perspectives: operational risks (performance, scale, business complexity) and risk control (management system for risks). In principle, the auditors travel to the site to check and evaluate the actual documents. However in the fiscal year ended December 2021, to prevent the spread of the COVID-19 pandemic, in addition to physical audits, we continued to perform remote web-based auditing and data auditing without the auditors visiting the site, as done the year before.

The internal audits are conducted to verify the status of each business site's business execution, including compliance, and management of administrative actions. The results of these assessments are reported to the president, executive officer in charge of internal audits and statutory auditors as well as managers, executive officers and directors in charge of the offices being audited. In the case that audit findings are made, the Internal Audit Department verifies that improvements are being implemented at the business site by requesting written reports and carrying out quarterly follow-up audits. These actions are reported to the president, the executive officer in charge of internal audits, and the statutory auditors. From the fiscal year ending December 2022, we are introducing a system where the Internal Audit Department will report directly to the Board of Directors every six months.

## Ensuring management transparency

### Basic policy on disclosure

To increase transparency in management, we actively disclose not only the information required to be disclosed by various laws and regulations, but also other items deemed useful to shareholders and investors, actively and in a swift and fair manner.

### Initiatives to encourage execution of voting rights

The Company sends out notices three weeks prior to the General Meeting of Shareholders so that a greater number of shareholders can participate.

In addition, shareholders can use the Internet and other electronic means to exercise their voting rights. We also make use of the electronic proxy voting platform for institutional investors operated by ICJ, Inc. for proxy voting.

### Disclosure of a wide range of information

At the General Meeting of Shareholders, we endeavor to provide reports and explanations that are easy to understand. Additionally, we display accounting-related information such as summaries of accounts, fact books and financial results overviews on our website, together with a wealth of IR information in Japanese and English such as information about monthly orders in the housing business. We also display detailed information about sustainability initiatives on the website in both English and Japanese.

Since the fiscal year ended March 2017, the Sumitomo Forestry Group has published the Integrated Report with the objective of improving the disclosure of financial information about its initiatives to increase corporate value, as well as non-financial information related to ESG. Apart from the Integrated Report, Sumitomo Forestry proactively offers information by publishing Japanese and English translations of its business activity reports and Notices of Convocation of the Ordinary General Meeting of Shareholders, among other documents, in print as well as on its website.

### IR activities

The Company is enhancing its IR activities to communicate its management vision, the state of operations, financial position and other information timely and clearly with shareholders and investors.

### Separate meetings

After the quarterly announcement of accounts, the Company holds separate meetings for securities analysts and institutional investors. We spoke with a total of 215 companies in Japan and abroad in the fiscal year ended December 2021. In addition to this, we will also hold small meetings and on-site briefings as appropriate.

### Briefings for individual investors

We regularly hold briefings for individual investors. Due to the effects of the spread of COVID-19, briefings were not held in the fiscal year ended December 2021, but in the fiscal year ended March 2020, we held a briefing in Osaka and Nagoya which many individual investors participated in. At these briefings, in addition to giving details about the Group's businesses, we explain the Group's growth strategy, set up exhibition booths, and introduce the Group's custom-built detached houses, apartments, renovation services, private-pay elderly care facilities and overseas real estate to interested individual investors.

### Activities for overseas institutional investors and shareholders

We issue English versions of accounting-related material for the benefit of overseas institutional investors and shareholders. Additionally, in the fiscal year ended December 2021, management held an online meeting with institutional investors and shareholders in North America, Europe and Asia. At these meetings, there was an exchange of opinions as well as explanations about business performance and strategy.

In order to provide further opportunities for dialog, we also participate in conferences organized by securities firms.

Visit our website for information about future IR activities and events organized.

 **IR calendar**  
<https://sfc.jp/english/ir/calendar.html>



### Expectations of the long-term vision leading to the achievement of the SDGs

**Junko Hirakawa**  
Outside Director

As we outside directors spent a year participating in the formulation of “Mission TREEING 2030,” which sets out the Company’s specific long-term strategies, we kept the W350 Plan research technology development concept announced in 2018 firmly at the forefront of our minds. All of the Company’s businesses embody SDGs, from the cultivation and management of forests in Japan and overseas to the distribution of logs and timber, the manufacture and the use of wood such as in wood construction, and biomass power generation. So in this age when SDGs are gaining increased attention, I cannot help but feel that our time has finally come. One

of the business policies the Company announced in 2022 is “Maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy,” and we will not let that remain an armchair theory. The Company is using its knowhow supported by its 330-year history in forest cultivation to develop technology that scientifically quantifies the value of forests as a carbon sink. In my opinion, this represents the priceless and unusual value of Sumitomo Forestry. Up until now, we have supported the environmental conservation efforts of many other companies and involved ourselves heavily in forest asset management operations. However, with the announcement of Mission TREEING 2030, I believe it is time for us to lead the way for SDGs-promoting companies and proclaim the vital importance of an appropriate understanding of the value of forests.

Besides this, as a result of expanding globalization in recent years we have obtained astonishing results in forest management and in

the housing and real estate business. This success may be attributed to our method of respecting the characteristics of each region and using the capabilities of local management ranks to the fullest, but it also brings with it a need to further strengthen global governance. To achieve that, it will be important to facilitate personnel interaction and selected talented personnel for higher positions on a global level, and also put systems in place for close personal communication within companies and throughout all Group companies.

Finally, we will do our utmost to pursue concrete measures to expand opportunities for female employees to succeed even more. The true point of female empowerment lies beyond gender. We will strive earnestly to achieve the SDGs for the sake of all employees, searching at all times for ways to make them truly feel that “Happiness Grows From Trees” by carefully reviewing their workstyles and work flows, creating avenues for discussion, eliminating waste, and increasing work efficiency.



### Promoting decarbonization as a driving force for further growth

**Izumi Yamashita**  
Outside Director

When the long-term vision was formulated, my particular focus was on clearly indicating the pathways for basic strategies and initiatives aimed at decarbonization, which will form the key to solving climate change and global environmental challenges. The Company’s strengths are its experience, knowhow and advanced technologies related to wood and forests. Its role is therefore to leverage these advantages to the fullest and to cooperate and coordinate with a variety of corporations and governmental organizations which share our ambition in order to serve as a platform for driving decarbonization and green innovation. The

recently announced cooperation with IHI Corporation in a tropical peatland business and the concept of “timber industrial complexes” aimed at restoring the Japanese forestry business are two examples of the exact kind of leadership I have in mind.

Another area we should focus on is reinforcing our financial bases. This will enable us to expand the forest area we hold in Japan and beyond and actively engage in promoting various wood cycle businesses such as medium- and high-rise wooden construction projects in the non-residential sector while continuing to grow steadily based on investments in housing construction and real estate development overseas. SFC Asset Management was recently incorporated, the first fund has been established, and talks about setting up a “forest fund” are under way. As we increase our income assets by expanding into various businesses domestically and internationally, it will be crucial for us to improve capital efficiency and strengthen our financial structure by securitizing

those assets, among other means.

Going forward, we will monitor the processes involved in turning the long-term vision into reality to ensure that the PDCA cycle is being properly performed. As the presence of overseas businesses grows and we establish various new businesses through means such as digital transformation (DX), the number of new risks we are exposed will mount. In light of that, I believe it is more essential than ever for us to spend time discussing how to enhance risk management from the perspective of “defensive” governance. I will fulfill my responsibilities as an outside director to help the Company achieve sustained growth and ensure increased corporate value in the medium and long-term, guided by the words of Teigo Iba, the second director-general of Sumitomo, who stated the following regarding Sumitomo’s business policy: “Always aspire to ideals and be the one to take a step ahead of reality.”



### Strengthening our management foundation is essential to unparalleled value creation

**Mitsue Kurihara**  
Outside Director

I can feel the Company’s sense of purpose, determination and ability to decarbonize the planet from its Mission TREEING 2030 long-term vision. The statement “Making our planet safer and more secure for future generations,” which clearly expresses the Company’s purpose (reason of being) and directs the Group as a whole, has been widely communicated.

The long-term vision and medium-term management plan were created through a group effort after multiple discussions within the Company and across the Group, the exchange of ideas with experts and lively debates at the management level.

As a participant in these discussions, I keenly realized firstly that the Company is capable of becoming carbon negative, and that it has the ability to draw out the value of forests and return it to society. Thus we discussed how to accept the high expectations held for that value creation, visualize the value and then back-cast it to be able to develop comprehensive business strategies.

Secondly, although our investment strategy considers all companies holistically, we assumed that there would be changes in the financial structure and risk profile. Therefore we deepened discussions on enhancing the financial base that underpins growth investment and managing and distributing investment resources.

The key to achieving all this will be strengthening our management foundation. Sumitomo Forestry has no equal when it comes to realizing the wood cycle. To boost this value, we must strengthen each business area while blending their portfolios in order to display synergy.

To that end, I believe we need to pursue DX, which will combine and visualize information from various sources including the Group and the supply chain and create fresh value from it. We must also focus on a human asset strategy that helps diverse human resources including female employees and foreign workers to grow and flourish. Moreover, we must fortify Group governance to optimize the management assets of the Group as a whole and maximize value.

The Board of Directors will conduct monitoring appropriately and discuss issues that appear in the course of execution in a timely fashion.

As an outside director, I intend to apply my personal expertise and also adopt a more multifaceted approach to issues so that, while prioritizing reflecting the viewpoints of various stakeholders in management, we can strive to increase the corporate value of the Company and create social value.



## Sumitomo Forestry Group's Sustainability Management

### Sumitomo Forestry Group Corporate Philosophy and Sustainability Management

Sumitomo Forestry Group has been operating and engaging in sustainable management based on its Corporate Philosophy of "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 Spirit, which places prime importance on fairness and integrity for the good of society. In addition, Sumitomo Forestry Group Code of Conduct has been established to emulate the Sumitomo business spirit that has been passed down since the company's establishment and to meet with global social needs such as international conventions and initiatives. Sumitomo Forestry Group is seeking to disseminate and implement the Code of Conduct throughout its supply chain as a global standard, in addition to the Group and its partners, including suppliers and subcontractors. To guarantee that Sumitomo Forestry Group Code of Conduct is widely known, Sumitomo Forestry Group Code of

Conduct Guidebook is issued to each employee at Group companies in Japan, translated into English and other languages, and implemented at abroad affiliates as well as through e-learning. This information has also been disclosed on our website to our business partners and other stakeholders. In addition, we monitor the practice and effectiveness of these principles from our Corporate Philosophy to Our Values and Code of Conduct, etc. at the ESG Promotion Committee convened four times a year.

We have also established policies such as "Environmental Policy", "Procurement Policy", and "Occupational Health and Safety Policy", and various guidelines based on our Corporate Philosophy and Code of Conduct. We are dealing with ESG-related sustainability targets as a specific practice for the Mid-term Management Plan. We formulated Mission TREEING 2030 in February 2022, a long-term vision that incorporates the ideal image of Sumitomo Forestry Group into a long-term business concept. Our Group aspires to realize a sustainable society by addressing the Nine Material Issues identified and providing values to the global environment, people's lives and society, and markets and economic activities, etc.

### Formulation and management of Mid-Term Sustainability Targets

Sumitomo Forestry Group has announced "Mission TREEING 2030 Phase 1" (2022-2024), the first phase of its long-term vision "Mission TREEING 2030," a three-year medium-term management plan that provides the groundwork for future growth and contribution to decarbonization. One of the five basic policies is "Further Integration of Business and ESG," and the Group has established "Sustainability Targets as part of Mid-term Management Plan in fiscal 2024," which incorporates the Group's sustainability strategy and material issues. "Mid-term Sustainability Targets in fiscal 2024" is a revision of the specific ESG-related goals in the Medium-Term Management Plan that has been in operation since fiscal 2019, with the goal of better aligning our business and ESG strategies in accordance with the new policies of the Mid-term Management Plan. Under the long-term vision "Mission TREEING 2030", the value created by the Group was organized from the perspectives of providing "Value for our planet", "Value for people and society", and "Value for the market economy", and nine new material issues were identified. Specific numerical targets have been defined for each business unit in more detail until 2024 in order to realize these nine material issues.

We believe that it will not only meet the expectations of society, including the SDGs, but also lead to an increase in corporate value that cannot be judged only from the economic perspective.

### Sustainability Committee

In response to increased demand for medium- to long-term initiatives regarding Environment, Social, and Governance (ESG) and the disclosure of such information, and also in order to address SDGs, TCFD guidelines, and human rights issues, Sumitomo Forestry established a Sustainability Committee in April 2018.

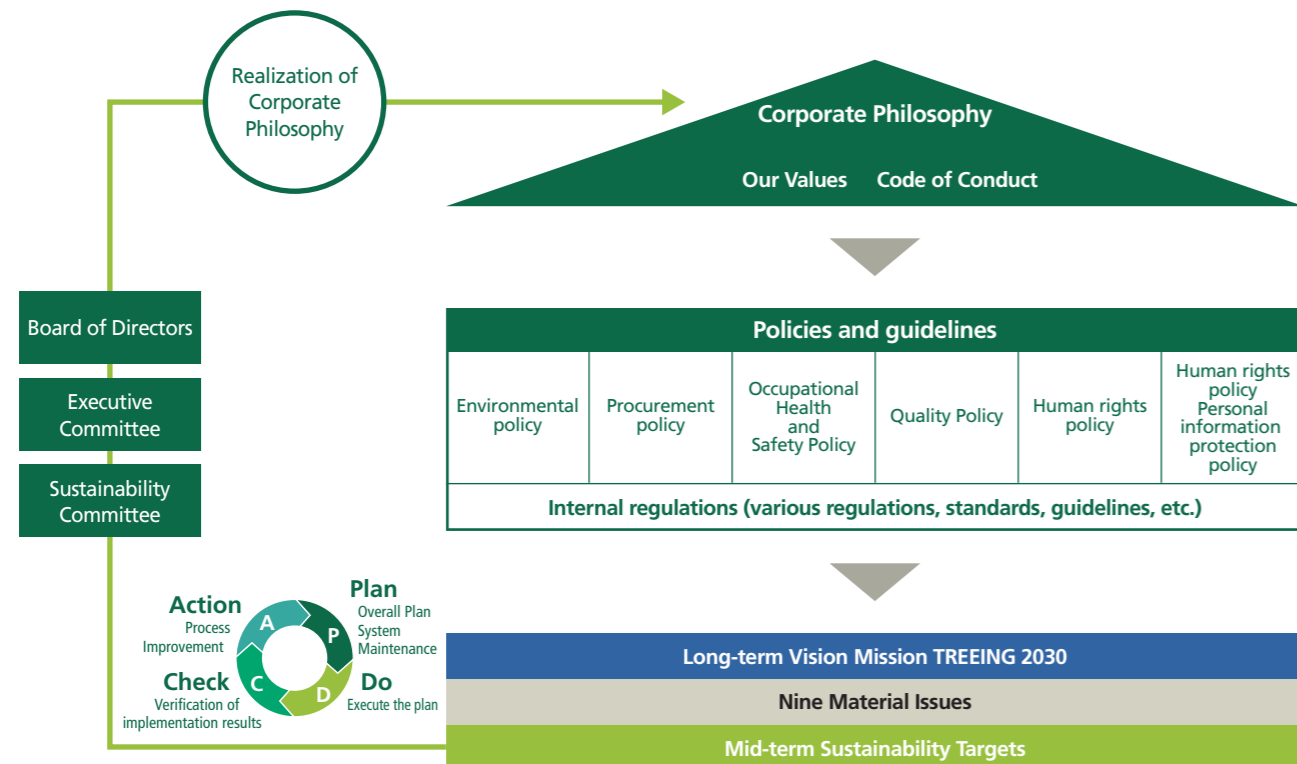
The Sustainability Committee is comprised of executive officers and directors, as well as general managers, with the President and Executive Officers acting as the committee chairman. At committee meetings held four times a year, committee members monitor the Company's operational status and effectiveness within the context of Our Values and the Code of Conduct, along with the formulation and promotion of initiatives that address medium- to long-term ESG issues which concern the Sumitomo Forestry Group's sustainability, starting with climate change. The meetings also analyze risks and opportunities, and manage progress on the Mid-Term Sustainability Targets, which incorporate business strategies that contribute to achieving SDGs. Minutes of the committee's meetings are reported in their entirety to the Board of Directors with the aim of integrating business with solutions to social issues.

### Risk check for new business plans by the Executive Committee

All new business and project plans that are brought for deliberation to the Board of Directors and the Executive Committee, which is the advisory body to the president, Sumitomo Forestry conducts risk assessment for the following categories, taking into account the entire supply chain. If a risk is confirmed, a report is made regarding the risk and measures to deal with it, which is used to determine implementation. In addition, the same risk assessment is recommended for new business projects that are not brought for deliberation to these meetings because they can be implemented under the jurisdiction of the respective division or affiliated company. In fiscal year 2021, 15 new businesses and projects were discussed.

By evaluating matters from multiple angles, including non-financial factors, the Executive Committee contributes to sustainable business management. At the same time, the Sumitomo Forestry Group will proactively continue with sustainability management.

### Sumitomo Forestry Group's Sustainability Management



### Main risk assessment List

Environmental Aspects	1. Greenhouse Gases 2. Biodiversity Conservation (Including Verification of Protected Regions) 3. Waste 4. Water Resources 5. Soil Contamination 6. Noise 7. Other
Social Aspects	1. Relationships with Companies We Do Business With 2. Anti-Corruption in All Its Forms, Including Extortion and Bribery. 3. Human Rights Considerations for Workers and Other Stakeholders 4. Promotion of Employee Diversity 5. Prohibition of Forced Labor and Child Labor 6. Appropriate Working Hours and Wages 7. Occupational Health and Safety 8. Impact on Local Communities (Including Concern for Local Residents and Administrations, Industry Organizations, NPOs, Municipal Citizens' Groups and Indigenous People)
Legal and Regulatory Compliance	-
Overall	Recognition of Indications from External Organization About Business Models, Products, Services and the Related Business Entities

### Major recognitions and awards in FY 2021

The Sumitomo Forestry Group's initiatives concerning the environment, social issues and governance have been highly evaluated by organizations in Japan and overseas. (As of end of March 2022)

#### External recognitions



#### Included as a constituent company in five ESG indices selected by the GPIF



2022 CONSTITUENT MSCI JAPAN \* ESG SELECT LEADERS INDEX

2022 CONSTITUENT MSCI JAPAN \* EMPOWERING WOMEN INDEX (WIN)

\* The inclusion of Sumitomo Forestry in any MSCI Index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of Sumitomo Forestry by MSCI or any of its affiliates. The MSCI Indexes are the exclusive property of MSCI. MSCI and the MSCI Index names and logos are trademarks or service marks of MSCI or its affiliates.



#### Participation in initiatives



## Nine Material Issues

### Identifying material issues

Following on from 2008, Sumitomo Forestry Group identified important CSR issues in March 2015. Since then, major changes have occurred around the world, including adoption of the SDGs (Sustainable Development Goals) and the conclusion and entry into force of the Paris Agreement, and in Japan, the GPIF (Government Pension Investment Fund) signing of the PRI (United Nations Principles for Responsible Investment) has accelerated the trend toward ESG investment. In response to these trends, Sumitomo Forestry Group developed its long-term vision "Mission TREEING 2030" in February 2022, which identified nine new material issues. In addition to analyzing geopolitical changes, technological innovations such as digitalization, and changes in the stakeholder preferences such as employees and customers' choices, we've also used Sumitomo Forestry Group's strengths, which have grown significantly through M&A and capital and business alliances, to identify areas where the Group can make a unique contribution, not just to sustainability, but also as material issues of the Group's overall business.

In order to formulate our mission, we conducted a questionnaire survey of all stakeholders, including customers, business partners, shareholders and investors, outside experts, and employees, and received responses from approximately 6,000 people. Based on external changes (Megatrends), we identified matters that would impact on Sumitomo Forestry Group and set 35 issues while classifying into 5 categories of "Environmental Issues (Climate change)," "Environmental Issues (Resources and Biodiversity)" "Social Issues," "Governance," and "Economic Issues" and let respondents select what they think was important. Individual interviews with young employees and management-level personnel were also conducted.

We narrowed down the material issues for Sumitomo Forestry Group based on the results of these questionnaires and interviews. Furthermore, we incorporated management's opinions and performed materiality assessments in consideration of risks and opportunities through a series of discussion among management ranks. Finally, we selected nine material issues from three perspectives: "Value for our planet," "Value for people and society" and "Value for the market economy."

### Nine Material Issues

Categories		Nine material issues	related SDGs
Value for our planet	1	To enhance the value of forests and wood through sustainable forest management	13, 15
	2	To realize carbon neutrality by leveraging forests and wood resources	7, 13
	3	To realize a circular bioeconomy by leveraging forests and wood resources	11, 12, 13, 15
Value for people and society	4	To provide comfortable and secure spaces for society at large	3, 8, 11, 13
	5	To improve the livelihood of the local communities where we operate	3, 8, 11, 13
	6	To create a vibrant environment for all workers	3, 5, 8, 11, 13
Value for the market economy	7	To create new markets with forests and wood	8, 11, 13
	8	To transform markets through DX and innovation	8, 13
	9	To establish a robust business structure	16



## Value for our planet

※All indicators relate to FY2021 (actual) → FY2024 (target)

### Material issues 1



#### To enhance the value of forests and wood through sustainable forest management

Nurturing forests to enhance and harness the value of wood and other forest resources.

Number of seedlings supplied  
Domestic forestry (number of shipments)  
**1,460,000 ▶ 2,530,000**

Volume of fuel wood chips and pellets handled  
**1,863,870t ▶ 2,482,964t**

As global environmental problems such as climate change, resource depletion, and biodiversity loss become more serious, expectations for wood and forests that produce natural resources and biological resources to solve these problems are rising. Forests not only have functions of absorbing and store CO<sub>2</sub>, conserving biodiversity, and producing wood building materials, fuel materials, or the like, but also have various public welfare functions such as water source recharge, soil conservation, and sediment disaster prevention.

Sumitomo Forestry Group has developed various businesses centered on wood, such as forestry business, timber and building material distribution and manufacturing business, housing and building business, and renewable energy business. "Sumitomo Forestry Group contributes to realization of a sustainable and prosperous society through all kinds of services related to people's lives, utilizing "trees" that are friendly to people and the global environment based on "Sumitomo Business Spirit" that emphasizes fairness and trust and benefits society." In order to realize our management philosophy, we intend to enhance value of forest resources by promoting further integration of business and ESG and by conducting sustainable forest management and the use of wood.

### Material issues 2



#### To realize carbon neutrality by leveraging forests and wood resources

Contributing to the decarbonization of society by reducing our own GHG emissions, by offering timber and wood products that sequester carbon, and by providing low-carbon/carbon-free products and services.

Energy tax credits\*<sup>1</sup>  
Number of units covered  
(United States)  
**8,993units ▶ 15,574units**

Initiatives towards achieving RE100\*<sup>2</sup>  
(Renewable energy installation rate)  
**2.6% ▶ 35.1%**

\*1 Tax deductions for residences that meet the criteria (\$2,000 USD per unit). Heating and cooling energy volumes are 50% or less of 2006 values.

\*2 Excludes on-site consumption by biomass generation businesses and offices in New Zealand where the whole country is expected to use 100% renewable energy from 2030 onwards.

Since founding, Sumitomo Forestry Group has been developing its business centered on wood, and will continue to propose further utilization of wood in the fields of forest, wood, and architecture. With respect to forest, we will promote zoning forest management to expand protected forests that absorb carbon dioxide and accelerate logging and replanting of economic forests that promote carbon storage. Carbon offset contributes to decarbonization of other companies and society, and realizes sustainable business. Regarding timber, we will promote long-term carbon storage value of timber, enhance competitiveness of domestic timber, and promote wooden construction and wood conversion of buildings. In architecture, we will contribute to decarbonization of society as a whole by promoting decarbonized architecture by establishing and standardizing decarbonization design methods such as promoting LCCM housing and net-zero carbon buildings in Japan and overseas.

Sumitomo Forestry Group which provides the value of wood, will steadily implement SBTs based greenhouse gas emissions reduction targets, including the achievement of the RE100.

### Material issues 3



#### To realize a circular bioeconomy by leveraging forests and wood resources

Realizing a circular society by making the most of wood, a renewable and natural resource from the forest ecosystem.

Recycling ratio  
New housing construction sites **95.1% ▶ 98%**  
Housing demolition work sites **94.6% ▶ 100%**

Number of EPD acquisition proposals to suppliers  
A total of **65 suppliers / 71%\***

\* Percentage of purchase amount

Against the background of concerns about resource depletion, biodiversity loss, and environmental pollution caused by harmful substances and marine plastics, it is necessary to build a circular economy that thoroughly recycles resources and makes effective use of resources. Circular economy is an economic model that aims to design products and services that reduce environmental burdens such as disposal and pollution, and to continue to circulate the raw materials and products at a high level.

Sumitomo Forestry Group realizes a circular bio-economy centered on wood in Japan by running a wood cycle that cascades wood, which is a renewable and sustainable natural resource, in the forest, wood, architecture, and the field of energy such as biomass power generation and increasing the value of wood resources. For resources other than wood, we will strive to control, reuse, and recycle waste. We will also continue to investigate sustainability of the supply chain for the sustainable use of resources.

## Value for people and Society

### Material issues 4



#### To provide comfortable and secure spaces for society at large

Providing safe, comfortable and secure spaces to society at large.

Surveys conducted when owners move in (NPS score\*)  
**50.9% ▶ 53.0%**

\* NPS (Net Promoter Score). A new indicator used to measure customer loyalty (trust and attachment to a company or brand).

As various social issues such as human rights issues such as discrimination and poverty, intensification of disasters, and the spread of infection with the new coronavirus become apparent, the tendency toward well-being has increased, and people's living spaces, especially homes, are required to be safe, secure, comfortable and warm.

Sumitomo Forestry Group strives to improve customer satisfaction by setting "We provide high-quality products and services that bring joy to our customers." in the Code of Conducts, and focusing on providing high-quality products that give a sense of security, safety, comfort and warmth to many customers, focusing on newly built detached houses and remodeling.

### Material issues 5



#### To improve the livelihood of the local communities where we operate

Creating jobs through our businesses and contributing to the development of local communities.

OBT Ltd.\* Recruitment of local human resources to increase volume of logs produced  
**57 people (total)**

\* Open Bay Timber Ltd.

Both in Japan and abroad, regions where forest businesses are operated are far away from major urban areas, and economic and cultural disparities are often seen even within each country. Especially in developing countries, infrastructure such as roads, hospitals, schools and markets may not even be in place. In Japan, even in urban areas, super-aging is progressing, and there are concerns that quality of life of the elderly will decline, along with inactivation of the entire city due to shrinking household size and increase in vacant lands and vacant houses.

Sumitomo Forestry Group is actively contributing to development of social infrastructure required in each region, in addition to hiring local human resources and increasing employment, particularly in the forest business in developing countries. In Japan, first of all, in urban areas, we will expand provision of high-quality elderly care facilities and nursing care facilities where the warmth of wood can be felt, for the elderly who are also socially vulnerable. In rural areas, we will develop businesses that contribute to regional revitalization while emphasizing communication with local stakeholders.

### Material issues 6



#### To create a vibrant environment for all workers

Creating a work environment where everyone throughout the supply chain is safe, healthy and motivated.

Ratio of female executives (Sumitomo Forestry alone) **10.7% ▶ 19.4%**

Percentage of men taking childcare leave (Sumitomo Forestry alone) **50.4% ▶ 100%**

In order to achieve sustainable business growth, it is important to create an environment where people involved can thrive. Foundation of a fair work environment is that everyone in the supply chain accepts diversity, including race, religion, ethnicity, nationality, and gender, and respects human rights without discrimination. We must also respect work-life balance, which emphasizes lifestyle of each individual. In addition, there is a possibility that serious occupational accidents may occur in the forest business or Housing and Construction Business, and sufficient measures are necessary.

Sumitomo Forestry Group sets "We promote a free and open-minded corporate culture that respects diversity" as one of Code of Conduct, and also make Declaration on Health Management that it strives to maintain and improves physical and mental health of all employees and their families so that they can work healthily and actively. In the future, with the utmost emphasis on continuous improvement of employee satisfaction, we will work on multi-faceted and concrete targets such as realization of diversity, prevention of harassment, elimination of occupational injuries, and improvement of retention rate and number of obtained qualifications.

## Value for the market economy

### Material issues 7



#### To create new markets with forests and wood

Creating new markets that enrich the economy through the resourceful use of forests and wood.

Number of contracts with joint research partners  
(Number of contracts, percentage of all topics)  
35 contracts, 48.6% ▶ 38 contracts, 54.0%

Utilization of forests and wood is emphasized in order to enrich the economy while solving various environmental and social issues such as realization of a decarbonization society and a circular economy, conservation of biodiversity, and respect for human rights. In order to deepen and expand utilization of wood and activate functions of forests, creation of new markets that utilize them is also the key. Sumitomo Forestry Group will expand its medium- and large-scale wooden construction business globally while challenging many issues such as technology, legal regulations, and cost relating to construction such as structure, fire resistance, production, and environment. In addition, in order to develop various new technologies, new products, and new markets that utilize "wood" and "forests," we will promote research and development that emphasizes collaboration with the outside world without being bound by our own technology.

### Material issues 8



#### To transform markets through DX and innovation

Enhancing economic efficiency and added value through business transformation brought about by DX and innovation.

Number of facilities in the elderly care business where sensor devices have been installed  
18 facilities ▶ 19 facilities

In the fields of forestry and wooden construction business, where tradition and experience have been emphasized, it is necessary to raise economic efficiency and increase added value through market reforms such as DX and innovation, in view of the situation such as decrease and aging of main players, technological advancement and globalization, and future demand expansion. Sumitomo Forestry Group aims to ensure quality and quantity of wood resources and provide them with high added value by improving efficiency of sales activities and supply chains through DX and innovation. In the field of elderly care business, which faces similar challenges, we will introduce innovations to create added value and improve operational efficiency, such as user safety and security for users.

### Material issues 9



#### To establish a robust business structure

Contributing to a stable economy by continuously providing value with a structure that is resilient to contingent circumstances.

TCFD\* scenario analysis and disclosure  
Implemented for two divisions:  
domestic housing business and timber and building materials business

▼  
We will consider reflecting Group countermeasures in the strategies for each business division in the next medium-term management plan.

\* TCFD stands for Task Force on Climate-related Financial Disclosures. It is a task force created at the direction of the Financial Stability Board (FSB) for disclosing climate-related financial information, and it presents a framework for companies to voluntarily disclose information on climate-related risks and opportunities.

Building a strong business system is important for a company to carry out sustainable business as the crisis that has a great impact on the economy such as intensification of natural disasters, spread of unknown infectious diseases such as the new coronavirus, and financial and geopolitical risks continues worldwide. Continuing business even in the face of unexpected events also contributes to stability of the industry and market as a whole. Sumitomo Forestry Group will not only build a Business Continuity Management (BCM) system to provide stable value even in the event of unexpected events, but will also aim to strengthen supervisory function of the Board of Directors during normal times, and prompt strengthening of the governance and information security of expanding overseas affiliated companies. With respect to climate change and natural disasters, we will continue to analyze scenarios based on TCFD Proposal to build a strong business.

Visit our website for further details about the nine material issues and other indicators.

<https://sfc.net/english/sustainability/management/materiality1.html>



## Mitigation of Climate Change

As the impact of climate change becomes more urgent globally, companies are being asked to reduce their emissions of greenhouse gases as a measure to counter global warming. The Sumitomo Forestry Group submitted a commitment letter to SBTi\* to establish an SBT for the entire Group in June 2017. The new set of long-term greenhouse gas reduction targets has been approved as SBT by SBTi in July 2018. In October 2018, the IPCC (Intergovernmental Panel on Climate Change) "1.5°C Special Report" was published, which reports the latest scientific findings on global warming. In the latter half of this century, it became clear that there is a big difference in the impact on the global environment between suppressing the rise in average temperature of the earth from before the Industrial Revolution to 2°C and 1.5°C. The SBT Initiative changed the SBT certification standard to two types of greenhouse gas emission

reduction targets in which the global average temperature rise becomes a level of 1.5°C, well below 2°C compared to that before the Industrial Revolution in April 2019 in response to the trend of the "1.5°C Special Report" (applicable from October 2019). In September 2021, we submitted an application to the SBT Secretariat to enhance our Scope 1 and 2 greenhouse gases emissions reduction targets from the previous 21% reduction to a 54.6% reduction, with 2030 as the target year, in order to expedite our initiatives. Our greenhouse gases emissions reduction targets (SBTs) are explained below.

\* The SBT initiative was established in 2015 by four organizations (The United Nations Global Compact (UNGC), CDP, World Resources Institute (WRI), World Wide Fund for Nature (WWF)) for the purpose of promoting GHG emission reduction targets based on scientific data in order to keep global warming to below 2°C compared to pre-industrial levels.

### SBTs (Science Based Targets)



#### 2°C target (Approved)

Scope 1<sup>\*1</sup> · 2<sup>\*2</sup>  
21% reduction of greenhouse gas emissions compared to 2017 (base year) by 2030.

Scope 3<sup>\*3</sup>  
16% reduction of total greenhouse gas emissions from Category 1 and Category 11<sup>\*4</sup> compared to 2017 (base year) by 2030.

#### 1.5°C target (submitted)

Scope 1 · 2  
54.6% reduction of greenhouse gas emissions compared to 2017 (base year) by 2030.

Scope 3  
16% reduction of total greenhouse gas emissions from Category 1 and Category 11 compared to 2017 (base year) by 2030.

- \*1 Direct GHG emissions of a company, including those from fuel consumption. For example, CO<sub>2</sub> emissions from using gasoline in company vehicles.
- \*2 Indirect GHG emissions (including CH<sub>4</sub> and N<sub>2</sub>O) from purchased electricity and heat. For example, CO<sub>2</sub> emissions from using electricity in office buildings.
- \*3 GHG emissions occurring in the supply chain. For example, CO<sub>2</sub> emissions when sold products are used.
- \*4 Category 1 (in Scope 3): GHG emissions when harvesting, manufacturing, or transporting purchased (or acquired) goods and services. Category 11 (in Scope 3): GHG emissions when using sold goods and services.

### Progress on Reaching Our SBTs

	Fiscal 2017 (Base year) <sup>*1</sup>	Fiscal 2021 <sup>*1</sup>
Scope 1 · 2: 54.6% reduction of greenhouse gas emissions compared to 2017 (base year) by 2030.	369,785t-CO <sub>2</sub> e	370,772t-CO <sub>2</sub> e
Scope 3 <sup>*2</sup> : 16% reduction of total greenhouse gas emissions from Category 1 and Category 11 compared to 2017 (Base year) by 2030.	8,895 thousand t-CO <sub>2</sub> e	8,992 thousand t-CO <sub>2</sub> e

\*1 The calculation period for emissions in fiscal 2017, was April 2017 to March 2018, and the calculation period for total emissions in fiscal 2021 was January to December 2021.

\*2 Scope 3 emissions increased due to a higher number of units sold and handed over in the overseas housing and real estate business and the addition of COHNAN KENSETSU INC. to the Sumitomo Forestry Group.



## Sustainability initiatives

### Aiming for 100% Renewable Energy used and Joining the RE100

The Sumitomo Forestry Group positions reduction of environmental impact of our business activities as one material issue that needs to be addressed and strives to engage in energy-saving activities and use of renewable energy. As part of these initiatives, we joined the

international RE100\* initiative that aims for 100% of electricity used to be from renewable energy in March 2020 to accelerate our efforts to reduce greenhouse gases.

\* RE100 is an international initiative run jointly by The Climate Group, a global environmental NGO, and the CDP. As of January 2022, 290 companies worldwide are members, of which 50 companies are Japanese.

**By 2040, we aim to utilize 100% renewable energy for the electricity used for our Group business activities and for the fuel for our power generation operations.**

#### Toward to the RE100 targets

In fiscal 2021, amount of renewable energy introduced in the electricity used in Sumitomo Forestry Group's business activities resulted in 17.2% which is the total amount of electricity used by the entire Group such as solar panels installed in housing exhibition halls and for private use of power generated by biomass power plants (including adjacent wood chip manufacturing plants for fuel), etc. In addition, ratio of biomass-derived fuel to the fuel consumption of the power generation business is 88.5% (calorific value conversion). In the Medium-Term Management Plan Sustainability 2024 announced in February 2022, we have set a goal of reaching a renewable energy introduction rate of 35.1%\* in power consumption of the Group's business activities in fiscal 2024, with the aim of achieving the part of RE100, which could be achieved by our own efforts by 2030.

#### Progress on Reaching RE100

In order to derive 100% of the electric power used in our business activities from renewable energy, we are examining the use of "Sumirin Denki," a service where we purchase surplus power as well as supply electricity generated from solar power systems of homes delivered by Sumitomo Forestry, and installing solar power generation systems in our plants inside and outside Japan. Furthermore, we will consider a diverse range of procurement methods that take advantage of programs in each country we operate as we aim to use 100% renewable energy.

\* Excludes on-site consumption by biomass generation businesses and offices in New Zealand where the whole country is aiming to be RE100 by 2035 (FY 2021 results: 2.6%)



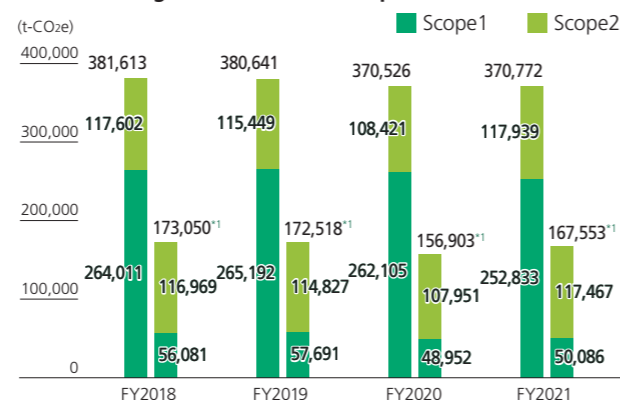
### Greenhouse gas emissions by Scope, based on the GHG Protocol

Since the fiscal year ended March 2013, we have obtained quantitative data for each scope that conforms to the GHG Protocol, the widely used global greenhouse gas measurement standard. In light of increasing demand for renewable energy in recent years, the Group made entry into the biomass power generation business in 2011. In fiscal 2021, Scope 1 and Scope 2 emissions remained at mostly unchanged year-on-year. Of the total for Scope 1 and 2 greenhouse gas emissions recognized under the GHG Protocol, overseas plants emitted 30.8%, while domestic plants and the power generation business accounted for 56.7%.

We also started to calculate Scope 3 in fiscal 2013 and the targets for this calculation largely expanded in fiscal 2015 and fiscal 2017. Among these results, the impact in category 11, "emissions during use of detached houses sold," is acknowledged to be a major factor, and the increase in residential and construction operations in fiscal 2020 of Net Zero Energy House (ZEH) projects is expected to reduce CO<sub>2</sub> emissions volumes while the homes are in use.

In the future, we will work to meet the SBTs in an effort to take greenhouse gas emissions reduction to another level.

#### Greenhouse gas emissions for Scopes 1 and 2 \*\*1,2



\*1 Excludes figures for the power generation business (Mombetsu Biomass Power Plant and Hachinohe Biomass Power Plant)

\*2 The calculation period for total emissions in the fiscal year ended December 2020 was January to December 2020, and the calculation period for every previous fiscal year was April of that year until March of the subsequent year.

## Response to TCFD

The Sumitomo Forestry Group is aware of the risks and opportunities that accompany climate change. In July 2018, we announced our support for the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures) established by the Financial Stability Board. In that same year, we conducted our first scenario analysis, based on the recommendations of the TCFD. It covered the timber and building materials business and the housing and construction business, and it assessed the risks and opportunities posed to the Group by climate change issues, and the

resilience of its strategies. In 2019, we began disclosing information according to the TCFD's recommended framework.

Additionally, in 2021, we performed a scenario analysis for the environment and resources business and the overseas housing and real estate business, improving the level of the Sumitomo Forestry Group's scenario analysis disclosures.



### Information disclosure based on the TCFD framework

#### Governance

- The Sustainability Committee analyzes medium- to long-term ESG issues including climate change-related risks and opportunities. It also plans and advances initiatives related to these issues and manages the progress of medium-term sustainability targets.
- Chaired by the President and Executive Officer, the committee meets four times a year. It works to promote integration of businesses and ESG initiatives, and all discussions are reported to the Board of Directors.
- In February 2022, the executive remuneration system was partly revised. In addition to increasing the link between medium- to long-term performance and higher corporate value, we also introduced remuneration linked to the sustainability index achievement rate. The remuneration was specifically tied to the rate of achievement of greenhouse gas emissions reduction targets based on the SBTs.

#### Strategies

- In response to the "Global Warming of 1.5 °C" special report and the "Sixth Assessment Report" issued by the Intergovernmental Panel on Climate Change (IPCC), society's expectations are mounting about the function of forests as a way to absorb CO<sub>2</sub> and stock carbon, about timber production and wood construction as a way to stock carbon and reduce CO<sub>2</sub> emissions, and about the use of unused timber from forests as biomass power generation fuel.
- One of the business policies we established in the long-term vision we announced in February 2022 is "Maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy," and we are pursuing opportunities to that end.
- The relevant division at headquarters and each division work together to expose risks and opportunities. In 2021, we performed a scenario analysis for the overseas housing and real estate business and the environment and resources business. (See page 83)
- Started working on countermeasures in the medium-term management plan, and further studies are ongoing.

#### Risk management

- Evaluate risks for climate change-related items such as greenhouse gas emissions, biodiversity and water for all matters deliberated on by the Board of Directors and the Executive Committee, an advisory body to the president.
- The progress of indicators incorporated in the medium-term sustainability targets is checked every quarter and reported and confirmed by the Sustainability Committee twice a year.
- For risks that may arise in the short-term in day-to-day operations, each department decides on specific measures and assessment indicators and delivers a progress report every quarter to the Risk Management Committee.

#### KPIs and targets

- Group companies and divisions set annual targets based on the medium-term sustainability targets that include SBTs and RE100. (See page 80-81)



## TCFD Scenario Analysis

### Identification and measures for environmental risk

The first scenario analysis, conducted in 2018, analyzed the business risks and opportunities posed by climate change for the wood building materials and housing and construction industries, using two scenarios in which average global temperature increases are less than 2°C and 4°C, respectively, compared to that of pre-industrial times, and disclosed relevant information. For 2021, we conducted scenario analysis for the resources and environment business, as well as the overseas housing and real estate business. We considered at the situation in 2030 using two scenarios: the 4°C scenario, in which no progress is made in tackling climate

change in order to enhance transparency, and the 1.5/2°C scenario, in which progress is made in transitioning the company toward decarbonization.

The relevant departments and each division of our Company collaborated to identify risks and opportunities, conducted financial impact assessments, and discussed countermeasures for items that were identified as significant risks and opportunities. In 2018 and 2021, the subject businesses for which scenario analysis was conducted accounted for approximately 98% (as of FY2021) of the net sales of Sumitomo Forestry Group. Results of the scenario analysis are presented to the ESG Promotion Committee and the Board of Directors, and additional initiatives are outlined in the Mid-term Sustainability Targets.

	Transition risks	Physical risks	Opportunities
Timber and building materials business	<ul style="list-style-type: none"> <li>Increased timber procurement costs due to the tightening of regulations such as forest protection policies and logging regulations in various countries</li> <li>Increased fuel (wood chip) costs as a result of higher demand for biomass power generation due to changes in the energy mix</li> </ul>	<ul style="list-style-type: none"> <li>Increased timber procurement costs caused by forest fires and tree disease-bearing pests accompanying a rise in average temperature</li> <li>Decreased sales due to the stoppage of operations at plants caused by intensified weather abnormalities</li> </ul>	<ul style="list-style-type: none"> <li>Increased demand for biomass power generation businesses and fuel chips as a result of tightening regulations on fossil fuels</li> <li>Increased demand for wood that does not require a lot of energy for manufacturing and processing and that can suppress the emission of greenhouse gases</li> </ul>
Housing and construction business	<ul style="list-style-type: none"> <li>Increased timber procurement costs due to the tightening of regulations such as forest protection policies and logging regulations in various countries</li> <li>Increased costs for complying with policies such as the Building Energy Efficiency Act</li> </ul>	<ul style="list-style-type: none"> <li>Increased construction costs if a large-scale natural disaster occurs due to construction time delays and reconstruction activities to restore facilities owned</li> <li>Decreased outdoor work efficiency due to an increase in extremely hot days, leading to increased costs due to construction time delays and maintaining and enhancing employee health management</li> </ul>	<ul style="list-style-type: none"> <li>Increased demand for environmentally-friendly homes such as ZEH due to tightened regulations aimed at decarbonization and greater market need for decarbonization products</li> </ul>
Overseas housing and real estate business	<ul style="list-style-type: none"> <li>Increased costs for complying with carbon taxes introduced</li> <li>Increased construction costs due to stricter building standards</li> </ul>	<ul style="list-style-type: none"> <li>Increased costs for land acquisition, construction and development due to intensified weather abnormalities. Change in demand to less-affected areas</li> <li>Increased construction costs due to construction time delays</li> </ul>	<ul style="list-style-type: none"> <li>Increased demand for environmentally-friendly homes and medium- and high-rise wooden construction due to tightening decarbonization regulations</li> </ul>
Environment and resources business	<ul style="list-style-type: none"> <li>Increased operating costs due to the introduction of carbon taxes and environmental regulations and the tightening of logging regulations</li> <li>Increased costs as a result of more efficient resource use and production, and the development and introduction of low-carbon technologies</li> </ul>	<ul style="list-style-type: none"> <li>Increased risk of lost sales opportunities due to damage to forests caused by an increase in pest and wild animal damage triggered by intensified weather abnormalities</li> <li>Increased risk of forest fires due to a rise in air temperature</li> </ul>	<ul style="list-style-type: none"> <li>Increased demand for timber that does not require a lot of energy for manufacturing and processing and that can suppress the emission of greenhouse gases</li> <li>Greater credit income due to growth in wood biomass power generation demand and more active forest carbon credit transactions</li> </ul>

 Response to TCFD <https://sfc.net/english/sustainability/environment/climate-change/>

### Opportunities and strategies related to climate change

#### Expand sales of homes in tune with government's net zero-energy house promotion

In response to the Japanese government's ZEH-promotion policies, the Sumitomo Forestry Group has set targets for receiving ZEH orders in our medium-term sustainability targets, and we are proceeding with ZEH sales. By advertising the special feature of Sumitomo Forestry's ZEH, which is the double generation of power using solar panels and ENE-FARM residential fuel cell units, we are creating a competitive advantage and increasing the ratio of ZEH. We have also adopted 360° TRIPLE Insulation as a standard to boost the insulation efficiency of our custom-built detached houses (excluding fire-resistance specifications). We provide highly energy-efficient homes by using highly insulating structural material and windows all-around in our buildings in addition to high-performance thermal insulators.

The 2030 scenario analysis predicts that in the case of the 4°C scenario, the ZEH ratio desired by the government will increase even further, while in the 2°C scenario, the even more energy-efficient ZEH+ will become standardized, and thus the competitiveness of Sumitomo Forestry, which has technological development skill in the housing market, will increase.

#### Expand the need for renewable energy

We can expect our earnings to grow as renewable energy needs increase, resulting in greater demand for fuel chips for biomass power generation. Furthermore, as of June 2021, the Sumitomo Forestry Group was operating five wood biomass power generation businesses in Japan. We also expect the Morinomiya Biomass Plant in Miyagi prefecture to begin operations in November 2023. Once it begins operation, the total power generating capacity of the Sumitomo Forestry Group will be approximately 251.6MW. When converted to power generation according to the equity ratio, this is equivalent to enough power to supply 274,366 households.

In light of the Agency of Natural Resources and Energy's overall policies to achieve the ideal energy mix for 2030, the scenario analysis estimates that the 1.7% rate currently occupied by biomass power generated in Japan's power source composition will rise to 3.7% for the 4°C scenario and 4.6% in the 2°C scenario by 2030. We predict that sales in the Sumitomo Forestry Group's fuel chip supply business will increase accordingly.

#### Promoting medium- and large- scale wooden construction development overseas

To realize a decarbonized society, the Sumitomo Forestry Group is involved in medium- and large- scale wooden construction development overseas. Our medium-term sustainability targets establish goals for expanding medium- and large-scale wooden construction projects (in the United States, Australia and Europe) with the aim of commercializing them in FY 2024.

In October 2021, we announced our participation in the development of a 15-story wooden office in Melbourne, Australia, followed in February 2022 by our participation in an environmentally-friendly six-story wooden office development project in London, UK. In the future, we will continue to be involved in advanced environmentally-related projects and deepen our knowledge of medium-scale wooden construction in Europe and Australia as we work to deploy Net Zero Carbon construction on a global level.

#### Building interest in forest carbon credit

Forests play an important role in achieving carbon neutrality. According to the scenario analysis, as the carbon credit market grows, forest-derived carbon credits will become a new source of revenue for forestry businesses.

In our long-term vision, Sumitomo Forestry has set the goal of contributing to carbon off-setting for society as a whole while establishing forestry funds aimed at securing forestry assets that include carbon credits and other types of new value and developing businesses through forest management and asset management. One of these initiatives will be combining the forest management technology Sumitomo Forestry has cultivated in Japan and overseas with IHI Corporation's observation technology that is used in artificial satellites to perform high-precision water-level management, resulting in advanced forest management that prevents peat fires. Using that knowledge, we plan to establish a consulting business aimed at companies and national and regional governmental organizations trying to stop deforestation or peatland destruction. In our medium-term management plan, we have also set goals to establish a method for calculating the amount of carbon absorbed by forests and work to improve its accuracy, and to increase the percentage of earnings from new forest value creation businesses.



## Human Rights Initiatives

The Sumitomo Forestry Group formulated the Sumitomo Forestry Group Human Rights Policy in July 2019, participates internationally such as in the UN Global Compact and the World Business Council for Sustainable Development (WBCSD), complies with international human rights bills (Universal Declaration of Human Rights and International Covenants on Human Rights), the International Labour Organization (ILO) Core Labour Standards, the Ten Principles of the UN Global Compact and the United Nations Guiding Principles on Business and Human Rights.

In addition, the "Sumitomo Forestry Group Code of Conduct", which is based on these international norms, states respect for human beings and the realization of a healthy workplace. Furthermore, the Sumitomo Forestry Group is permeating these policies and conducts proper assessments to ensure this same level of respect by business partners as well. We are also conducting human rights due diligence and respond to human rights risks in an effort to fully grasp and mitigate any risk to human rights.

 The Sumitomo Forestry Group Human Rights Policy <https://sfc.net/english/sustainability/social/human-rights/>

### Respect for Human Rights at Overseas forestry business

PT. Wana Subur Lestari and PT. Mayangkara Tanaman Industri operate with respect for human rights and the environment, conducting joint surveys with the International Finance Corporation (IFC), a member of the World Bank Group, and interviewing local residents to hear their opinions.

Additionally, Open Bay Timber Ltd. (OBT) in Papua New

Guinea has installed a suggestion box that anyone in the community, including people inside and outside the company, can post in. Being open to consultations from not only employees but also the residents of the surrounding area helps to increase the company's perceived trustworthiness by giving people a way to communicate their thoughts to the company

### Initiatives in Indonesia

#### 2012

Sumitomo Forestry signed an advisory agreement with the IFC. Along with the IFC, we conducted surveys of business locations to understand whether land usage plans at business sites were being properly implemented and adequate consideration is made for the livelihoods of local residents while respecting the rights of indigenous people and protecting cultural assets.

#### 2013 and 2015

Public hearings were held with invitations sent to local residents, neighboring companies, academics, NGOs, government officials and other stakeholders.

#### Since 2018

With help from the IFC, Sumitomo Forestry set up grievance mechanisms at WSL and MTI to collect information and opinions from local residents.

## Implementation of Due Diligence and Managing Important Risks

Through human rights due diligence, Sumitomo Forestry Group identifies factors that may have a negative impact on human rights and works to prevent or reduce them.

### Internal Sustainability Survey of the Sumitomo Forestry Group

Regarding the initiatives of each Group company, in fiscal 2021, a survey was conducted involving 59 Group companies around the world, confirming that 50 companies provided human rights training, 47 companies have systems to handle grievances, and 56 companies have risk mitigation plans in place. Furthermore, there were 0 violations of the Sumitomo Forestry Group Code of Conduct as pertains to human rights.

### Respect for Human Rights Through Sustainability Survey in supply chain.

Sumitomo Forestry Group is conducting fair and responsible procurement under the Sumitomo Forestry Group Procurement Policy. Specifically for timber procurement our group conducts sustainability surveys of all, to ensure that the procurement is performed in a sustainable manner with consideration of legal compliance, human rights, labor practices, biodiversity conservation, and local communities.

### Identifying and Managing Human Rights Risks

In order to strengthen initiatives in human rights due diligence, each business division maps risks associated with stakeholders in value chain and identifies important human rights risks for each group. We identified important risks as follows: The Environment and Resources Division - "Infringing indigenous or community land rights and managing related laws" as well as "Occupational safety and health management in mountain forests (dangerous work, etc.)." The Timber & Building Materials Division - "Infringing indigenous land rights," "Occupational safety and health management at factories (fires, dust explosions, etc.)," and "Child labor at timber plantations (including dangerous operations)." The Housing and Construction Division and the Overseas Housing and Real Estate Division - "Labor conditions of migrant workers (forced labor, etc.)." In addition, we reviewed the mapping in fiscal 2020, considering the impact of spread of new coronavirus infection as a new risk factor.

Regarding the identified risks, we take measures to reduce and correct risks for each business. For example, we have identified more risks in fiscal 2020, of which we have verified the condition of respect for human rights of foreign technical trainees which is the particular importance and of major social interest in Japan. Third-party agencies gathered feedback from partner building contractors and organizations supervising technical trainees, verified

materials, and interviewed technical trainees from overseas learning skills in Japan. As a result, we confirmed there were no major human rights violations. In fiscal 2021, regarding "respect for rights of indigenous peoples and communities," in order to further reduce risks and build better relationships with stakeholders in the business development areas, we confirmed the initiatives and identified places to be corrected regarding the operational status of grievance mechanism in the overseas resource environment business. As a result of online hearings conducted by a third-party organization, we verified that continuous consultations with government agencies and communities have been conducted by operating appropriate greenness mechanisms at three overseas tree planting sites in Indonesia, Papua New Guinea, and New Zealand. On the other hand, it was found that it is necessary to improve initiatives such as expanding external information disclosure and reflecting it in the mechanism through dialogue with rights holders.

We will further establish measures and implementation plans for prevention, avoidance, mitigation, and correction for each stakeholder, and will implement PDCA to improve our initiatives in the future.

\* A system for processing complaints and resolving issues that allows persons or regions that have been damaged to file claims and seek redress over negative impacts related to a company.

## Supply chain management

Sumitomo Forestry Group engage in responsible timber procurement activities in accordance with our Timber Procurement Basic Policy formulated in 2005 and our Timber Procurement Principles and Policies formulated in 2007. In 2015 with the Sumitomo Forestry Group Procurement Policy, we expanded our scope beyond timber to include a wide range of other procured products, such as metals, ceramics, resin and other building materials, and based on this policy, are engaged in procurement activities that take into consideration the economy, society and environment.

### The Sumitomo Forestry Group Procurement Policy (Excerpt)

The Sumitomo Forestry Group utilizes wood as a renewable natural resource in its business operations. To contribute to a sustainable society, we are committed to procurement activities that take into account economic, environmental and societal interests and comply with the following policy:

1. Procurement based on legal and highly reliable supply chains
2. Procurement based on fair opportunity and competition
3. Procurement of sustainable timber and wood products
4. Communication

### Timber procurement management

Sumitomo Forestry Group established the Timber Procurement Committee, chaired by the officer in charge of sustainability promotion at Sumitomo Forestry (director and managing executive officer) and comprising managers from departments in charge of timber procurement. The committee discusses issues related to group-wide timber procurement, including procurement standards and risk assessments for illegal logging.

In fiscal 2021, the Timber Procurement Committee met four times to confirm the legality and conduct a "Sustainability Survey" for all 192 directly-imported suppliers subject to screening and

suppliers with whom overseas Group companies (distribution) do business. Regularly (once a year or once every two years), we confirm legality and sustainability of both new and ongoing parties we conduct business with.

### Initiatives for enabling sustainable timber procurement

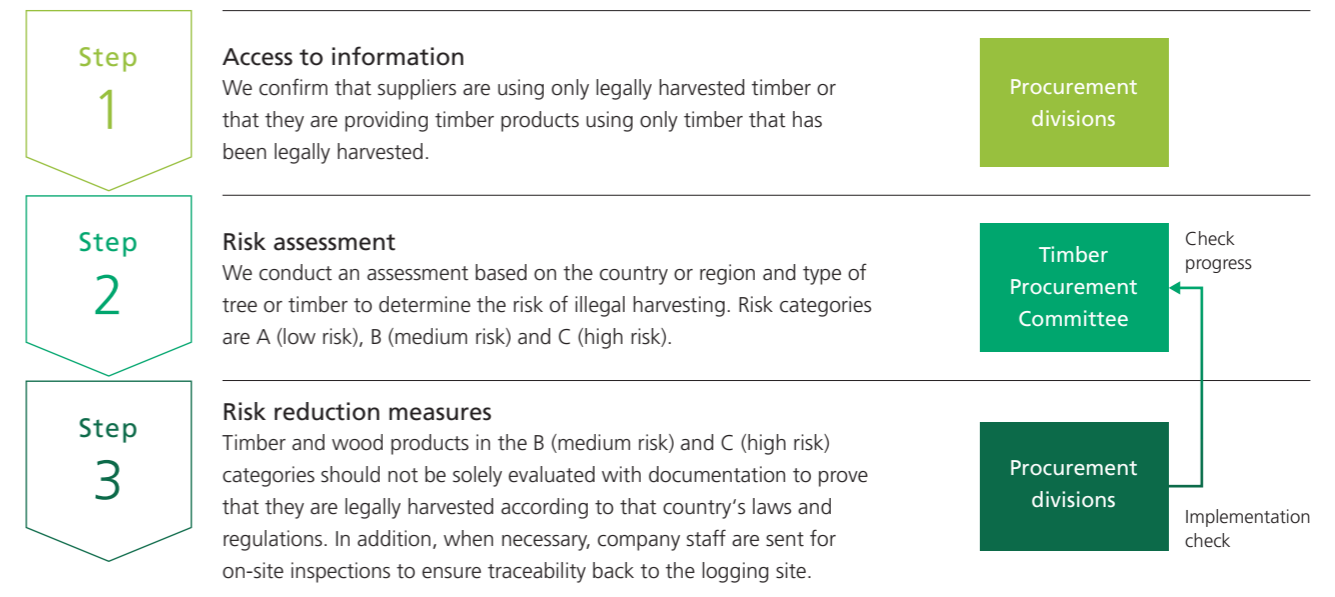
Based on the Sumitomo Forestry Group Procurement Policy, the Group carries out due diligence to ensure the legality of our timber procurement and to ensure that sustainable timber procurement is being put into practice, including considerations for human rights, labor practices, biodiversity preservation and local communities. Each division that procures timber reports to the Timber Procurement Committee on the progress with this due diligence, and works to promote continual improvement in the supply chain.

### Consideration for Biodiversity Conservation, Labor Practices and Human Rights, and Local Communities

Following items are checked, through Sustainability Procurement Surveys to suppliers and local interviews for the products that are being procured.

- Whether the rights of workers, local and indigenous community are abused in the area where we procure the products and their raw materials from. If this is the case, whether suppliers check their logging practices take place with consideration for these rights.
- Whether the high conservation values forests are included in the area where we procure the products and their raw materials from. If this is the case, whether suppliers check their logging practices with consideration to forests with high conservation value.

In fiscal 2021, the final year of the Sustainability Chapter 2021 of the Medium-Term Management Plan, we strengthened our scrutiny of our suppliers' procurement to achieve 100% sustainable wood procurement, and developed due diligence on the sustainability of wood and biomass fuels such as PKS and pellets.



\* In addition, issues other than legality are verified via questionnaires and/or interviews

### Strengthening sustainability initiatives for timber and wood products

Amid growing concerns over deforestation as a factor in climate change, the Sumitomo Forestry Group established a new Action Plan in May 2019, in addition to its own timber procurement due diligence mechanism. We have reinforced and newly implemented sustainability evaluation standards for timber procurement.

In FY 2021, the rate of sustainable timber and timber products we handled throughout the year was 97.8%, but after discussions with business partners that did not meet our procurement standards, we switched to certified timber, and in September 2021 we canceled our contracts with suppliers who could not guarantee sustainable timber, achieving a 100% rate of handling for sustainable timber and timber products on a contract basis. We will continue to ensure that we procure only sustainable timber.

### Policy on "Sustainable Timber and Wood Products"

To confirm the legality as precondition, we define timber and wood products as sustainable if they fulfill one of the following:

**Sustainable = Environmental: No contribution to deforestation  
Social: No violation of human rights such as occupational safety, forced labor, indigenous rights, etc.**

- 1 **Certified timber and pre-certified timber: FSC, PEFC, and SGEC**  
(Regardless of CoC connection, we place emphasis on certification at time of production and promote a shift to certified timber)
- 2 **Timber from plantation forests**
- 3 **Natural timber where forestry management and distribution can be assessed as sustainable.**  
(This does not include timber from conversion forests. = timber harvested from natural forests that were converted to farm land such as oil palm plantations)
- 4 **Recycled wood**



## Diversity & inclusion

### Activities for diverse talent acquisition

The Sumitomo Forestry Group advocates the promotion of a free and open-minded corporate culture that respects diversity as one of the principles in Our Values. According to internationally accepted human rights norms, we shall of course respect equal opportunity and diversity as well as respect the human rights of all individuals, including women, children, indigenous people, minorities and vulnerable people in the employment and treatment of employees as stated in the Sumitomo Forestry Group Code of Conduct. We have also defined “a vibrant work environment where a diverse workforce can unharness their skills and individuality” as one material issue for sustainability. As part of the specific strategies and goals set in the Mid-Term Sustainability Targets, we aim to create a work environment that generates diverse ideas, job satisfaction and vibrancy as well as secure human resources by training younger workers and utilizing older ones, which we incorporate into our management practices through inclusion in annual activity policy

### Employment and promotion of women (non-consolidated)

	FY2018	FY2019	FY2020	FY2021
Ratio of female employees <sup>*1</sup>	21.0%	21.6%	22.0%	22.6%
Ratio of female employees in management positions <sup>*1</sup>	3.7%	4.2%	4.8%	5.6%
Ratio of newly graduated female recruit <sup>*2</sup>	24.8%	26.9%	30.2%	26.9%

\*1 The ratio of female employees and the ratio of female employees in management positions are calculated from the number of employees enrolled on March 31 of each year from fiscal 2018 to fiscal 2019. The rate is calculated based on the number of employees as of December 31 due to the change in the accounting period after fiscal 2020.

\*2 The rate of new female graduates is calculated based on the number of employees joining the Company as of April 1 each year.

### Status of female recruitment / Employment (domestic subsidiaries)

	FY2018	FY2019	FY2020	FY2021
Ratio of female employees <sup>*1</sup>	32.0%	32.7%	32.4%	34.4%
Ratio of female employees in management positions <sup>*1</sup>	6.0%	6.1%	7.1%	8.4%
Ratio of newly graduated female recruit <sup>*2</sup>	43.5%	45.7%	43.4%	35.1%

\*1 Based on the number of employees as of March 31 each year.

\*2 Based on the number of employees joining the Company as of April 1 each year.

and measures for each department. In recruitment activities, the Company emphasizes the ambition and volition of the applicant, and does not differentiate the selection processes according to academic background or gender. At Group companies outside Japan, the employment of local staff is actively promoted, and talented personnel are employed and promoted to management positions, irrespective of race, age, or gender.

As for the disciplinary punishment and dismissal of employees, if there has been a compliance violation, the employee will be dealt with appropriately in accordance with Employment Regulations. We have also put in place a system to prevent unfair dismissals.

Recently, talent acquisition has been recognized as one of the major management issues for management in Japan triggered mainly by low birth rate and thereby aging population. Sumitomo Forestry communicates this type of approach with potential employees during recruitment and expands supportive programs to foster diverse work styles and performance of female employees in effort of acquiring valuable, next-generation talent.

### Status of female recruitment / Employment (overseas subsidiaries)

	FY2018	FY2019	FY2020	FY2021
Ratio of female employees <sup>*1</sup>	32.0%	30.2%	30.8%	30.0%
Ratio of female employees in management positions <sup>*1</sup>	16.0%	17.1%	19.5%	20.9%
Ratio of newly graduated female recruit <sup>*2</sup>	—	—	38.7%	32.8%

\*1 Based on the number of employees as of December 31

\*2 Based on the number of employees joining the Company From January to December

### Employment of persons with disabilities\* (non-consolidated)

	FY2018	FY2019	FY2020	FY2021
Employment ratio of persons with disabilities	2.32%	2.40%	2.25%	2.38%

\* Calculated as of March 31 for the fiscal years from 2016 to 2019, and as of December 31 for fiscal 2020 due to a change in the accounting period. Also the calculation includes special subsidiary company Sumirin Wood Peace Co., Ltd. and Group affiliate Sumirin Business Service Co., Ltd.

### Employment of persons with disabilities\* (domestic subsidiaries)

	FY2018	FY2019	FY2020	FY2021
Employment ratio of persons with disabilities	1.76%	1.77%	1.85%	2.04%

\* Calculated as of June for every fiscal years


## Promoting health management

### Initiatives to maintain and improve employee health

At the Sumitomo Forestry Group, we believe that maintaining and improving the health of employees in a company firstly contributes to the happiness of the employees as individuals and also leads to increased productivity and greater work efficiency. Based on that belief, on October 1st, 2021, we established the Sumitomo Forestry Group Declaration on Health Management. Sumitomo Forestry places and keeps clinical psychologists and public health nurses in the Healthcare Promotion Team in the Workstyle Diversification Department in the Personnel Department. We also undertake a variety of initiatives aimed at maintaining and improving employee health, starting with health management self-care training during new employee training and including publishing articles and information about health-related events on the intranet.

We use an appointment system for regular physical examinations which are crucial for disease prevention, and we maintain a medical examination rate of 100%. Furthermore, we ensure that business sites with a small number of workers also have a system where they can consult occupational physicians and public health nurses for regular checkups, or consult them about overwork and follow-up measures for stress checks. For example, business sites with 50 or fewer employees have an assigned occupational physician.

Additionally, when staff are posted abroad, we check their health examination results before they leave and after they return, discuss the results with the persons in question, listen to their thoughts on the status of their health and offer advice.

 [Sumitomo Forestry Group Declaration on Health Management https://sfc.jp/english/corporate/philosophy/healthmanagement.html](https://sfc.jp/english/corporate/philosophy/healthmanagement.html)

### Practicing mental healthcare

Based on the Guideline on Maintaining and Improving Mental Health of Workers formulated by the Ministry of Health, Labour and Welfare, Sumitomo Forestry offers four different kinds of care for mental health: self-care, care provided by line managers, care provided by occupational health staff within the workplace, and care using resources from outside the workplace.

Since April 2013, an employee who is a qualified clinical psychologist has cooperated with an external provider of the Employee Assistance Program (EAP)\* to provide follow-up support and help in returning to work for individuals with mental disorders.

\* Employee Assistance Program (EAP) : A workplace mental healthcare service.

### Using stress checks

We use websites and other resources to conduct stress checks and help all employees in Japan (excluding employees on long-term leaves of absence from work such as those undergoing medical treatment or on childcare leave) prevent mental disorders.

In FY 2021, to verify our strategic policy and improve the working environment, we added items that measure health reasons and psychological safety, such as illnesses and symptoms that affect work performance, to the stress check items. Moreover, as a follow-up measure, we distributed the individual organizational analysis results sheet to business sites and organized Stress Check Results Feedback Training for all general managers to help raise their awareness about creating livelier workplaces. Departments with issues received individual consultations to help them improve their working environments. Furthermore, we added a new “healthcare” category to e-learning, enriched the content intended to help each employee cultivate a healthier mind and body and are working to increase health literacy.

### Results of mental disorder prevention measures

	FY2018	FY2019	FY2020	FY2021
Stress check response rate (%)	91.6%	93.3%	96.4%	94.5%

## Eleven-year consolidated financial summary

	2021/12	2020/12(9M)	2020/3	2019/3
<b>Operating results:</b> (¥ million)				
Net sales	¥1,385,930	¥ 839,881	¥1,104,094	¥1,308,893
Gross profit	321,994	191,323	242,689	232,146
Selling, general and administrative expenses	208,344	143,862	191,312	182,899
Operating income	113,651	47,462	51,377	49,247
Recurring income	137,751	51,293	58,824	51,436
Net income attributable to shareholders of parent / Net income	87,175	30,398	27,853	29,160
Recurring income (excluding actuarial differences)	134,491	46,470	61,396	54,846
<b>Financial position:</b>				
Total assets	¥1,314,226	¥1,091,152	¥1,004,768	¥ 970,976
Working capital *1	470,909	297,669	273,167	236,047
Interest-bearing debt	302,763	302,933	268,491	248,885
Net assets	540,089	399,456	357,064	353,489
<b>Cash flows:</b>				
Cash flows from operating activities	¥ 91,576	¥ 46,840	¥ 45,724	¥ 40,689
Cash flows from investment activities	(40,254)	(44,635)	(38,874)	(71,659)
Cash flows from financing activities	(7,029)	(6,782)	1,142	11,523
Cash and cash equivalents at the end of the year	170,035	122,220	112,565	105,102
<b>Capital investment:</b>				
Property, plant and equipment *2	¥ 21,844	¥ 18,124	¥ 32,414	¥ 17,071
Intangible fixed assets	3,892	2,989	3,470	3,173
Others	2,488	2,834	2,267	2,088
Total	28,224	23,946	38,151	22,331
Depreciation and amortization	16,491	11,503	14,388	13,696
<b>Per share data</b> (¥)				
Net income	¥ 457.69	¥ 167.54	¥ 153.54	¥ 160.80
Net assets	2,479.76	2,025.13	1,777.57	1,755.06
Cash dividends	80.0	35.0	40.0	40.0
<b>Financial ratios:</b> (%)				
Gross profit margin	23.2	22.8	22.0	17.7
Operating income margin	8.2	5.7	4.7	3.8
Recurring income margin	9.9	6.1	5.3	3.9
Return on assets (ROA)*3	11.5	4.9	6.0	5.5
Return on equity (ROE)*3	20.2	8.8	8.8	9.3
Equity ratio	37.7	33.7	32.1	32.8
Interest-bearing debt ratio*4	37.9	45.2	45.4	43.9
Current ratio	211.9	178.3	175.3	163.2
Interest coverage ratio (times)*5	39.7	24.9	16.9	20.1

\*1 Working capital = Current assets - Current liabilities

\*2 From the fiscal year ended March 2009, leased assets have been included among property, plant and equipment in accordance with a change in the accounting standards for lease transactions.

\*3 ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.

\*4 Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders' equity)

\*5 Interest coverage ratio (times) = Cash flows from operating activities / Interest payments

	2018/3	2017/3	2016/3	2015/3	2014/3	2013/3	2012/3
Net sales	¥1,221,998	¥1,113,364	¥1,040,524	¥997,256	¥972,968	¥845,184	¥831,870
Gross profit	219,315	204,138	183,134	169,492	160,162	141,436	136,873
Selling, general and administrative expenses	166,294	150,149	153,041	135,498	126,747	116,105	117,682
Operating income	53,021	53,989	30,093	33,994	33,415	25,330	19,191
Recurring income	57,865	57,841	30,507	36,424	33,567	26,981	20,714
Net income attributable to shareholders of parent / Net income	30,135	34,532	9,727	18,572	22,531	15,923	9,271
Recurring income (excluding actuarial differences)	55,574	52,860	42,038	36,681	34,586	26,630	25,631
Total assets	¥ 899,120	¥ 794,360	¥ 710,318	¥665,538	¥645,197	¥547,973	¥503,496
Working capital *1	209,506	190,386	178,215	158,110	120,725	91,335	94,509
Interest-bearing debt	200,630	163,817	119,069	103,369	92,975	69,229	67,923
Net assets	345,639	295,857	265,257	260,782	226,078	193,250	169,335
Cash flows from operating activities	¥ 13,732	¥ 40,337	¥ 45,705	¥ 14,709	¥ 54,057	¥ 45,910	¥ 26,873
Cash flows from investment activities	(46,250)	(62,350)	(9,972)	(23,575)	(10,476)	(28,662)	(32,903)
Cash flows from financing activities	25,156	14,267	1,813	(17,286)	8,511	(5,305)	(5,622)
Cash and cash equivalents at the end of the year	125,555	132,707	141,265	103,296	128,343	75,658	63,839
Property, plant and equipment *2	¥ 17,685	¥ 48,204	¥ 18,042	¥ 12,617	¥ 14,735	¥ 7,058	¥ 10,970
Intangible fixed assets	2,470	2,839	2,006	2,488	2,417	2,890	2,786
Others	3,792	3,085	400	282	252	343	194
Total	23,947	54,128	20,448	15,388	17,404	10,291	13,950
Depreciation and amortization	13,727	12,887	11,753	11,453	9,810	8,978	8,469
Net income	¥ 168.49	¥ 194.95	¥ 54.92	¥ 104.85	¥ 127.20	¥ 89.89	¥ 52.34
Net assets	1,719.05	1,552.04	1,374.47	1,387.39	1,234.53	1,086.68	954.81
Cash dividends	40.0	35.0	24.0	21.5	19.0	17.0	15.0
Gross profit margin	17.9	18.3	17.6	17.0	16.5	16.7	16.5
Operating income margin	4.3	4.8	2.9	3.4	3.4	3.0	2.3
Recurring income margin	4.7	5.2	2.9	3.7	3.4	3.2	2.5
Return on assets (ROA)*3	6.8	7.7	4.4	5.6	5.6	5.1	4.2
Return on equity (ROE)*3	10.3	13.3	4.0	8.0	11.0	8.8	5.6
Equity ratio	34.7	34.6	34.3	36.9	33.9	35.1	33.6
Interest-bearing debt ratio*4	39.2	37.3	32.8	29.6	29.8	26.5	28.7
Current ratio	158.8	158.8	156.9	154.1	137.0	133.1	137.1
Interest coverage ratio (times)*5	9.6	27.1	43.1	12.6	44.2	34.9	20.0

\* In conjunction with the change in fiscal year-end, the fiscal year ended December 2020 is an irregular transition period covering the nine months from April to December 2020.



# Consolidated Balance Sheet

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
As of December 31, 2021 and 2020

Financial Section

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	December 31, 2021	December 31, 2020	December 31, 2021
<b>Current assets:</b>			
Cash and deposits (Notes 8, 12, 17)	¥ 139,957	¥ 85,850	\$ 1,216,803
Notes and accounts receivable - trade (Notes 8, 16, 17, 18)	140,075	119,687	1,217,835
Accounts receivable from completed construction contracts (Note 8)	49,496	45,095	430,326
Marketable securities (Notes 6, 12, 17)	3,303	3,204	28,718
Merchandise and finished goods	24,426	13,762	212,364
Work in process	1,483	1,312	12,897
Raw materials and supplies	9,696	8,080	84,299
Costs on construction contracts in progress (Note 8)	14,973	14,993	130,177
Real estate for sale (Note 8)	49,180	54,010	427,574
Real estate for sale in process (Note 8)	332,898	225,298	2,894,260
Short-term loans receivable (Note 12)	35,493	35,390	308,581
Accounts receivable - other (Note 8)	54,680	46,468	475,392
Other (Note 8)	36,600	25,208	318,207
Allowance for doubtful accounts	(348)	(396)	(3,029)
Total current assets	891,912	677,962	7,754,406
<b>Non-current assets:</b>			
Property, plant and equipment			
Buildings and structures (Notes 8, 20)	109,086	107,217	948,406
Accumulated depreciation	(50,736)	(45,620)	(441,105)
Buildings and structures, net	58,350	61,597	507,301
Machinery, equipment and vehicles (Note 8)	81,599	76,794	709,436
Accumulated depreciation	(58,569)	(53,123)	(509,204)
Machinery, equipment and vehicles, net	23,031	23,672	200,232
Land (Notes 8, 20)	41,516	40,725	360,944
Timber	38,331	35,753	333,257
Leased assets	12,578	11,850	109,358
Accumulated depreciation	(4,902)	(3,743)	(42,616)
Leased assets, net	7,677	8,106	66,742
Construction in progress (Note 8)	9,889	10,667	85,976
Other	20,112	18,338	174,861
Accumulated depreciation	(14,723)	(12,913)	(127,999)
Other, net	5,390	5,426	46,861
Total property, plant and equipment	184,183	185,948	1,601,313
Intangible assets			
Goodwill	4,559	6,556	39,638
Other	16,111	15,071	140,075
Total intangible assets	20,671	21,626	179,713
Investments and other assets			
Investment securities (Notes 6, 8, 17)	181,436	175,262	1,577,432
Long-term loans receivable	7,115	5,471	61,855
Retirement benefit asset (Note 19)	590	326	5,134
Deferred tax assets (Notes 8, 10)	7,773	6,835	67,580
Other (Note 8)	21,448	18,631	186,474
Allowance for doubtful accounts	(902)	(909)	(7,844)
Total investments and other assets	217,460	205,617	1,890,630
Total non-current assets	422,314	413,191	3,671,656
<b>Total assets</b>	<b>¥1,314,226</b>	<b>¥1,091,152</b>	<b>\$11,426,062</b>

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	December 31, 2021	December 31, 2020	December 31, 2021
<b>Current liabilities:</b>			
Notes and accounts payable - trade (Notes 6, 16, 17, 18)	¥ 134,065	¥ 111,612	\$ 1,165,578
Accounts payable for construction contracts (Note 17)	98,165	80,219	853,459
Short-term borrowings (Notes 7, 8, 18)	25,024	50,106	217,563
Current portion of bonds payable (Note 7)	12	—	104
Commercial papers (Note 7)	—	10,000	—
Lease obligations (Note 7)	825	1,005	7,171
Income taxes payable	6,248	1,937	54,323
Advances received on construction contracts in progress	40,101	32,956	348,642
Provision for bonuses	22,460	16,781	195,269
Provision for bonuses for directors (and other officers)	165	106	1,435
Provision for warranties for completed construction	7,492	6,175	65,136
Provision for loss on business liquidation	—	368	—
Asset retirement obligations (Note 25)	961	945	8,356
Other	85,485	68,082	743,222
Total current liabilities	421,003	380,293	3,660,256
<b>Long-term liabilities:</b>			
Bonds payable (Notes 7, 17)	90,152	90,000	783,794
Bonds with share acquisition rights (Note 7)	10,035	10,055	87,244
Long-term borrowings (Notes 7, 8, 17, 18)	168,278	133,255	1,463,031
Lease obligations (Note 7)	8,438	8,512	73,361
Deferred tax liabilities (Note 10)	23,044	18,578	200,347
Provision for retirement benefits for directors (and other officers)	332	111	2,886
Retirement benefit liability (Note 19)	17,148	18,700	149,089
Asset retirement obligation (Note 25)	1,778	1,544	15,455
Other	33,929	30,650	294,986
Total long-term liabilities	353,134	311,403	3,070,192
Total liabilities	774,136	691,696	6,730,448
<b>Net assets:</b>			
<b>Shareholders' equity (Note 13):</b>			
Common stock —			
Authorized: 400,000,000 shares			
Issued and outstanding: 201,200,936 shares in December 31, 2021 and 182,778,336 shares in December 31, 2020	50,064	32,803	435,261
Capital surplus	33,899	18,485	294,721
Retained earnings	359,641	283,416	3,126,766
Treasury shares: 1,338,269 shares in December 31, 2021 and 1,327,588 shares in December 31, 2020	(2,362)	(2,340)	(20,532)
Total shareholders' equity	441,241	332,363	3,836,215
<b>Accumulated other comprehensive income:</b>			
Valuation difference on available-for-sale securities	37,226	44,337	323,648
Deferred gains (losses) on hedges	3,403	1,762	29,586
Foreign currency translation adjustment	13,699	(11,098)	119,103
Remeasurements of defined benefit plans	42	96	367
Total accumulated other comprehensive income	54,370	35,098	472,704
Share acquisition rights	116	120	1,011
Non-controlling interests	44,361	31,875	385,683
Total net assets	540,089	399,456	4,695,613
<b>Total liabilities and net assets</b>	<b>¥1,314,226</b>	<b>¥1,091,152</b>	<b>\$11,426,062</b>

Per share of common stock:	Yen	U.S. dollars (Note 4)
	Net assets (Note 23)	¥2,479.76
		\$21.56

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the fiscal years ended December 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net sales (Note 21)	¥1,385,930	¥839,881	\$12,049,473
Cost of sales	1,063,936	648,557	9,250,008
<b>Gross profit</b>	<b>321,994</b>	<b>191,323</b>	<b>2,799,465</b>
Selling, general and administrative expenses (Note 11)	208,344	143,862	1,811,369
<b>Operating income</b>	<b>113,651</b>	<b>47,462</b>	<b>988,096</b>
Non-operating income			
Interest income	393	232	3,419
Purchase discount	343	240	2,984
Dividend income	1,674	1,237	14,558
Share of profit of entities accounted for using equity method	17,782	3,318	154,602
Foreign exchange gains	747	—	6,492
Other	7,673	3,401	66,709
Total non-operating income	28,613	8,428	248,765
Non-operating expenses			
Interest expense	2,219	1,830	19,292
Sales discounts	613	440	5,329
Foreign exchange losses	—	271	—
Other	1,681	2,056	14,612
Total non-operating expenses	4,513	4,596	39,233
<b>Recurring income</b>	<b>137,751</b>	<b>51,293</b>	<b>1,197,627</b>
Extraordinary loss			
Loss on valuation of investment securities (Note 6)	—	1,082	—
Impairment loss (Note 9)	3,819	—	33,205
Total extraordinary loss	3,819	1,082	33,205
<b>Profit before income taxes</b>	<b>133,932</b>	<b>50,211</b>	<b>1,164,422</b>
Income taxes - current (Note 10)	23,765	9,940	206,616
Income taxes - deferred (Note 10)	5,651	110	49,134
Total income taxes	29,416	10,050	255,750
<b>Net income</b>	<b>104,516</b>	<b>40,161</b>	<b>908,673</b>
Net income attributable to non-controlling interests	17,341	9,763	150,763
<b>Net income attributable to shareholders of parent</b>	<b>¥ 87,175</b>	<b>¥ 30,398</b>	<b>\$ 757,910</b>
	Yen		U.S. dollars (Note 4)
<b>Per share of common stock:</b>			
Net income attributable to shareholders of parent (Note 23):			
Basic	¥457.69	¥167.54	\$3.98
Diluted	446.69	163.34	3.88
Cash dividends	80.00	35.00	0.70

See accompanying notes to consolidated financial statements

## Consolidated Statement of Comprehensive Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the fiscal years ended December 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
<b>Net income</b>	<b>¥104,516</b>	<b>¥40,161</b>	<b>\$ 908,673</b>
<b>Other comprehensive income (Note 24):</b>			
Valuation difference on available-for-sale securities	(6,947)	27,575	(60,395)
Deferred gains (losses) on hedges	1,337	(534)	11,621
Foreign currency translation adjustment	24,955	(7,211)	216,960
Share of other comprehensive income of entities accounted for using equity method	5,017	(2,922)	43,614
Total other comprehensive income (loss)	24,361	16,908	211,800
<b>Comprehensive income</b>	<b>¥128,877</b>	<b>¥57,069</b>	<b>\$1,120,473</b>
Comprehensive income attributable to:			
Shareholders of parent	¥106,447	¥50,282	\$ 925,469
Non-controlling interests	22,429	6,788	195,004

See accompanying notes to consolidated financial statements.

## Consolidated Statement of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the fiscal years ended December 31, 2021 and 2020

	Millions of yen				
	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2021	¥32,803	¥18,485	¥283,416	¥(2,340)	¥332,363
Changes during the period:					
Issuance of new shares	17,259	17,259			34,518
Issuance of new shares (exercise of share acquisition rights)	2	2			3
Dividends of surplus (¥80.00 per share)			(10,950)		(10,950)
Net income attributable to shareholders of parent			87,175		87,175
Purchase of treasury shares				(21)	(21)
Change in ownership interest of parent due to transactions with non-controlling interests		(1,847)			(1,847)
Net changes in items other than shareholders' equity					
Total changes during the period	17,261	15,414	76,225	(21)	108,878
Balance at December 31, 2021	¥50,064	¥33,899	¥359,641	¥(2,362)	¥441,241

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at January 1, 2021	¥44,337	¥1,762	¥(11,098)	¥96	¥35,098	¥120	¥31,875	¥399,456
Changes during the period:								
Issuance of new shares								34,518
Issuance of new shares (exercise of share acquisition rights)								3
Dividends of surplus (¥80.00 per share)								(10,950)
Net income attributable to shareholders of parent								87,175
Purchase of treasury shares								(21)
Change in ownership interest of parent due to transactions with non-controlling interests								(1,847)
Net changes in items other than shareholders' equity	(7,111)	1,640	24,797	(54)	19,273	(3)	12,486	31,755
Total changes during the period	(7,111)	1,640	24,797	(54)	19,273	(3)	12,486	140,633
Balance at December 31, 2021	¥37,226	¥3,403	¥13,699	¥42	¥54,370	¥116	¥44,361	¥540,089

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2020	¥32,786	¥21,290	¥255,545	¥(2,339)	¥307,282
Changes during the period:					
Issuance of new shares	17	17			35
Issuance of new shares (exercise of share acquisition rights)					—
Dividends of surplus (¥35.00 per share)			(5,474)		(5,474)
Net income attributable to shareholders of parent			30,398		30,398
Purchase of treasury shares				(1)	(1)
Change in ownership interest of parent due to transactions with non-controlling interests		(2,823)			(2,823)
Change in retained earnings due to change of fiscal year end			2,947		2,947
Net changes in items other than shareholders' equity					
Total changes during the period	17	(2,805)	27,871	(1)	25,082
Balance at December 31, 2020	¥32,803	¥18,485	¥283,416	¥(2,340)	¥332,363



## Consolidated Statement of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the fiscal years ended December 31, 2021 and 2020

Financial Section

	Millions of yen						
	Accumulated other comprehensive income						Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests
Balance at April 1, 2020	¥16,842	¥2,531	¥ (4,240)	¥82	¥15,215	¥120	¥34,448
Changes during the period:							
Issuance of new shares							35
Issuance of new shares(exercise of share acquisition rights)							—
Dividends of surplus (¥35.00 per share)							(5,474)
Net income attributable to shareholders of parent							30,398
Purchase of treasury shares							(1)
Change in ownership interest of parent due to transactions with non-controlling interests							(2,823)
Change in retained earnings due to change of fiscal year end							2,947
Net changes in items other than shareholders' equity	27,494	(768)	(6,857)	14	19,883	—	(2,573)
Total changes during the period	27,494	(768)	(6,857)	14	19,883	—	(2,573)
Balance at December 31, 2020	¥44,337	¥1,762	¥(11,098)	¥96	¥35,098	¥120	¥399,456

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 4)				
	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury share	Total shareholders' equity
Balance at January 1, 2021	\$285,193	\$160,708	\$2,464,059	\$(20,346)	\$2,889,613
Changes during the period:					
Issuance of new shares	150,054	150,054			300,107
Issuance of new shares(exercise of share acquisition rights)	15	15			29
Dividends of surplus (\$0.70 per share)			(95,203)		(95,203)
Net income attributable to shareholders of parent			757,910		757,910
Purchase of treasury shares				(186)	(186)
Change in ownership interest of parent due to transactions with non-controlling interests		(16,055)			(16,055)
Net changes in items other than shareholders' equity					
Total changes during the period	150,068	134,013	662,707	(186)	946,601
Balance at December 31, 2021	\$435,261	\$294,721	\$3,126,766	\$(20,532)	\$3,836,215

	Thousands of U.S. dollars (Note 4)						
	Accumulated other comprehensive income						Total net assets
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests
Balance at January 1, 2021	\$385,469	\$15,323	\$(96,484)	\$836	\$305,144	\$1,040	\$277,129
Changes during the period:							
Issuance of new shares							300,107
Issuance of new shares (exercise of share acquisition rights)							29
Dividends of surplus(\$0.70 per share)							(95,203)
Net income attributable to shareholders of parent							757,910
Purchase of treasury shares							(186)
Change in ownership interest of parent due to transactions with non-controlling interests							(16,055)
Net changes in items other than shareholders' equity	(61,821)	14,263	215,587	(469)	167,560	(29)	108,555
Total changes during the period	(61,821)	14,263	215,587	(469)	167,560	(29)	108,555
Balance at December 31, 2021	\$323,648	\$29,586	\$119,103	\$367	\$472,704	\$1,011	\$385,683

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥133,932	¥50,211	\$1,164,422
Depreciation	16,491	11,503	143,378
Impairment loss	3,819	—	33,205
Amortization of goodwill	2,110	1,055	18,341
Increase (decrease) in allowance for doubtful accounts	(177)	7	(1,542)
Increase (decrease) in provision for bonuses	4,599	3,305	39,984
Increase (decrease) in provision for bonuses for directors (and other officers)	59	(37)	513
Increase (decrease) in provision for warranties for completed construction	1,085	963	9,435
Increase (decrease) in provision for loss on business liquidation	(368)	368	(3,199)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(8)	(14)	(69)
Increase (decrease) in retirement benefit liability	(2,760)	(4,052)	(23,992)
Interest and dividend income	(2,068)	(1,468)	(17,978)
Interest expenses	2,219	1,830	19,292
Share of loss (profit) of entities accounted for using equity method	(17,782)	(3,318)	(154,602)
Loss (gain) on valuation of short-term and long-term investment securities	—	1,082	—
Decrease (increase) in trade receivables	(21,582)	(5,803)	(187,636)
Decrease (increase) in inventories	(67,205)	(10,951)	(584,292)
Decrease (increase) in other current assets	(14,893)	(3,710)	(129,486)
Increase (decrease) in trade payables	46,023	1,106	400,127
Increase (decrease) in advances received	5,487	4,151	47,701
Increase (decrease) in advances received on construction contracts in progress	5,124	(2,564)	44,547
Increase (decrease) in accrued consumption taxes	3,332	1,478	28,968
Increase (decrease) in other current liabilities	(4,627)	6,907	(40,231)
Other, net	(419)	3,633	(3,642)
Subtotal	92,389	55,682	803,243
Interest and dividends received	25,093	8,473	218,158
Interest paid	(2,310)	(1,880)	(20,080)
Income taxes paid	(23,596)	(15,435)	(205,144)
Net cash provided by operating activities	91,576	46,840	796,178
<b>Cash flows from investment activities:</b>			
Payments into time deposits	(5,230)	(288)	(45,471)
Proceeds from withdrawal of time deposits	538	2,259	4,680
Decrease (increase) in short-term loans receivable	(78)	645	(681)
Proceeds from sales and redemption of securities	204	544	1,774
Purchase of property, plant and equipment	(20,614)	(25,390)	(179,221)
Proceeds from sales of property, plant and equipment	3,944	2,780	34,294
Purchase of intangible assets	(3,664)	(2,487)	(31,858)
Purchase of investment securities	(14,430)	(9,189)	(125,457)
Proceeds from sales and redemption of investment securities	3,312	267	28,799
Payments for acquisition of businesses (Note 12)	(3,513)	(13,960)	(30,542)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 12)	2,098	—	18,243
Payments for long-term loans receivable	(2,207)	(1,524)	(19,190)
Collection of long-term loans receivable	688	43	5,980
Other payments	(3,161)	(2,435)	(27,482)
Other proceeds	1,859	4,100	16,163
Net cash used in investment activities	(40,254)	(44,635)	(349,971)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term borrowings	(1,399)	(13,806)	(12,159)
Net increase (decrease) in commercial papers	(10,000)	10,000	(86,941)
Repayments of finance lease obligations	(1,887)	(1,361)	(16,407)
Proceeds from long-term borrowings	52,447	41,616	455,981
Repayments of long-term borrowings	(54,174)	(23,631)	(470,999)
Redemption of bonds payable	(134)	—	(1,165)
Proceeds from issuance of shares	34,304	—	298,245
Proceeds from share issuance to non-controlling shareholders	119	103	1,038
Dividends paid	(10,950)	(5,474)	(95,203)
Dividends paid to non-controlling shareholders	(11,580)	(7,694)	(100,674)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2,578)	(5,491)	(22,416)
Net decrease (increase) in restricted deposits	(1,194)	(1,043)	(10,384)
Other proceeds	0	—	0
Other payments	(3)	(1)	(26)
Net cash provided by (used in) financing activities	(7,029)	(6,782)	(61,110)
Effect of exchange rate change on cash and cash equivalents	3,521	447	30,613
Net increase (decrease) in cash and cash equivalents	47,815	(4,129)	415,710
Cash and cash equivalents at the beginning of the year	122,220	112,565	1,062,602
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	615	—
Increase (decrease) in cash and cash equivalents due to change of fiscal year end	—	13,170	—
Cash and cash equivalents at the end of the year (Note 12)	¥170,035	¥122,220	\$1,478,312

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
As of December 31, 2021 and 2020

## 1. Nature of Operations

Sumitomo Forestry Co., Ltd. (the "Company") and its affiliated companies (together, the "Group") are involved in various business activities related to wood and houses, with forestry operations serving as the foundation of its business. Specifically, the Group's operations encompass forest management as well as timber and building materials-related operations, including procurement, manufacture, processing and sale of timber and building materials; housing and construction-related operations, including construction, maintenance, renovation and landscaping of custom-built and other homes and sale and brokerage of real estate; overseas housing and real estate-related operations, including sale of spec homes, construction of detached houses and development of multi-family housing and commercial complexes; environment and resources-related operations, including biomass power generation business and forestation business; and other businesses, including private-pay elderly care facilities and elderly residence that combines living support service business, insurance agency business and civil engineering and construction work.

## 2. Basis of Presenting Consolidated Financial Statements

The Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No. 18)."

In accordance with PITF No. 18, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States ("U.S. GAAP") as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries (together, the "Companies") are prepared on the basis of accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of IFRS and U.S. GAAP, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Notes to Consolidated Financial Statements include information which is not required under Japanese GAAP but is presented herein as additional information.

## 3. Summary of Significant Accounting Policies

### (a) Basis of consolidation and investments in affiliates

The consolidated financial statements include the accounts of the Company and those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are

eliminated on consolidation.

Investments in affiliates in which the ability to exercise significant influence exists are stated at cost plus equity in undistributed earnings (losses). Net consolidated income includes the Company's share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits. As of December 31, 2021, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 324 and 132 (267 and 107 as of December 31, 2020), respectively.

Cohnan Kensetsu Inc. and 82 other companies, whose shares were newly acquired, have been included in the scope of consolidation from the fiscal year ended December 31, 2021. On the other hand, Paragon Wood Product (Shanghai) Co., Ltd. and 12 other companies, which were included in the scope of consolidation in the previous fiscal year, have been excluded from the scope of consolidation due to the sale of shares or the completion of liquidation. CRP/Crescent Harpeth Heights Venture, LLC and 12 other companies, which were included in the scope of consolidation in the previous fiscal year, have been included as equity-method affiliates due to the reduction in shares. HTSC Pearce LN LP and 31 other companies, whose shares were newly acquired, have been included as equity-method affiliates from the fiscal year ended December 31, 2021. On the other hand, Beijing BBMG Decoration Engineering Co., Ltd. and 19 other companies, which were included as equity-method affiliates in the previous fiscal year, have been excluded from the scope of equity-method application due to the sale of shares or the completion of liquidation.

Among the consolidated subsidiaries, the fiscal year end for 6 domestic consolidated subsidiary and 1 overseas consolidated subsidiary is on March 31. Therefore, the financial statements of those subsidiaries are consolidated using the financial statements based on provisional settlements as of December 31. The fiscal year end for other consolidated subsidiaries is on December 31. In terms of the equity-method affiliates whose fiscal years are different from the consolidated closing date, the financial statements for their respective fiscal year or the financial statements based on provisional settlements as of December 31 are consolidated.

### (b) Translation of foreign currency transactions and accounts

Current and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

The Company translates the revenue and expense accounts of the foreign consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of net assets, are also translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets are translated at their historical rates.

### (c) Statement of cash flows

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are near enough to maturity that they present only an insignificant risk of changes in value.

### (d) Allowance for doubtful accounts

Allowance for doubtful accounts is stated based on the default ratio sustained over a specific period in the past and the estimated uncollectible amount based on the analysis of certain individual accounts, including probable bad debts and claims in bankruptcy.

This amount is considered sufficient to cover possible losses on collection.

### (e) Provision for bonuses

Provision for bonuses is stated based on estimated bonuses to be paid to employees, which are to be charged to income in the current year.

### (f) Provision for bonuses for directors (and other officers)

Provision for bonuses for directors (and other officers) is stated based on an estimated amount, which is to be charged to income in the current year.

### (g) Provision for warranties for completed construction

Provision for warranties for completed construction is stated for repair costs which may be required and is estimated based on past experience and future estimates.

### (h) Provision for loss on business liquidation

Provision for loss on business liquidation is stated based on the possible losses incurred as a result of business liquidation.

### (i) Retirement benefit liability or retirement benefit assets

Retirement benefit liability or retirement benefit assets for employees has been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Unrecognized actuarial gains (losses) and unrecognized prior service cost are charged to income in the fiscal year in which they arise.

### (j) Provision for retirement benefits for directors (and other officers)

Provision for retirement benefit for directors (and other officers) of certain subsidiaries are provided based on the amount required for at year-end in accordance with established internal policies.

### (k) Marketable securities and investment securities

Marketable securities and investment securities are classified and accounted for, depending on management's intent, as follows:

i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and ii) marketable available-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets.

Non-marketable available-for-sale securities are carried at cost.

The Company determines cost of securities sold by the moving average method.

### (l) Derivatives

Derivatives are carried at fair value with changes in unrealized gains or losses charged or credited to profit or loss, except for those which meet the criteria for hedge accounting.

### (m) Inventories

Merchandise, finished goods, work in process, raw materials and supplies are stated at moving average cost.

Costs on construction contracts in progress, real estate for sale and real estate for sale in process are stated at cost, which is determined by the specific identification method.

The amount on the balance sheet is calculated using a write-down method based on the decrease in profitability.

The Company recognized ¥262 million (\$2,279 thousand) in

valuation loss on inventories in cost of sales for the fiscal year ended December 31, 2021.

### (n) Property, plant and equipment

Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance, repairs, minor renewals and improvements are charged to income. In the Company and its domestic consolidated subsidiaries, depreciation is computed, with minor exceptions, by the declining balance method at rates based on the estimated useful lives of the assets according to general class, type of construction and use. In its foreign consolidated subsidiaries, depreciation is computed by the straight-line method, with minor exceptions. In the case of retirement or disposal, the difference between the net book value and salvage or sales proceeds is charged or credited to income.

### (o) Intangible assets

Amortization of intangible assets is computed by the straight-line method. Internal use software costs are amortized by the straight-line method over the estimated useful life of 5 years.

### (p) Impairment of non-current assets

Non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of non-current assets are less than the carrying amounts, the non-current fixed assets are determined to be impaired. Then, the amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in the consolidated statements of income. The recoverable amount of non-current assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the non-current assets.

### (q) Hedge accounting

i) Hedge accounting method

The deferred hedge accounting method is applied.

The allocation method is applied to foreign exchange hedging transactions. The exceptional method is used for interest rate swaps if they satisfy the requirements for the exceptional method.

ii) Hedging method

Foreign exchange forward contracts and foreign currency swaps are utilized to mitigate foreign exchange risks. Interest rate swap transactions are utilized to mitigate interest rate risks.

iii) Scope of hedging

Certain transactions, including planned transactions and borrowings exposed to interest rate fluctuation risk, etc., in accordance with policies laid out in management regulations.

iv) Hedge effectiveness evaluation method

The Companies believe foreign exchange forward contracts and foreign currency swaps to be highly effective as hedging instruments. For interest rate swaps accounted for the exceptional method, effectiveness evaluation is not carried out.

### (r) Amortization method and period of goodwill

Goodwill is amortized using the straight-line method over its estimated useful life, up to a maximum of 20 years. Insignificant amounts are charged to income when incurred.

### (s) Revenue recognition

The Company adopted "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ



Guidance No.30, March 30, 2018).

The amount expected to be received in exchange for promised goods or services is recognized as revenue at the time when the control of those goods or services is transferred to the customer.

#### (t) Income taxes

The Companies accrue income taxes based on taxable income. The Companies include many items for financial reporting purposes which, in the case of expenses, are not currently deductible and, in the case of income, are not currently taxable.

Income taxes based on temporary differences between tax and financial reporting purposes are reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

#### (u) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

#### (v) Appropriations of retained earnings

Appropriations of retained earnings reflected in the accompanying consolidated financial statements are recorded upon approval by shareholders as required under Japanese law.

#### (w) Earnings per share of common stock

The computation of net income attributable to shareholders of parent per share and cash dividends per share is based on the average number of shares outstanding during each period.

#### (x) Finalization of provisional accounting treatment of business combinations

The revised purchase price allocation arising from the finalization of provisional accounting treatment is reflected on the consolidated financial statements for the period in which the business combination occurs.

#### (y) Accounting standards issued but not yet effective

(Accounting Standard and Implementation Guidance on Revenue Recognition)

The ASBJ issued "Revised Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), "Revised Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30) and "Revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19) on March 31, 2020.

##### i) Overview

Principles for disclosures related to revenue recognition (presentation and notes) were determined.

##### ii) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending December 31, 2022.

(Accounting Standards for Fair Value Measurement)

The ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), "Revised Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9), "Revised Accounting Standard for Financial Instruments" (ASBJ Statement No. 10), "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31) on July 4, 2019 and "Revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19) on March 31, 2020.

##### i) Overview

The ASBJ developed the accounting standard and implementation guidance on fair value measurement mainly focusing on the guidance and disclosure on the fair value measurement of financial instruments based in international accounting standards with nearly identical detailed guidance issued by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (IFRS 13 by the IASB and Topic 820 by the FASB) and issued them from a standpoint of enhancing comparability between financial statements of companies in Japan and overseas.

As the basic policy of the ASBJ in developing accounting standards for fair value measurement, the ASBJ accepted the basic principle of IFRS 13 from a standpoint of enhancing comparability between financial statements of companies in Japan and overseas with a unified calculation method. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to common accounting practices in Japan, etc.

##### ii) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending December 31, 2022.

##### iii) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of these accounting standards and implementation guidance on its consolidated financial statements.

#### (z) Changes in presentation

(Application of Accounting Standard for Disclosure of Accounting Estimates)

The Company adopted "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31 of March 31, 2020) from the beginning of the fiscal year ended December 31, 2021. Accordingly, details about significant accounting estimates are presented as a part of the notes to the consolidated financial statements.

In accordance with the transitional treatment prescribed in the proviso in the paragraph 11 of the accounting standard, no details were provided regarding the previous fiscal year in the note.

#### (aa) Change of Fiscal Year End

Effective from the fiscal year ended December 31, 2020, the Company and its domestic subsidiaries changed their fiscal year end from March 31 to December 31. The change is to align the closing date of the Companies in order to disclose management information in a timely and accurate manner and to enhance the transparency of management. Accordingly, the fiscal year ended December 31, 2020, is a nine-month period from April 1, 2020, to December 31, 2020, for the Company and its subsidiaries.

## 4. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥115.02 =US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of December 2021. This translation should not be construed as a representation that the yen amounts actually represent, have been or could be converted into, U.S. dollars.

As permitted under the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen are rounded in the

consolidated financial statements. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes thereto do not necessarily agree with the sum of the individual amounts.

## 5. Significant Accounting Judgments, Estimates and Assumptions

### Impairment of Non-Current Assets

(1) Amounts recorded in the consolidated financial statements for the current fiscal year

	Millions of yen	Thousands of U.S. dollars
	As of / for the fiscal year ended December 31, 2021	As of / for the fiscal year ended December 31, 2021
Property, plant and equipment and intangible assets	¥204,854	\$1,781,026
Amount of impairment loss	3,819	33,205

(2) Other information that contributes to understanding of the content of estimates

#### i) Calculation method

For an asset or an asset group that have indicators of impairment, if the sum of the undiscounted future cash flows from such asset is less than the sum of the carrying amounts at the time of determination of impairment loss, an impairment loss is recorded for the difference between the carrying amounts at the time of determination of impairment loss and the recoverable amounts.

#### ii) Major assumptions used in the calculation of the amounts

The recoverable amount is either the net realizable value or the value in use whichever is higher. The net selling price is calculated based on the estimated selling price or appraised value. The value in use is also required to be calculated using a number of estimates and assumptions, such as future cash flows. The major assumptions used in the calculation of future cash flows are projections of net sales and operating income based on budgets approved by the Board of Directors and other bodies and medium-to long-term business plans, as well as the weighted average cost of capital.

Also, as described in the Note 9 (Loss on Impairment of Non-Current Assets), the Company recognized an impairment loss on goodwill etc., relating to Sumirin Care Life Co., Ltd. The assessment on impairment indicators and the future cash flow estimation on its assets or asset groups are based on its business plan, which includes multiple assumptions such as the number of new residents, the number of residents who have left and discount rate.

#### iii) Impact on the consolidated financial statements for the following fiscal year

If there is a change in the conditions and assumptions underlying these estimates, the Company may be required to record additional impairment losses in the consolidated financial statements for the following fiscal year.

## 6. Securities

(a) The carrying amounts and estimated fair values of the securities classified as held-to-maturity at December 31, 2021 and 2020 were as follows:

	Millions of yen		
	December 31, 2021		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities whose fair value exceeds their carrying amount:			
Debt securities	¥709	¥716	¥7
Subtotal	709	716	7
Held-to-maturity securities whose fair value does not exceed their carrying amount :			
Debt securities	50	49	(1)
Subtotal	50	49	(1)
Total	¥759	¥766	¥6

	Millions of yen		
	December 31, 2020		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities whose fair value exceeds their carrying amount:			
Debt securities	¥914	¥927	¥14
Subtotal	914	927	14
Held-to-maturity securities whose fair value does not exceed their carrying amount:			
Debt securities	50	50	(0)
Subtotal	50	50	(0)
Total	¥964	¥977	¥13

	Thousands of U.S. dollars		
	December 31, 2021		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities whose fair value exceeds their carrying amount:			
Debt securities	\$6,168	\$6,227	\$59
Subtotal	6,168	6,227	59
Held-to-maturity securities whose fair value does not exceed their carrying amount:			
Debt securities	435	430	(5)
Subtotal	435	430	(5)
Total	\$6,602	\$6,657	\$54

(b) The carrying amounts and estimated fair values of the securities classified as available-for-sale at December 31, 2021 and 2020 were as follows:

	Millions of yen		
	December 31, 2021		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	¥75,800	¥21,169	¥54,630
Debt securities	—	—	—
Other	—	—	—
Subtotal	75,800	21,169	54,630
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	2,009	2,249	(240)
Debt securities	—	—	—
Other	3,000	3,000	—
Subtotal	5,009	5,249	(240)
Total	¥80,809	¥26,419	¥54,390

	Millions of yen		
	December 31, 2020		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	¥84,948	¥20,500	¥64,448
Debt securities	—	—	—
Other	—	—	—
Subtotal	84,948	20,500	64,448
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	2,763	3,019	(257)
Debt securities	—	—	—
Other	3,000	3,000	—
Subtotal	5,763	6,019	(257)
Total	¥90,710	¥26,519	¥64,192

	Thousands of U.S. dollars		
	December 31, 2021		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	\$659,014	\$184,050	\$474,964
Debt securities	—	—	—
Other	—	—	—
Subtotal	659,014	184,050	474,964
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	17,467	19,557	(2,089)
Debt securities	—	—	—
Other	26,082	26,082	—
Subtotal	43,550	45,639	(2,089)
Total	\$702,564	\$229,689	\$472,875

(c) Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses for the fiscal years ended December 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Proceeds	¥933	¥247	\$8,111
Gross gains	781	142	6,792
Gross losses	0	—	0

(d) Impairment of securities  
Impairment losses on available-for-sale securities for the fiscal years ended December 31, 2021 and 2020 were ¥45 million (\$389 thousand) and ¥1,082 million, respectively.

(e) Investments in affiliates included in "Investment securities" as of December 31, 2021 and 2020 were ¥99,928 million (\$868,788 thousand) and ¥83,953 million, respectively.

## 7. Short-Term and Long-Term Debt

Short-term and long-term debt as of December 31, 2021 and 2020 were represented by short-term borrowings bearing interest of 0.90% and

0.81% per annum, current portion of long-term borrowings of 1.32% and 1.68%, and long-term borrowings of 2.33% and 2.04%, respectively. Long-term debt as of December 31, 2021 and 2020 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Long-term borrowings, principally from banks and insurance companies, due 2022 to 2035:			
Secured:			
Bonds payable	¥ 152	¥ —	\$ 1,322
Long-term borrowings	15,126	13,823	131,510
Unsecured:			
Bonds payable	90,000	90,000	782,473
Bonds with share acquisition rights	10,035	10,055	87,244
Long-term borrowings	153,152	119,432	1,331,521
Lease obligations	8,438	8,512	73,361
	¥276,903	¥241,822	\$2,407,430
Portion due within one year:			
Bonds Payable	12	—	104
Long-term borrowings	18,188	28,359	158,130
Lease obligations	825	1,005	7,171
Commercial paper	—	10,000	—
	¥ 19,025	¥ 39,364	\$ 165,405

The aggregate annual maturities of bonds payable (including bonds with share acquisition rights), loans and lease obligations, due within 5 years (with exception of portion due within 1 year) from the fiscal year end were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Bonds payable	Long-term borrowings	Lease obligations	Bonds payable	Long-term borrowings	Lease obligations
2023	¥10,012	¥ 21,404	¥1,518	\$ 87,046	\$ 186,094	\$13,200
2024	10,012	117,979	1,181	87,046	1,025,723	10,268
2025	10,012	9,613	892	87,046	83,577	7,753
2026	20,012	10,312	733	173,987	89,655	6,374
	¥50,048	¥159,308	¥4,324	\$435,124	\$1,385,048	\$37,595

## 8. Pledged Assets and Secured Liabilities

(a) Pledged assets

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Cash and deposits	¥ 649	¥ 3,182	\$ 5,643
Notes and accounts receivable - trade	36	36	317
Accounts receivable from completed construction contracts	2,374	1,692	20,641
Costs on construction contracts in progress	334	602	2,905
Real estate for sale	1,238	2,135	10,763
Real estate for sale in process	6,230	7,606	54,166
Accounts receivable - other	4	12	34
Buildings and structures	7,237	12,256	62,917
Machinery, equipment and vehicles	12,086	13,332	105,075
Land	2,803	3,819	24,371
Construction in progress	1,958	3,058	17,021
Investment securities	19,714	16,112	171,394
Other	3,678	3,434	31,976
	¥58,341	¥67,274	\$507,222

(b) Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Short-term borrowings	¥ 3,197	¥ 9,771	\$27,793
Current portion of bonds payable	12	—	104
Bonds payable	152	—	1,322
Long-term borrowings	15,126	13,823	131,510
Other	250	—	2,170
	¥18,737	¥23,594	\$162,899

## 9. Loss on Impairment of Non-Current Assets

Loss on impairment of non-current assets for the year ended December 31, 2021 mainly consisted of the following:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars
			Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2021
Kobe, Hyogo etc.	Private-pay elderly care facilities and elderly residence that combines living support service	Goodwill	¥2,316	\$20,139
		Other - intangible assets	919	7,990
		Buildings	181	1,574
		Total	¥3,416	\$29,702

The Group classifies assets based on the categories used for management accounting. Rental assets and idle assets are assessed individually and separated from this classification.

For Sumirin Care Life Co., Ltd., the Company's consolidated subsidiary, the Company reviewed its business plan for the operation, and as a result the unamortized balance of its goodwill and other - intangible assets were recorded as an impairment loss because the Company no longer expects it to generate the revenue expected at the time of acquisition. The recoverable amount of the assets was measured in terms of its value in use, which was calculated by discounting expected future cash flows at a rate of 5.0%.

Also, for the buildings owned by Sumirin Care Life Co., Ltd., the book value of the buildings was reduced to their recoverable amount, and the amount of the reduction was recorded as an impairment loss as it was considered difficult to recover the invested amounts due to decline in the profitability of the buildings.

The recoverable amount was measured at the net realizable value, which is based on the appraisal value of real estate with reasonable adjustments added.

## 10. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise corporation tax, enterprise tax, and prefectural and municipal inhabitant taxes. The effective statutory tax rate for the fiscal years ended December 31, 2021 and 2020 was 30.6%.

The table below shows the differences in the effective statutory tax rate and the effective income tax rate.

	Millions of yen						Total
	December 31, 2021						
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	
Tax loss carryforwards*	¥310	¥129	¥425	¥257	¥273	¥4,064	¥5,458
Valuation allowance	(310)	(129)	(425)	(257)	(273)	(2,109)	(3,504)
Deferred tax assets	—	—	—	—	—	1,955	1,955

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020
Effective statutory tax rate	30.6%	30.6%
Non-deductible expenses for tax purposes	0.2	0.5
Non-taxable dividend income	(1.5)	(5.6)
Per capita portion of inhabitant tax	0.2	0.5
Amortization of goodwill	1.0	0.6
Equity in earnings of affiliates	(1.0)	(1.0)
Tax rate differences with overseas subsidiaries	(7.4)	(8.0)
Other	(0.2)	2.4
Effective income tax rate	22.0%	20.0%

The significant components of deferred tax assets and liabilities at December 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Deferred tax assets:			
Allowance for doubtful accounts	¥ 387	¥ 521	\$ 3,364
Provision for bonuses	3,941	3,652	34,265
Accrued legal welfare expense on employees' bonuses	594	554	5,163
Enterprise taxes	588	99	5,113
Devaluation of real estate for sale	162	406	1,405
Retirement benefit liability	4,927	5,433	42,836
Devaluation of non-current assets	804	732	6,986
Devaluation of financial instruments	1,336	1,886	11,618
Tax loss carryforwards	5,458	6,144	47,456
Impairment loss	1,676	1,771	14,574
Provision for warranties for completed construction	1,596	1,322	13,875
Unrealized gain on non-current assets	590	629	5,127
Other	7,300	7,929	63,468
Gross deferred tax assets	29,359	31,077	255,252
Valuation allowance for tax loss carryforwards	(3,504)	(3,570)	(30,462)
Valuation allowance for others	(4,674)	(5,408)	(40,635)
Valuation allowance	(8,178)	(8,978)	(71,097)
Total deferred tax assets	21,181	22,099	184,155
Deferred tax liabilities:			
Deferred gains on sales of non-current assets	(757)	(757)	(6,579)
Gain on securities contributed to employee retirement benefit trusts	(1,168)	(1,168)	(10,152)
Valuation difference on available-for-sale securities	(16,378)	(19,445)	(142,390)
Land revaluation differences	(814)	(847)	(7,080)
Taxes on undistributed earnings of subsidiaries	(5,323)	(3,606)	(46,276)
Other	(12,013)	(8,019)	(104,446)
Gross deferred tax liabilities	(36,452)	(33,841)	(316,922)
Net deferred tax assets (liabilities)	¥(15,271)	¥(11,742)	\$(132,768)

The breakdowns of amount of tax loss carryforwards and deferred tax assets by expiration period as of December 31, 2021 and 2020 were as follows:



Millions of yen							
December 31, 2020							
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	Total
Tax loss carryforwards*	¥100	¥355	¥128	¥447	¥253	¥4,861	¥6,144
Valuation allowance	(100)	(355)	(128)	(447)	(253)	(2,287)	(3,570)
Deferred tax assets	—	—	—	—	—	2,574	2,574

Thousands of U.S. dollars							
December 31, 2021							
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	Total
Tax loss carryforwards*	\$2,699	\$1,125	\$3,696	\$2,234	\$2,371	\$35,332	\$47,456
Valuation allowance	(2,699)	(1,125)	(3,696)	(2,234)	(2,371)	(18,338)	(30,462)
Deferred tax assets	—	—	—	—	—	16,994	16,994

\* Tax loss carryforwards are measured using the effective statutory tax rates.

## 11. Selling, General and Administrative Expenses

The components of "Selling, General and Administrative Expenses" for the fiscal years ended December 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Salaries and allowances	¥73,905	¥49,954	\$642,543
Provision for bonuses	10,764	10,221	93,581
Provision for bonuses for directors (and other officers)	165	106	1,435
Retirement benefit expenses	242	(2,241)	2,106
Provision for retirement benefits for directors (and other officers)	17	13	145
Provision of allowance for doubtful accounts	113	(71)	987
Provision for warranties for completed construction	¥ 3,122	¥ 2,020	\$27,143

Research and development expenses charged to selling, general and administrative expenses for the fiscal years ended December 31, 2021 and 2020 were ¥2,488 million (\$21,628 thousand) and ¥1,883 million, respectively.

## 12. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Cash and time deposits	¥139,957	¥ 85,850	\$1,216,803
Less: Deposits which mature or become due over three months after the date of acquisition	(5,108)	(223)	(44,407)
Cash equivalents included in marketable securities	3,000	3,000	26,082
Restricted deposits	(2,813)	(1,406)	(24,457)
Cash equivalents included in short-term loans receivable	35,000	34,999	304,291
Cash and cash equivalents	¥170,035	¥122,220	\$1,478,312

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net gain on acquisition of shares for the year ended December 31, 2021 were mainly as follows:

Kouei Kousan K.K., Cohan Kensetsu Inc. and 3 other companies

	Millions of yen	Thousands of U.S. dollars
	December 31, 2021	December 31, 2021
Current assets	¥9,869	\$85,804
Non-current assets	5,503	47,842
Goodwill	2,101	18,270
Current liabilities	(7,571)	(65,825)
Long-term liabilities	(2,200)	(19,125)
Non-controlling interests	(2,502)	(21,756)
Acquisition cost	5,200	45,210
Cash and cash equivalents	(7,298)	(63,452)
Net gain on acquisition of shares	¥2,098	\$18,243

The breakdown of assets and liabilities acquired through the business transfer and the relationship between the transfer price of the business and the expenditure for the business transfer for the year ended December 31, 2020 were mainly as follows:

DRB Group (DRB Group Georgia, LLC and DRB Group Alabama, LLC)

	Millions of yen
	December 31, 2020
Current assets	¥13,059
Non-current assets	60
Goodwill	1,470
Current liabilities	(6)
Acquisition cost	14,583
Cash and cash equivalents	—
Accounts payable	(623)
Net expenditure for business transfer	¥13,960

## 13. Shareholders' Equity

The Japanese Corporate Law ("the Law") enforced on May 1, 2006 provides that an amount equivalent to 10% of cash dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends. Legal reserve and additional paid-in capital may be reversed without limitation and no further appropriation is required when the sum of legal reserve and additional paid-in capital equals 25% of the common stock.

The Law also provides that the common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of shareholders.

The balances of the legal reserve of the Company at December 31, 2021 and 2020, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$24,840 thousand) and ¥2,857 million, respectively.

Year-end dividends are approved by shareholders at a meeting held

subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Law.

## 14. Finance Leases

(Lessee)

Depreciation costs of finance lease transactions that do not transfer ownership are calculated based on the straight-line method over the lease periods of the leased assets, with no residual value of the assets at the end of the lease periods.

Disclosure of information concerning lease transactions as lessor has been omitted, due to insignificance of disclosure of such information in the consolidated financial statements.

## 15. Contingent Liabilities

Contingent liabilities as of December 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Guarantee on loans from financial institutions:			
Customers using housing loans	¥28,516	¥19,776	\$247,921
Kanda Biomass Energy K.K.	19,155	12,298	166,535
Affiliated companies of Crescent Communities group	17,188	23,161	149,438
Morinomiyako Biomass Energy G.K.	4,004	2,066	34,807
DRSFA, LLC*	332	—	2,885
Kawasaki Biomass Electric Power Co., Ltd.	113	263	978

\*DRSFA, LLC, which was not disclosed in the previous fiscal year, is presented in above table from the current year due to increase in materiality.

## 16. Matured Notes at the End of the Fiscal Year

Matured notes are settled on the clearance dates. The following notes are included in the consolidated balance sheets as of December 31, 2021 and 2020 as the maturity date was on a business holiday for financial institutions in Japan.

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Notes receivable	¥6,222	¥6,018	\$54,093
Notes payable	¥3,875	¥3,196	\$33,686

## 17. Financial Instruments

### (a) Policy for financial instruments

The Companies invest temporary cash surplus in financial assets with high degrees of safety and mainly use bank loans and bonds payable in order to raise funds. Furthermore, the Companies use derivative transactions to mitigate the risk of currency exchange rates related to normal foreign currency-denominated transactions and the risk of interest rate fluctuation related to interest payment for loans, and do not conduct for speculative purposes.

### (b) Details of financial instruments and related risk

Trade receivables are exposed to customers' credit risk. Short-term borrowings are mainly used for repurchase agreement that has a contract with a financial institution with a rating of more than a certain

level, and therefore credit risk is insignificant. Marketable securities are mainly negotiable deposit certificates subject to settlement in the short term. Investment securities are mainly bonds for held-to-maturity and equities of customers and suppliers of the Companies and those are exposed to market price fluctuation risk. Almost all of trade payables have payment due dates within one year. Bank loans and bonds payable are mainly used for operating capital expenses and capital investment. Although bank loans with floating rate interest are exposed to market risk of interest rate fluctuation, the Companies use derivative transactions (interest rate swaps) for hedging a part of such loans. Derivative transactions include forward foreign currency exchange contracts and currency swaps to mitigate market risk of fluctuation in foreign currency exchange rates related to foreign currency-denominated transactions and interest rate swaps to mitigate market risk of interest rate fluctuation related to interest payments for borrowings.

### (c) Risk management for financial instruments

(Credit risk management)

The Companies review due date and receivable balance of each customer in accordance with the Credit Management Guideline. In addition, the Companies monitor credit standing of principal customers at least once a year.

(Risk management of foreign currency exchange rate fluctuation and interest rate fluctuation)

With respect to investment securities, the Companies regularly monitor prices and the issuer's financial status. Except for held-to-maturity bonds, the Companies constantly review investment strategy by taking the market situation and relationship with issuers into consideration. Derivative transactions are executed and managed in accordance with internal rules and policies by the responsible section of each Group Company, and the status of derivative positions is reported regularly to the Board of Directors.

The Companies believe that market risk relating to derivative instruments is very low since the contracts entered into are spread among highly creditworthy financial institutions both in Japan and abroad.

(Risk management of liquidity risk that the Companies cannot meet its contractual obligation in full on maturity dates)

The Finance Department of the Company manages liquidity risk by establishing and revising cash flow plan based on reports from each section.

### (d) Supplementary explanation of items relating to the fair values of financial instruments

The fair values of financial instruments include market prices or reasonably estimated values if there are no market prices. Because estimation of fair values incorporates variable factors, adopting different assumptions can change the values.

### (e) Fair value of financial instruments

Fair values of financial instruments were as follows. Items for which fair values are extremely difficult to establish are not included in the following table.

	Millions of yen		
	December 31, 2021		
	Carrying amount	Fair value	Difference
Cash and deposits	¥ 139,957	¥ 139,957	¥ —
Notes and accounts receivable – trade	140,075	140,075	—
Marketable securities and investment securities:			
Held-to-maturity	759	766	6
Shares in affiliates	41,608	36,285	(5,323)
Available-for-sale	80,809	80,809	-
Total	¥ 403,208	¥ 397,892	¥(5,316)
Notes and accounts payable – trade	¥(134,065)	¥(134,065)	¥ —
Accounts payable for construction contracts	(98,165)	(98,165)	—
Bonds payable**	(90,164)	(90,021)	(143)
Long-term borrowings***	(186,466)	(185,990)	(476)
Total	¥(508,859)	¥(508,241)	¥ (618)
Derivatives****:			
Hedge accounting not applied	¥ 62	¥ 62	¥ —
Hedge accounting applied	5,115	5,115	—
Total	¥ 5,177	¥ 5,177	¥ —

	Millions of yen		
	December 31, 2020		
	Carrying amount	Fair value	Difference
Cash and deposits	¥ 85,850	¥ 85,850	¥ —
Notes and accounts receivable – trade	119,687	119,687	—
Marketable securities and investment securities:			
Held-to-maturity	964	977	13
Shares in affiliates	33,917	24,320	(9,597)
Available-for-sale	90,710	90,710	—
Total	¥ 331,129	¥ 321,546	¥(9,584)
Notes and accounts payable – trade	¥(111,612)	¥(111,612)	¥ —
Accounts payable for construction contracts	(80,219)	(80,219)	—
Bonds payable	(90,000)	(89,726)	(274)
Long-term borrowings***	(161,614)	(160,905)	(709)
Total	¥(443,445)	¥(442,462)	¥ (983)
Derivatives****:			
Hedge accounting not applied	¥ 110	¥ 110	¥ —
Hedge accounting applied	2,741	2,741	—
Total	¥ 2,851	¥ 2,851	¥ —

	Thousands of U.S. dollars		
	December 31, 2021		
	Carrying amount	Fair value	Difference
Cash and deposits	\$ 1,216,803	\$ 1,216,803	\$ —
Notes and accounts receivable – trade	1,217,835	1,217,835	—
Marketable securities and investment securities:			
Held-to-maturity	6,602	6,657	54
Shares in affiliates	361,742	315,467	(46,275)
Available-for-sale	702,564	702,564	—
Total	\$ 3,505,547	\$ 3,459,326	\$(46,221)
Notes and accounts payable – trade	\$(1,165,578)	\$(1,165,578)	\$ —
Accounts payable for construction contracts	(853,459)	(853,459)	—
Bonds payable**	(783,898)	(782,657)	(1,241)
Long-term borrowings***	(1,621,160)	(1,617,026)	(4,134)
Total	\$(4,424,095)	\$(4,418,720)	\$ (5,376)
Derivatives****:			
Hedge accounting not applied	\$ 536	\$ 536	\$ —
Hedge accounting applied	44,474	44,474	—
Total	\$ 45,010	\$ 45,010	\$ —

\* Liabilities are shown in brackets.  
\*\* Bonds payable include the current portion.  
\*\*\* Long-term borrowings include the current portion.  
\*\*\*\* Assets and liabilities from derivatives transactions are shown in the net amount. If the total is negative, the amount is shown in brackets.

Notes:

### 1. Method of estimating the fair values of financial instruments and items relating to securities and derivative transactions

#### (1) Assets

(Cash and deposits, Notes and accounts receivable - trade)

Because these are settled in the short term, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(Marketable securities and investment securities)

The fair values of equity securities, including shares in affiliates, are based on market prices. The fair values of debt securities are based on market prices or quoted prices obtained from financial institutions. For negotiable deposit certificates, the book value is almost the same as the market value because of their short maturities.

#### (2) Liabilities

(Notes and accounts payable - trade, Accounts payable for construction contracts)

Because these are settled in the short term, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(Bonds payable)

The fair values of bonds payable are mainly based on market prices.

(Long-term borrowings)

The fair values of long-term borrowings with floating interest rates approximate book values because the interest rate of long-term borrowings reflects market interest rate quickly and the Company's credit standing has not changed significantly since implementing the loans. Therefore, relevant book values are used. The fair values of long-term borrowings with fixed interest rates are principally estimated by discounting based on estimated interest rates if similar new borrowings were implemented.

#### (3) Derivative transactions

See Note 18.

### 2. Financial instruments whose fair values are extremely difficult to determine

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Unlisted equity securities	¥ 3,243	¥2,839	\$ 28,196
Investment in affiliates	58,320	50,036	507,046

### 3. The redemption schedule for monetary claims and held-to-maturity debt securities after the consolidated balance sheet date

	Millions of yen			
	December 31, 2021			
	1 year or less	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
Cash and deposits	¥139,267	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	140,075	—	—	—
Marketable securities and investment securities:				
Government bonds	303	406	50	—
Other	3,000	—	—	—
Total	¥282,646	¥406	¥50	¥—

	Millions of yen			
	December 31, 2020			
	1 year or less	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
Cash and deposits	¥ 85,672	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	119,687	—	—	—
Marketable securities and investment securities:				
Government bonds	204	709	50	—
Other	3,000	—	—	—
Total	¥208,564	¥709	¥50	¥—

	Thousands of U.S. dollars			
	December 31, 2021			
	1 year or less	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
Cash and deposits	\$1,210,811	\$ —	\$ —	\$ —
Notes and accounts receivable - trade	1,217,835	—	—	—
Marketable securities and investment securities:				
Government bonds	2,634	3,530	435	—
Other	26,082	—	—	—
Total	\$2,457,363	\$3,530	\$435	\$ —

## 18. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at December 31, 2021 and 2020 were as follows:

	Millions of yen			
	December 31, 2021			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥3,796	¥ —	¥62	¥62
Sell (U.S. dollar)	—	—	—	—
Total	¥3,796	¥ —	¥62	¥62

	Millions of yen			
	December 31, 2020			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,728	¥ —	¥104	¥104
Sell (U.S. dollar)	313	—	6	6
Total	¥2,041	¥ —	¥110	¥110

	Thousands of U.S. dollars			
	December 31, 2021			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	\$33,006	\$ —	\$536	\$536
Sell (U.S. dollar)	—	—	—	—
Total	\$33,006	\$ —	\$536	\$536

Note: The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

Derivative transactions to which hedge accounting is applied at December 31, 2021 and 2020 were as follows:



Millions of yen				
December 31, 2021				
Hedged item	Contract amount	Contract amount due after one year	Fair value	
Forward foreign currency exchange contracts:				
Accounted for by the deferred hedge method:				
Sell (U.S. dollar)	¥ 6,347	¥ —	¥ (71)	
Sell (Euro)	5,943	—	(50)	
Sell (Thai baht)	8,938	8,938	283	
Buy (U.S. dollar)	29,861	15,732	4,888	
Buy (Euro)	14,018	—	68	
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable - trade	374	—	*
<b>Total</b>	<b>¥65,480</b>	<b>¥24,670</b>	<b>¥5,119</b>	
Interest rate swap contracts:				
Accounted for by the deferred hedge method:				
Pay fixed / receive variable	Long-term borrowings	¥ 100	¥ 73	¥ (3)
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term borrowings	¥ 1,810	¥ 927	*
<b>Total</b>	<b>¥ 1,910</b>	<b>¥ 1,000</b>	<b>¥ (3)</b>	
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term borrowings	¥ —	¥ —	¥ —
<b>Total</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	

Thousands of U.S. dollars				
December 31, 2021				
Hedged item	Contract amount	Contract amount due after one year	Fair value	
Forward foreign currency exchange contracts:				
Accounted for by the deferred hedge method:				
Sell (U.S. dollar)	\$ 55,178	\$ —	\$ (615)	
Sell (Euro)	51,670	—	(435)	
Sell (Thai baht)	77,707	77,707	2,462	
Buy (U.S. dollar)	259,617	136,775	42,500	
Buy (Euro)	121,872	—	591	
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable - trade	3,250	—	*
<b>Total</b>	<b>\$569,294</b>	<b>\$214,482</b>	<b>\$44,503</b>	
Interest rate swap contracts:				
Accounted for by the deferred hedge method:				
Pay fixed / receive variable	Long-term borrowings	\$ 869	\$ 633	\$ (29)
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term borrowings	\$ 15,736	\$ 8,058	*
<b>Total</b>	<b>\$ 16,606</b>	<b>\$ 8,691</b>	<b>\$ (29)</b>	
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term borrowings	\$ —	\$ —	\$ —
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	

\* Derivative transactions that meet certain hedging criteria, regarding forward foreign currency exchange contracts, or interest rate swap contracts, are treated in combination with the hedged items; trade accounts receivable - trade accounts payable or long-term borrowings, and the fair values of these derivatives are included in those of the hedged items.

Note: The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

## 19. Employees' Retirement Benefits and Pension Plans

The Company and most of its consolidated subsidiaries have either funded or unfunded defined benefit plans and/or defined contribution plans. Certain domestic consolidated subsidiaries have a Smaller Enterprise Retirement Allowance Mutual Aid Plan.

The Company and its consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans, annuity payment plans, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities. In certain cases, special retirement benefits may be paid to employees.

The changes in the retirement benefit liabilities for the fiscal years ended December 31, 2021 and 2020 were as follows (except for the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance at the beginning of the year	¥79,813	¥79,127	\$693,908
Service cost	3,488	2,622	30,327
Interest cost	480	265	4,170
Actuarial gain and loss	(252)	(718)	(2,192)
Retirement benefits paid	(2,263)	(1,654)	(19,678)
Prior service cost	(7)	108	(58)
Decrease due to transition to defined contribution pension plan	(173)	—	(1,500)
Increase due to new consolidation	827	—	7,192
Other	160	63	1,389
<b>Balance at the end of the year</b>	<b>¥82,073</b>	<b>¥79,813</b>	<b>\$713,558</b>

The changes in plan assets for the fiscal years ended December 31, 2021 and 2020 were as follows (except for the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance at the beginning of the year	¥62,727	¥57,932	\$545,361
Expected return on plan assets	1,192	826	10,362
Actuarial gain and loss	2,983	4,104	25,937
Contributions	1,768	1,341	15,370
Retirement benefits paid	(1,889)	(1,476)	(16,421)
<b>Balance at the end of the year</b>	<b>¥66,782</b>	<b>¥62,727</b>	<b>\$580,609</b>

The changes in the retirement benefit liabilities, which were calculated by the simplified method for the fiscal years ended December 31, 2021 and 2020, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance at the beginning of the year	¥1,288	¥1,287	\$11,198
Retirement benefit expense	268	143	2,331
Retirement benefits paid	(221)	(64)	(1,922)
Contributions	(71)	(71)	(614)
Other	1	(8)	12
<b>Balance at the end of the year</b>	<b>¥1,266</b>	<b>¥1,288</b>	<b>\$11,006</b>

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of December 31, 2021 and 2020 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Funded retirement benefit obligation	¥75,519	¥74,748	\$656,569
Plan assets at fair value	(67,758)	(63,602)	(589,097)
	<b>7,761</b>	<b>11,146</b>	<b>67,471</b>
Unfunded retirement benefit obligation	8,797	7,227	76,483
Net retirement benefit liability in the balance sheet	16,558	18,374	143,955
Retirement benefit liability	17,148	18,700	149,088
Retirement benefit assets	(590)	(326)	(5,134)
Net retirement benefit liability in the balance sheet	<b>¥16,558</b>	<b>¥18,374</b>	<b>\$143,955</b>

The components of retirement benefit expense for the fiscal years ended December 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Service cost	¥3,488	¥2,622	\$30,327
Interest cost	480	265	4,170
Expected return on plan assets	(1,192)	(826)	(10,362)
Amortization of actuarial gain and loss	(3,260)	(4,823)	(28,339)
Amortization of prior service cost	(7)	108	(58)
Retirement benefit expense under the simplified method	268	143	2,331
Other	24	—	207
Retirement benefit expense	(198)	(2,509)	(1,724)
Gain on transition to defined contribution pension plan	¥ 5	¥ —	\$ 39

The fair value of plan assets, by major category, as a percentage of total plan assets at December 31, 2021 and 2020 were as follows:

	December 31, 2021	December 31, 2020
Bonds	43%	44%
Stocks	29%	28%
General account	12%	12%
Other	15%	16%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	December 31, 2021	December 31, 2020
Discount rates	0.000%-0.770%	0.000%-0.729%
Expected rates of return plan assets	1.9%	1.9%
Expected rate of salary increase (point based plan)	5.0%	5.0%

Contributions to defined contribution plans (including multi-employer plans treated as defined contribution plans) of the Company and its consolidated subsidiaries were ¥1,604 million (\$13,943 thousand) and

¥1,080 million for the fiscal years ended December 31, 2021 and 2020, respectively.

## 20. Investment Property

The Company and some of its consolidated subsidiaries hold some rental properties such as rental condominiums in Tokyo and other areas and overseas (mainly in the United States). The net rental income from the investment properties (the income is recorded in net sales and the expense is principally charged to cost of sales) was ¥334 million for the fiscal year ended December 31, 2020. The net rental income from the investment properties (the income is recorded in net sales and the expense is principally charged to cost of sales) was ¥1,208 million (\$10,501 thousand) and gain on sales of non-current assets (recorded as extraordinary gains) was ¥231 million (\$2,009 thousand) for the fiscal year ended December 31, 2021. The amounts recognized in the consolidated balance sheets and fair values related to investment properties were as follows:

Millions of yen				Thousands of U.S. dollars	
December 31, 2021		December 31, 2020		December 31, 2021	
Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
¥28,509	¥27,834	¥32,786	¥31,406	\$247,861	\$241,990

The main components of net change in carrying amount above included an increase of ¥13,624 million (\$118,446 thousand) due to acquisitions of real estate, an increase of ¥1,106 million (\$9,618 thousand) due to business combinations and an increase of ¥1,875 million (\$16,298 thousand) due to exchange rate fluctuations and a decrease of ¥20,185 million (\$175,495 thousand) due to change in the holding purpose of properties to real estate for sale, a decrease of ¥385 million (\$3,343 thousand) due to sales of real estate and a decrease of ¥311 million (\$2,708 thousand) due to depreciation for the fiscal year ended December 31, 2021.

Additionally, fair value is evaluated mainly by third-party appraisers.

## 21. Revenue Recognition

Revenue from contracts with customers is recognized based on the following five-step approach, at the amount of consideration for which the Company expects to be entitled in exchange for goods or services when the control of the promised goods or services is transferred to the customer.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies the performance obligation

### (1) Revenue from sales of goods

Revenue from the sales of goods mainly includes the sales of timber and building materials through wholesale, retail, manufacturing and processing, and the sales of real estate for sale. At the time of delivery, the performance obligation is satisfied with the customer having control over the goods, and the Company recognizes revenue at that time.

### (2) Revenue from construction contracts

Revenue from construction contracts mainly includes construction of detached houses and development of multi-family homes. Revenue is

recognized over a certain period of time as the performance obligation is satisfied. The method of estimating the progress on the performance obligations satisfied over time is mainly the input method based on costs incurred.

However, for construction contracts for which the period from the commencement date of the contract to the date when it is expected that the performance obligation will be fully satisfied is very short, revenue is not recognized over a certain period of time, and the performance obligation is judged to be satisfied at the time of delivery, and revenue is recognized at that time.

### (3) Revenue from services and other sales

Revenue from services and other sales mainly includes commissions related to agency transactions for timber and building materials, commissions related to guarantee services for detached houses and multi-family housing, and commissions related to the management and brokerage of real estate. Revenue from these transactions is recognized when the performance obligation is satisfied when the contractual terms of the contracts are fulfilled. For transactions that satisfy the performance obligation over a certain period of time, revenue is recognized based on the degree of progress in satisfying the performance obligation.

## 22. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance. The Group's operations are based on the comprehensive strategies for products and services planned by each division. Accordingly, the Group is classified into four segments (Timber and Building Materials, Housing and Construction, Overseas Housing and Real Estate, and Environment and Resources) based on division and identified by products, services and geographical areas:

Timber and Building Materials: procurement, manufacture, processing and sale of timber and building materials, etc.

Housing and Construction: construction, maintenance and renovation of detached houses and apartment buildings, sale of spec homes, leasing, management, purchase and sale and brokerage of real estate, house exterior fixtures, landscaping works contracting, urban greening works, CAD, site surveys, etc.

Overseas Housing and Real Estate: sale of spec homes, and construction of detached houses, development of multi-family housing and commercial complexes in overseas markets, etc.

Environment and Resources: biomass power generation business and forestation, etc.

Other: private pay-elderly care facilities and elderly residence that combines living support service business, insurance agency business, and civil engineering and construction work, etc.

As of/Fiscal year ended December 31, 2021	Millions of yen								
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥195,800	¥510,627	¥643,740	¥20,987	¥1,371,155	¥14,181	¥1,385,336	¥ 594	¥1,385,930
Inter-segment transfers	21,058	312	832	1,312	23,514	9,762	33,277	(33,277)	—
Total	216,858	510,939	644,573	22,299	1,394,669	23,944	1,418,613	(32,683)	1,385,930
Segment profit (loss)	9,984	19,641	104,334	3,931	137,889	3,012	140,901	(3,150)	137,751
Segment assets	219,948	198,747	540,636	89,708	1,049,039	78,722	1,127,761	186,464	1,314,226
Other items:									
Depreciation and amortization	3,341	4,992	2,878	2,109	13,321	2,097	15,418	1,074	16,491
Amortization of goodwill	—	263	1,763	—	2,025	84	2,110	—	2,110
Interest income	29	11	328	14	382	0	382	12	393
Interest expense	515	461	2,416	566	3,958	226	4,184	(1,965)	2,219
Equity in earnings (losses) of affiliates	(19)	(53)	14,141	670	14,739	3,043	17,782	0	17,782
Investments in affiliates	8,566	570	46,959	4,611	60,707	39,214	99,921	7	99,928
Increase in property, plant and equipment and intangible assets	3,195	4,706	13,132	4,257	25,289	1,145	26,434	144	26,579

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥594 million (\$5,168 thousand) of administration department profit.  
2. Adjustments for segment profit and loss include ¥182 million (\$1,581 thousand) of elimination of inter-segment profit and loss, ¥3,260 million (\$28,339 thousand) of retirement benefits liability adjustments (gain) and ¥6,227 million (\$54,142 thousand) of corporate general administration expense, which are not allocable to the reportable segments.  
3. Adjustments for segment assets include ¥11,671 million (\$101,469 thousand) of inter-segment eliminations, ¥198,135 million (\$1,722,616 thousand) of corporate assets, which are not allocable to the reportable assets.

As of/Fiscal year ended December 31, 2020	Millions of yen								
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥131,112	¥332,007	¥351,842	¥14,233	¥829,193	¥10,239	¥839,432	¥ 449	¥ 839,881
Inter-segment transfers	13,541	309	529	825	15,204	8,163	23,367	(23,367)	—
Total	144,652	332,316	352,371	15,058	844,397	18,402	862,798	(22,918)	839,881
Segment profit (loss)	2,334	8,454	44,032	1,683	56,503	757	57,259	(5,966)	51,293
Segment assets	187,331	182,111	378,772	99,435	847,649	80,961	928,610	162,542	1,091,152
Other items:									
Depreciation and amortization	2,302	3,487	1,945	1,533	9,267	1,559	10,826	677	11,503
Amortization of goodwill	—	—	848	80	928	126	1,055	—	1,055
Interest income	24	14	131	50	219	0	219	12	232
Interest expense	418	363	1,921	315	3,017	142	3,159	(1,329)	1,830
Equity in earnings (losses) of affiliates	(738)	(702)	3,484	(5)	2,039	1,279	3,318	0	3,318
Investments in affiliates	6,427	623	37,590	1,978	46,618	37,328	83,946	7	83,953
Increase in property, plant and equipment and intangible assets	3,027	3,962	9,345	1,837	18,171	1,150	19,321	1,770	21,090

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥449 million of administration department profit.  
2. Adjustments for segment profit and loss include ¥429 million of elimination of inter-segment profit and loss, ¥4,823 million of retirement benefits liability adjustments (gain), ¥6,422 million of adjustment (loss) to provision for bonuses associated with the change of fiscal year end, and ¥3,938 million of corporate general administration expense, which are not allocable to the reportable segments.  
3. Adjustments for segment assets include ¥8,986 million of inter-segment eliminations, ¥171,528 million of corporate assets, which are not allocable to the reportable assets.

As of/Fiscal year ended December 31, 2021	Thousands of U.S. dollars								
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	\$1,702,314	\$4,439,462	\$5,596,768	\$182,467	\$11,921,011	\$123,294	\$12,044,305	\$ 5,168	\$12,049,473
Inter-segment transfers	183,082	2,716	7,238	11,403	204,438	84,876	289,314	(289,314)	—
Total	1,885,396	4,442,178	5,604,006	193,870	12,125,449	208,170	12,333,619	(284,146)	12,049,473
Segment profit (loss)	86,802	170,757	907,095	34,174	1,198,828	26,183	1,225,011	(27,384)	1,197,627
Segment assets	1,912,255	1,727,934	4,700,368	779,937	9,120,494	684,421	9,804,914	1,621,147	11,426,062
Other items:									
Depreciation and amortization	29,048	43,404	25,024	18,338	115,814	18,228	134,043	9,335	143,378
Amortization of goodwill	—	2,284	15,325	—	17,608	732	18,341	—	18,341
Interest income	250	95	2,850	124	3,318	0	3,318	101	3,419
Interest expense	4,474	4,005	21,008	4,922	34,408	1,967	36,375	(17,083)	19,292
Equity in earnings (losses) of affiliates	(165)	(461)	122,940	5,824	128,139	26,460	154,599	3	154,602
Investments in affiliates	74,474	4,957	408,270	40,092	527,793	340,934	868,727	61	868,788
Increase in property, plant and equipment and intangible assets	27,775	40,911	114,170	37,012	219,868	9,956	229,824	1,255	231,079



(Related information)

## (1) Products and services information

Fiscal year ended December 31, 2021	Millions of yen			
	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥202,600	¥1,154,367	¥28,964	¥1,385,930

Fiscal year ended December 31, 2020	Millions of yen			
	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥134,135	¥683,849	¥21,896	¥839,881

Fiscal year ended December 31, 2021	Thousands of U.S. dollars			
	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$1,761,429	\$10,036,230	\$251,814	\$12,049,473

## (2) Geographic area information

Sales information by geographic area was as follows:

Fiscal year ended December 31, 2021	Millions of yen			
	Japan	United States	Other Area	Total
	¥681,565	¥560,373	¥143,993	¥1,385,930

Fiscal year ended December 31, 2020	Millions of yen			
	Japan	United States	Other Area	Total
	¥459,790	¥295,290	¥84,801	¥839,881

Fiscal year ended December 31, 2021	Thousands of U.S. dollars			
	Japan	United States	Other Area	Total
	\$5,925,620	\$4,871,958	\$1,251,894	\$12,049,473

Information of property, plant and equipment by geographical areas was as follows:

Fiscal year ended December 31, 2021	Millions of yen				
	Japan	New Zealand	United States	Other Area	Total
	¥106,996	¥34,734	¥18,383	¥24,070	¥184,183

Fiscal year ended December 31, 2020	Millions of yen				
	Japan	New Zealand	United States	Other Area	Total
	¥105,530	¥33,381	¥24,172	¥22,865	¥185,948

Fiscal year ended December 31, 2021	Thousands of U.S. dollars				
	Japan	New Zealand	United States	Other Area	Total
	\$930,242	\$301,978	\$159,828	\$209,265	\$1,601,313

## (3) Customer information

Customer information has been omitted since sales and contract revenues from no single customer exceeded 10% of consolidated net sales.

(Information of loss on impairment of non-current assets)

Fiscal year ended December 31, 2021	Millions of yen						
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Loss on impairment of non-current assets	¥161	¥—	¥—	¥—	¥3,416	¥241	¥3,819

Fiscal year ended December 31, 2020	Millions of yen						
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Loss on impairment of non-current assets	¥—	¥—	¥—	¥—	¥98	¥—	¥98

Fiscal year ended December 31, 2021	Thousands of U.S. dollars						
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Loss on impairment of non-current assets	\$1,404	\$—	\$—	\$—	\$29,702	\$2,098	\$33,205

(Amortization and balance of goodwill)

As of/Fiscal year ended December 31, 2021	Millions of yen						
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥—	¥ 263	¥1,763	¥—	¥84	¥—	¥2,110
Balance of goodwill	—	1,839	2,720	—	—	—	4,559

As of/Fiscal year ended December 31, 2020	Millions of yen						
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥—	¥—	¥ 848	¥80	¥ 126	¥—	¥1,055
Balance of goodwill	—	—	4,155	—	2,401	—	6,556

As of/Fiscal year ended December 31, 2021	Thousands of U.S. dollars						
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Amortization of goodwill	\$—	\$ 2,284	\$15,325	\$—	\$732	\$—	\$18,341
Balance of goodwill	—	15,986	23,652	—	—	—	39,638

## 23. Amounts per Share

(a) Basic and diluted net income attributable to shareholders of parent per share

Details on the computation of net income per share and net income per share fully diluted as of December 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Net income attributable to shareholders of parent per share—Basic:			
Net income attributable to shareholders of parent	¥ 87,175	¥ 30,398	\$757,910
Net income not attributable to shares of common stock	—	—	—
Net income attributable to shares of common stock	87,175	30,398	757,910
Weighted average number of shares issued	190,465,847	181,442,403	—
Net income attributable to shareholders of parent per share fully diluted—Diluted:			
Adjusted net income attributable to shareholders of parent	—	—	—
Common shares increase	4,689,918	4,662,581	—
(Bonds with share acquisition rights)	(4,591,346)	(4,562,044)	—
(Share acquisition rights)	(98,572)	(100,537)	—

(b) Net assets per share

Details on the computation of net assets per share as of December 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Net assets per share:			
Total net assets	¥540,089	¥399,456	\$4,695,613
Amounts deducted from total net assets:			
(share acquisition rights)	(116)	(120)	(1,011)
(Non-controlling interests)	(44,361)	(31,875)	(385,683)
Net assets attributable to shares of common stock	495,612	367,461	4,308,919
The number of shares of common stock used for the calculation of net assets per share	199,862,667	181,450,748	—

## 24. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the fiscal years ended December 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Valuation difference on available-for-sale securities:			
Amount incurred during the year	¥ (9,770)	¥38,742	\$ (84,942)
Reclassification adjustments for gains and losses included in net income	(227)	839	(1,976)
Amount before tax effect	(9,997)	39,581	(86,918)
Tax effect	3,051	(12,006)	26,523
Valuation difference on available-for-sale securities	(6,947)	27,575	(60,395)
Deferred gains (losses) on hedges:			
Amount incurred during the year	1,958	(704)	17,027
Reclassification adjustments for gains and losses included in net income	0	(114)	2
Amount before tax effect	1,959	(818)	17,029
Tax effect	(622)	285	(5,409)
Deferred gains (losses) on hedges	1,337	(534)	11,621
Translation adjustments:			
Amount incurred during the year	24,967	(7,183)	217,066
Reclassification adjustments for gains and losses included in net income	(12)	(40)	(106)
Amount before tax effect	24,955	(7,223)	216,960
Tax effect	—	12	—
Translation adjustments	24,955	(7,211)	216,960
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	5,080	(2,657)	44,168
Reclassification adjustments for gains and losses included in net income	(64)	(266)	(553)
Share of other comprehensive income of affiliates accounted for by the equity method	5,017	(2,922)	43,614
Total other comprehensive income	¥24,361	¥16,908	\$211,800

## 25. Asset Retirement Obligations

In accordance with exhibition contracts at housing exhibition sites and tenancy contracts for offices, the Company and certain subsidiaries are obligated to remove leasehold improvements attached to these housing exhibitions and offices and return the property to its original state after vacating the premises.

The asset retirement obligations are determined and discounted to their present value using the discount rates ranging from 0.00% to 2.15% and the expected usage term ranging from 5 years to 49 years.

The changes in the asset retirement obligations for the fiscal years ended December 31, 2021 and 2020 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance at beginning of the year	¥2,489	¥2,235	\$21,638
Liability incurred for assets acquired	116	81	1,011
Change in estimates	242	343	2,102
Accretion expense	10	8	91
Liabilities settled	(119)	(178)	(1,030)
Balance at end of the year	¥2,739	¥2,489	\$23,811

## 26. Related Party Transactions

Principal transactions between the Company, its consolidated subsidiaries and their related parties for the fiscal years ended December 31, 2021 and 2020 were summarized as follows:

### Fiscal year ended December 31, 2021

Name	Title	Transactions	Millions of yen		Thousands of U.S. dollars	
			Amounts (Note 3)	Balance at the end of the year	Amounts (Note 3)	Balance at the end of the year
Kanda Biomass Energy K.K.	Affiliate	Guarantee of indebtedness (Note 1)	¥19,155	¥—	\$166,535	\$—
Relative of Akira Ichikawa	Director's relative	Contracting for housing construction (Note 2)	¥38	¥—	\$330	\$—
		Sale of land (Note 2)	¥56	¥—	\$483	\$—

Notes: 1. The Company provided guarantees of indebtedness as the requests of lending banks.  
2. The terms and conditions of the transactions were determined using the same methods as third party transactions.  
3. Transaction amounts do not include consumption tax, etc.

### Fiscal year ended December 31, 2020

Name	Title	Transactions	Millions of yen	
			Amounts (Note 3)	Balance at the end of the year (Note 3)
Kanda Biomass Energy K.K.	Affiliate	Guarantee of indebtedness (Note 1)	¥12,298	¥—
Relative of Toshiro Mitsuyoshi	Director's relative	Receipt of rent for private-pay elderly care facility (Note 2)	¥—	¥12

Notes: 1. The Company provided guarantees of indebtedness as the requests of lending banks.  
2. The terms and conditions of the transactions were determined using the same methods as third party transactions.  
3. Transaction amounts and balance at the end of the year do not include consumption tax, etc.

During the fiscal year ended December 31, 2021, amendments to the Air Pollution Control Act were enforced on April 1, 2021 and the range of building materials which contains asbestos and are therefore subjected to the act was expanded in order to prevent the dispersion of asbestos during demolition work of buildings. Estimates of necessary expenditure have accordingly been revised as new information was obtained regarding prevention measurements of the dispersion of asbestos such as quotation documents.

Consequently, the relevant asset retirement obligations have increased by ¥242 million (\$2,100 thousand) as a result of this change.

## 27. Business Combination

### (Business combination through acquisition)

#### 1. Summary of the business combination

- Name of the acquiree and business description  
Name of the acquiree: Kouei Kousan K.K., Cohnan Kensetsu Inc. and 3 other companies  
Description of business: Construction and related business
- Main reason for implementing the business combination  
Kouei Kousan K.K. is the holding company that owns 53.59% of the shares of Cohnan Kensetsu Inc. Cohnan Kensetsu Inc. is a construction company based in Osaka and Tokyo. Leveraging of its consistent support from project proposal to design, construction and after-maintenance, Cohnan Kensetsu Inc. has extensive construction experience involving condominiums, commercial facilities, schools, welfare facilities and research and production facilities. The purpose of this acquisition is to strengthen medium- and large-scale wooden construction business, which promotes the use of wood in non-residential building construction.
- Date of the business combination  
January 18, 2021
- Legal form of the business combination  
Acquisition of the shares for a cash consideration
- Name of company after business combination  
No change in name
- Ratio of voting rights acquired  
Kouei Kousan K.K.: 100%  
Cohnan Kensetsu Inc. and 3 other companies: 53.59%
- Main reasons for determining the acquirer  
The Company acquired the shares for a cash consideration

#### 2. Period for which the business results of the acquiree are included in the consolidated financial statements of the Company

The period is from January 1, 2021 to December 31, 2021 as the deemed acquisition date was January 1, 2021.

#### 3. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisition: Cash ¥5,200 million (\$45,210 thousand)  
Acquisition cost: ¥5,200 million (\$45,210 thousand)

Note: The above amount includes the account payable of the contingent consideration.

#### 4. Description and amount of primary acquisition-related costs

Advisory fee: ¥141 million (\$1,230 thousand)

#### 5. Amount of goodwill, reason for recognition, and amortization method and period

- Amount of goodwill  
¥2,101 million (\$18,270 thousand)
- Reason for recognition  
The acquisition cost exceeded the fair value of net assets acquired at the date of business combination.
- Amortization method and period  
Straight-line amortization over 8 years

#### 6. Assets acquired and liabilities assumed at the acquisition date

	Millions of yen	Thousands of U.S. dollars
Current assets	¥9,869	\$85,804
Non-current assets	5,503	47,842
Total assets	15,372	133,645
Current liabilities	(7,571)	(65,825)
Long-term liabilities	(2,200)	(19,125)
Total liabilities	¥(9,771)	\$(84,950)

## 28. Stock Option Plan

### (a) Stock option expenses per accounts for the fiscal years ended December 31, 2021 and 2020

None.

### (b) Description of stock options

#### (1) Description of stock options

	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Individuals covered by the plan	Directors of the Company: 8 Executive officers of the Company: 11 Total: 19	Directors of the Company: 8 Executive officers of the Company: 13 Total: 21	Directors of the Company: 8 Executive officers of the Company: 12 Total: 20
Number of stock options granted by class of share (Note)	Common stock: 38,800 shares	Common stock: 41,400 shares	Common stock: 38,500 shares
Grant date	August 20, 2015	August 19, 2016	August 18, 2017
Vesting conditions	No provisions	No provisions	No provisions
Eligible service period	No provisions	No provisions	No provisions
Exercise period	From August 21, 2015 to August 20, 2035	From August 20, 2016 to August 19, 2036	From August 19, 2017 to August 18, 2037

Note: Converted into the number of equivalent shares.

#### (2) Volume and changes in stock options

The number of stock options is converted into the number of equivalent shares.



## 1) Number of stock options

Fiscal Year ended December 31, 2021	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Unvested stock options			
As of December 31, 2020	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested as of December 31, 2021	—	—	—
Vested stock options			
As of December 31, 2020	29,600	36,800	34,200
Vested	—	—	—
Exercised	1,000	900	900
Forfeited	—	—	—
Unexercised as of December 31, 2021	28,600	35,900	33,300

## 2) Unit price information

Fiscal Year ended December 31, 2021	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price when exercised	2,175	2,038	2,038
Fair unit value on the grant date	¥1,233	¥1,092	¥1,256

Fiscal Year ended December 31, 2021	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01
Average stock price when exercised	18.91	17.72	17.72
Fair unit value on the grant date	\$10.72	\$ 9.49	\$10.92

## (c) Method for estimating a fair unit value for stock options

No stock options were granted in the fiscal year ended December 31, 2021.

## (d) Method for estimating the number of vested stock options

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been forfeited is reflected.

## 29. Additional Information

## (Effects of COVID-19 on Accounting Estimates)

In the fiscal year under review, in light of the prolonged effect of COVID-19, the Company reviewed its business plan for the operation of fee-based nursing homes and serviced elderly housing, and as a result recorded an impairment loss related to this business. Although it is extremely difficult to predict the future spread of COVID-19 or when it will end, there has been no significant effect on the Group, while there was a certain effect on the results for the fiscal year under review.

Therefore, to determine the recoverability of deferred tax assets and the recognition of impairment loss, the Company makes the best estimates assuming that the impact of COVID-19 will continue to be minor, based on information available at the time of preparation of the consolidated financial statements. However, if the conditions or assumptions on which these estimates were made changes, reversal of deferred tax assets or additional recognition of impairment loss on the consolidated financial statements may be required in the following fiscal year.

## Independent Auditor's Report

The Board of Directors  
Sumitomo Forestry Co., Ltd.

## Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

## Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of goodwill and other non-current assets related to Sumirin Care Life Co., Ltd.	
Description of Key Audit Matter	Auditor's Response
<p>The Company recognized property, plant and equipment and intangible assets of ¥204,854 million (15.6% of total assets) as of the end of the current fiscal year in its consolidated balance sheet. As described in Note 9, "Loss on Impairment of Non-Current Assets," the Company recognized impairment loss for the fiscal year of ¥3,416 million on such goodwill and other non-current assets related to Sumirin Care Life Co., Ltd., which operates private-pay elderly care facilities and elderly residence that combines living support service.</p> <p>Whenever indications of impairment exist for an asset or an asset group, the Company determines whether or not the recognition of impairment loss is necessary. When the Company determines that an impairment loss should be recognized, the Company reduces the carrying amount of an asset to the recoverable amount and the difference is recognized as an impairment loss. The recoverable amount is measured by either the net realizable value or value in use whichever is higher.</p> <p>The Company revised Sumirin Care Life's business plan considering the business environment due to the impact of the Covid-19 pandemic. As a result, the recoverable amount was less than the book value based on the revised business plan, and the Company recognized the impairment loss for goodwill and other non-current assets as stated above related to the business.</p> <p>The Company calculates value in use as the discounted present value of the future cash flows, and the net realizable value based on the appraisal value. Future cash flows are based on business plans reported to the Management Committee and other bodies held in the fiscal year.</p> <p>As described in the note 5, "Significant Accounting Judgments, Estimates and Assumptions", significant assumptions in estimating the value in use include the number of new residents, the number of residents who have left and discount rate, which serve as the basis of the business plan.</p> <p>Given that the significant assumptions used to estimate the recoverable amount involve uncertainty and require management judgement, we determined impairment of goodwill and other non-current assets related to Sumirin Care Life Co., Ltd. to be a key audit matter.</p>	<p>The audit procedures we performed to assess impairment loss on goodwill and other non-current assets related to Sumirin Care Life include the following, among others:</p> <ul style="list-style-type: none"> <li>• We compared the Company's business plan, which the Company prepared when acquiring the target company, to evaluate goodwill and other non-current assets for prior years with actual results to assess the effectiveness of management's estimation process.</li> <li>• We considered the consistency between the future cash flows used in the calculation of value in use and the business plan reported to the Management Committee and other bodies, which is the basis for the calculation of future cash flows.</li> <li>• We compared the cash flow projection period with the remaining goodwill amortization period.</li> <li>• To understand the significant assumptions in the estimation of future cash flows, including the impact of Covid-19, we inquired with the management of Sumirin Care Life and the personnel of the Company who are responsible for the business department.</li> <li>• With regard to the number of new residents and residents who have left, which are significant assumptions, we performed the following procedures for facilities that have been open for a certain period of time.             <ul style="list-style-type: none"> <li>-We compared the occupancy ratio estimated by the Company with past fiscal year's actual occupancy ratio.</li> <li>-We compared the turnover ratio estimated by the Company, which is a significant assumption, with external data.</li> <li>-We compared the number of new residents estimated by the Company with the number of new residents independently calculated by the auditor using the number of residents at the end of the previous fiscal year and external data.</li> </ul> </li> <li>• With regard to the number of new residents and residents who have left, which are significant assumptions, we performed the following procedures for those facilities that have only been operating for relatively short periods of time following their establishment.             <ul style="list-style-type: none"> <li>-We compared the past fiscal year's actual occupancy ratio calculated based on the number of new residents at the opening of the existing facilities under the same brand name, with the Company estimated future fiscal year's occupancy ratio calculated based on the estimated number of new residents.</li> <li>-We compared the turnover ratio estimated by the Company with external data.</li> <li>-We compared the number of new residents estimated by the Company with 1) the number of new residents at the time of opening of the existing facilities under the same brand name, for a period until occupancy was almost full, and 2) the number of new residents calculated by the auditor using the number of residents at the end of the previous fiscal year and external data, for periods after that.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>• We assessed the discount rate which is a significant assumption by comparing the calculation component index with the available external data.</li> <li>• With regard to the net realizable value of the facilities held by Sumirin Care Life, we engaged the valuation specialists of our network firm.</li> </ul>
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**Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are



based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan

March 29, 2022

/S/ Tatsuya Chiba

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Tatsuya Chiba  
Designated Engagement Partner  
Certified Public Accountant

/S/ Yoshikatsu Nakahara

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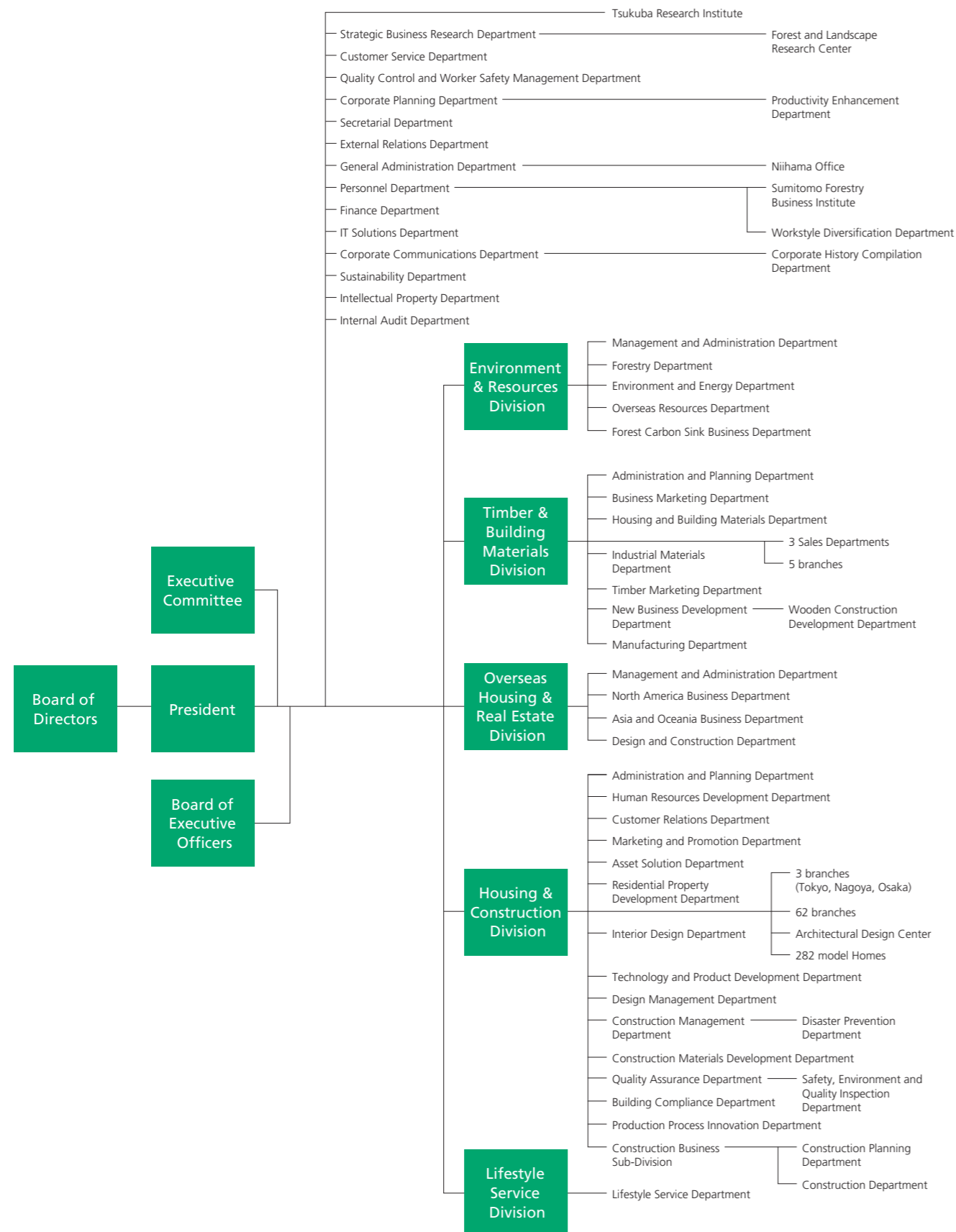
Yoshikatsu Nakahara  
Designated Engagement Partner  
Certified Public Accountant

/S/ Natsuki Saiki

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Natsuki Saiki  
Designated Engagement Partner  
Certified Public Accountant

Organization chart (As of January 1, 2022)



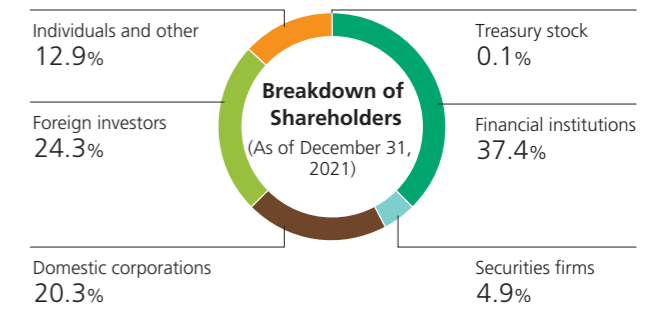
Corporate profile (as of December 31, 2021)

Corporate profile

Company name	Sumitomo Forestry Co., Ltd.
Founded	1691
Incorporated	1948
Paid-in capital	¥50,064 million
Head office	Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Consolidated subsidiaries	324 (Overseas 286)
Affiliated companies	132 (Overseas 122)
Number of employees (consolidated)	21,254
Homepage	<a href="https://sfc.jp/english/">https://sfc.jp/english/</a>
Accounting auditor	Ernst & Young ShinNihon LLC
Contacts	Sumitomo Forestry Co., Ltd. Corporate Communications Department IR Group Tel :81-3-3214-2270 Fax:81-3-3214-2272  IR contact <a href="https://inquire.sfc.jp/sfc/m/contact/english/">https://inquire.sfc.jp/sfc/m/contact/english/</a>

Shareholders & Stock Information

Stock exchange listing	Tokyo
Total number of authorized shares	400,000,000
Total number of shares issued	201,200,936
Ordinary General Meeting of Shareholders	March
Number of shareholders	22,579



Percentages in breakdown of shareholders are rounded down.

Major shareholders

Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	23,411	11.6
Sumitomo Metal Mining Co., Ltd.	10,110	5.0
Custody Bank of Japan, Ltd. (trust account)	9,727	4.8
The Iyo Bank, Ltd.	5,849	2.9
Kumagai Gumi Co., Ltd.	5,197	2.5
Sumitomo Corporation	4,383	2.1
Sumitomo Life Insurance Company	4,227	2.1
The Hyakujushi Bank, Ltd.	4,197	2.0
SMBC Nikko Securities Inc.	4,076	2.0
Sumitomo Mitsui Banking Corporation	3,536	1.7

(Note) Number of shares held and shareholding ratio are rounded down. Shareholding ratio is calculated by subtracting treasury stock from the total number of outstanding shares.