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# Annual Securities Report

**The 84th Business Term**

**From January 1, 2023  
to December 31, 2023**

**SUMITOMO FORESTRY CO., LTD.**

## [Financial Status]

### **1 Method of preparing the consolidated financial statements**

The Company's consolidated financial statements are prepared based on the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976).

### **2 Note on independent audit**

The consolidated financial statements of the Company for the fiscal year (January 1, 2023 – December 31, 2023) are audited by Ernst & Young ShinNihon LLC based on the provisions of Article 193-2-1 of the Financial Instruments and Exchange Act.

### **3 Special efforts to ensure fair presentation of consolidated financial statements, etc.**

The Company takes special efforts to ensure fair presentation of consolidated financial statements, etc. Specifically, it is a member of the Financial Accounting Standards Foundation and participates in seminars organized by the Foundation and other organizations, in order to develop systems that can appropriately grasp the contents of accounting standards, etc. and respond appropriately to changes in accounting standards, etc.

# 1. Consolidated Financial Statement

## (1) Consolidated Financial Statement

### (i) Consolidated Balance Sheet

(million yen)

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	*2 128,752	*2 154,067
Notes and accounts receivable - trade	*2, *5 112,487	*2, *5 103,164
Electronically recorded monetary claims - operating	*5 41,974	*5 41,053
Accounts receivable from completed construction contracts and contract assets	*1, *2 57,946	*1, *2 65,213
Marketable securities	3,177	3,167
Merchandise and finished goods	24,576	21,209
Work in process	2,050	2,026
Raw materials and supplies	11,385	12,409
Costs on construction contracts in progress	*2 16,098	*2 16,176
Real estate for sale	*2 106,436	*2 127,930
Real estate for sale in process	*2 434,028	*2 524,556
Short-term loans receivable	*2 28,107	*2 27,358
Accounts receivable – other	*2 56,920	*2 87,218
Other	*2 49,349	*2 50,972
Allowance for doubtful accounts	(521)	(489)
<b>Total current assets</b>	<b>1,072,763</b>	<b>1,236,028</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	*2 111,884	*2 118,115
Accumulated depreciation	(54,619)	(59,443)
Buildings and structures, net	57,265	58,671
Machinery, equipment and vehicles	*2 89,673	*2 95,486
Accumulated depreciation	(66,687)	(72,070)
Machinery, equipment and vehicles, net	22,986	23,416
Land	*2 46,328	*2 52,317
Timber	40,247	43,177
Leased assets	19,596	28,359
Accumulated depreciation	(7,392)	(9,821)
Leased assets, net	12,203	18,537
Construction in progress	*2 13,459	*2 22,410
Other	*2 21,339	*2 24,011
Accumulated depreciation	(15,025)	(16,265)
Other, net	6,314	7,746
<b>Total property, plant and equipment</b>	<b>198,802</b>	<b>226,274</b>
<b>Intangible assets</b>		
Goodwill	5,911	45,892
Other	16,964	18,466
<b>Total intangible assets</b>	<b>22,876</b>	<b>64,358</b>
<b>Investments and other assets</b>		
Investment securities	*2, *3 203,572	*2, *3 229,667
Long-term loans receivable	8,938	16,418
Retirement benefit assets	710	4,653
Deferred tax assets	*2 7,736	*2 8,312
Other	*2 23,211	*2 28,089
Allowance for doubtful accounts	(1,010)	(1,078)
<b>Total investments and other assets</b>	<b>243,158</b>	<b>286,062</b>
<b>Total non-current assets</b>	<b>464,835</b>	<b>576,694</b>
<b>Total assets</b>	<b>1,537,598</b>	<b>1,812,722</b>

(million yen)

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable – trade	*5 105,540	*5 107,458
Electronically recorded obligations – operating	*5 30,662	*5 30,931
Accounts payable for construction contracts	103,566	130,618
Short-term borrowings	*2 45,966	*2 51,755
Commercial papers	-	30,000
Current portion of bonds payable	*2 12	*2 10,012
Current portion of bonds with share acquisition rights	10,015	-
Lease obligations	2,120	3,615
Income tax payable	5,137	8,152
Contract liabilities	*2 80,095	*2 86,916
Provision for bonuses	24,210	21,970
Provision for bonuses for directors (and other officers)	163	144
Provision for warranties for completed construction	7,415	10,203
Asset retirement obligations	234	325
Other	78,975	95,889
Total current liabilities	494,110	587,989
Long-term liabilities		
Bonds payable	*2 90,140	*2 80,192
Long-term borrowings	*2 187,807	*2 230,306
Lease obligations	12,263	17,991
Deferred tax liabilities	35,406	34,612
Provision for retirement benefits for directors (and other officers)	313	372
Retirement benefits liability	11,792	10,587
Asset retirement obligations	3,608	3,248
Other	19,604	24,128
Total long-term liabilities	360,934	401,437
Total liabilities	855,045	989,426
Net assets		
Shareholders' equity		
Common stock	50,074	55,088
Capital surplus	31,493	36,530
Retained earnings	447,216	524,297
Treasury shares	(2,465)	(2,517)
Total shareholders' equity	526,318	613,398
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	36,926	37,201
Deferred gains (losses) on hedges	3,775	5,812
Foreign currency translation adjustment	60,443	97,960
Remeasurements of defined benefit plans	49	45
Total accumulated other comprehensive income	101,192	141,018
Share acquisition rights	96	74
Non-controlling interests	54,948	68,807
Total net assets	682,554	823,296
Total liabilities and net assets	1,537,598	1,812,722

## (ii) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

## Consolidated Statement of Income

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Net sales	*1 1,669,707	*1 1,733,169
Cost of sales	*2 1,276,737	*2 1,324,339
Gross profit	392,970	408,830
Selling, general and administrative expenses	*3, *4 234,717	*3, *4 262,076
Operating income	158,253	146,755
Non-operating income		
Interest income	808	1,972
Purchase discount	358	347
Dividend income	2,089	2,039
Share of profit of entities accounted for using equity method	25,753	8,338
Foreign exchange gains	897	317
Gain on sale of investment securities	6,970	-
Other	5,924	9,223
Total non-operating income	42,799	22,236
Non-operating expenses		
Interest expense	3,124	4,338
Other	2,934	5,234
Total non-operating expenses	6,058	9,572
Recurring income	194,994	159,418
Extraordinary income		
Gain on sale of investment securities	-	1,935
Total extraordinary income	-	1,935
Extraordinary loss		
Impairment loss	*5 6,609	-
Total extraordinary loss	6,609	-
Profit before income taxes	188,385	161,353
Income taxes - current	41,517	36,688
Income taxes - deferred	11,714	(1,570)
Total income taxes	53,230	35,118
Profit	135,155	126,235
Profit attributable to non-controlling interests	26,483	23,756
Profit attributable to owners of parent	108,672	102,479

Consolidated Statement of Comprehensive Income

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Profit	135,155	126,235
Other comprehensive income		
Valuation difference on available-for-sale securities	(455)	221
Deferred gains (losses) on hedges	(96)	1,053
Foreign currency translation adjustment	46,161	36,887
Share of other comprehensive income of entities accounted for using equity method	6,460	5,424
Total other comprehensive income	* 52,070	* 43,585
Comprehensive income	187,225	169,820
(Breakdown)		
Comprehensive income attributable to owners of parent	155,493	142,304
Comprehensive income attributable to non-controlling interests	31,732	27,516

(iii) Consolidated Statement of Changes in Net Assets  
 Previous fiscal year (January 1, 2022 – December 31, 2022)

(million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the current period	50,064	33,899	359,641	(2,362)	441,241
Changes during the period					
Issuance of new shares (exercise of share acquisition rights)	10	10			20
Dividends of surplus			(21,096)		(21,096)
Profit attributable to owners of parent			108,672		108,672
Purchase of treasury stock				(103)	(103)
Disposal of treasury stock		0		0	0
Change in equity interests of parent company due to transactions with non-controlling interests		(2,416)			(2,416)
Net changes in items other than shareholders' equity					
Total changes during the period	10	(2,406)	87,576	(103)	85,076
Balance at the end of the current period	50,074	31,493	447,216	(2,465)	526,318

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	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			
Balance at the beginning of the current period	37,226	3,403	13,699	42	54,370	116	44,361	540,089
Changes during the period								
Issuance of new shares (exercise of share acquisition rights)								20
Dividends of surplus								(21,096)
Profit attributable to owners of parent								108,672
Purchase of treasury shares								(103)
Disposal of treasury stock								0
Change in equity interests of parent company due to transactions with non-controlling interests								(2,416)
Net changes in items other than shareholders' equity	(300)	372	46,744	6	46,822	(20)	10,586	57,388
Total changes during the period	(300)	372	46,744	6	46,822	(20)	10,586	142,464
Balance at the end of the current period	36,926	3,775	60,443	49	101,192	96	54,948	682,554

Current fiscal year (January 1, 2023 – December 31, 2023)

(million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the current period	50,074	31,493	447,216	(2,465)	526,318
Changes during the period					
Issuance of new shares (exercise of share acquisition rights)	5,014	5,014			10,028
Dividends of surplus			(25,398)		(25,398)
Profit attributable to owners of parent			102,479		102,479
Purchase of treasury stock				(52)	(52)
Disposal of treasury stock					-
Change in equity interests of parent company due to transactions with non-controlling interests		24			24
Net changes in items other than shareholders' equity					
Total changes during the period	5,014	5,038	77,080	(52)	87,080
Balance at the end of the current period	55,088	36,530	524,297	(2,517)	613,398

	Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	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			
Balance at the beginning of the current period	36,926	3,775	60,443	49	101,192	96	54,948	682,554
Changes during period								
Issuance of new shares (exercise of share acquisition rights)								10,028
Dividends of surplus								(25,398)
Profit attributable to owners of parent								102,479
Purchase of treasury stock								(52)
Disposal of treasury stock								-
Change in equity interests of parent company due to transactions with non-controlling interests								24
Net changes in items other than shareholders' equity	275	2,037	37,516	(3)	39,825	(22)	13,859	53,662
Total changes during the period	275	2,037	37,516	(3)	39,825	(22)	13,859	140,742
Balance at the end of the current period	37,201	5,812	97,960	45	141,018	74	68,807	823,296



## (iv) Consolidated Statement of Cash Flows

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Net cash provided by (used in) operating activities:		
Profit before income taxes	188,385	161,353
Depreciation and amortization	17,911	19,918
Impairment loss	6,609	-
Amortization of goodwill	2,741	5,765
Increase (decrease) in allowance for doubtful accounts	164	27
Increase (decrease) in provision for bonuses	217	(4,251)
Increase (decrease) in provision for bonuses for directors (and other officers)	(2)	(19)
Increase (decrease) in provision for warranties for completed construction	(456)	1,496
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(19)	3
Increase (decrease) in net defined benefit liability	(5,716)	(5,197)
Interest and dividends income	(2,897)	(4,011)
Interest expense	3,124	4,338
Share of (profit) loss of entities accounted for using equity method	(25,753)	(8,338)
Losses (gains) on sale of marketable securities and investment securities	(6,970)	(1,935)
Decrease (increase) in notes and account receivable-trade and contract assets	(13,316)	7,731
Decrease (increase) in inventories	(102,094)	(49,042)
Decrease (increase) in other current assets	(3,329)	(11,882)
Increase (decrease) in notes and accounts payable-trade	9,050	12,270
Increase (decrease) in advances received	2,584	102
Increase (decrease) in contract liabilities	(15)	(813)
Increase (decrease) in accrued consumption taxes	(2,079)	2,731
Increase (decrease) in other current liabilities	7,780	2,848
Other	(4,385)	3,970
Subtotal	71,536	137,064
Interest and dividends received	34,722	23,221
Interest paid	(3,010)	(4,272)
Income taxes paid	(47,972)	(30,713)
Net cash provided by (used in) operating activities	55,276	125,300

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
<b>Net cash provided by (used in) investing activities:</b>		
Payments into time deposits	(5,212)	(5,102)
Proceeds from withdrawal of time deposits	5,222	10,061
Decrease (increase) in short-term loans receivable	(2,562)	1,292
Proceeds from sales and redemption of marketable securities	2	-
Payments for purchases of property, plant and equipment	(31,999)	(28,394)
Proceeds from sales of property, plant and equipment	6,004	3,861
Payments for purchases of intangible assets	(4,666)	(4,498)
Payments for purchases of investment securities	(26,247)	(32,811)
Proceeds from sales and redemption of investment securities	17,041	4,287
Payments for transfer of business	(3,648)	(3,974)
Payments for purchase of subsidiary shares resulting in change in scope of consolidation	(2,165)	*2 ( 49,242)
Proceeds from purchase of subsidiary shares resulting in change in scope of consolidation	328	-
Payments of long-term loans receivable	(5,734)	(7,726)
Proceeds from collection of long-term loans receivable	2,822	942
Other payments	(3,197)	(4,705)
Other proceeds	1,626	3,513
Net cash provided by (used in) investing activities	(52,385)	(112,497)
<b>Net cash provided by (used in) financing activities:</b>		
Net increase (decrease) in short-term borrowings	10,517	(4,990)
Net increase (decrease) in commercial papers	-	30,000
Repayments of finance lease obligations	(3,279)	(3,631)
Proceeds from long-term borrowings	54,095	95,016
Repayments of long-term borrowings	(45,267)	(63,095)
Redemption of bonds	(77)	(28)
Proceeds from stock issuance to non-controlling shareholders	1,686	3,410
Cash dividends paid	(21,096)	(25,398)
Cash dividends paid to non-controlling shareholders	(24,762)	(19,510)
Payments for purchase of subsidiary shares not resulting in change in scope of consolidation	(3,799)	(8)
Net decrease (increase) in deposits with withdrawal and usage restrictions	(1,015)	(1,526)
Other proceeds	0	0
Other payments	(2)	(4)
Net cash provided by (used in) financing activities	(32,998)	10,236
Effect of exchange rate change on cash and cash equivalents	7,444	4,358
Net increase (decrease) in cash and cash equivalents	(22,662)	27,398
Cash and cash equivalents at the beginning of the year	170,035	147,373
Cash and cash equivalents at the end of the year	*1 147,373	*1 174,771

## Notes to Consolidated Financial Statements

(Significant information for preparation of consolidated financial statements)

### 1. Scope of consolidation

The number of subsidiaries that have been included in the scope of consolidation is 376 companies.

Effective from the current fiscal year, SI HoldCo, LLC and 63 other companies are included in the scope of consolidation accompanying the new acquisition of equity interests. As a result of an increase in equity interests, DDDRB Investments, LLC, which was an affiliated company using the equity method in the previous fiscal year, is excluded from the scope of application of the equity method and included in the scope of consolidation. In addition, CJ Kaihatsu, LLC and 35 other companies, which were consolidated subsidiaries in the previous fiscal year, are excluded from the scope of consolidation due to the sale or liquidation of equity interests. As a result of a decrease in equity interests, CC Elizabeth on Seventh, LLC, which was a consolidated subsidiary in the previous fiscal year, is excluded from the scope of consolidation and included within the scope of application of the equity method.

### 2. Fiscal years of consolidated subsidiaries

As the closing date of 5 domestic consolidated subsidiaries and 1 overseas consolidated subsidiary is March 31, financial statements based on provisional settlement of accounts as of the consolidated closing date (December 31) are used in the preparation of the consolidated financial statements. The closing date of other consolidated subsidiaries is the same as the consolidated closing date.

### 3. Application of the equity method

(1) The equity method is applied to 176 affiliated companies. The main affiliated company using the equity method is Kumagai Gumi Co., Ltd.

Effective from the current fiscal year, NeXT FOREST Corporation and 28 other companies are included in the scope of application of the equity method due to the new establishment. As a result of a decrease in equity interests, CC Elizabeth on Seventh, LLC, which was a consolidated subsidiary in the previous fiscal year, is excluded from the scope of consolidation and included within the scope of application of the equity method. In addition, Lost River, LLC and 16 other companies, which were affiliated companies using the equity method in the previous fiscal year, are excluded from the scope of application of the equity method due to the sale or liquidation of equity interests. As a result of an increase in equity interests, DDDRB Investments, LLC, which was an affiliated company using the equity method in the previous fiscal year, is excluded from the scope of application of the equity method and included in the scope of consolidation.

(2) Of the affiliated companies using the equity method, for companies with a different closing date from the consolidated closing date, financial statements for their respective fiscal years or financial statements based on the provisional settlement of accounts carried out on the consolidated closing date are used.

### 4. Accounting policies

(1) Basis and method of measuring significant assets

(i) Marketable securities

Held-to-maturity debt securities

Reported by amortized cost method (straight-line method)

Available-for-sale securities

Items other than stocks, etc. for which market quotations are not readily available

Reported at fair value based on the market price on the closing date, etc. (All valuation differences are reflected in net assets, with the cost of securities sold determined by the moving average method.)

Stocks, etc. for which market quotations are not readily available

Reported by cost accounting based on the moving average method

(ii) Derivatives

Derivatives are carried by the market value method.

(iii) Inventories

Cost accounting based on the moving average method is the main method applied to merchandise, finished goods, work in process, raw materials, and supplies, while cost accounting based on the specific identification method is applied to costs on construction

contracts in progress, real estate for sale, and real estate for sale in process. Balance sheet values are calculated using the write-down method based on the decrease in profitability.

(2) Accounting method for depreciation of significant assets

(i) Property, plant and equipment (excluding leased assets)

The Company and its domestic consolidated subsidiaries mainly use the declining-balance method. However, the straight-line method is used for buildings acquired on or after April 1, 1998 (excluding facilities attached to buildings) as well as facilities attached to buildings and structures acquired on or after April 1, 2016. Overseas consolidated subsidiaries mainly use the straight-line method.

(ii) Intangible assets (excluding leased assets)

The straight-line method is used. Note that for software used in-house, the straight-line method based on usable period within the company (five years) is applied.

(iii) Leased assets

For leased assets associated with finance lease transactions other than ownership transfer, the straight-line method is applied by taking the useful life of the asset as the lease period and the salvage value as zero.

(3) Accounting policy for significant provisions

(i) Allowance for doubtful accounts

To prepare for possible bad debts losses such as on trade receivables and loans receivables, an allowance for doubtful accounts is provided to estimate uncollectable amounts based on the historical loan-loss ratio for general accounts receivable, while specific accounts receivable including doubtful accounts based on their individual collectability assessment are provided.

(ii) Provision for bonuses

To prepare for the payment of bonuses to employees, the estimated amount to be paid is recorded.

(iii) Provision for bonuses for directors (and other officers)

To prepare for the payment of bonuses to directors (and other officers), the estimated amount to be paid is recorded.

(iv) Provision for warranties for completed construction

To prepare for the payment of repair costs associated with completed construction, provision for warranties for completed construction is estimated based on actual amounts paid in the past and future estimates.

(v) Provision for retirement benefits for directors (and other officers)

To prepare for the payment of retirement benefits to directors (and other officers), some consolidated subsidiaries state the amount to be paid at the end of the fiscal year based on internal regulations.

(4) Accounting method for retirement benefits

(i) Method of attributing estimated retirement benefits to period of service

In calculating the retirement benefit obligations, benefit formula method is used to attribute the estimated amount of retirement benefits to periods until the end of the current fiscal year.

(ii) Treatment of actuarial gains or losses and prior service costs

Actuarial gains and losses and prior service costs are recognized in profit or loss in the fiscal year in which the gain and losses are incurred.

(5) Accounting policy for recognition of significant revenues and expenses

The main performance obligations in the main business related to the revenue arising from contracts with the Group's customers, and the usual timing for fulfilling the performance obligations in question (usual timing of revenue recognition) are set out below.

(i) Merchandise sales

The Company is engaged in the sale of timber and building materials through its Timber and Building Materials Business and Environment and Resources Business, and in the sale of spec homes, etc. in its Housing Business and Overseas Housing, Construction and Real Estate Business. With regard to these sales, revenue is recognized mainly at the point of delivery to the customers because this is the point when significant risks and economic value is transferred alongside legal ownership, physical possession, and the ownership of the merchandise, as well as the point when the entitlement to receive payment is established.

For transactions in which the Group's role of providing merchandise to customers mainly in the Timber and Building Materials Business is fulfilled by an agent, revenue is recognized on the net amount obtained after deducting the amount paid to the supplier of goods, etc. purchased, from the amount received from the customer as consideration for the merchandise.

As consideration for transactions is received promptly after delivery and the period from the fulfillment of performance obligations to the receipt of consideration is generally within a one-year period, significant financing components are not included.

(ii) Construction contracts, etc.

The Housing Business and Overseas Housing, Construction and Real Estate Business carries out the contracting of construction work for single family homes and multi-family housing. For these construction contracts, etc., revenue is recognized over a certain period of time as the performance obligations are fulfilled with the creation of the asset and the controlling of said asset by the customer. The method for estimating the progress rate for the fulfillment of the performance obligations mainly follows the input method based on costs incurred.

However, for construction contracts with an extremely short period from the start date of transaction under the contract to the point when the performance obligation is expected to be completely fulfilled, revenue is not recognized over a certain period of time, but at the point of delivery when the performance obligation is deemed to be fulfilled.

The consideration for transactions follows the contract terms, and consideration for transactions is generally received in stages corresponding to the progress of the performance obligations. As the period from the fulfillment of performance obligations to the receipt of consideration is generally within a one-year period, significant financing components are not included.

(6) Significant accounting policies for hedge accounting

(i) Hedge accounting method

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

(ii) Hedging method

Foreign exchange forward exchange contracts and foreign currency swaps are used as hedging instruments to mitigate foreign currency exchange risks. Interest rate swap transactions are used as a hedging method to mitigate interest rate fluctuation risks.

(iii) Hedged items

In line with the policies set out in the management regulations, hedged items include certain trade transactions, including planned transactions, as well as borrowings exposed to interest rate fluctuation risk.

(iv) Hedge effectiveness evaluation method

As foreign exchange forward exchange contracts and foreign currency swaps are recognized as highly effective hedging instruments, the evaluation of effectiveness is omitted. The evaluation of effectiveness is also omitted for interest rate swaps accounted for by the exceptional accounting method.

(7) Goodwill amortization method and period of amortization

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 in the fiscal year when incurred.

(8) Scope of cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents in the consolidated statement of cash flows are comprised of cash in hand, deposits that can be withdrawn at any time, and short-term investments with maturities of three months or less from the acquisition date that are readily convertible into cash and are exposed to only an insignificant risk of fluctuations in value.

(Significant accounting estimates)

Recoverability of deferred tax assets

(1) Amounts recorded in the consolidated financial statements for the current fiscal year

(million yen)

	FY ended December 31, 2022	FY ended December 31, 2023
Deferred tax assets (after offsetting)	7,736	8,312
Deferred tax liabilities (after offsetting)	35,406	34,612

(2) Other information that contributes to understanding of the content of estimates

(i) Calculation method

The recording of deferred tax assets recognizes the deductible temporary differences determined to be recoverable, based on estimates of future taxable income and the scheduling of deductible temporary differences, etc. Estimates of future taxable income are based on budgets and medium- to long-term business plans approved by the Board of Directors, etc.

(ii) Major assumptions used in the calculation of the amounts

Estimates of future taxable income are based on budgets approved by the Board of Directors and other bodies and medium- to long-term business plans, and the major assumptions used in these estimates include forecasts of unit selling price, sales volume, gross profit margin, and expenses.

(iii) Impact on the consolidated financial statements for the following fiscal year

As the recoverability of deferred tax assets is dependent on estimates of future taxable income and the scheduling of deductible temporary differences, if there is a change in the conditions and assumptions underlying these estimates, the Company may be required to record an adjusted amount of deferred tax assets under revenue or expenses in the consolidated financial statements for the following fiscal year.

(Changes in accounting policies)

The Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the current fiscal year. In accordance with the transitional measures provided for in paragraph 27-2 of the Accounting Standard for Fair Value Measurement, new accounting policies stipulated in the Accounting Standard for Fair Value Measurement shall be applied prospectively. This application has no effect on the consolidated financial statements.

(Accounting Standards issued but not yet effective)

- Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022, Accounting Standards Board of Japan)
- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, October 28, 2022, Accounting Standards Board of Japan)
- Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022, Accounting Standards Board of Japan)

(1) Overview

The revised versions of the above Standards and Guidance set out the classifications for recording income taxes, etc. when taxed on other comprehensive income, and the treatment of tax effects on sale of shares of subsidiaries, etc. when group corporate group tax system is applied.

(2) Scheduled date of adoption

The Company expects to adopt the revised Standards and Guidance from the beginning of the fiscal year ending December 31, 2025.

(3) Impact of the adoption of the revised accounting standards and implementation guidance

The Company is currently evaluating the effect of the adoption of the Accounting Standard for Current Income Taxes and the relevant ASBJ standards and guidance on the consolidated financial statements.

(Consolidated Balance Sheet)

\*1 Of the accounts receivable from completed construction contracts and contract assets, the amount of receivables and contract assets arising from contracts with customers is disclosed in the “Notes to Consolidated Financial Statements (Revenue recognition), 3.(1) Balance of contract assets and contract liabilities.”

\*2 Pledged assets and secured liabilities

The following are the Group’s pledged assets.

(million yen)

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Cash and deposits	1,107	2,708
Notes and accounts receivable – trade	1,362	1,260
Accounts receivable from completed construction contracts and contract assets	8,164	7,073
Costs on construction contracts in progress	325	1,097
Real estate for sale	23,996	24,227
Real estate for sale in process	18,668	26,353
Accounts receivable - other	48	469
Buildings and structures	12,023	12,319
Machinery, equipment and vehicles	10,965	9,871
Land	7,595	8,937
Construction in process	2,964	4,039
Investment securities	23,296	27,816
Other	7,282	6,570
Total	117,794	132,738

\*In addition to the above, the following assets, which have been offset and eliminated in the consolidation process, have also been pledged.

(million yen)

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Shares of subsidiaries	6	6
Loans receivable from subsidiaries and associates	5,744	5,450

The following are the Group’s secured liabilities.

(million yen)

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Short-term borrowings	11,739	5,427
Current portion of bonds payable	12	12
Contract liabilities	321	109
Bonds payable	140	128
Long-term borrowings	14,889	21,295
Total	27,102	26,972

\*3 The following are shares and other securities issued by affiliated companies.

(million yen)

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Investment securities	122,344	148,590

\*4 Guarantee obligation

Guarantees on loans, etc. from financial institutions

(million yen)

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Affiliated companies of Crescent Communities Group	25,846	38,383
Customers using housing loans	26,356	25,921
Kanda Biomass Energy K.K.	17,426	14,474
Paradise 11 Limited	—	1,068
Morinomiyako Biomass Energy G.K.	345	345
Kawasaki Biomass Electric Power Co., Ltd.	74	164
DRSFA, LLC	731	—
Grand Star Co., Ltd.	598	—

\*5 Matured notes at the end of the fiscal year

Matured notes at the end of the fiscal year are settled on the clearing dates or settlement dates. As the last days of the previous fiscal year and the current fiscal year were business holidays for financial institutions in Japan, the following matured notes at the end of the fiscal year have been included in the balance as of the end of the fiscal years.

(million yen)

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Notes receivable - trade	2,459	1,576
Electronically recorded monetary claims - operating	4,793	4,003
Notes payable - trade	20	14
Electronically recorded obligations - operating	3,997	3,760

(Consolidated Statement of Income)

\*1 Revenue from contracts with customers

Net sales are not disaggregated into “revenue from contracts with customers” and “other revenue.” The amount of revenue from contracts with customers is omitted as the same information is included in “Notes to Consolidated Financial Statements (Revenue Recognition), 1. Information on disaggregation of revenue from contracts with customers.”

\*2 The amount of inventory as of the end of the fiscal year is after write-down due to decreased profitability, and the following losses on inventory valuation are included in the cost of sales.

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
	409	62



\*3 The following are the major expense accounts and amounts from the selling, general and administrative (SG&A) expenses.

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Salaries and allowances	83,880	91,145
Provision for bonuses	11,261	11,906
Provision for bonuses for directors (and other officers)	163	144
Retirement benefit expenses	(2,390)	(2,175)
Provision for retirement benefits for directors (and other officers)	12	10
Provision of allowance for doubtful accounts	287	130
Provision for warranties for completed construction	1,863	3,338

\*4 Research and development expenses included in selling, general and administrative (SG&A) expenses

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
	2,576	2,878

\*5 Impairment loss

The Group recorded impairment losses mainly in the following asset groups.

Previous fiscal year (January 1, 2022 – December 31, 2022)

Major use	Location	Asset category	Impairment loss (million yen)
Wind power generation facility	Tsu City, Mie Prefecture	Construction in progress	4,630
		Total	4,630

The Group classifies assets based on the categories used for management accounting, which continually identifies profits and losses. Rental assets and idle assets are assessed and grouped individually.

As the Company has decided to withdraw from the wind power generation facility project that is currently under construction, the book value of the construction in progress was reduced to the recoverable value, and the difference was recorded as impairment loss under extraordinary losses. As there are no expectations of future use or sale, recoverable value was assessed to be zero.

## (Consolidated Statement of Comprehensive Income)

\* Reclassification adjustments and income tax effects attributable to other comprehensive income

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Valuation difference on available-for-sale securities:		
Amount incurred during the year	(655)	2,444
Reclassification adjustments	(45)	(1,935)
Amount before tax effect	(700)	510
Tax effect	245	(289)
Valuation difference on available-for-sale securities	(455)	221
Deferred gains (losses) on hedges:		
Amount incurred during the year	130	1,492
Reclassification adjustments	(200)	(14)
Amount before tax effect	(70)	1,478
Tax effect	(26)	(425)
Deferred gains (losses) on hedges	(96)	1,053
Foreign currency translation adjustments:		
Amount incurred during the year	46,161	36,880
Reclassification adjustments	—	7
Amount before tax effect	46,161	36,887
Tax effect	—	—
Foreign currency translation adjustments	46,161	36,887
Share of other comprehensive income of entities accounted for using equity method:		
Amount incurred during the year	6,465	5,412
Reclassification adjustments	(4)	12
Share of other comprehensive income of entities accounted for using equity method	6,460	5,424
Total other comprehensive income	52,070	43,585

## (Consolidated Statement of Changes in Net Assets)

Previous fiscal year (January 1, 2022 – December 31, 2022)

## 1. Class and total number of shares outstanding, and class and number of treasury stocks

	Number of shares at the beginning of the fiscal year (shares)	Increase in the number of shares in the fiscal year (shares)	Decrease in the number of shares in the fiscal year (shares)	Number of shares at the end of the fiscal year (shares)
Number of shares outstanding				
Common stock (Note 1)	201,200,936	17,300	—	201,218,236
Total	201,200,936	17,300	—	201,218,236
Treasury stock				
Common stock (Note 2)	1,338,269	52,285	45	1,390,509
Total	1,338,269	52,285	45	1,390,509

Notes 1 The increase in the number of outstanding common stock (17,300 shares) was due to the exercise of share acquisition rights.

2 The increase in the number of common treasury stock (52,285 shares) comprised of an increase of 51,455 shares due to changes to the ratio of equity interests of equity method affiliated companies, and an increase of 830 shares resulting from the purchase of odd-lot shares.

3 The decrease in the number of common treasury stock (45 shares) was due to the sale of odd-lot shares.

## 2. Share acquisition rights and treasury share acquisition rights

Classification	Breakdown of stock acquisition rights	Classes of shares subject to stock acquisition rights	Number of shares underlying stock acquisition rights				Balance as of the end of the fiscal year (million yen)
			Beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	End of the fiscal year	
Issuing company	Sumitomo Forestry Co., Ltd. 2015 Stock Acquisition Rights (Stock-based compensation stock option)	—	—	—	—	—	27
	Sumitomo Forestry Co., Ltd. 2016 Stock Acquisition Rights (Stock-based compensation stock option)	—	—	—	—	—	31
	Sumitomo Forestry Co., Ltd. 2017 Stock Acquisition Rights (Stock-based compensation stock option)	—	—	—	—	—	38
Total		—	—	—	—	—	96

## 3. Dividends

## (1) Dividends paid

Resolution	Classes of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders, March 29, 2022	Common stock	9,041	45.00	December 31, 2021	March 30, 2022
Board of Directors' meeting, August 9, 2022	Common stock	12,055	60.00	June 30, 2022	September 8, 2022

(2) Of the dividends with record dates that fall within the current fiscal year, the dividends with effective dates that fall after the end of the current fiscal year

Resolution	Classes of shares	Total amount of dividends (million yen)	Source of dividend	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders, March 30, 2023	Common stock	13,060	Retained earnings	65.00	December 31, 2022	March 31, 2023

Current fiscal year (January 1, 2023 – December 31, 2023)

1. Class and total number of shares outstanding, and class and number of treasury stocks

	Number of shares at the beginning of the fiscal year (shares)	Increase in the number of shares in the fiscal year (shares)	Decrease in the number of shares in the fiscal year (shares)	Number of shares at the end of the fiscal year (shares)
Number of shares outstanding				
Common stock (Note 1)	201,218,236	4,840,232	—	206,058,468
Total	201,218,236	4,840,232	—	206,058,468
Treasury stock				
Common stock (Note 2)	1,390,509	25,598	—	1,416,107
Total	1,390,509	25,598	—	1,416,107

Notes 1 The increase in the number of outstanding common stock (4,840,232 shares) was due to an increase of 4,819,732 shares due to the conversion of convertible bond-type bonds with share acquisition rights, an increase of 18,200 shares due to the exercise of share acquisition rights, and the issuance of 2,300 shares due to performance-linked stock compensation.

2 The increase in the number of common treasury stock (25,598 shares) comprised of an increase of 24,429 shares due to changes to the ratio of equity interests of equity method affiliated companies, and an increase of 1,169 shares resulting from the purchase of odd-lot shares.

2. Stock acquisition rights and treasury stock acquisition rights

Classification	Breakdown of stock acquisition rights	Classes of shares subject to stock acquisition rights	Number of shares underlying stock acquisition rights				Balance as of the end of the fiscal year (million yen)
			Beginning of the fiscal year	Increase during the fiscal year	Decrease during the fiscal year	End of the fiscal year	
Issuing company	Sumitomo Forestry Co., Ltd. FY2015 Stock Acquisition Rights (Stock-based compensation stock option)	—	—	—	—	—	20
	Sumitomo Forestry Co., Ltd. FY2016 Stock Acquisition Rights (Stock-based compensation stock option)	—	—	—	—	—	24
	Sumitomo Forestry Co., Ltd. FY2017 Stock Acquisition Rights (Stock-based compensation stock option)	—	—	—	—	—	30
Total		—	—	—	—	—	74

### 3. Dividends

#### (1) Dividends paid

Resolution	Classes of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders, March 30, 2023	Common stock	13,060	65.00	December 31, 2022	March 31, 2023
Board of Directors' meeting, August 8, 2023	Common stock	12,338	60.00	June 30, 2023	September 12, 2023

(2) Of the dividends with record dates that fall within the current fiscal year, the following are dividends with effective dates that fall after the end of the current fiscal year

Resolution	Classes of shares	Total amount of dividends (million yen)	Source of dividend	Dividend per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders, March 28, 2024	Common stock	13,375	Retained earnings	65.00	December 31, 2023	March 29, 2024

#### (Consolidated Statement of Cash Flows)

\*1 Reconciliation of cash and cash equivalents at the end of the fiscal year and the related accounts on the Consolidated Balance Sheet (million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Cash and deposits account	128,752	154,067
Time deposits with deposit term exceeding 3 months	(5,109)	(155)
Negotiable deposits issued by domestic corporations, included in the marketable securities account	3,000	3,000
Deposits with withdrawal limits and restrictions on use	(4,269)	(7,141)
Cash equivalents included in short-term loans receivable ( <i>Gensaki</i> )	25,000	25,000
Cash and cash equivalents at end of the fiscal year	147,373	174,771

\*2 Breakdown of major assets and liabilities of companies newly consolidated through the acquisition of equity interests

The following shows the breakdown of assets and liabilities at the start of consolidation for companies newly consolidated through the acquisition of equity interests, and the relationship between the value of equities acquired in the companies concerned and Payments for acquisition (net).

Current fiscal year (January 1, 2023 – December 31, 2023)

SI HoldCo, LLC and 11 other companies

Current assets	22,831 million yen
Non-current assets	14
Goodwill	5,818
Current liabilities	(2,242)
Non-current liabilities	(15,153)
Non-controlling interests	—
Acquisition cost of equity interests	11,268
Cash and cash equivalents	(1,021)
Balance: Payments for acquisition (net)	10,247

JPI Services Holdings, LLC and 17 other companies

Current assets	23,130 million yen
Non-current assets	3,549
Goodwill	24,261
Current liabilities	(25,859)
Non-current liabilities	—
Non-controlling interests	(84)
Acquisition cost of equity interests	24,998
Cash and cash equivalents	(3,388)
Balance: Payments for acquisition (net)	21,610

TrussWorks Holding Company LLC and 1 other company

Current assets	4,626 million yen
Non-current assets	1,299
Goodwill	13,876
Current liabilities	(539)
Non-current liabilities	(121)
Non-controlling interests	(1,755)
Acquisition cost of equity interests	17,387
Cash and cash equivalents	(2)
Balance: Payments for acquisition (net)	17,385

(Lease Transactions)

1. Finance lease transactions (As lessee)

Finance lease transactions other than ownership transfer

(1) Components of leased assets

Property, plant and equipment

Models (buildings) in the Housing Business, offices and factories (buildings and land) in the Overseas Housing, Construction and Real Estate Business, and private-pay elderly care facilities (buildings) in Other Businesses.

(2) Accounting method for depreciation of leased assets

The accounting method for depreciation of leased assets is set out in “Notes to Consolidated Financial Statements (Significant information for preparation of consolidated financial statements), 4. Accounting policies (2) Accounting method for depreciation of significant assets.”

2. Operating lease transactions (As lessee)

Notes have been omitted due to the immateriality of the transactions.

3. Finance lease transactions (As lessor)

Notes have been omitted due to the immateriality of the transactions.

4. Operating lease transactions (As lessor)

Notes have been omitted due to the immateriality of the transactions.

(Financial Instruments)

1. Status of financial instruments

(1) Policy for financial instruments

The Group invests temporary cash surplus in financial assets with high degrees of safety and mainly use bank loans and bond insurances in order to raise funds.

Furthermore, the Group uses derivative transactions to mitigate foreign exchange risks related to normal foreign currency-

denominated transactions and interest rate fluctuation risk associated with borrowings, and does not conduct transactions for speculative purposes.

(2) Details of financial instruments and related risk

Notes and accounts receivable-trade, electronically recorded monetary claims, and accounts receivable-other, which are operating receivables, are exposed to customers' credit risk. As short-term loans receivables are mainly repurchase agreements (gensaki transactions) involving contracts with financial institutions with a rating above a certain level, and are used for investing short-term funds, credit risk is insignificant. Marketable securities are mainly negotiable deposit certificates subject to settlement in the short term. Investment securities are mainly held-to-maturity bonds and equities of customers and suppliers of the Group companies, and are exposed to market price fluctuation risk.

Notes and accounts payable-trade, electronically recorded obligations, and accounts payable for construction contracts are operating payables, almost all of which have payment due dates within one year.

Bank loans and bonds payable are mainly used for procuring the finances required to cover working capital and capital investments. Although bank loans with floating interest rates are exposed to interest rate fluctuation risk, the Group uses 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 risk of fluctuation in foreign currency exchange rates related to foreign currency-denominated transactions, and interest rate swaps to mitigate the risk of interest rate fluctuation related to interest payments for borrowings.

For information on hedge accounting, including hedging instruments, hedged items, hedging policy, and hedge effectiveness evaluation methods, please refer to "Notes to Consolidated Financial Statements (Significant information for preparation of consolidated financial statements), 4. Accounting policies (6) Significant accounting policies for hedge accounting."

(3) Risk management for financial instruments

(i) Management of credit risk (risk related to failure by business partners to fulfill performance obligations)

To mitigate credit risk, the Group reviews the due date and receivable balance of each customer in accordance with the Credit Management Guideline. In addition, the Group monitors the credit information of principal customers at least once a year.

(ii) Management of market risk (risk related to foreign exchange rate and interest rate fluctuations)

With regard to investment securities, the Group regularly monitors prices and the financial status of the issuers (business partners). Except for held-to-maturity bonds, the Group constantly reviews its investment status by taking the market situation and relationship with issuers into consideration.

Derivative transactions are executed and managed in accordance with internal rules and policies, within a prescribed scope, by the responsible department of each Group Company, and the status of derivative positions is reported regularly to the Board of Directors.

The Group views that the risk of non-performance of contract obligations relating to such transactions is very low since the contracts entered into are diversified among highly creditworthy financial institutions both in Japan and abroad.

(iii) Management of liquidity risk related to financing (risk of failure to meet its contractual obligation in full on maturity dates)

The Finance Department of the Company manages liquidity risk by preparing and revising cash flow plans based on reports from each department and consolidated subsidiaries of the Company.

(4) Supplementary explanation of items relating to the fair values of financial instruments

As variable factors are incorporated into the estimation of the fair values of financial instruments, the relevant value may fluctuate due to adopting different assumptions and other factors. In "Notes to Consolidated Financial Statements (Derivative transactions)," the contract amount, etc. related to derivative transactions does not in itself indicate the market risk associated with derivative transactions.

## 2. Fair value of financial instruments

The amounts in consolidated financial statements, fair values, and their unrealized gain (loss) are set out as follows. Accounts with immaterial amounts in consolidated financial statements have been omitted.

Previous fiscal year (December 31, 2022)

	Carrying amount reported in the Consolidated Balance Sheet (million yen) *1	Fair value (million yen) *1	Unrealized gain (loss) (million yen)
(1) Marketable securities and investment securities *3			
(i) Held-to-maturity bonds	456	445	(11)
(ii) Shares in affiliates	42,670	29,901	(12,769)
(iii) Available-for-sale securities	77,035	77,035	—
Total assets	120,161	107,381	(12,780)
(1) Bonds payable *4	(90,152)	(87,346)	(2,806)
(2) Long-term borrowings *5	(211,970)	(209,108)	(2,862)
Total liabilities	(302,122)	(296,454)	(5,668)
Derivative transactions *6			
(i) Hedge accounting not applied	58	58	—
(ii) Hedge accounting applied	5,402	5,402	—
Total derivative transactions	5,460	5,460	—

\*1 Liabilities are shown in brackets ( ).

\*2 Annotation referring to cash has been omitted from the table, and annotation of deposits, notes and accounts receivable, negotiable certificates of deposits from among marketable securities, notes and accounts payable, and accounts payable for construction contracts have been omitted as they are settled in a short period and therefore their fair value approximates book values. Accounts with immaterial amounts in consolidated financial statements have also been omitted.

\*3 Shares that do not have readily available market values and investments in partnerships or similar business entities that record the net amount equivalent to equity interest in the Consolidated Balance Sheet, are not included in “(1) Marketable securities and investment securities.” The carrying amounts of these financial instruments in the Consolidated Balance Sheet are as follows.

Category	(million yen) Previous fiscal year (December 31, 2022)
Unlisted shares	2,668
Shares in affiliates	79,674
Investments in partnerships, etc.	1,246

\*Investments in partnerships, etc. are mainly investments in silent partnerships, investments in investment-limited partnerships, and preferred equity securities for specific purpose companies. These are not subject to fair value disclosure in accordance with Paragraph 27 of the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019).

\*4 Includes bonds payable with due dates within one year.

\*5 Includes long-term borrowings to be repaid within one year.

\*6 Net receivables and payables that arose through derivative transactions are presented on a net basis, while items representing net payables in total are indicated with brackets ( ).



Current fiscal year (December 31, 2023)

	Carrying amount reported in the Consolidated Balance Sheet (million yen) *1	Fair value (million yen) *1	Unrealized gain (loss) (million yen)
(1) Marketable securities and investment securities *3			
(i) Held-to-maturity bonds	279	266	(13)
(ii) Shares in affiliates	43,838	40,252	(3,587)
(iii) Available-for-sale securities	76,873	76,873	—
Total assets	120,990	117,390	(3,600)
(1) Bonds payable *4	(90,204)	(87,991)	(2,213)
(2) Long-term borrowings *5	(258,511)	(256,008)	(2,503)
Total liabilities	(348,715)	(343,998)	(4,716)
Derivative transactions *6			
(i) Hedge accounting not applied	220	220	—
(ii) Hedge accounting applied	6,482	6,482	—
Total derivative transactions	6,703	6,703	—

\*1 Liabilities are shown in brackets ( ).

\*2 Annotation referring to cash has been omitted from the table, and annotation of deposits, notes and accounts receivable, negotiable certificates of deposits from among marketable securities, notes and accounts payable, and accounts payable for construction contracts have been omitted as they are settled in the short-term and therefore their fair value approximates book values. Accounts with immaterial amounts in consolidated financial statements have also been omitted.

\*3 Shares that do not have readily available market values are not included in “(1) Marketable securities and investment securities.” The carrying amounts of these financial instruments in the Consolidated Balance Sheet are as follows.  
(million yen)

Category	Current fiscal year (December 31, 2023)
Unlisted shares	4,092
Shares in affiliates	104,752

\* These include investments in partnerships or similar business entities that record the net amount equivalent to equity interest in the Consolidated Balance Sheet (Amounts in consolidated financial statements: 4,435 million yen).

\*4 Includes bonds payable with due dates within one year.

\*5 Includes long-term borrowings to be repaid within one year.

\*6 Net receivables and payables that arose through derivative transactions are presented, while items representing net payables in total are indicated with brackets ( ).

Note 1 Redemption schedule for monetary claims and securities with maturity after the consolidated closing date  
Previous fiscal year (December 31, 2022)

	Within 1 year (million yen)	More than 1 year but within 5 years (million yen)	More than 5 years (million yen)
Cash and deposits	127,340	—	—
Notes and accounts receivable - trade	112,487	—	—
Electronically recorded monetary claims - operating	41,974	—	—
Marketable securities and investment securities			
Held-to-maturity bonds (government bonds, local government bonds, etc.)	177	229	50
Available-for-sale securities with maturity	3,000	—	—
Total	284,979	229	50

Current fiscal year (December 31, 2023)

	Within 1 year (million yen)	More than 1 year but within 5 years (million yen)	More than 5 years (million yen)
Cash and deposits	149,118	—	—
Notes and accounts receivable - trade	103,164	—	—
Electronically recorded monetary claims - operating	41,053	—	—
Marketable securities and investment securities			
Bonds held to maturity (government bonds, local government bonds, etc.)	167	62	50
Available-for-sale securities with maturity	3,000	—	—
<b>Total</b>	<b>296,502</b>	<b>62</b>	<b>50</b>

Note 2 Redemption schedule for bonds payable and long-term borrowings after the consolidated closing date

Previous fiscal year (December 31, 2022)

	Due in 1 year or less (million yen)	Due after 1 year through 2 years (million yen)	Due after 2 years through 3 years (million yen)	Due after 3 years through 4 years (million yen)	Due after 4 years through 5 years (million yen)	Later than 5 years (million yen)
Bonds payable	12	10,012	10,012	20,012	12	50,092
Long-term borrowings	24,163	30,639	55,737	60,973	18,168	22,290

Current fiscal year (December 31, 2023)

	Due in 1 year or less (million yen)	Due after 1 year through 2 years (million yen)	Due after 2 years through 3 years (million yen)	Due after 3 years through 4 years (million yen)	Due after 4 years through 5 years (million yen)	Later than 5 years (million yen)
Bonds payable	10,012	10,044	20,044	12	10,012	40,080
Long-term borrowings	28,204	30,211	110,400	36,437	15,605	37,654

3. Breakdown of fair value of financial instruments by level

Fair values of financial instruments are categorized into the following three levels according to the observability and importance of inputs relating to the calculation of fair values.

Level 1 fair value: A fair value calculated based on market prices of assets or liabilities relevant to the calculation of said fair value and established in an active market, from among observable inputs relating to the calculation of fair value.

Level 2 fair value: A fair value calculated using inputs relating to the calculation of fair value other than the inputs in Level 1, from among observable inputs relating to the calculation of fair value.

Level 3 fair value: A fair value calculated using unobservable inputs relating to the calculation of fair value.

When multiple inputs that have significant effect on the calculation of fair value are used, the fair value is categorized in the level for which the order of priority is the lowest in the calculation of the fair value, among the levels to which each of those inputs belong.

## (1) Financial instruments recorded in fair value in the Consolidated Balance Sheet

Previous fiscal year (December 31, 2022)

Category	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Available-for-sale securities				
Stocks	77,035	—	—	77,035
Derivative transactions				
Currency-related	—	5,800	—	5,800
Total assets	77,035	5,800	—	82,835
Derivative transactions				
Currency-related	—	340	—	340
Interest-related	—	0	—	0
Total liabilities	—	340	—	340

Current fiscal year (December 31, 2023)

Category	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Available-for-sale securities				
Stocks	76,873	—	—	76,873
Derivative transactions				
Currency-related	—	6,889	—	6,889
Total assets	76,873	6,889	—	83,761
Derivative transactions				
Currency-related	—	185	—	185
Interest-related	—	1	—	1
Total liabilities	—	186	—	186

## (2) Financial instruments other than financial instruments recorded in fair value in the Consolidated Balance Sheet

Previous fiscal year (December 31, 2022)

Category	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Held-to-maturity bonds				
Government bonds, local government bonds, etc.	445	—	—	445
Shares in affiliates	29,901	—	—	29,901
Total assets	30,346	—	—	30,346
Bonds payable	—	87,346	—	87,346
Long-term borrowings	—	209,108	—	209,108
Total liabilities	—	296,454	—	296,454

Current fiscal year (December 31, 2023)

Category	Fair value (million yen)			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Held-to-maturity bonds				
Government bonds, local government bonds, etc.	266	—	—	266
Shares in affiliates	40,252	—	—	40,252
Total assets	40,517	—	—	40,517
Bonds payable	—	87,991	—	87,991
Long-term borrowings	—	256,008	—	256,008
Total liabilities	—	343,998	—	343,998

(Note) Valuation methodology used for the calculation of fair value and explanation on inputs relating to the calculation of fair value

Marketable securities and investment securities

Listed shares, government bonds and local government bonds, etc. are valued using market prices. As listed shares and government bonds are transacted in active markets, their fair values are classified as Level 1.

Derivative transactions

As derivatives are transacted over the counter and there are no published market prices, their fair values are calculated based on prices quoted by financial institutions, etc. Accordingly, their fair values are classified as Level 2.

Bonds payable

The fair values are based on the present value calculated by discounting the sum of principal and interests using an interest rate reflecting credit risk and redemption periods are taken into account. Accordingly, their fair values are classified as Level 2.

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 over the short-term, and the Company's credit standing has not changed significantly since loan execution. Therefore, the relevant book values are used and their fair values classified as Level 2. The fair values of long-term borrowings with fixed interest rates are principally estimated by discounting the total principal and interest,\* classified by certain maturities, based on estimated interest rates if similar new borrowings were implemented. Accordingly, these fair values are classified as Level 2.

\*For the long-term borrowings subjected to exceptional accounting for interest rate swaps, the total principal and interest based on the rate of the interest rate swap in question is applied.

(Securities)

1. Held-to-maturity bonds

Previous fiscal year (December 31, 2022)

	Carrying amount in the Consolidated Balance Sheet (million yen)	Fair value (million yen)	Unrealized gain (loss) (million yen)
(Items with fair value that exceed the carrying amount in the Consolidated Balance Sheet)			
(i) Government bonds, local government bonds, etc.	406	408	2
(ii) Bonds payable	—	—	—
(iii) Other	—	—	—
Subtotal	406	408	2
(Items with fair value that do not exceed the carrying amount in the Consolidated Balance Sheet)			
(i) Government bonds, local government bonds, etc.	50	36	(14)
(ii) Bonds payable	—	—	—
(iii) Other	—	—	—
Subtotal	50	36	(14)
Total	456	445	(11)

Current fiscal year (December 31, 2023)

	Carrying amount in the Consolidated Balance Sheet (million yen)	Fair value (million yen)	Unrealized gain (loss) (million yen)
(Items with fair value that exceed the carrying amount in the Consolidated Balance Sheet)			
(i) Government bonds, local government bonds, etc.	229	230	1
(ii) Bonds payable	—	—	—
(iii) Other	—	—	—
Subtotal	229	230	1
(Items with fair value that do not exceed the carrying amount in the Consolidated Balance Sheet)			
(i) Government bonds, local government bonds, etc.	50	36	(14)
(ii) Bonds payable	—	—	—
(iii) Other	—	—	—
Subtotal	50	36	(14)
Total	279	266	(13)

## 2. Available-for-sale securities

Previous fiscal year (December 31, 2022)

	Carrying amount in the Consolidated Balance Sheet (million yen)	Acquisition cost (million yen)	Unrealized gain (loss) (million yen)
(Items with carrying amount in the Consolidated Balance Sheet that exceed the acquisition cost)			
(i) Stocks	75,493	21,358	54,135
(ii) Bonds	—	—	—
(iii) Other	—	—	—
Subtotal	75,493	21,358	54,135
(Items with carrying amount in the Consolidated Balance Sheet that do not exceed the acquisition cost)			
(i) Stocks	1,542	1,986	(445)
(ii) Bonds	—	—	—
(iii) Other	—	—	—
Subtotal	1,542	1,986	(445)
Total	77,035	23,344	53,691

Current fiscal year (December 31, 2023)

	Carrying amount in the Consolidated Balance Sheet (million yen)	Acquisition cost (million yen)	Unrealized gain (loss) (million yen)
(Items with carrying amount in the Consolidated Balance Sheet that exceed the acquisition cost)			
(i) Stocks	74,631	20,113	54,518
(ii) Bonds	—	—	—
(iii) Other	—	—	—
Subtotal	74,631	20,113	54,518
(Items with carrying amount in the Consolidated Balance Sheet that do not exceed the acquisition cost)			
(i) Stocks	2,242	2,570	(328)
(ii) Bonds	—	—	—
(iii) Other	—	—	—
Subtotal	2,242	2,570	(328)
Total	76,873	22,683	54,190

## 3. Available-for-sale securities sold

Previous fiscal year (January 1, 2022 – December 31, 2022)

	Sales amount (million yen)	Total gain on sales (million yen)	Total loss on sales (million yen)
(1) Stocks	142	54	—
(2) Bonds	—	—	—
(3) Other	—	—	—
Total	142	54	—

Current fiscal year (January 1, 2023 – December 31, 2023)

	Sales amount (million yen)	Total gain on sales (million yen)	Total loss on sales (million yen)
(1) Stocks	3,243	1,935	—
(2) Bonds	—	—	—
(3) Other	—	—	—
Total	3,243	1,935	—

(Derivative transactions)

1. Derivative transactions to which hedge accounting is not applied

Currency-related

Previous fiscal year (December 31, 2022)

Category	Transaction type	Contract amount, etc. (million yen)	Contract amount, etc. due after 1 year (million yen)	Fair value (million yen)	Unrealized gain (loss) (million yen)
Transactions other than market transactions	Forward foreign currency exchange contracts: Sell contract				
	Yen	4,744	—	69	69
	U.S. dollar	201	—	(11)	(11)
Total		4,946	—	58	58

Current fiscal year (December 31, 2023)

Category	Transaction type	Contract amount, etc. (million yen)	Contract amount, etc. due after 1 year (million yen)	Fair value (million yen)	Unrealized gain (loss) (million yen)
Transactions other than market transactions	Forward foreign currency exchange contracts: Sell contract				
	Yen	2,856	—	174	174
	U.S. dollar	347	—	11	11
	Thai Baht	491	491	15	15
	Buy contract Thai Baht	447	447	20	20
Total		4,141	938	220	220

The non-controlling interests arising from business combinations of overseas consolidated subsidiaries are transferred to long-term liabilities (other) due to the presence of put options. The table above does not include the amount.

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related

Previous fiscal year (December 31, 2022)

Hedge accounting method	Transaction type	Major hedged items	Contract amount, etc. (million yen)	Contract amount, due after 1 year (million yen)	Fair value (million yen)
Principle treatment method	Forward foreign currency exchange contracts:				
	Sold	Accounts payable - trade			
	U.S. dollar		4,730	—	93
	Euro		2,460	—	47
	Thai Baht		6,641	2,608	375
	Purchased	Accounts payable - trade			
	U.S. dollar		22,041	14,022	4,818
	Euro		4,202	—	(41)
	Thai Baht		2,025	418	110
Allocation treatment including forward foreign currency exchange, etc.	Forward foreign currency exchange contracts:				
	Sold	Accounts receivable - trade			
	U.S. dollar		408	—	*
	Purchased	Accounts payable - trade			
	U.S. dollar		468	—	*
	Euro		46	—	*
Total			43,020	17,048	5,402

\*Items subjected to allocation treatment of forward foreign currency exchange contracts, etc. are treated together with accounts payable and accounts receivable, which are the hedged items. As such, their fair value is included in the fair value of relevant accounts payable and accounts receivable.

Current fiscal year (December 31, 2023)

Hedge accounting method	Transaction type	Major hedged items	Contract amount, etc. (million yen)	Contract amount, due after 1 year (million yen)	Fair value (million yen)
Principle treatment method	Forward foreign currency exchange contracts:				
	Sold	Accounts payable - trade			
	U.S. dollar		5,513	—	53
	Euro		1,891	—	15
	Thai Baht		4,586	2,634	177
	Purchased	Accounts payable - trade			
	U.S. dollar		21,150	13,529	6,243
	Euro		4,917	—	(5)
Allocation treatment including forward foreign currency exchange, etc.	Forward foreign currency exchange contracts:				
	Sold	Accounts receivable - trade			
	U.S. dollar		1,062	—	*
	Purchased	Accounts payable - trade			
	U.S. dollar		642	—	*
	Euro		86	—	*
Total			39,847	16,163	6,483

\*Items subjected to allocation treatment of forward foreign currency exchange contracts, etc. are treated together with accounts payable and accounts receivable, which are the hedged items. As such, their fair value is included in the fair value of relevant accounts payable and accounts receivable.



## (2) Interest-related

Previous fiscal year (December 31, 2022)

Hedge accounting method	Transaction type	Major hedged items	Contract amount, etc. (million yen)	Contract amount, due after 1 year (million yen)	Fair value (million yen)
Principle treatment method	Interest rate swap contracts: Receive-variable rate/Pay-fixed rate	Long-term borrowings	100	66	(0)
Exceptional accounting for interest rate swaps	Interest rate swap contracts: Receive-variable rate/Pay-fixed rate	Long-term borrowings	1,810	856	*
Total			1,910	923	(0)

\*Items subjected to exceptional accounting for interest rate swaps are treated together with long-term borrowings, which is the hedged item. As such, their fair value is included in the fair value of the relevant long-term borrowings.

Current fiscal year (December 31, 2023)

Hedge accounting method	Transaction type	Major hedged items	Contract amount, etc. (million yen)	Contract amount, due after 1 year (million yen)	Fair value (million yen)
Principle treatment method	Interest rate swap contracts: Receive-variable rate/Pay-fixed rate	Long-term borrowings	100	59	(1)
Exceptional accounting for interest rate swaps	Interest rate swap contracts: Receive-variable rate/Pay-fixed rate	Long-term borrowings	1,810	785	*
Total			1,910	844	(1)

\*Items subjected to exceptional accounting for interest rate swaps are treated together with long-term borrowings, which is the hedged item. As such, their fair value is included in the fair value of the relevant long-term borrowings.

## (Retirement benefits)

## 1. Overview of retirement benefit plans adopted

The Company, its domestic consolidated subsidiaries, and some of its overseas consolidated subsidiaries have put in place corporate pension funds, contract-based corporate pension plans, and lump-sum retirement benefit plans as their defined benefit plans, and participate in the defined contribution pension system and the Smaller Enterprise Retirement Allowance Mutual Aid (SERAMA) Scheme as their defined contribution plans. Of the defined contribution corporate pension plans, multi-employer schemes that do not allow for the reasonable calculation of plan assets corresponding to the company's contributions are treated with the same accounting method as for defined contribution systems.

Some consolidated subsidiaries have contract-based corporate pension plans and lump-sum retirement benefit plans, and use a simplified method for calculating retirement benefit liabilities and expenses.

In certain cases, special retirement benefits may be paid to employees upon their retirement.

## 2. Defined benefit plans

(1) Changes in retirement benefit liabilities at the beginning and end of the fiscal year (excluding plans to which the simplified method is applied)

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Retirement benefit obligation balance at the beginning of the year	82,073	73,506
Service cost	3,450	2,894
Interest cost	542	1,052
Actuarial gain and loss	(11,269)	(1,460)
Retirement benefits paid	(2,299)	(2,870)
Prior service cost	(16)	(76)
Increase due to transition from simplified method to principle method	991	—
Other	34	68
Retirement benefit obligation balance at the end of the year	73,506	73,114

(2) Changes in plan assets at the beginning and end of the fiscal year (excluding plans to which the simplified method is applied)

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Plan assets at the beginning of the year	66,782	63,575
Expected return on plan assets	(334)	1,831
Actuarial gain and loss	(3,302)	3,542
Employer contributions	1,774	1,847
Retirement benefits paid	(1,887)	(2,407)
Increase due to transition from simplified method to principle method	541	—
Plan assets at the end of the year	63,575	68,387

(3) Changes in retirement benefit liabilities at the beginning and end of the fiscal year for plans to which the simplified method is applied

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Retirement benefit liabilities balance at the beginning of the year	1,266	1,150
Retirement benefit expense	262	155
Retirement benefits paid	(127)	(126)
Contributions	(70)	(20)
Decrease due to transition from simplified method to principle method	(211)	—
Other	30	48
Retirement benefit liabilities balance at the end of the year	1,150	1,207

(4) Changes in year-end balance of retirement benefit liability and plan assets, and retirement benefit liability and assets recorded in the Consolidated Balance Sheet

(million yen)

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Funded retirement benefit obligation	66,520	65,725
Plan assets	(64,030)	(68,862)
	2,490	(3,138)
Unfunded retirement benefit obligation	8,592	9,071
Net retirement benefit liability in the consolidated balance sheet	11,081	5,934
Retirement benefit liability	11,792	10,587
Retirement benefit assets	(710)	(4,653)
Net retirement benefit liability in the consolidated balance sheet	11,081	5,934

(5) Components of retirement benefit expense

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Service cost	3,450	2,894
Interest cost	542	1,052
Expected return on plan assets	334	(1,831)
Amortization of actuarial gain and loss	(7,968)	(5,003)
Amortization of prior service cost	(16)	(76)
Retirement benefit expense under the simplified method	262	155
Amortization for transition from simplified method to principle method	239	—
Other	(24)	(40)
Retirement benefit expense for defined benefit plans	(3,180)	(2,849)

(6) Plan assets

(i) Major components of plan assets

The following are the percentages of the major components of plan assets, by major category, of total plan assets.

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Bonds	39%	36%
Stocks	26	29
General account	13	12
Other	22	23
Total	100	100

(ii) Method of determining the expected long-term return rate on plan assets

To determine the expected long-term return rate on plan assets, the current and anticipated allocation of plan assets, and the current and future expected long-term return rate from the diverse assets that constitute plan assets, are taken into consideration.

(7) Assumptions for actuarial calculations

Major assumptions used in actuarial calculations

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Discount rates	0.000% - 1.742%	0.000% - 1.839%
Expected long-term rate of return on plan assets	(0.5%)	2.9%
Expected rate of salary increase (point-based system)	5.0%	5.2%

3. Defined contribution plans

The amounts of required contributions to defined contribution plans (including multi-employer defined corporate pension plans similarly accounted as defined contribution plans) by the Company and its consolidated subsidiaries were 1,926 million yen in the fiscal year ended December 31, 2022 and 1,986 million yen in the fiscal year ended December 31, 2023.

Matters related to multi-employer plans for which required contributions are accounted for as retirement benefit expenses are omitted due to their immateriality.

(Stock options)

1. Expenses and account name related to stock options

Not applicable.

## 2. Description, volumes and changes in 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)
Date of resolution	July 31, 2015	July 29, 2016	July 28, 2017
Categories and number of individuals covered	Directors of the Company (excluding Outside Directors): 8 Executive officers of the Company (excluding those serving concurrently as Directors): 11	Directors of the Company (excluding Outside Directors): 8 Executive officers of the Company (excluding those serving concurrently as Directors): 13	Directors of the Company (excluding Outside Directors): 8 Executive officers of the Company (excluding those serving concurrently as Directors): 12
Number of stock options granted by class of share (No. of shares) (Note 1)	Common stock: 38,800	Common stock: 41,400	Common stock: 38,500
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
Number of stock acquisition rights (units)*	165	221	237
Class, description, and number of stocks for stock acquisition rights* (Note 2)	Common stock: 16,500 [15,600]	Common stock: 22,100 [21,200]	Common stock: 23,700 [22,800]
Amount paid per share upon exercise of stock acquisition rights (yen)* (Note 3)	1	1	1
Share issue price and capital incorporation amount upon exercise of stock acquisition rights (yen) (Notes 4, 5)	Issuance price: 1,234 Amount to be incorporated into stated capital: 617	Issuance price: 1,093 Amount to be incorporated into stated capital: 547	Issuance price: 1,257 Amount to be incorporated into stated capital: 629
Conditions to exercise stock acquisition rights*	Note 6	Note 6	Note 6
Matters related to the transfer of stock acquisition rights*	The acquisition of stock acquisition rights through transfer must be approved through resolution by the Company's Board of Directors.		
Matters related to the issuance of stock acquisition rights accompanying reorganization*	Note 7	Note 7	Note 7
Matters related to the conditions for acquisition of stock acquisition rights*	Note 8	Note 8	Note 8

\*The above is information as of the end of the fiscal year ended December 31, 2023. Items changed from the last day of the fiscal year under review to the end of the month (February 29, 2024) previous to the date of submission of the Annual Securities Report are shown in [] as of the end of the previous month.

Notes 1 Figures presented have been converted to the equivalent number of shares.

- The number of shares underlying each stock acquisition right (hereafter, "number of shares granted") shall be 100 shares. However, after the date for the allotment of stock acquisition rights (hereafter, "allotment date"), the Company shall adjust the number of shares granted based on the following formula in cases where the Company carries out a stock split (including the allotment of the shares without compensation from the Company's common stock; the same applies to statements relating to stock splits hereafter) or a reverse stock split of its common stock. Fractions of less than one share resulting from the adjustment shall be rounded off to the nearest whole number.

$$\text{Number of shares granted after adjustment} = \text{Number of shares granted before adjustment} \times \text{Percentage of stock split}$$

or reverse stock split

The number of shares granted after adjustment shall apply from the day after the record date of the stock split in the case of a stock split (if a record date is not specified, the effective date of the stock split), and from the day after the effective date in the case of a reverse stock split. However, if a stock split is carried out on the condition that a proposal to reduce the amount of surplus and increase capital or reserves is approved at the general meeting of shareholders, and in cases where a date prior to the date of the conclusion of the general meeting of shareholders in question is specified as the record date for the stock split, the number of shares granted after adjustment shall be applied retroactively to the day following this record date, after the day following the date of the conclusion of the general meeting of shareholders. In addition, after the allotment date, if the Company implements a merger, company split, or share exchange, or if it is necessary to adjust the number of shares granted in accordance with these cases, the Company may make reasonable adjustments to the number of shares granted.

When adjusting the number of shares granted, the Company shall notify or give public notice of the necessary matters to the holders of each stock acquisition right (hereafter, "stock acquisition right holders") recorded in the share option registry, by the day before the date when the number of shares granted after adjustment becomes applicable. However, if the Company is unable to notify or give public notice by the day before the applicable date in question, it shall notify or give public notice to the stock acquisition right holders promptly thereafter.

- 3 The value of assets invested upon the exercise of each stock acquisition right shall be the amount obtained by taking the exercise price per share of stocks that can be issued through the exercise of the stock acquisition right in question as one yen, and multiplying that by the number of shares issued.
- 4 The issue price is the sum of the paid-in amount (fair value) of the stock acquisition right on the allotment date and the paid-in amount (one yen per share) when the stock acquisition right is exercised. Persons to whom stock acquisition rights have been allotted shall offset their payment obligations for the paid-in amount (fair value) of the stock acquisition right in question against the compensation claim to the Company.
- 5
  - (1) The amount of capital increase when issuing shares through the exercise of stock acquisition rights shall be half of the maximum amount of capital increase calculated pursuant to the provisions of Article 17, Paragraph 1 of the Ordinance on Accounting of Companies. Any fraction of less than one yen resulting from the calculations shall be rounded up to the nearest whole number.
  - (2) The amount of capital reserve to be increased when issuing shares through the exercise of stock acquisition rights shall be the amount obtained by subtracting the amount of capital increase stated in (1) from the maximum amount of capital increase stated in (1).
- 6
  - (1) Stock acquisition right holders may, within the abovementioned exercise period of stock acquisition rights, exercise their stock acquisition rights from the day following the date marking three years from the grant date, or the day following the date on which they lose their position as a director or executive officer of the Company due to the expiration of their term of office or other reasons, whichever is earlier.
  - (2) Stock acquisition right holders may not exercise their stock acquisition rights after the day following the date marking five years from the day following the date on which they lost their position as a director or executive officer of the Company.
  - (3) Notwithstanding (1), stock acquisition right holders may, within the exercise period of the abovementioned stock acquisition rights, exercise their stock acquisition rights within 30 days from the day following the date of approval by the general meeting of shareholders (approval by a resolution of the Board of Directors in cases where a resolution by the general meeting of shareholders is not required) on a proposal to approve a merger agreement in which the Company becomes the consolidated company or merged company, or a proposal to approve a share exchange agreement or share transfer plan in which the Company becomes a wholly owned subsidiary. However, this does not apply in cases where a merger agreement, share exchange agreement, or share transfer plan stipulates that stock acquisition rights of the reorganized company will be granted to stock acquisition right holders pursuant to Note 7.
  - (4) The inheritance of stock acquisition rights shall be permitted only when such rights are succeeded by one of the legal successors of the stock acquisition rights (hereafter, "successor"). The successor may exercise their stock acquisition rights by one of the following dates, whichever is earlier.
    - (i) The date marking three years from the day following the date when the successor is confirmed as the successor of the stock acquisition rights
    - (ii) The date marking five years from the day following the date of death of the stock acquisition right holder
    - (iii) The expiration date of the abovementioned exercise period of the stock acquisition rights
    - (iv) The date marking five years from the day following the date on which the stock acquisition right holder lost their position as director or executive officer of the Company
  - (5) Stock acquisition right holders may not exercise the stock acquisition rights in question if they have surrendered such rights.
- 7 When the Company conducts a merger (only where the Company is dissolved due to a merger), absorption-type or incorporation-type company split (only where the Company becomes the split company), stock exchanges or share transfers (only where the Company becomes a wholly-owned subsidiary) (the above shall hereafter be referred to collectively as "reorganization action"), it shall grant stock acquisition rights of the stock company (hereafter,

“reorganized company”), as set out in (a) to (e) of Paragraph 1 (viii), Article 236 of the Companies Act, to stock acquisition right holders who hold stock acquisition rights remaining (hereafter, “remaining stock acquisition rights”) immediately before the effective date of the reorganization action (date on which the absorption-type merger takes effect in the case of an absorption-type merger, date on which a stock company incorporated through a consolidation-type merger is established in the case of a consolidation-type merger, date on which the absorption-type company split takes effect in the case of an absorption-type split, date on which a stock company incorporated through an incorporation-type company split is established in the case of an incorporation-type company split, date on which a share exchange takes effect in the case of a share exchange, and date on which a wholly owning parent company incorporated through share transfer is established in the case of share transfer; the same applies hereafter), in each of the cases; provided, however, that an absorption-type merger agreement, consolidation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement, or share transfer plan shall stipulate that the stock acquisition rights of the reorganized company will be granted in accordance with each of the following items.

- (1) Number of stock acquisition rights of the reorganized company to be issued  
The same number of rights as the number of remaining stock acquisition rights held by the stock acquisition right holder shall be issued.
  - (2) Class of shares of the reorganized company to be issued upon exercise of the stock acquisition rights  
Common stocks of the reorganized company.
  - (3) Number of shares of the reorganized company to be issued upon exercise of the stock acquisition rights  
To be determined pursuant to Note 2, upon consideration of the conditions or other factors concerning the reorganization action.
  - (4) Value of assets invested upon the exercise of the stock acquisition rights  
The value of assets invested upon the exercise of each stock acquisition right granted shall be the amount obtained by multiplying the exercise price after reorganization, stipulated below, with the number of shares of the reorganized company to be issued upon the exercise of the stock acquisition rights, determined pursuant to (3). The exercise price after reorganization shall be one yen per share of the reorganized company that may be granted through the exercise of each stock acquisition right granted.
  - (5) Exercise period of the stock acquisition rights  
The abovementioned start date of the exercise period of the stock acquisition rights or the effective date of the reorganization, whichever is later, shall be the expiration date of the exercise period of the stock acquisition rights defined above.
  - (6) Matters relating to the capital and capital reserves to be increased in the case of share issuance through the exercise of stock acquisition rights, shall be determined pursuant to Note 5.
  - (7) Restrictions on the acquisition of stock acquisition rights through transfer  
The acquisition of stock acquisition rights through transfer require approval through a resolution by the Board of Directors of the reorganized company.
  - (8) Provisions governing the acquisition of stock acquisition rights  
To be determined pursuant to Note 8.
  - (9) Other conditions for the exercise of stock acquisition rights  
To be determined pursuant to Note 6.
- 8 If the following proposals (1), (2), (3), (4), or (5) are approved at the Company’s general meeting of shareholders (approval by a resolution of the Board of Directors in cases where a resolution by the general meeting of shareholders is not required), the Company may, on a date prescribed separately by the Company’s Board of Directors, acquire stock acquisition rights without compensation.
- (1) Proposal to approve a merger agreement in which the Company becomes the consolidated company or merged company
  - (2) Proposal to approve a split agreement or split plan in which the Company becomes the split company
  - (3) Proposal to approve a share exchange agreement or share transfer plan in which the Company becomes a wholly owned subsidiary
  - (4) Proposal to approve changes to the Articles of Incorporation that set out provisions on the requirement for the Company’s approval for the acquisition of stock acquisition rights through transfer for all stocks issued by the Company
  - (5) Proposal to approve changes to the Articles of Incorporation that set out provisions on the requirement for the Company’s approval for the acquisition of stocks through transfer for classes of stocks that are subject to stock acquisition rights, or provisions on the Company’s acquisition of all such classes of stocks through a resolution by the general meeting of shareholders

(2) Volume and changes in stock options

The number of stock options applicable refers to those that existed in the current fiscal year ended December 2023, and have been converted into the equivalent number of shares shown as follows.

(i) Number 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)
Unvested stock options (Number of shares)			
As of December 31, 2022	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested as of December 31, 2023	—	—	—
Vested stock options (Number of shares)			
As of December 31, 2022	22,300	28,300	29,900
Vested	—	—	—
Exercised	5,800	6,200	6,200
Forfeited	—	—	—
Unexercised as of December 31, 2023	16,500	22,100	23,700

(ii) Unit price information

	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 (yen)	1	1	1
Average stock price when exercised (yen)	3,015	3,062	3,100
Fair unit value on the grant date (yen)	1,233	1,092	1,256

3. Method for estimating a fair unit value for stock options

No stock options were granted in the fiscal year ended December 31, 2023.

4. Method for estimating the number of vested stock options

As it is difficult to reasonably estimate the expiring number of options in the future, a method that reflects only the number of options that have been actually forfeited is generally applied.



## (Income taxes)

## 1. Significant components of deferred tax assets and liabilities

(million yen)

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Deferred tax assets		
Allowance for doubtful accounts	434	446
Provision for bonuses	4,156	4,374
Accrued legal welfare expense on employees' bonuses	636	664
Unpaid enterprise taxes	494	789
Devaluation of real estate for sale	192	142
Retirement benefit liability	3,275	2,923
Devaluation of non-current assets	779	766
Devaluation of financial instruments/golf-club memberships	1,343	1,168
Tax loss carryforwards (Notes )	5,463	4,326
Impairment loss	2,784	2,184
Provision for warranties for completed construction	1,312	1,429
Unrealized gain on non-current assets	513	443
Other	8,379	9,457
Gross deferred tax assets	29,761	29,112
Valuation allowance for tax loss carryforwards (Notes )	(5,216)	(3,870)
Valuation allowance for others	(10,782)	(9,464)
Valuation allowance	(15,998)	(13,334)
Total deferred tax assets	13,762	15,778
Deferred tax liabilities		
Reserve for tax purpose reduction entry of non-current assets	757	757
Retirement benefit assets	—	1,455
Gain on securities contributed to employee retirement benefit trusts	1,168	1,056
Valuation difference on available-for-sale securities	16,158	16,443
Land revaluation differences	814	814
Taxes on undistributed earnings of subsidiaries	7,655	8,956
Other	14,880	12,596
Gross deferred tax liabilities	41,433	42,078
Net deferred tax assets (liabilities)	(27,670)	(26,300)

Note Breakdown of amount of tax loss carryforwards and their deferred tax assets by carryforward expiration period.

## Previous fiscal year (December 31, 2022)

	Due in 1 year or less (million yen)	Due after 1 year through 2 years (million yen)	Due after 2 years through 3 years (million yen)	Due after 3 years through 4 years (million yen)	Due after 4 years through 5 years (million yen)	Later than 5 years (million yen)	Total (million yen)
Tax loss carryforwards*	104	431	268	268	241	4,151	5,463
Valuation allowance	(104)	(431)	(268)	(268)	(241)	(3,903)	(5,216)
Deferred tax assets	—	—	—	—	—	247	247

\*Tax loss carryforwards is the amount multiplied by the effective statutory tax rate.

Current fiscal year (December 31, 2023)

	Due in 1 year or less (million yen)	Due after 1 year through 2 years (million yen)	Due after 2 years through 3 years (million yen)	Due after 3 years through 4 years (million yen)	Due after 4 years through 5 years (million yen)	Later than 5 years (million yen)	Total (million yen)
Tax loss carryforwards*	260	148	268	213	330	3,106	4,326
Valuation allowance	(260)	(148)	(268)	(213)	(330)	(2,650)	(3,870)
Deferred tax assets	—	—	—	—	—	456	456

\*Tax loss carryforwards is the amount multiplied by the effective statutory tax rate.

2. Major factors underlying the differences between the effective statutory tax rate and the effective income tax rate after application of tax effect accounting

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Effective statutory tax rate	30.6%	30.6%
(Adjustments)		
Permanently non-deductible expenses for tax purposes such as entertainment expenses	0.2	0.2
Permanently non-taxable items such as dividend income	(1.9)	(4.4)
Per capita portion of inhabitant tax	0.2	0.2
Amortization of goodwill	0.5	0.9
Valuation allowance	4.2	(1.7)
Share of profit of entities accounted for using equity method	(2.1)	(0.5)
Tax rate differences with overseas subsidiaries, etc.	(7.9)	(7.1)
Other	4.6	3.5
Effective corporate income tax rate after application of tax effect accounting	28.3	21.8

(Business Combination)

(Business combination through acquisition)

(Acquisition of equity interests of SI HoldCo, LLC and 11 other companies)

1. Summary of the business combination

(1) Name of the acquiree and business description

Name of the acquiree: SI HoldCo, LLC and 11 other companies

Description of business: Holding company of the Southern Impression Homes Group, which develops land, and constructs, sells, and manages rental properties for single-family rental homes

(2) Main reason for implementing the business combination

Southern Impression Homes is engaged in land development for single family rental homes for investors, construction, sale, and management of rental properties mainly in the state of Florida. Hence, the Company aims to enter the single family rental homes business in Florida by making it a subsidiary of the Company. The Company has acquired equity interest in Southern Impression Homes for the purpose of further expanding the single family spec housing business in which we are already engaged in the United States and newly entering the real estate leasing and management business, starting with Florida, one of the leading markets in the United States, as a foothold.

(3) Date of business combination

January 13, 2023 (U.S. time)

(4) Legal form of the business combination

Acquisition of equity interests with cash

(5) Name of company after business combination

No change in name

(6) Ratio of voting rights acquired

80%

(7) Main basis for determining the acquiring company

BH HoldCo, LLC, a consolidated subsidiary of 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, 2023 to December 31, 2023

3. Breakdown of consideration for acquisition and type of consideration

<u>Consideration for acquisition</u>	<u>Cash</u>	<u>11,268 million yen</u>
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Acquisition cost:		11,268 million yen
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Note: Consideration for the acquisition reflects price adjustments based on share transfer agreements.

4. Description and amount of primary acquisition-related costs

Advisory fee: 312 million yen

5. Amount of goodwill, reason for recognition, and method and period of amortization

(1) Amount of goodwill

5,818 million yen

(2) Reason for recognition

The acquisition cost exceeded the fair value of net assets acquired at the date of business combination

(3) Amortization method and period

Straight-line amortization over 2 years

6. Amount and breakdown of assets acquired and liabilities assumed on the date of business transfer

Current assets	22,831 million yen
Non-current assets	14
<hr/> Total assets	<hr/> 22,845
Current liabilities	2,242
Non-current liabilities	15,153
<hr/> Total liabilities	<hr/> 17,396

Note: The non-controlling interests arising from business combinations of overseas consolidated subsidiaries are transferred to long-term liabilities (other) due to the presence of put options.

(Acquisition of equity interests of JPI Services Holdings, LLC and 17 other companies)

1. Summary of the business combination

(1) Name of the acquiree and business description

Name of the acquiree: JPI Services Holdings, LLC and 17 other companies

Description of business: Real estate development business for multi-family housing

(2) Main reason for implementing the business combination

The Company acquired equity interests in JPI Group, which possesses land acquisition, development management, construction management, and asset management functions related to the development of multi-family housing mainly in the states of Texas and California, for the purpose of expanding its real estate development business in the United States and building a stable earnings portfolio.

(3) Date of business combination

November 30, 2023 (U.S. time)

(4) Legal form of the business combination

Acquisition of equity interests with cash

(5) Name of company after business combination

No change in name

(6) Ratio of voting rights acquired

89.95%

Note: "Ratio of voting rights to be acquired" states the share of ownership

(7) Main basis for determining the acquiring company

SFA JPI Top Holdings, LLC, a newly established subsidiary of the Company's consolidated subsidiary, Sumitomo Forestry America, Inc., acquired the shares with cash

2. Period for which the business results of the acquiree are included in the consolidated financial statements of the Company

The period is from December 1, 2023 to December 31, 2023

3. Breakdown of consideration for acquisition and type of consideration

<u>Consideration for acquisition</u>	<u>Cash</u>	<u>24,498 million yen</u>
Acquisition cost:		24,498 million yen

Note: The abovementioned amounts are provisional amounts, and the actual amounts may differ from the above due to price adjustments and other factors in the future. The acquisition cost does not include contingent consideration. As an earnout clause, there is a possibility of additional payments corresponding to operating results in the next three years, and the maximum acquisition price after adjustment is 33,439 million yen.

4. Description and amount of primary acquisition-related costs

Advisory fee: 1,210 million yen

5. Amount of goodwill, reason for recognition, and method and period of amortization

(1) Amount of goodwill

24,261 million yen

Note: The above amounts are calculated on a provisional basis because the allocation of acquisition costs has not been completed since the period from the business combination date to the closing date is short and the identification of identifiable assets and liabilities as of the business combination date and the estimation of market value have not been completed.

(2) Reason for recognition

The acquisition cost exceeded the fair value of net assets acquired at the date of business combination

(3) Amortization method and period

Straight-line amortization over 18 years

6. Amount and breakdown of assets acquired and liabilities assumed on the date of business transfer

Current assets	23,130 million yen
Non-current assets	3,549
<hr/> Total assets	<hr/> 26,679
Current liabilities	25,859
Non-current liabilities	—
<hr/> Total liabilities	<hr/> 25,859

7. Details of the contingent acquisition consideration stipulated in the business combination agreement and the accounting policy for the current fiscal year and thereafter

Under the terms of the agreement, the Company will make additional payments based on the degree of future performance achievement of the acquired business. The variable portion of contingent acquisition consideration is recognized in accordance with U.S. GAAP.

8. The estimated impact on the consolidated statement of income for the current fiscal year if the business combination is assumed to have been completed on the first day of the fiscal year, and the calculation method

Net sales	93,347 million yen
Recurring income (loss)	(326)
Profit (loss) attributable to owners of parent	(574)

(Calculation Method for Estimated Amounts) (Unaudited information)

The difference between net sales and profit and loss information calculated on the assumption that the business combination was completed on the first day of the fiscal year and net sales and profit and loss information in the statement of income of the acquired company is used as the approximate amount of the impact. In addition, the amortization amount is calculated as if the goodwill recognized at the time of the business combination had occurred on the first day of the current consolidated fiscal year, and is included in the approximate amount.

(Acquisition of equity interests of TrussWorks Holding Company LLC and 1 other company)

1. Summary of the business combination

(1) Name of the acquiree and business description

Name of the acquiree: TrussWorks Holding Company LLC and 1 other company

Description of business: Manufacture, sale and design of trusses

(2) Main reason for implementing the business combination

We are promoting our Fully Integrated Turn-key Provider (FITP) business, which provides a full range of services in the United States from panel-design to manufacturing, delivery and installation, and we acquired an interest in TrussWorks Holding Company LLC, which operates a truss manufacturing business primarily in Texas, with the aim of expanding our FITP business in the United States.

(3) Date of business combination

November 2, 2023 (U.S. time)

(4) Legal form of the business combination

- Acquisition of equity interests with cash
- (5) Name of company after business combination  
No change in name
- (6) Ratio of voting rights acquired  
66.67%
- (7) Main basis for determining the acquiring company  
Builder Solutions Group, LLC, a consolidated subsidiary of 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 November 2, 2023 to December 31, 2023

3. Breakdown of consideration for acquisition and type of consideration

<u>Consideration for acquisition</u>	<u>Cash</u>	<u>17,387 million yen</u>
Acquisition cost:		17,387 million yen

Note: The above acquisition costs are provisional amounts, and actual amounts may differ from the above due to future price adjustments and other factors.

4. Description and amount of primary acquisition-related costs

Advisory fee: 178 million yen

5. Amount of goodwill, reason for recognition, and method and period of amortization

(1) Amount of goodwill

13,876 million yen

Note: The above amounts are calculated on a provisional basis because the allocation of acquisition costs has not been completed since the period from the business combination date to the closing date is short and the identification of identifiable assets and liabilities as of the business combination date and the estimation of market value have not been completed.

(2) Reason for recognition

The acquisition cost exceeded the fair value of net assets acquired at the date of business combination

(3) Amortization method and period

Straight-line amortization over 5 years

6. Amount and breakdown of assets acquired and liabilities assumed on the date of business transfer

Current assets	4,626 million yen
Non-current assets	1,299
<u>Total assets</u>	<u>5,926</u>
Current liabilities	539
Non-current liabilities	121
<u>Total liabilities</u>	<u>660</u>

7. The estimated impact on the consolidated statement of income for the current fiscal year if the business combination is assumed to have been completed on the first day of the fiscal year, and the calculation method

Net sales	14,561 million yen
Recurring income	3,410
Profit attributable to owners of parent	733

(Calculation Method for Estimated Amounts) (Unaudited information)

The difference between net sales and profit and loss information calculated on the assumption that the business combination was completed on the first day of the fiscal year and net sales and profit and loss information in the statement of income of

the acquired company is used as the approximate amount of the impact. In addition, the amortization amount is calculated as if the goodwill recognized at the time of the business combination had occurred on the first day of the current consolidated fiscal year, and is included in the approximate amount.

(Asset retirement obligations)

Asset retirement obligations recorded in the Consolidated Balance Sheet

1. Overview of asset retirement obligations

Asset retirement obligations include the obligation to restore properties to their original state in accordance with real estate lease contracts and fixed-term commercial land lease agreements for housing exhibition sites used for model homes, offices, etc.

2. Method of calculating the amounts of asset retirement obligations

The asset retirement obligations are calculated using the discount rates ranging from 0.00% to 2.15% and estimating expected usage term ranging from 5 years to 49 years after acquisition.

3. Changes in total asset retirement obligations

(million yen)

	Previous fiscal year (January 1, 2022 - December 31, 2022)	Current fiscal year (January 1, 2023 - December 31, 2023)
Balance at beginning of the year	2,739	3,843
Increase in liability incurred for property, plant and equipment acquired	1,228	261
Change in estimates	0	78
Accretion expense	11	12
Liabilities settled	(135)	(620)
Balance at end of the year	3,843	3,573

(Investment properties)

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 661 million yen for the fiscal year ended December 31, 2022, and gain on sales (recorded as non-operating income) was 31 million yen. 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 639 million yen and gain on sales (recorded as non-operating income) was 518 million yen for the fiscal year ended December 31, 2023.

The amounts recognized in the Consolidated Balance Sheet, changes during the fiscal year, and fair values related to investment properties were as follows:

(million yen)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Carrying amount in the Consolidated Balance Sheet		
Balance at beginning of the year	28,509	39,383
Changes during the year	10,874	4,742
Balance at end of the year	39,383	44,125
Fair value at end of the year	38,513	42,949

- Notes 1 The amounts in consolidated financial statements are obtained by deducting accumulated depreciation from the cost of acquisition.
- 2 The main components of changes in the carrying amounts for the fiscal year ended December 31, 2022 included an increase of 9,930 million yen due to acquisitions of real estate, an increase of 2,321 million yen due to exchange rate fluctuations, as well as a decrease of 257 million yen due to change in the holding purpose of properties to real estate for sale, a decrease of 21 million yen due to change in the purpose of use of properties to in-house use, a decrease of 695 million yen due to sales of real estate, and a decrease of 404 million yen due to depreciation. The main components of changes in the carrying amounts for the fiscal year ended December 31, 2023 included an increase of 7,266 million yen due to acquisitions of real estate, an increase of 1,813 million yen due to exchange rate fluctuations, as well as a decrease of 3,552 million yen due to sales of real estate, and a decrease of 785 million yen due to depreciation.
- 3 The fair value at the end of the fiscal year is based on the appraisal value by a real estate appraisers for major real estate properties in Japan, and the amount of other real estate (including overseas real estate) based on indicators that appropriately reflect the market price
- 4 The Company owns rental land in Ehime Prefecture (amounts in consolidated financial statements: 633 million yen for the fiscal year ended December 31, 2022; 644 million yen for the fiscal year ended December 31, 2023). However, as it is difficult to determine and confirm the land area due to historical reasons, it is extremely challenging to determine the fair value of this rental land. Accordingly, it is not included in investment property.



(Revenue recognition)

1. Information on the disaggregation of revenue from contracts with customers

(million yen)

		Main regional market (Note 1)	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Reportable segments	Timber and Building Materials Business	Japan	193,545	164,680
		Other	59,651	49,223
		Subtotal	253,196	213,903
	Housing Business	Japan	480,788	505,157
	Overseas Housing, Construction and Real Estate Business	U.S.	744,461	774,370
		Australia	103,281	147,823
		Other	24,538	24,513
		Subtotal	872,279	946,705
	Environment and Resources Business	Japan	15,478	15,250
		China	1,483	3,385
		Indonesia	1,493	2,387
		New Zealand	2,012	1,838
		Other	1	622
		Subtotal	20,467	23,482
Other	Japan	9,529	10,055	
Revenue from contracts with customers			1,636,259	1,699,303
Other revenue (Note 2)			33,448	33,867
Sales and contract revenues on external customers			1,669,707	1,733,169

Notes 1 Classified based on the location of customers.

2 “Other revenue” includes rental income, etc. based on the Accounting Standard for Lease Transactions (ASBJ Statement No. 13).

3 In conjunction with the reorganization in January 2023, beginning from the current fiscal year, the reportable segments have been changed from the previous four classifications of Timber and Building Materials Business, Housing and Construction Business, Overseas Housing and Real Estate Business, and Environment and Resources Business, to the four segments of Timber and Building Materials Business, Housing Business, Overseas Housing, Construction and Real Estate Business, and Environment and Resources Business.

Accordingly, information broken down by revenue recognition arising from contracts with customers for the previous fiscal year is also prepared using the new segmentation method.

2. Information that serves as the basis for understanding revenue from contracts with customers

Information that serves as a basis for understanding revenue from contracts with customers is omitted from the notes as the same information is included in the “Notes to Consolidated Financial Statements (Significant information for preparation of consolidated financial statements), 4. Accounting policies (5) Accounting policy for recognition of significant revenues and expenses.”

3. Information on the relationship between the fulfillment of performance obligations based on contracts with customers and cash flows from those contracts as well as the amount and date of revenue expected to be recognized in and after the fiscal year following the contracts with customers that exist at the end of the current fiscal year

Previous fiscal year (January 1, 2022 – December 31, 2022)

(1) Balance of contract assets and contract liabilities for the fiscal year ended December 31, 2022

(million yen)

Category	Beginning balance	Ending balance
Receivables arising from contracts with customers	142,417	162,335
Contract assets (Note 1)	47,154	50,073
Contract liabilities (Note 2)	75,145	80,095

Notes 1 The main component of contract assets is unbilled account receivables related to revenue recognized based on the measurement of progress of construction contracts, etc. On the Consolidated Balance Sheet, it is included under “Accounts receivable from completed construction contracts and contract assets.” Construction is deemed to be completed upon receipt of inspection by the customer, and the amount is transferred to receivables at the point when the rights of the Company and its consolidated subsidiaries become unconditional.

2 The main component of contract liabilities is advances received from customers in construction contracts, real estate sales, etc. Performance obligations are fulfilled with the progress of construction and provision of services, and the contract liability is transferred to revenue. The balance of contract liabilities as of the beginning of the fiscal year is generally recognized as revenue in the current fiscal year. For reference, changes in contract assets and contract liabilities during the current fiscal year, and the amount of revenue recognized from the performance obligations fulfilled in past periods during the current fiscal year, are immaterial.

(2) Transaction price allocated to the remaining performance obligations

With regard to transaction price allocated to the remaining performance obligations, as there are no significant contracts that are initially expected to have a contract period exceeding one year, the Group has applied practical expedient and omitted descriptions of such transactions.

Current fiscal year (January 1, 2023 – December 31, 2023)

(1) Balance of contract assets and contract liabilities for the fiscal year ended December 31, 2023

(million yen)

Category	Beginning balance	Ending balance
Receivables arising from contracts with customers	162,335	155,022
Contract assets (Note 1)	50,073	54,408
Contract liabilities (Note 2)	80,095	86,916

Notes 1 The main component of contract assets is unbilled account receivables related to revenue recognized based on the measurement of progress of construction contracts, etc. On the Consolidated Balance Sheet, it is included under “Accounts receivable from completed construction contracts and contract assets.” Construction is deemed to be completed upon receipt of inspection by the customer, and the amount is transferred to receivables at the point when the rights of the Company and its consolidated subsidiaries become unconditional.

2 The main component of contract liabilities is advances received from customers in construction contracts, real estate sales, etc. Performance obligations are fulfilled with the progress of construction and provision of services, and the contract liability is transferred to revenue. The amount of revenue recognized in the current fiscal year, the amount included in the contract liability balance as of the beginning of the fiscal year is 56,924 million yen. For reference, changes in contract assets and contract liabilities during the current fiscal year, and the amount of revenue recognized from the performance obligations fulfilled in past periods during the current fiscal year, are immaterial.

(2) Transaction price allocated to the remaining performance obligations

With regard to transaction price allocated to the remaining performance obligations, as there are no significant contracts that are initially expected to have a contract period exceeding one year, the Group has applied practical expedient and omitted descriptions of such transactions.

(Segment and related information)

[Segment information]

#### 1. Outline of reportable segments

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 establishes business divisions by products, services, and geographical areas, and each division formulates comprehensive strategies for the products and services it handles.

Accordingly, the Group is classified into four reportable segments (Timber and Building Materials Business, Housing Business, Overseas Housing, Construction and Real Estate Business, and Environment and Resources Business) based on division and identified by products, services and geographical areas.

Timber and Building Materials Business is engaged in the procurement, manufacture, processing and sale of timber and building materials, etc. Housing Business is engaged in the construction, after-maintenance and renovation of detached houses and multi-family housing, sale of spec homes, leasing, management, purchase and sale and brokerage of real estate, contracting for house exterior fixtures and landscaping works, urban greening works, CAD and site surveys, etc. Overseas Housing, Construction and Real Estate Business is engaged in the sale of spec homes, an construction of detached houses, development of multi-family housing and commercial complexes in overseas markets, domestic subcontracting of medium to large-scale construction projects etc. Environment and Resources Business is engaged in sustainable energy business and forest resources business, etc.

(Matters Related to Changes in Reportable Segments)

In conjunction with the reorganization in January 2023, beginning from the current fiscal year, the reportable segments have been changed from the previous four classifications of Timber and Building Materials Business, Housing and Construction Business, Overseas Housing and Real Estate Business, and Environment and Resources Business, to the four segments of Timber and Building Materials Business, Housing Business, Overseas Housing, Construction and Real Estate Business, and Environment and Resources Business.

Segment information for the previous fiscal year has been prepared based on the new reportable segments. This information is presented in the previous fiscal year under “3. Information on the amounts of net sales, profit or loss, assets and other items for each reportable segment. ”

#### 2. Calculation methods used for net sales, profit or loss, assets and the other items on each reportable segment

The accounting methods for reportable business segments are generally in accordance with those described in “Notes to Consolidated Financial Statements (Significant information for preparation of consolidated financial statements),” with the exception of the treatment of retirement benefit expenses.

With regard to retirement benefit expenses, amounts accounted for in a lump sum, such as actuarial differences, are not included in the profits or losses for the business segments.

Business segment profits are numbers based on recurring income.

Inter-segment sales and transfers are based on market prices, etc.

3. Information on the amounts of net sales, profit or loss, assets and other items for each reportable segment

Previous fiscal year (January 1, 2022 – December 31, 2022)

(million yen)

	reportable segment					Other (Note 1)	Total	Adjustments (Note 2)	Amounts in consolidated financial statements (Note 3)
	Timber and Building Materials Business	Housing Business	Overseas Housing, Construction and Real Estate Business	Environment and Resources Business	Total				
Net sales									
(1) Sales and contract revenues to external customers	253,196	508,342	872,828	20,501	1,654,868	14,241	1,669,109	599	1,669,707
(2) Inter-segment sales or inter-segment transfers	20,536	375	701	1,370	22,981	10,312	33,293	(33,293)	—
Total	273,733	508,717	873,529	21,871	1,677,849	24,553	1,702,402	(32,694)	1,669,707
Segment income (loss)	14,878	15,440	161,775	1,392	193,486	1,938	195,423	(429)	194,994
Segment assets	235,952	188,091	787,288	92,583	1,303,913	74,283	1,378,197	159,402	1,537,598
Other items									
Depreciation and amortization (Note 4)	3,611	4,961	4,113	2,200	14,885	1,954	16,838	1,073	17,911
Amortization of goodwill	36	—	2,705	—	2,741	—	2,741	—	2,741
Interest income	40	10	702	44	796	0	796	12	808
Interest expense	688	431	3,269	518	4,905	195	5,100	(1,976)	3,124
Share of profit (loss) of entities accounted for using equity method	(252)	—	23,197	552	23,496	2,256	25,753	0	25,753
Investments in equity method affiliates	7,082	—	69,328	5,352	81,762	40,576	122,338	7	122,344
Increase in property, plant and equipment and intangible assets (Note 4)	4,342	5,605	21,770	2,946	34,663	1,189	35,852	87	35,939

Notes 1 “Other” refers to business segments not included in the reportable segments, and includes businesses operating private-pay elderly care facilities and elderly residence that combines living support service, insurance agency business, contracting of civil engineering and construction works, etc.

2 Details of the adjustments are as follows.

(1) Adjustments for sales to external customers of 599 million yen are attributable to the administrative departments, and comprised mainly of rent from the Company's landholdings.

(2) Adjustments for segment income (loss) of (429) million yen include (39) million yen in eliminated inter-segment transactions, 7,968 million yen of retirement benefits liability adjustments (gain) and (8,357) million yen of corporate loss, which are not allocated to any of the reportable segments.

Corporate income (loss) mainly comprises selling, general and administrative expenses, non-operating income, and non-operating expenses not belonging to any of the reportable segments.

(3) Adjustments for segment assets of 159,402 million yen include (12,921) million yen of inter-segment eliminations and 172,323 million yen of corporate assets, which are not allocable to any of the segment assets.

Corporate assets mainly comprise surplus funds managed by the Company's Head Office (cash and deposits, marketable securities, short-term loan receivables), long-term investments (investment securities), and assets used by administrative departments.

3 The total amount of segment income or loss and segment assets are reconciled with the recurring income and total assets in the Consolidated Financial Statements, respectively.

4 The increase in depreciation expenses, property, plant and equipment and intangible assets, includes long-term prepaid expenses and write-offs associated with these expenses.

Current fiscal year (January 1, 2023 – December 31, 2023)

(million yen)

	reportable segment					Other (Note 1)	Total	Adjustments (Note 2)	Amounts in consolidated financial statements (Note 3)
	Timber and Building Materials Business	Housing Business	Overseas Housing, Construction and Real Estate Business	Environment and Resources Business	Total				
Net sales									
(1) Sales and contract revenues to external customers	213,903	533,499	947,276	23,523	1,718,201	14,375	1,732,576	593	1,733,169
(2) Inter-segment sales or inter-segment transfers	22,198	529	796	1,319	24,841	11,663	36,504	(36,504)	—
Total	236,101	534,028	948,072	24,842	1,743,042	26,038	1,769,080	(35,911)	1,733,169
Segment income (loss)	11,185	32,784	112,541	564	157,075	2,193	159,267	151	159,418
Segment assets	226,743	216,917	1,034,580	88,990	1,567,230	75,886	1,643,117	169,605	1,812,722
Other items									
Depreciation and amortization (Note 4)	4,333	5,712	4,521	2,173	16,740	2,060	18,800	1,118	19,918
Amortization of goodwill	—	180	5,586	—	5,765	—	5,765	—	5,765
Interest income	294	10	1,584	87	1,975	0	1,975	(3)	1,972
Interest expense	853	527	5,019	649	7,047	180	7,227	(2,889)	4,338
Share of profit (loss) of entities accounted for using equity method	128	—	6,046	(26)	6,148	2,189	8,338	0	8,338
Investments in equity method affiliates	7,813	—	93,468	6,194	107,475	41,109	148,584	6	148,590
Increase in property, plant and equipment and intangible assets (Note 4)	4,743	7,374	22,897	3,844	38,858	3,276	42,134	971	43,105

Notes 1 “Other” refers to business segments not included in the reportable segments, and includes businesses operating private-pay elderly care facilities and elderly residence that combines living support service, insurance agency business, contracting of civil engineering and construction works, etc.

2 Details of the adjustments are as follows.

(1) Adjustments for sales to external customers of 593 million yen are attributable to the administrative departments, and mainly comprised of rent from the Company’s landholdings.

(2) Adjustments for segment income (loss) of (151) million yen include (76) million yen in elimination of inter-segment transactions, 5,003 million yen of retirement benefits liability adjustments (gain) and (4,776) million yen of corporate loss, which are not allocated to any of the reportable segments.

Corporate income (loss) mainly comprises selling, general and administrative expenses, non-operating income, and non-operating expenses not belonging to any of the reportable segments.

(3) Adjustments for segment assets of 169,605 million yen include (12,183) million yen of inter-segment eliminations and 181,787 million yen of corporate assets, which are not allocable to the segment assets.

Corporate assets mainly comprise surplus funds managed by the Company’s Head Office (cash and deposits, marketable securities, short-term loan receivables), long-term investments (investment securities), and assets used by administrative departments.

3 The total amount of segment income or loss and segment assets are reconciled with the recurring income and total assets in the Consolidated Financial Statements, respectively.

4 The increase in depreciation expenses, property, plant and equipment and intangible assets, includes long-term prepaid expenses and write-offs associated with these expenses.

[Related information]

Previous fiscal year (January 1, 2022 – December 31, 2022)

1. Products and services information

(million yen)

	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to external customers	259,429	1,381,170	29,108	1,669,707

2. Geographic area information

(1) Net sales

(million yen)

Japan	United States	Other Area	Total
757,103	755,463	157,141	1,669,707

Note: Sales are classified based on the location of customers.

(2) Property, plant and equipment

(million yen)

Japan	New Zealand	United States	Other Area	Total
97,769	36,667	35,407	28,960	198,802

3. Major customer information

Customer information has been omitted since there are no sales and contract revenues to any specific external customer that account for 10% or more of consolidated net sales.

Current fiscal year (January 1, 2023 – December 31, 2023)

1. Products and services information

(million yen)

	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to external customers	229,570	1,471,325	32,274	1,733,169

2. Geographic area information

(1) Net sales

(million yen)

Japan	United States	Other Area	Total
753,106	784,793	195,270	1,733,169

Note: Sales are classified based on the location of customers.

(2) Property, plant and equipment

(million yen)

Japan	New Zealand	United States	Other Area	Total
98,633	39,246	54,217	34,178	226,274

3. Major customer information

Customer information has been omitted since there are no sales and contract revenues to any specific external customer that account for 10% or more of consolidated net sales.

[Information of loss on impairment of non-current assets for each reportable segment]

Previous fiscal year (January 1, 2022 – December 31, 2022)

(million yen)

	Timber and Building Materials Business	Housing Business	Overseas Housing, Construction and Real Estate Business	Environment and Resources Business	Other	Elimination and/or Corporate	Total
Loss on impairment of non-current assets	—	254	1,275	4,909	—	170	6,609

Current fiscal year (January 1, 2023 – December 31, 2023)

(million yen)

	Timber and Building Materials Business	Housing Business	Overseas Housing, Construction and Real Estate Business	Environment and Resources Business	Other	Elimination and/or Corporate	Total
Loss on impairment of non-current assets	—	—	415	186	—	357	959

[Information of amortization and balance of goodwill for each reportable segment]

Previous fiscal year (January 1, 2022 – December 31, 2022)

(million yen)

	Timber and Building Materials Business	Housing Business	Overseas Housing, Construction and Real Estate Business	Environment and Resources Business	Other	Elimination and/or Corporate	Total
Amortization of goodwill	36	—	2,705	—	—	—	2,741
Balance of goodwill	—	—	5,911	—	—	—	5,911

Current fiscal year (January 1, 2023 – December 31, 2023)

(million yen)

	Timber and Building Materials Business	Housing Business	Overseas Housing, Construction and Real Estate Business	Environment and Resources Business	Other	Elimination and/or Corporate	Total
Amortization of goodwill	—	180	5,586	—	—	—	5,765
Balance of goodwill	—	2,335	43,557	—	—	—	45,892

[Information on gain on negative goodwill by each reportable segment]

Not applicable.

(Related Party Transactions)

Previous fiscal year (January 1, 2022 – December 31, 2022)

Transactions with related parties

Transactions between the Company and their related parties

Non-consolidated subsidiaries and affiliated companies.

Category	Name	Location	Capital or investment (million yen)	Description of business or occupation	Ratio of voting rights ownership (owned) (%)	Relationship with related party	Transactions (Note)	Transaction amount (million yen)	Account	Balance at the end of the year (million yen)
Affiliated company	Kanda Biomass Energy K.K.	Miyako, Fukuoka Prefecture	2,161	Biomass power generation business	(Ownership) Direct 41.5	Officer holding concurrent position	Guarantee of indebtedness	17,426	—	—

Note: The Company provided guarantee of indebtedness at the requests of lending banks.

Current fiscal year (January 1, 2023 – December 31, 2023)

Transactions with related parties

Transactions between the Company and their related parties

Non-consolidated subsidiaries and affiliated companies.

Category	Name	Location	Capital or investment (million yen)	Description of business or occupation	Ratio of voting rights ownership (owned) (%)	Relationship with related party	Transactions (Note)	Transaction amount (million yen)	Account	Balance at the end of the year (million yen)
Affiliated company	Kanda Biomass Energy K.K.	Miyako, Fukuoka Prefecture	2,161	Biomass power generation business	(Ownership) Direct 41.5	Officer holding concurrent position	Guarantee of indebtedness	14,474	—	—

Note: The Company provided guarantee of indebtedness at the requests of lending banks.



(Per share information)

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Net assets per share (yen)	3,140.26	3,686.51
Profit per share(yen)	543.80	505.53
Profit per share fully diluted(yen)	530.99	500.44

Note 1: The basis for the calculation of net assets per share is as follows.

	Previous fiscal year (December 31, 2022)	Current fiscal year (December 31, 2023)
Total net assets (million yen)	682,554	823,296
Breakdown of deductions from total net assets (million yen)	55,044	68,881
(Share acquisition rights (million yen))	(96)	(74)
(Non-controlling interests (million yen))	(54,948)	(68,807)
Total net assets for common stock (million yen)	627,510	754,415
Number of common stocks outstanding (shares)	201,218,236	206,058,468
Number of treasury stocks (shares)	1,390,509	1,416,107
Number of common stocks used for the calculation of net asset per share (shares)	199,827,727	204,642,361

2 The basis for the calculation of profit per share and profit per share fully diluted is as follows.

	Previous fiscal year (January 1, 2022 – December 31, 2022)	Current fiscal year (January 1, 2023 – December 31, 2023)
Profit per share		
Profit attributable to owners of parent (million yen)	108,672	102,479
Profit not attributable to shareholders of common stock (million yen)	—	—
Profit attributable to shareholders of parent for common stock (million yen)	108,672	102,479
Weighted average number of shares of common stock issued (shares)	199,838,137	202,715,328
Profit per share fully diluted		
Adjusted profit attributable to owners of parent (million yen)	—	—
Breakdown of increase in common stock (shares)	4,819,837	2,061,189
(Convertible bond-type bonds with share acquisition rights (shares))	(4,680,883)	(1,929,902)
(Share acquisition rights (shares))	(90,000)	(69,046)
(Performance-linked stock compensation (shares))	(48,954)	(62,241)
Overview of potentially dilutive shares not included in the calculation of diluted profit per share due to absence of dilutive effects	—	—

(Significant Subsequent Events)

(Business Transfer by Consolidated Subsidiary)

At the Board of Directors meeting held on February 29, 2024, the Company resolved to take over the business of US-based Biscayne Homes, LLC and Biscayne Homes Lagoon, LLC through our consolidated subsidiary DRB Group, and the Business Acquisition Agreement was signed on February 29, 2024 (U.S. time). Pursuant to this agreement, the Company completed the acquisition of the business on March 1, 2024 (U.S. time).

1. Summary of the business combination

(1) Name of company and description of its business

Name of company: Biscayne Homes, LLC, Biscayne Homes Lagoon, LLC

Description of business: Construction and sales of housing for sale

(2) Main reason for the business transfer

With the aim of expanding its business in the state of Florida, which has the second largest number of construction permits in the U.S. and is expected to continue to expand its housing market, the Company acquired the business from Biscayne Homes, LLC and Biscayne Homes Lagoon, LLC, which are engaged in for-sale housing business in Tampa City, the same state.

(3) Date of business combination

March 1, 2024 (U.S. time)

(4) Legal form of the business combination

Business transfer with cash

(5) Name of company after business combination

DRB Group Florida, LLC

(6) Grounds for determining acquiring company

Our consolidated subsidiary, DRB Group, is the acquiring company because it is paying cash for the business transfer .

2. Breakdown of consideration for acquisition and type of consideration

<u>Consideration for acquisition</u>	<u>Cash</u>	<u>15,464 million yen</u>
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Acquisition cost:		15,464 million yen
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Note: Converted at the rate of exchange on March 1, 2024 and expressed in Japanese yen. The above amounts are estimates at the time of acquisition, and actual amounts may differ from the above due to future price adjustments and other factors.

3. Description and amount of primary acquisition-related costs

Not currently confirmed.

4. Amount of goodwill, reason for recognition, and method and period of amortization

Not currently confirmed.

5. Amount and breakdown of assets acquired and liabilities assumed on the date of business transfer

Not currently confirmed.

(Establishment of Joint Venture Company (Subsidiary))

At the Board of Directors meeting held on March 28, 2024, the Company resolved to form a joint venture, SKN GREEN DEVELOPMENT LTD. with Kumagai Gumi Co., Ltd. and NTT Urban Development Corporation through our consolidated subsidiary, Sumirin Vietnam Company Limited. Based on this resolution, we plan to conclude a joint venture agreement on March 28, 2024 (Vietnam time). SKN GREEN DEVELOPMENT LTD. will be a consolidated subsidiary of the Company.

1. Purpose of establishment of Joint Venture Company

The Company, Kumagai Gumi Co., Ltd. and NTT Urban Development Corporation will participate in the development of a

township in Thuận An City, Bình Dương Province, Vietnam with Kim Oanh Group, a local real estate developer. Upon participation, we will establish a joint venture company between our 100% owned subsidiary Sumirin Vietnam Company Limited, Kumagai Gumi Co., Ltd., and NTT UD Asia Pte Ltd., a 100% owned subsidiary of NTT Urban Development Corporation. The township development will be carried out by a joint venture company jointly owned by SKN GREEN DEVELOPMENT LTD. and Kim Oanh Group.

## 2. Summary of the Venture Company to be established

(1) Name: SKN GREEN DEVELOPMENT LTD.

(2) Location: Ho Chi Minh City, Vietnam

(3) Title and name of representative: Chairman, Koichi Nomoto,  
General Director, Yu Uenishi

(4) Description of business: Real Estate Development Project in Binh Duong Province in Southern Vietnam

(5) Amount of capital at the time of establishment: 6,313 million yen (provisional) (Note)

(6) Date of Establishment: May, 2024 (provisional)

(7) Share of equity: Sumirin Vietnam Company Limited 50% Kumagai Gumi Co., Ltd. 25% NTT UD Asia Pte, Ltd. 25%

Note: Converted at the rate of exchange on March 1, 2024 and expressed in Japanese yen

## (5) Consolidated Supplementary Schedules

## [Schedule of bonds payable]

Company	Issue name	Issue date	Balance at the beginning of the fiscal year (million yen)	Balance at the end of the fiscal year (million yen)	Interest rate (%)	Collateral	Redemption date
Sumitomo Forestry Co., Ltd.	Third Series Unsecured Straight Bonds	June 17, 2016	20,000	20,000	0.33	Unsecured	2026
Sumitomo Forestry Co., Ltd.	Fourth Series Unsecured Straight Bonds	March 7, 2018	10,000	10,000	0.25	Unsecured	2025
Sumitomo Forestry Co., Ltd.	Fifth Series Unsecured Straight Bonds	March 7, 2018	10,000	10,000	0.35	Unsecured	2028
Sumitomo Forestry Co., Ltd.	Sixth Series Unsecured Straight Bonds	March 7, 2018	10,000	10,000	0.70	Unsecured	2033
Sumitomo Forestry Co., Ltd.	Zero Coupon Convertible Bonds due 2023 (the Bonds with Stock Acquisition Rights)	September 27, 2018	10,015 (10,015)	—	—	Unsecured	2023
Sumitomo Forestry Co., Ltd.	Seventh Series Unsecured Straight Bonds	March 6, 2019	10,000	10,000 (10,000)	0.16	Unsecured	2024
Sumitomo Forestry Co., Ltd.	Eighth Series Unsecured Straight Bonds	March 6, 2019	10,000	10,000	0.38	Unsecured	2029
Sumitomo Forestry Co., Ltd.	Ninth Series Unsecured Straight Bonds	December 6, 2019	10,000	10,000	0.28	Unsecured	2029
Sumitomo Forestry Co., Ltd.	Tenth Series Unsecured Straight Bonds	December 6, 2019	10,000	10,000	0.69	Unsecured	2039
Other corporate bonds	—	—	152 (12)	204 (12)	—	—	—
Total	—	—	100,167 (10,027)	90,204 (10,012)	—	—	—

Notes 1 Numbers in brackets ( ) indicate the amount of bonds to be redeemed within one year.

2 The scheduled redemption amounts within five years after the consolidated closing date is as follows.

Due in 1 year or less (million yen)	Due after 1 year through 2 years (million yen)	Due after 2 years through 3 years (million yen)	Due after 3 years through 4 years (million yen)	Due after 4 years through 5 years (million yen)
10,012	10,044	20,044	12	10,012

[Schedule of borrowings, etc.]

Category	Balance at the beginning of the fiscal year (million yen)	Balance at the end of the fiscal year (million yen)	Average interest rate (%)	Repayment date
Short-term borrowings	21,803	23,551	5.44	—
Current portion of long-term borrowings	24,163	28,204	0.67	—
Current portion of lease obligations	2,120	3,615	3.93	—
Long-term borrowings (excluding current portion of long-term borrowings)	187,807	230,306	4.42	2025 - 2034
Lease obligations (excluding current portion of lease obligations)	12,263	17,991	2.86	2025 - 2053
Other interest-bearing liabilities Commercial papers (current portion of interest-bearing liabilities)	—	30,000	0.01	—
Total	248,157	333,668	—	—

Notes 1 Average interest rate is calculated using the weighted average of interest rates on the balance at the end of the current fiscal year.

- 2 The following are the amounts of long-term borrowings and lease obligations to be redeemed within five years after the consolidated closing date (excluding those to be repaid within one year).

	Due after 1 year through 2 years (million yen)	Due after 2 years through 3 years (million yen)	Due after 3 years through 4 years (million yen)	Due after 4 years through 5 years (million yen)
Long-term borrowings	30,211	110,400	36,437	15,605
Lease obligations	3,356	3,188	2,024	1,372

[Schedule of asset retirement obligations]

As the amount of asset retirement obligations at the beginning and the end of the current fiscal year is below one-hundredth of the total amount of liabilities and net assets at the beginning and the end of the current fiscal year, the schedule is omitted in accordance with the provisions of Article 92, Paragraph 2 of the Ordinance on Consolidated Financial Statements.

(2) Other

Quarterly information in the fiscal year under review

(Cumulative quarterly period)		First quarter	Second quarter	Third quarter	Fiscal year under review
Net sales	(million yen)	376,305	816,483	1,232,884	1,733,169
Profit before income taxes	(million yen)	25,591	67,366	99,579	161,353
Profit attributable to owners of parent	(million yen)	14,401	44,815	63,797	102,479
Net income per share (quarterly)	(yen)	72.07	223.17	315.71	505.53

(Accounting period)		First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share (quarterly)	(yen)	72.07	150.71	92.78	189.02

# Independent Auditor’s Audit Report and Internal Control Audit Report

March 28, 2024

The Board of Directors  
Sumitomo Forestry Co., Ltd

Ernst & Young ShinNihon LLC	
Tokyo, Japan	
Designated Engagement Partner	Tatsuya Chiba
Certified Public Accountant	
Designated Engagement Partner	Masato Nakagawa
Certified Public Accountant	
Designated Engagement Partner	Natsuki Saiki
Certified Public Accountant	

< Consolidated financial statements audit >

## Opinion

Pursuant to Article 193-2, Section 1 of the Financial Instruments and Exchange Act of Japan, we have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. (the “Company”) and its consolidated subsidiaries (collectively, the “Group”) included in “Financial Information” for the fiscal year from January 1, 2023 to December 31, 2023, which comprise the consolidated balance sheet, the consolidated statements of income, comprehensive income, changes in net assets, and cash flows, significant accounting policies, other related notes, and the consolidated supplemental schedules.

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, 2023, 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.

Recoverability of deferred tax assets	
Description of Key Audit Matter	Auditor's Response
<p>The Group recorded deferred tax assets of 8,312 million yen in the consolidated balance sheet as of December 31, 2023. As stated in the Notes to Consolidated Financial Statements (related to tax effect accounting), the amount of deferred tax assets before offsetting against deferred tax liabilities was 15,778 million yen. Of this amount, deferred tax assets (before offsetting against deferred tax liabilities) recorded by Sumitomo Forestry Co., Ltd. was 6,821 million yen, as stated in the Notes to Consolidated Financial Statements (related to tax effect accounting).</p> <p>The Company estimates the recoverable amount of deferred tax assets considering the scheduling of temporary differences, etc. based on future deductible temporary differences using estimates of future taxable income.</p> <p>Estimates of future taxable income in consideration of future earning power are based on the budget approved by the Board of Directors, etc., as stated in the Notes to Consolidated Financial Statements (Significant Accounting Estimates). Significant assumptions applied in preparing this budget are forecasts of unit selling prices, number of houses being constructed, gross profit margin, and expenses in the custom-built detached housing business of the Housing Business, and forecasts of unit selling prices, sales volumes, gross profit margin, and expenses in the Timber and Building Materials Business.</p> <p>The Housing Business and the Timber and Building Materials Business are impacted by the market environment for domestic housing where there has been a downward trend in new domestic housing construction due to a decline in consumer sentiment following an increase in housing prices caused by significant increases in construction materials, etc.</p> <p>In assessing the recoverability of deferred tax assets, since significant assumptions applied to the budget for the next fiscal year are subject to uncertainty, management judgment is required. As such, recoverability of deferred tax assets is of particular importance and determined to be a key audit matter.</p>	<p>In examining the recoverability of deferred tax assets of Sumitomo Forestry Co., Ltd., we mainly performed the following audit procedures.</p> <ul style="list-style-type: none"> <li>• We examined the appropriateness of the corporate classification as stipulated in the “Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan Guidance No. 26) based on operating loss carryforwards and other factors.</li> <li>• We performed the following procedures to examine the scheduling assumptions for the fiscal years in which deductible temporary differences and tax loss carryforwards, as well as the balance of future taxable amount, are expected to be resolved. <ul style="list-style-type: none"> <li>- We made inquiries with persons-in-charge in the Company to understand the Company's assertion regarding the scheduling.</li> <li>- We examined the appropriateness of the Company's scheduling by comparing relevant materials with the timing of the future reversal of deductible temporary differences.</li> </ul> </li> <li>• Regarding the amount of taxable income expected in the next fiscal year, we examined the consistency with the budget for the following fiscal year approved by the Board of Directors, etc.</li> <li>• We compared the budgets and actual performance of previous fiscal years to evaluate the effectiveness of the management's estimation process when preparing budgets.</li> <li>• We performed the following procedures with regard to the forecasts of unit selling prices, number of houses being constructed, gross profit margin, and expenses in the Housing Business, and forecasts of unit selling prices, sales volumes, gross profit margin, and expenses in the Timber and Building Materials Business, which are significant assumptions included in the budget for the next fiscal year. <ul style="list-style-type: none"> <li>- We made inquiries with persons-in-charge of multiple numbers of departments of the Company to understand the assumptions applied when preparing budgets and the calculation methods used for the assumptions, and examined the consistency of the responses we received.</li> <li>- We examined certain branches to assess if the assumptions applied when preparing the budget for the next fiscal year were calculated based on the calculation methods as understood through discussions with the Company.</li> <li>- We compared the assumptions used by management with historical performance and externally published available data.</li> </ul> </li> </ul>



## **Other Information**

The other information comprises the information included in the Annual Securities Report but does not include the consolidated financial statements, the non-consolidated financial statements and our audit report thereon. Management is responsible for preparation and disclosure of the other information. The Corporate Auditors and Board of Corporate Auditors are responsible for overseeing the Group's reporting process of the other information. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **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 designing and operating 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 from an independent standpoint. 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 Auditors and the Board of Corporate Auditors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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.

<Internal control audit>

### **Opinion**

Pursuant to Article 193-2, Section 2 of the Financial Instruments and Exchange Act of Japan, we have audited the accompanying Management's Report on Internal Control Over Financial Reporting for the consolidated financial statements as at December 31, 2023 of Sumitomo Forestry Co., Ltd. ("Management's Report").

In our opinion, Management's Report referred to above, which represents that the internal control over financial reporting as at December 31, 2023 of Sumitomo Forestry Co., Ltd. is effective, presents fairly, in all material respects, the result of management's assessment of internal control over financial reporting in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

### **Basis for Opinion**

We conducted our internal control audit in accordance with auditing standards on internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the 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.

### **Responsibilities of Management, the Corporate Auditors and Board of Corporate Auditors for the Management's Report on the Internal Control over Financial Reporting**

Management is responsible for designing and operating internal control over financial reporting, and for the preparation and fair presentation of Management's Report in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

The Corporate Auditors and Board of Corporate Auditors are responsible for monitoring and verifying the design and operation of internal control over financial reporting.

Internal control over financial reporting may not prevent or detect misstatements.

### **Auditor's Responsibilities for the Audit of Internal Control**

Our objectives are to obtain reasonable assurance about whether Management's Report is free from material misstatement, and to issue an auditor's report that includes our opinion from an independent standpoint.

As part of an audit in accordance with auditing standards on internal control generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence relating to the result of management's assessment of internal control over financial reporting in Management's Report. The design and performance of audit procedures for internal control audits is based on our judgement in consideration of the materiality of the effect on the reliability of financial reporting.
- Consider the overall presentation of Management's Report with regards to the scope, procedures, and result of the assessment of internal control over financial reporting including descriptions by management.

- Obtain sufficient appropriate audit evidence regarding the result of management’s assessment of internal control over financial reporting in Management’s Report. We are responsible for the direction, supervision, and performance of the audit of Management’s Report. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditors and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the internal control audit, the results of the internal control audit, any significant deficiencies in internal control that we identify, and the results of corrective measures for such significant deficiencies.

We also provide the Corporate Auditors and the Board of Corporate Auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

**Fee-related information-**

The amounts of fees for financial statement audits and other services charged to Sumitomo Forestry Co., Ltd. and its controlled entities by us and other EY member firms for the fiscal year ended December 31, 2023 are disclosed in “Status of corporate governance, etc. (3) Status of audit” included in the “Status of the Reporting Company” section in the annual securities report.

**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.

**Note to Users of Independent Auditor’s Report**

Other information described in the Independent Auditor’s Report and information referenced above in fee-related information relate to the Japanese annual securities report and the Independent Auditor’s Report therein, and thus solely represent the English translation of the original Independent Auditor’s Report in accordance with the Financial Instruments and Exchange Act of Japan.

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Notes:

1. The original copy of the above Independent Auditor’s Report is in the custody of the Company—the submitter of this Securities Report.
2. The XBRL data is not included in the scope of Audit.