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Annual Securities Report

The 83rd Business Term

**From January 1, 2022
to December 31, 2022**

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, 2022 – December 31, 2022) 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 Statements, etc.

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheets

(million yen)

	Previous fiscal year (December 31, 2021)	Current fiscal year (December 31, 2022)
Assets		
Current assets		
Cash and deposits	*2 139,957	*2 128,752
Notes and accounts receivable - trade	*2, *5 103,814	*2, *5 112,487
Electronically recorded monetary claims - operating	*5 36,261	*5 41,974
Accounts receivable from completed construction contracts	*2 49,496	-
Accounts receivable from completed construction contracts and contract assets	-	*1, *2 57,946
Marketable securities	3,303	3,177
Merchandise and finished goods	24,426	24,576
Work in process	1,483	2,050
Raw materials and supplies	9,696	11,385
Costs on construction contracts in progress	*2 14,973	*2 16,098
Real estate for sale	*2 49,180	*2 106,436
Real estate for sale in process	*2 332,898	*2 434,028
Short-term loans receivable	*2 35,493	*2 28,107
Accounts receivable – other	*2 54,680	*2 56,920
Other	*2 36,600	*2 49,349
Allowance for doubtful account	(348)	(521)
Total current assets	891,912	1,072,763
Non-current assets		
Property, plant and equipment		
Buildings and structures	*2 109,086	*2 111,884
Accumulated depreciation	(50,736)	(54,619)
Buildings and structures, net	58,350	57,265
Machinery, equipment and vehicles	*2 81,599	*2 89,673
Accumulated depreciation	(58,569)	(66,687)
Machinery, equipment and vehicles, net	23,031	22,986
Land	*2 41,516	*2 46,328
Timber	38,331	40,247
Leased assets	12,578	19,596
Accumulated depreciation	(4,902)	(7,392)
Leased assets, net	7,677	12,203
Construction in progress	*2 9,889	*2 13,459
Other	*2 20,112	*2 21,339
Accumulated depreciation	(14,723)	(15,025)
Other, net	5,390	6,314
Total property, plant and equipment	184,183	198,802
Intangible assets		
Goodwill	4,559	5,911
Other	16,111	16,964
Total intangible assets	20,671	22,876
Investments and other assets		
Investment securities	*2, *3 181,436	*2, *3 203,572
Long-term loans receivable	7,115	8,938
Retirement benefit assets	590	710
Deferred tax assets	*2 7,773	*2 7,736
Other	*2 21,448	*2 23,211
Allowance for doubtful account	(902)	(1,010)
Total investments and other assets	217,460	243,158
Total non-current assets	422,314	464,835
Total assets	1,314,226	1,537,598

(million yen)

	Previous fiscal year (December 31, 2021)	Current fiscal year (December 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	*5 103,383	*5 105,540
Electronically recorded obligations – operating	*5 30,682	*5 30,662
Accounts payable for construction contracts	98,165	103,566
Short-term borrowings	*2 25,024	*2 45,966
Current portion of bonds payable	*2 12	*2 12
Current portion of bonds with share acquisition rights	-	10,015
Lease obligations	825	2,120
Income tax payable	6,248	5,137
Advances received on construction contracts in progress	40,101	-
Contract liabilities	-	*2 80,095
Provision for bonuses	22,460	24,210
Provision for bonuses for director (and other officers)	165	163
Provision for warranties for completed construction	7,492	7,415
Asset retirement obligations	961	234
Other	*2 85,485	78,975
Total current liabilities	421,003	494,110
Long-term liabilities		
Bonds payable	*2 90,152	*2 90,140
Bonds with share acquisition rights	10,035	-
Long-term borrowings	*2 168,278	*2 187,807
Lease obligations	8,438	12,263
Deferred tax liabilities	23,044	35,406
Provision for retirement benefits for directors (and other officers)	332	313
Retirement benefits liability	17,148	11,792
Asset retirement obligations	1,778	3,608
Other	33,929	19,604
Total long-term liabilities	353,134	360,934
Total liabilities	774,136	855,045
Net assets		
Shareholders' equity		
Common stock	50,064	50,074
Capital surplus	33,899	31,493
Retained earnings	359,641	447,216
Treasury shares	(2,362)	(2,465)
Total shareholders' equity	441,241	526,318
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	37,226	36,926
Deferred gains (losses) on hedges	3,403	3,775
Foreign currency translation adjustment	13,699	60,443
Remeasurements of defined benefit plans	42	49
Total accumulated other comprehensive income	54,370	101,192
Share acquisition rights	116	96
Non-controlling interests	44,361	54,948
Total net assets	540,089	682,554
Total liabilities and net assets	1,314,226	1,537,598

(ii) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(million yen)

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Net sales	1,385,930	*1 1,669,707
Cost of sales	*2 1,063,936	*2 1,276,737
Gross profit	321,994	392,970
Selling, general and administrative expenses	*3, *4 208,344	*3, *4 234,717
Operating income	113,651	158,253
Non-operating income		
Interest income	393	808
Purchase discount	343	358
Dividend income	1,674	2,089
Share of profit of entities accounted for using equity method	17,782	25,753
Foreign exchange gains	747	897
Gain on sale of investment securities	2,222	6,970
Other	5,451	5,924
Total non-operating income	28,613	42,799
Non-operating expenses		
Interest expense	2,219	3,124
Other	2,294	2,934
Total non-operating expenses	4,513	6,058
Recurring income	137,751	194,994
Extraordinary loss		
Impairment loss	*5 3,819	*5 6,609
Total extraordinary loss	3,819	6,609
Profit before income taxes	133,932	188,385
Income taxes - current	23,765	41,517
Income taxes - deferred	5,651	11,714
Total income taxes	29,416	53,230
Net income	104,516	135,155
Profit attributable to non-controlling interests	17,341	26,483
Profit for the year attributable to owners of the parent	87,175	108,672

Consolidated Statements of Comprehensive Income

(million yen)

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Net income	104,516	135,155
Other comprehensive income		
Valuation difference on available-for-sale securities	(6,947)	(455)
Deferred gains (losses) on hedges	1,337	(96)
Foreign currency translation adjustment	24,955	46,161
Share of other comprehensive income of entities accounted for using equity method	5,017	6,460
Total other comprehensive income	* 24,361	* 52,070
Comprehensive income	128,877	187,225
(Breakdown)		
Comprehensive income attributable to shareholders of parent	106,447	155,493
Comprehensive income attributable to non-controlling interests	22,429	31,732

(iii) Consolidated Statements of Changes in Shareholders' Equity

Previous fiscal year (January 1, 2021 – December 31, 2021)

(million yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the current period	32,803	18,485	283,416	(2,340)	332,363
Changes during the period					
Issuance of new shares	17,259	17,259			34,518
Issuance of new shares (exercise of share acquisition rights)	2	2			3
Dividends of surplus			(10,950)		(10,950)
Profit for the year attributable to owners of the parent			87,175		87,175
Purchase of treasury stock				(21)	(21)
Change in stake of parent company related to transactions with non-controlling interests		(1,847)			(1,847)
Net changes in items other than shareholders' equity					
Total changes during the period	17,261	15,414	76,225	(21)	108,878
Balance at the end of the current period	50,064	33,899	359,641	(2,362)	441,241

	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	44,337	1,762	(11,098)	96	35,098	120	31,875	399,456
Changes during the period								
Issuance of new shares								34,518
Issuance of new shares (exercise of share acquisition rights)								3
Dividends of surplus								(10,950)
Profit for the year attributable to owners of the parent								87,175
Purchase of treasury shares								(21)
Change in stake of parent company related to transactions with non-controlling interests								(1,847)
Net changes in items other than shareholders' equity	(7,111)	1,640	24,797	(54)	19,273	(3)	12,486	31,755
Total changes during the period	(7,111)	1,640	24,797	(54)	19,273	(3)	12,486	140,633
Balance at the end of the current period	37,226	3,403	13,699	42	54,370	116	44,361	540,089

Current 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					-
Issuance of new shares (exercise of share acquisition rights)	10	10			20
Dividends of surplus			(21,096)		(21,096)
Profit for the year attributable to owners of the parent			108,672		108,672
Purchase of treasury stock				(103)	(103)
Disposal of treasury stock		0		0	0
Change in stake of parent company related 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 period								
Issuance of new shares								-
Issuance of new shares (exercise of share acquisition rights)								20
Dividends of surplus								(21,096)
Profit for the year attributable to owners of the parent								108,672
Purchase of treasury stock								(103)
Disposal of treasury stock								0
Change in stake of parent company related 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

(iv) Consolidated Statements of Cash Flows

(million yen)

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Net cash provided by (used in) operating activities:		
Income before income taxes	133,932	188,385
Depreciation and amortization	16,491	17,911
Impairment loss	3,819	6,609
Amortization of goodwill	2,110	2,741
Provision for (reversal of) doubtful account	(177)	164
Provision for (reversal of) bonuses	4,599	217
Provision for (reversal of) bonuses for directors (and other officers)	59	(2)
Provision for (reversal of) warranties for completed construction	1,085	(456)
Provision for (reversal of) loss on business liquidation	(368)	-
Provision for (reversal of) retirement benefits for directors (and other officers)	(8)	(19)
Net defined benefit liability (decrease)	(2,760)	(5,716)
Interest and dividends income	(2,068)	(2,897)
Interest expense	2,219	3,124
Equity in (earnings) losses of affiliates	(17,782)	(25,753)
Losses (gains) on sale of marketable securities and investment securities	(2,222)	(6,970)
Decrease (increase) in notes and account receivable-trade	(21,582)	-
Decrease (increase) in notes and account receivable-trade and contract assets	-	(13,316)
Decrease (increase) in inventories	(67,205)	(102,094)
Decrease (increase) in other current assets	(14,893)	(3,329)
Increase (decrease) in notes and accounts payable-trade	46,023	9,050
Increase (decrease) in advances received	5,487	2,584
Increase (decrease) in advances received on uncompleted construction contracts	5,124	-
Increase (decrease) in contract liabilities	-	(15)
Increase (decrease) in accrued consumption taxes	3,332	(2,079)
Increase (decrease) in other current liabilities	(4,627)	7,780
Other	1,803	(4,385)
Subtotal	92,389	71,536
Interest and dividends received	25,093	34,722
Interest paid	(2,310)	(3,010)
Income taxes paid	(23,596)	(47,972)
Net cash provided by (used in) operating activities	91,576	55,276

(million yen)

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Net cash provided by (used in) investing activities:		
Payments into time deposits	(5,230)	(5,212)
Proceeds from withdrawal of time deposits	538	5,222
Decrease (increase) in short-term loans receivable	(78)	(2,562)
Proceeds from sales and redemption of securities	204	2
Payments for purchases of property, plant and equipment	(20,614)	(31,999)
Proceeds from sales of property, plant and equipment	3,944	6,004
Payments for purchases of intangible assets	(3,664)	(4,666)
Payments for purchases of investment securities	(14,430)	(26,247)
Proceeds from sales and redemption of investment securities	3,312	17,041
Payments for transfer of business	(3,513)	(3,648)
Payments for purchase of subsidiary shares resulting in change in scope of consolidation	-	(2,165)
Proceeds from purchase of subsidiary shares resulting in change in scope of consolidation	*2 2,098	328
Payments of long-term loans payable	(2,207)	(5,734)
Repayments of long-term loans receivable	688	2,822
Other payments	(3,161)	(3,197)
Other proceeds	1,859	1,626
Net cash provided by (used in) investing activities	(40,254)	(52,385)
Net cash provided by (used in) financing activities:		
Net increase (decrease) in short-term debt	(1,399)	10,517
Net increase (decrease) in commercial papers	(10,000)	-
Repayments of finance lease obligations	(1,887)	(3,279)
Proceeds from long-term debt	52,447	54,095
Repayments of long-term debt	(54,174)	(45,267)
Redemption of bonds	(134)	(77)
Proceeds from issuance of shares	34,304	-
Proceeds from stock issuance to non-controlling shareholders	119	1,686
Cash dividends paid	(10,950)	(21,096)
Cash dividends paid to non-controlling interests	(11,580)	(24,762)
Payments for purchase of subsidiary shares not resulting in change in scope of consolidation	(2,578)	(3,799)
Net decrease (increase) in deposits with withdrawal and usage restrictions	(1,194)	(1,015)
Other proceeds	0	0
Other payments	(3)	(2)
Net cash provided by (used in) financing activities	(7,029)	(32,998)
Effect of exchange rate change on cash and cash equivalents	3,521	7,444
Net increase (decrease) in cash and cash equivalents	47,815	(22,662)
Cash and cash equivalents at the beginning of the year	122,220	170,035
Cash and cash equivalents at the end of the year	*1 170,035	*1 147,373

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 348 companies.

Effective from the fiscal year under review, Structural HoldCo, LLC and 41 other companies are included in the scope of consolidation accompanying the new acquisition of equity interests. On the other hand, Daiichisansho Co., Ltd. and 9 other companies that were consolidated subsidiaries in the previous fiscal year are excluded from the scope of consolidation due to the sale or liquidation of equity interests. Alongside the decrease in equity interests, CC Independence Park, L.P. and 7 other companies that were consolidated subsidiaries in the previous fiscal year are excluded from the scope of consolidation and included within the scope of application of the equity method.

2. Fiscal years, etc. of consolidated subsidiaries

As the consolidated closing date of six domestic consolidated subsidiaries and one 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 of these subsidiaries. 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 164 affiliated companies. The main affiliated company using the equity method is Kumagai Gumi Co., Ltd.

Effective from the fiscal year under review, Jefferson Centerpointe Manager, LLC and 30 other companies are included in the scope of application of the equity method due to the new acquisition of equity interests. On the other hand, Crescent Bellevue Joint Venture, LLC and six other companies that were affiliated companies using the equity method in the previous fiscal year are excluded from the scope of consolidation due to the sale or liquidation of equity interests. Alongside the decrease in equity interests, CC Independence Park, L.P. and 7 other companies that were consolidated subsidiaries in the previous fiscal year are included within the scope of application of the equity method.

- (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 credited to 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 after April 1, 1998 (excluding facilities attached to buildings) as well as facilities attached to buildings and structures acquired 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 in the fiscal year under review is stated.

(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 in the fiscal year under review is stated.

(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 period 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, the method of attributing the projected amount of retirement benefits to the period until the end of the fiscal year under review follows the standards for the benefit calculation formula.

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

Actuarial gains or losses and prior service costs are charged collectively in the fiscal year during which they arise.

(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 and Construction Business and Overseas Housing 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 and Construction Business and Overseas Housing 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 flow 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)

Impairment of non-current assets

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

(million yen)

	FY ended December 31, 2021	FY ended December 31, 2022
Property, plant and equipment, and intangible assets	204,854	221,678
Amount of impairment loss	3,819	6,609

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

(i) Calculation method

For an asset or an asset group that has indications of impairment, if the sum of the undiscounted future cash flows that could potentially be generated from such assets is less than the sum of the carrying amounts at the time of determination of impairment loss, an impairment loss is recorded for the difference between the carrying amounts at the time of determination of impairment loss and the recoverable amounts.

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

The recoverable amount is required to be either the net selling price or the value in use, whichever is higher. The net selling price is calculated based on the estimated selling price or the appraised value. The value in use is also required to be calculated using a number of estimates and assumptions, such as future cash flows. The major assumptions used in the calculation of future cash flows are projections of net sales and operating income based on budgets approved by the Board of Directors and other bodies and medium- to long-term business plans, as well as the weighted average cost of capital (WACC).

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

If there is a change in the conditions and assumptions underlying these estimates, the Company may be required to record additional impairment losses in the consolidated financial statements for the following fiscal year.

Recoverability of deferred tax assets

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

(million yen)

	FY ended December 31, 2021	FY ended December 31, 2022
Deferred tax assets (after offsetting)	7,773	7,736
Deferred tax liabilities (after offsetting)	23,044	35,406

(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 “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and the relevant ASBJ regulations from the beginning of the fiscal year under review. In accordance with the transitional measures provided for in paragraph 19 of this Accounting Standard and paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), 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.

In the section on “Financial Instruments,” notes have been included on matters related to the breakdown by level of the fair value of financial instruments. However, in accordance with the transitional measures provided for in paragraph 7-4 of the

Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019), notes for the previous fiscal year among those notes have been omitted.

(Accounting Standards issued but not yet effective)

- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021, Accounting Standards Board of Japan)

(1) Overview

The revised Guidance sets out the treatment of calculations and notes related to the fair value of investment trusts, as well as the treatment of notes on the fair value of investments in partnerships, etc. where the net interest in the partnership, etc. is recorded in the balance sheet.

(2) Scheduled date of adoption

The Company expects to adopt the Guidance from the beginning of the fiscal year ending December 31, 2023.

(3) Impact of the adoption of the implementation guidance

The Company is currently evaluating the effect of the adoption of the Implementation Guidance on Accounting Standard for Fair Value Measurement on its consolidated financial statements.

- 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.

(Changes in presentation)

(Consolidated Balance Sheet)

“Electronically recorded monetary claims – operating” included in “notes and accounts receivable – trade” under “current assets” and “electronically recorded obligations – operating” included in “notes and accounts payable – trade” under “current liabilities” in the previous fiscal year, have been posted independently in the fiscal year under review in view of their increased materiality. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified. Accordingly, in the Consolidated Balance Sheet for the previous fiscal year, 140,075 million yen presented as “notes and accounts receivable – trade” under “current assets” has been reclassified into two separate items as 103,814 million yen in “notes and accounts payable – trade” and 36,261 million yen in “electronically recorded monetary claims – operating,” while 134,065 million yen presented as “notes and accounts payable – trade” under “current liabilities” has been reclassified into two separate items as 103,383 million yen in “notes and accounts payable – trade” and 30,682 million yen in “electronically recorded obligations – operating.”

(Consolidated Statements of Income)

“Gain on sale of investment securities” included in “other” under “non-operating income” in the previous fiscal year, has been posted independently in the fiscal year under review in view of its increased materiality. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

Accordingly, in the Consolidated Statement of Income for the previous fiscal year, 7,673 million yen presented as “other” under “non-operating income” has been reclassified as 2,222 million yen in “gain on sales of investment securities” and 5,451 million yen in “other.”

(Application of Accounting Standard for Revenue Recognition)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and the relevant ASBJ rules have been applied from the beginning of the fiscal year under review. Due to the application of the Accounting Standard for Revenue Recognition and the relevant ASBJ rules, effective from the fiscal year under review, “accounts receivable from completed construction contracts” that had been presented under “current assets” in the previous fiscal year are now included and presented under “accounts receivable from completed construction contracts and contract assets,” and a part of “advances received on construction contracts in progress” and “other” presented under “current liabilities” as well as a part of “other” presented under “non-current liabilities” are now included and presented under “contract liabilities.” Furthermore, in the Consolidated Statement of Cash Flow for the previous fiscal year, effective from the fiscal year under review, “decrease (increase) in notes and accounts receivable-trade” that had been presented under “net cash provided by (used in) operating activities” is now included and presented in “decrease (increase) in notes and accounts receivable-trade and contract assets,” and a part of “increase (decrease) in advances received,” a part of “increase (decrease) in advances received on uncompleted construction contracts,” a part of “increase (decrease) in other current liabilities,” and a part of “other” are now included and presented under “increase (decrease) in contract liabilities.” In accordance with the transitional measures provided for in paragraph 89-4 of the Accounting Standard for Revenue Recognition, no reclassification to conform to the new presentation method has been made for the previous consolidated fiscal year.

(Additional information)

(Effects of COVID-19 on the accounting estimates)

While it is extremely difficult to predict how COVID-19 will spread in the future or when it is likely to come to an end, there has been no significant effect on the Group despite having a certain effect on the results for the fiscal year under review.

Accordingly, in determining the recoverability of deferred tax assets and the recognition of impairment loss, the Company makes the best estimates as of the end of the fiscal year under review based on the assumption that COVID-19 will continue to have a minor impact going forward, based on information available at the time of preparation of the consolidated financial statements. However, if the conditions or assumptions on which these estimates vary, they may have an impact on the consolidated financial statements for the following fiscal year and after.

(Consolidated Balance Sheets)

*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 omitted from the notes to financial statements, as the same contents are stated in the “Notes to Consolidated Financial Statements (Revenue recognition), 3.(1) Balance, etc. of contract assets and contract liabilities.”

*2 Pledged assets and secured liabilities

The following are the Company’s pledged assets.

(million yen)

	Previous fiscal year (December 31, 2021)	Current fiscal year (December 31, 2022)
Cash and deposits	649	1,107
Notes and accounts receivable – trade	36	1,362
Accounts receivable from completed construction contracts	2,374	—
Accounts receivable from completed construction contracts and contract assets	—	8,164
Costs on construction contracts in progress	334	325
Real estate for sale	1,238	23,996
Real estate for sale in process	6,230	18,668
Accounts receivable - other	4	48
Buildings and structures	7,237	12,023
Machinery, equipment and vehicles	12,086	10,965
Land	2,803	7,595
Construction in process	1,958	2,964
Investment securities	19,714	23,296
Other	3,678	7,282
Total	58,341	117,794

*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, 2021)	Current fiscal year (December 31, 2022)
Shares of subsidiaries	6	6
Loans receivable from subsidiaries and associates	122	5,744

The following are the Company’s secured liabilities.

(million yen)

	Previous fiscal year (December 31, 2021)	Current fiscal year (December 31, 2022)
Short-term borrowings	3,197	11,739
Current portion of bonds payable	12	12
Bonds payable	152	140
Long-term borrowings	15,126	14,889
Contract liabilities	—	321
Other	250	—
Total	18,737	27,102

*3 The following are shares and other securities issued by non-consolidated subsidiaries and affiliated companies.

(million yen)

	Previous fiscal year (December 31, 2021)	Current fiscal year (December 31, 2022)
Investment securities	99,928	122,344

*4 Contingent liabilities

Guarantees on loans, etc. from financial institutions

(million yen)

	Previous fiscal year (December 31, 2021)	Current fiscal year (December 31, 2022)
Customers using housing loans	28,516	26,356
Affiliated companies of Crescent Communities Group	17,188	25,846
Kanda Biomass Energy K.K.	19,155	17,426
DRSFA, LLC	332	731
Grand Star Co., Ltd.	—	598
Morinomiyako Biomass Energy G.K.	4,004	345
Kawasaki Biomass Electric Power Co., Ltd.	113	74

*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 fiscal year under review 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, 2021)	Current fiscal year (December 31, 2022)
Notes receivable - trade	2,546	2,459
Electronically recorded monetary claims - operating	3,676	4,793
Notes payable - trade	23	20
Electronically recorded obligations - operating	3,852	3,997

(Consolidated Statements of Income)

*1 Revenue from contracts with customers

Net sales are not categorized as “revenue from contracts with customers” and “other revenue.” The amount of revenue from contracts with customers is omitted from the notes to the consolidated financial statements as the same contents are stated in “Notes to Consolidated Financial Statements (Revenue Recognition), 1. Information on disaggregation of revenue from contracts with customers.”

*2 The closing inventory is the amount 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, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
	262	409

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

(million yen)

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Salaries and allowances	73,905	83,880
Provision for bonuses	10,764	11,261
Provision for bonuses for directors (and other officers)	165	163
Retirement benefit expenses	242	△2,390
Provision for retirement benefits for directors (and other officers)	17	12
Provision of allowance for doubtful accounts	113	287
Provision for warranties for completed construction	3,122	1,863

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

(million yen)

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
	2,488	2,576

*5 Impairment loss

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

Previous fiscal year (January 1, 2021 – December 31, 2021)

Major use	Location	Asset category	Impairment loss (million yen)
Private-pay elderly care facilities and elderly residence that combines living support service	Kobe City, Hyogo Prefecture, etc.	Goodwill	2,316
		Intangible assets (Other)	919
		Buildings	181
		Total	3,416

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.

For Sumirin Care Life Co., Ltd., the Company's consolidated subsidiary, the Company reviewed its business plan for the operation, and as a result the unamortized balance of its goodwill and other intangible assets were recorded as an impairment loss under extraordinary loss because the Company no longer expects it to generate the revenue expected at the time of acquisition. The recoverable amount of the assets was measured in terms of its value in use, which was calculated by discounting expected future cash flows at a rate of 5.0%. Additionally, for the buildings owned by Sumirin Care Life Co., Ltd., the book value of the buildings was reduced to their recoverable amount, and the amount of the reduction was recorded as an impairment loss under extraordinary loss as it was considered difficult to recover the invested amounts due to decline in the profitability of the buildings. The recoverable amount was measured at the net realizable value, which is based on the appraisal value of real estate with reasonable adjustments added.

Current 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 reduced amount

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 Comprehensive Statements of Income)

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

(million yen)

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Valuation difference on available-for-sale securities:		
Amount incurred during the year	(9,770)	(655)
Reclassification adjustments	(227)	(45)
Amount before tax effect	(9,997)	(700)
Tax effect	3,051	245
Valuation difference on available-for-sale securities	(6,947)	(455)
Deferred gains (losses) on hedges:		
Amount incurred during the year	1,958	130
Reclassification adjustments	0	(200)
Amount before tax effect	1,959	(70)
Tax effect	(622)	(26)
Deferred gains (losses) on hedges	1,337	(96)
Foreign currency translation adjustments:		
Amount incurred during the year	24,967	46,161
Reclassification adjustments	(12)	—
Amount before tax effect	24,955	46,161
Tax effect	—	—
Foreign currency translation adjustments	24,955	46,161
Share of other comprehensive income of entities accounted for using equity method:		
Amount incurred during the year	5,080	6,465
Reclassification adjustments	(64)	(4)
Share of other comprehensive income of entities accounted for using equity method	5,017	6,460
Total other comprehensive income	24,361	52,070

(Consolidated Statements of Changes in Shareholders' Equity, etc.)

Previous fiscal year (January 1, 2021 – December 31, 2021)

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)	182,778,336	18,422,600	—	201,200,936
Total	182,778,336	18,422,600	—	201,200,936
Treasury stock				
Common stock (Note 2)	1,327,588	10,681	—	1,338,269
Total	1,327,588	10,681	—	1,338,269

Notes 1 The increase in the number of outstanding common stock (18,422,600 shares) comprised of 19,800 new shares issued as restricted stock compensation, 16,000,000 new shares issued through public offering, 2,400,000 new shares issued through third-party allocation, and an increase of 2,800 shares through the exercise of stock acquisition rights.

2 The increase in the number of common treasury stock (10,681 shares) comprised of an increase of 9,355 shares accompanying changes to the ratio of equity for affiliated companies accounted for using the equity method, and an increase of 1,326 shares from the purchase 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)	—	—	—	—	—	35
	Sumitomo Forestry Co., Ltd. 2016 Stock Acquisition Rights (Stock-based compensation stock option)	—	—	—	—	—	39
	Sumitomo Forestry Co., Ltd. 2017 Stock Acquisition Rights (Stock-based compensation stock option)	—	—	—	—	—	42
Total		—	—	—	—	—	116

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, 2021	Common stock	4,562	25.00	December 31, 2020	March 31, 2021
Board of Directors' meeting, August 10, 2021	Common stock	6,388	35.00	June 30, 2021	September 8, 2021

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

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 29, 2022	Common stock	9,041	Retained earnings	45.00	December 31, 2021	March 30, 2022

Current 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 stock 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. 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)	—	—	—	—	—	27
	Sumitomo Forestry Co., Ltd. FY2016 Stock Acquisition Rights (Stock-based compensation stock option)	—	—	—	—	—	31
	Sumitomo Forestry Co., Ltd. FY2017 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 fiscal year under review, the following are dividends with effective dates that fall after the end of the fiscal year under review

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

(Consolidated Statements of Cash Flows)

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

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Cash and deposits account	139,957	128,752
Time deposits with deposit term exceeding 3 months	(5,108)	(5,109)
Negotiable deposits issued by domestic corporations, included in the marketable securities account	3,000	3,000
Deposits with withdrawal limits and restrictions on use	(2,813)	(4,269)
Cash equivalents included in short-term loans receivable (<i>Gensaki</i>)	35,000	25,000
Cash and cash equivalents at end of the period	170,035	147,373

*2 Breakdown of major assets and liabilities of companies newly consolidated through the acquisition of shares

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

Previous fiscal year (January 1, 2021 – December 31, 2021)

Koei Kosan Co., Ltd., Cohnan Kensetsu Inc., and three other companies

Current assets	9,869 million yen
Non-current assets	5,503
Goodwill	2,101
Current liabilities	(7,571)
Non-current liabilities	(2,200)
Non-controlling interests	(2,502)
Acquisition cost of equity interests	5,200
Cash and cash equivalents	(7,298)
Balance: Proceeds from acquisition	2,098

(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 and Construction Business, offices (buildings) in the Overseas Housing 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) that have 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 carrying amounts in the Consolidated Balance Sheet, estimated fair values, and their unrealized gain (loss) are set out as follows. Items with immaterial carrying amounts in the Consolidated Balance Sheet have been omitted.

Previous fiscal year (December 31, 2021)

	Carrying amount reported in the Consolidated Balance Sheet (million yen) *1	Estimated fair value (million yen) *1	Unrealized gain (loss) (million yen)
(1) Marketable securities and investment securities *3			
(i) Held-to-maturity bonds	759	766	6
(ii) Shares in affiliates	41,608	36,285	(5,323)
(iii) Available-for-sale securities	77,809	77,809	—
Total assets	120,176	114,860	(5,316)
(1) Bonds payable *4	(90,164)	(90,021)	(143)
(2) Long-term borrowings *5	(186,466)	(185,990)	(476)
Total liabilities	(276,630)	(276,012)	(618)
Derivative transactions *6			
(i) Hedge accounting not applied	62	62	—
(ii) Hedge accounting applied	5,115	5,115	—
Total derivative transactions	5,177	5,177	—

*1 Liabilities are shown in brackets ().

*2 Annotation referring to cash has been omitted from the table, while 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 have estimated fair values that

are close to their book values. Items with immaterial carrying amounts in the Consolidated Balance Sheet have also been omitted.

- *3 As the following financial instruments do not have readily available market value quotations, it is extremely difficult to establish their fair values. Accordingly, they 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	Previous fiscal year (December 31, 2021)
Unlisted shares	2,342
Shares in affiliates	58,320
Investments in partnerships, etc.	901

- *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 payable in total are indicated with brackets ().

Current fiscal year (December 31, 2022)

	Carrying amount reported in the Consolidated Balance Sheet (million yen) *1	Estimated 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, while 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 have estimated fair values that are close to their book values. Items with immaterial carrying amounts in the Consolidated Balance Sheet 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.

(million yen)	
Category	Current 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, while items representing net payable 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, 2021)

	Within 1 year (million yen)	More than 1 year but within 5 years (million yen)	More than 5 years (million yen)
Cash and deposits	139,267	—	—
Notes and accounts receivable - trade	103,814	—	—
Electronically recorded monetary claims - operating	36,261	—	—
Marketable securities and investment securities			
Held-to-maturity bonds (government bonds, local government bonds, etc.)	303	406	50
Available-for-sale securities with maturity	3,000	—	—
Total	282,646	406	50

Current 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			
Bonds held to maturity (government bonds, local government bonds, etc.)	177	229	50
Available-for-sale securities with maturity	3,000	—	—
Total	284,979	229	50

Note 2 Redemption schedule for bonds payable and long-term borrowings after the consolidated closing date
Previous fiscal year (December 31, 2021)

	Within 1 year (million yen)	Between 1 and 2 years (million yen)	Between 2 and 3 years (million yen)	Between 3 and 4 years (million yen)	Between 4 and 5 years (million yen)	Later than 5 years (million yen)
Bonds payable	12	12	10,012	10,012	20,012	50,104
Long-term borrowings	18,188	21,404	117,979	9,613	10,312	8,970

Current fiscal year (December 31, 2022)

	Within 1 year (million yen)	Between 1 and 2 years (million yen)	Between 2 and 3 years (million yen)	Between 3 and 4 years (million yen)	Between 4 and 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

3. Breakdown of fair value of financial instruments by level

Fair market 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

Current 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

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

Current 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

(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 of bonds payable are calculated using the discounted present value method based on interest rate and taking into account the remaining maturity and credit risk of the bonds in question. The fair values of bonds payable 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.

(Marketable securities)

1. Held-to-maturity bonds

Previous fiscal year (December 31, 2021)

	Carrying amount in the Consolidated Balance Sheet (million yen)	Estimated 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.	709	716	7
(ii) Bonds payable	—	—	—
(iii) Other	—	—	—
Subtotal	709	716	7
(Items with fair value that do not exceed the carrying amount in the Consolidated Balance Sheet)			
(i) Government bonds, local government bonds, etc.	50	49	(1)
(ii) Bonds payable	—	—	—
(iii) Other	—	—	—
Subtotal	50	49	(1)
Total	759	766	6

Current fiscal year (December 31, 2022)

	Carrying amount in the Consolidated Balance Sheet (million yen)	Estimated 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)

2. Available-for-sale securities

Previous fiscal year (December 31, 2021)

	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	75,800	21,169	54,630
(ii) Bonds	—	—	—
(iii) Other	—	—	—
Subtotal	75,800	21,169	54,630
(Items with carrying amount in the Consolidated Balance Sheet that do not exceed the acquisition cost)			
(i) Stocks	2,009	2,249	(240)
(ii) Bonds	—	—	—
(iii) Other	3,000	3,000	—
Subtotal	5,009	5,249	(240)
Total	80,809	26,419	54,390

Current 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

3. Available-for-sale securities sold

Previous fiscal year (January 1, 2021 – December 31, 2021)

	Sales amount (million yen)	Total gain on sales (million yen)	Total loss on sales (million yen)
(1) Stocks	933	781	0
(2) Bonds	—	—	—
(3) Other	—	—	—
Total	933	781	0

Current 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	—

4. Marketable securities subjected to impairment

In the previous fiscal year, impairment loss on marketable securities in the amount of 45 million yen (45 million yen in stocks of available-for-sale securities) was recorded. Although impairment loss on marketable securities was also recognized in the current fiscal year, the amounts were immaterial and therefore omitted.

(Derivative transactions)

1. Derivative transactions to which hedge accounting is not applied

Currency-related

Previous fiscal year (December 31, 2021)

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	3,796	—	62	62
Total		3,796	—	62	62

Current 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

2. Derivative transactions to which hedge accounting is applied

(1) Currency-related

Previous fiscal year (December 31, 2021)

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:	Accounts payable - trade						
	Sold							
	U.S. dollar					6,347	—	(71)
		Euro	5,943	—	(50)			
		Thai Baht	8,938	8,938	283			
		Purchased	Accounts payable - trade					
	U.S. Dollar	29,861					15,732	4,888
	Euro	14,018					—	68
Allocation treatment including forward foreign currency exchange contracts, etc.	Forward foreign currency exchange contracts:	Accounts receivable - trade						
	Sold							
	U.S. dollar	374	—	*				
Total			65,480	24,670	5,119			

*Items subjected to allocation treatment of forward foreign currency exchange contracts, etc. are treated together with accounts payable and accounts receivable, which are 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, 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:	Accounts payable - trade						
	Sold							
	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 contracts, etc.	Forward foreign currency exchange contracts:	Accounts receivable - trade						
	Sold							
		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 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, 2021)

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	73	(3)
Exceptional accounting for interest rate swaps	Interest rate swap contracts: Receive-variable rate/Pay-fixed rate	Long-term borrowings	1,810	927	*
Total			1,910	1,000	(3)

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

Current 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 a 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, and participate in the defined contribution pension system and the Smaller Enterprise Retirement Allowance Mutual Aid (SERAMA) Scheme as their defined benefit 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, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Retirement benefit obligation balance at the beginning of the year	79,813	82,073
Service cost	3,488	3,450
Interest cost	480	542
Actuarial gain and loss	(252)	(11,269)
Retirement benefits paid	(2,263)	(2,299)
Prior service cost	(7)	(16)
Decrease due to transition to defined contribution pension plan	(173)	—
Increase due to new consolidation	827	—
Increase due to transition from simplified method to principle method	—	991
Other	160	34
Retirement benefit obligation balance at the end of the year	82,073	73,506

(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, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Plan asset balance at the beginning of the year	62,727	66,782
Expected return on plan assets	1,192	(334)
Actuarial gain and loss	2,983	(3,302)
Employer contributions	1,768	1,774
Retirement benefits paid	(1,889)	(1,887)
Increase due to transition from simplified method to principle method	—	541
Plan asset balance at the end of the year	66,782	63,575

(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, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Retirement benefit liabilities balance at the beginning of the year	1,288	1,266
Retirement benefit expense	268	262
Retirement benefits paid	(221)	(127)
Contributions	(71)	(70)
Decrease due to transition from simplified method to principle method	—	(211)
Other	1	30
Retirement benefit liabilities balance at the end of the year	1,266	1,150

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

(million yen)

	Previous fiscal year (December 31, 2021)	Current fiscal year (December 31, 2022)
Funded retirement benefit obligation	75,519	66,520
Plan assets	(67,758)	(64,030)
	7,761	2,490
Unfunded retirement benefit obligation	8,797	8,592
Net retirement benefit liabilities in the consolidated balance sheet	16,558	11,081
Retirement benefit liabilities	17,148	11,792
Retirement benefit assets	(590)	(710)
Net retirement benefit liabilities in the consolidated balance sheet	16,558	11,081

(5) Components of retirement benefit expense

(million yen)

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Service cost	3,488	3,450
Interest cost	480	542
Expected return on plan assets	(1,192)	334
Amortization of actuarial gain and loss	(3,260)	(7,968)
Amortization of prior service cost	(7)	(16)
Retirement benefit expense under the simplified method	268	262
Amortization for transition from simplified method to principle method	—	239
Other	24	(24)
Retirement benefit expense for defined benefit plans	(198)	(3,180)
Gain on transition to defined contribution pension plan	5	—

(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, 2021)	Current fiscal year (December 31, 2022)
Bonds	43%	39%
Stocks	29	26
General account	12	13
Other	15	22
Total	100	100

(ii) Method of determining the expected long-term return rate on 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, 2021)	Current fiscal year (December 31, 2022)
Discount rates	0.000% - 0.770%	0.000% - 1.742%
Expected long-term rate of return on plan assets	1.9%	(0.5%)
Expected rate of salary increase (point-based system)	5.0%	5.0%

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 1,604 million yen in the fiscal year ended December 31, 2021 and 1,926 million yen in the fiscal year ended December 31, 2022.

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

(Stock options, etc.)

1. Amount 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)*	223	283	299
Class, description, and number of stocks for stock acquisition rights* (Note 2)	Common stock: 22,300	Common stock: 28,300	Common stock: 29,900
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, 2022. There are no changes to these contents as of the end of the month prior to the month in which the securities report was submitted (February 28, 2023).

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

- 2 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.

Number of shares granted after adjustment = Number of shares granted before adjustment × 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 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 2022, 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, 2021	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested as of December 31, 2022	—	—	—
Vested stock options (Number of shares)			
As of December 31, 2021	28,600	35,900	33,300
Vested	—	—	—
Exercised	6,300	7,600	3,400
Forfeited	—	—	—
Unexercised as of December 31, 2022	22,300	28,300	29,900

(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)	2,235	2,231	2,368
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, 2022.

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.

(Tax effect accounting)

1. Significant components of deferred tax assets and liabilities

(million yen)

	Previous fiscal year (December 31, 2021)	Current fiscal year (December 31, 2022)
Deferred tax assets		
Allowance for doubtful accounts	387	434
Provision for bonuses	3,941	4,156
Accrued legal welfare expense on employees' bonuses	594	636
Unpaid enterprise taxes	588	494
Devaluation of real estate for sale	162	192
Retirement benefit liability	4,927	3,275
Devaluation of non-current assets	804	779
Devaluation of financial instruments/golf-club memberships	1,336	1,343
Tax loss carryforwards (Note 2)	5,458	5,463
Impairment loss	1,676	2,784
Provision for warranties for completed construction	1,596	1,312
Unrealized gain on non-current assets	590	513
Other	7,300	8,379
Gross deferred tax assets	29,359	29,761
Valuation allowance for tax loss carryforwards (Note 2)	(3,504)	(5,216)
Valuation allowance for others	(4,674)	(10,782)
Valuation allowance (Note 1)	(8,178)	(15,998)
Total deferred tax assets	21,181	13,762
Deferred tax liabilities		
Reserve for tax purpose reduction entry of non-current assets	757	757
Gain on securities contributed to employee retirement benefit trusts	1,168	1,168
Valuation difference on available-for-sale securities	16,378	16,158
Land revaluation differences	814	814
Taxes on undistributed earnings of subsidiaries	5,323	7,655
Other	12,013	14,880
Gross deferred tax liabilities	36,452	41,433
Net deferred tax assets (liabilities)	(15,271)	(27,670)

Notes 1 The valuation allowance has increased 7,820 million yen. The major cause of this increase is the change in corporate classification when determining the recoverability of the Company's deferred tax assets.

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

Previous fiscal year (December 31, 2021)

	Within 1 year (million yen)	Between 1 and 2 years (million yen)	Between 2 and 3 years (million yen)	Between 3 and 4 years (million yen)	Between 4 and 5 years (million yen)	Later than 5 years (million yen)	Total (million yen)
Tax loss carryforwards*	310	129	425	257	273	4,064	5,458
Valuation allowance	(310)	(129)	(425)	(257)	(273)	(2,109)	(3,504)
Deferred tax assets	—	—	—	—	—	1,955	1,955

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

Current fiscal year (December 31, 2022)

	Within 1 year (million yen)	Between 1 and 2 years (million yen)	Between 2 and 3 years (million yen)	Between 3 and 4 years (million yen)	Between 4 and 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.

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, 2021)	Current fiscal year (December 31, 2022)
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	(1.5)	(1.9)
Per capita portion of inhabitant tax	0.2	0.2
Amortization of goodwill	1.0	0.5
Valuation allowance	(0.6)	4.2
Equity in earnings of affiliates	(1.0)	(2.1)
Tax rate differences with overseas subsidiaries, etc.	(7.4)	(7.9)
Other	0.4	4.6
Effective corporate income tax rate after application of tax effect accounting	22.0	28.3

(Changes in presentation)

In the major factors underlying the significant differences between the effective statutory tax rate and the effective income tax rate after application of tax effect accounting, “valuation allowance,” which had been included in “other” during the fiscal year ended December 31, 2021, is stated independently from the fiscal year ended December 31, 2022, due to its increased materiality. Accordingly, the (0.2%) presented as “other” in the fiscal year ended December 31, 2021, has been reclassified and split as “valuation allowance” of (0.6%) and “other” of 0.4%.

(Asset retirement obligations)

Asset retirement obligations recorded in the Consolidated Balance Sheet

1. Overview of said 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 said 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, 2021 - December 31, 2021)	Current fiscal year (January 1, 2022 - December 31, 2022)
Balance at beginning of the year	2,489	2,739
Increase in liability incurred for property, plant and equipment acquired	116	1,228
Change in estimates	242	0
Accretion expense	10	11
Liabilities settled	(119)	(135)
Balance at end of the year	2,739	3,843

4. Changes in estimates of said asset retirement obligation

Previous fiscal year (January 1, 2021 – December 31, 2021)

Amendments to the Air Pollution Control Act were enforced on April 1, 2021, and the range of building materials that contain asbestos and were therefore subjected to the act was expanded in order to prevent the dispersion of asbestos during demolition work of buildings. Estimates of the necessary expenditure have accordingly been revised as a result of the review of new information obtained on measures to prevent the dispersion of asbestos, such as quotation documents.

As a result of this change in estimates, the relevant asset retirement obligations have increased by 242 million yen from before the change.

(Investment property)

The Company and some of its consolidated subsidiaries hold some rental properties such as rental condominiums in Tokyo and other areas and overseas (mainly in the United States). The net rental income from the investment properties (the income is recorded in net sales and the expense is principally charged to cost of sales) was 1,208 million yen for the fiscal year ended December 31, 2021, and gain on sales (recorded as non-operating income) was 231 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 661 million yen and gain on sales (recorded as non-operating income) was 31 million yen for the fiscal year ended December 31, 2022.

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, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Carrying amount in the Consolidated Balance Sheet		
Balance at beginning of the year	32,786	28,509
Changes during the year	△4,277	10,874
Balance at end of the year	28,509	39,383
Fair value at end of the year	27,834	38,513

- Notes 1 The carrying amounts in the Consolidated Balance Sheet are obtained by deducting accumulated depreciation from the cost of acquisition.
- 2 The main components of changes in the carrying amounts for the consolidated fiscal year ended December 31, 2021 included an increase of 13,624 million yen due to acquisitions of real estate, an increase of 1,106 million yen due to newly consolidated businesses, and an increase of 1,875 million yen due to exchange rate fluctuations, as well as a decrease of 20,185 million yen due to change in the holding purpose of properties to real estate for sale, a decrease of 385 million yen due to sales of real estate, and a decrease of 311 million yen due to depreciation. The main components of changes in the carrying amounts for the consolidated 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.
- 3 The fair values at the end of the year are based on the following.
- (1) The appraisal value determined by real estate appraisers is used for major real estate properties in Japan, and amounts based on indicators that appropriately reflect the market price are used for other real estate properties.
- (2) The appraisal values determined by local real estate appraisers are primarily used for overseas real estate properties.
- 4 The Company owns rental land in Ehime Prefecture (Carrying amounts in Consolidated Balance Sheet: 633 million yen for the fiscal year ended December 31, 2021; 633 million yen for the fiscal year ended December 31, 2022). 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 breakdown of revenue from contracts with customers

(million yen)

		Main regional market (Note 1)	Current fiscal year (January 1, 2022 – December 31, 2022)
Reporting segments	Timber and Building Materials Business	Japan	193,545
		Other	59,651
		Subtotal	253,196
	Housing and Construction Business	Japan	505,240
	Overseas Housing and Real Estate Business	U.S.	744,461
		Australia	103,281
		Other	85
		Subtotal	847,827
	Environment and Resources Business	Japan	15,478
		New Zealand	2,012
		Indonesia	1,493
		Other	1,484
		Subtotal	20,467
	Other	Japan	9,529
Revenue from contracts with customers			1,636,259
Other revenue (Note 2)			33,448
Sales and contract revenues on unaffiliated customers			1,669,707

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).

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 contents are stated 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 consolidated fiscal year under review

(1) Balances 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 fiscal year under review. For reference, changes in contract assets and contract liabilities during the fiscal year under review, and the amount of revenue recognized from the performance obligations fulfilled in past periods during the fiscal year under review, 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 information, etc.)

[Segment information]

1. Outline of reporting 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 reporting segments (Timber and Building Materials, Housing and Construction, Overseas Housing and Real Estate, and Environment and Resources) based on division and identified by products, services and geographical areas.

Timber and Building Materials is engaged in the procurement, manufacture, processing and sale of timber and building materials, etc. Housing and Construction 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 and Real Estate is engaged in the sale of spec homes, and construction of detached houses, development of multi-family housing and commercial complexes in overseas markets, etc. Environment and Resources is engaged in biomass power generation business and forestation projects, etc.

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

The accounting methods for reporting 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 reporting segment

Previous fiscal year (January 1, 2021 – December 31, 2021)

(million yen)

	Reporting segment					Other (Note 1)	Total	Adjustments (Note 2)	Carrying amounts in the Consolidated Balance Sheet (Note 3)
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Total				
Net sales									
(1) Sales and contract revenues to unaffiliated customers	195,800	510,627	643,740	20,987	1,371,155	14,181	1,385,336	594	1,385,930
(2) Inter-segment sales or inter-segment transfers	21,058	312	832	1,312	23,514	9,762	33,277	(33,277)	—
Total	216,858	510,939	644,573	22,299	1,394,669	23,944	1,418,613	(32,683)	1,385,930
Segment income (loss)	9,984	19,641	104,334	3,931	137,889	3,012	140,901	(3,150)	137,751
Segment assets	219,948	198,747	540,636	89,708	1,049,039	78,722	1,127,761	186,464	1,314,226
Other items									
Depreciation and amortization (Note 4)	3,341	4,992	2,878	2,109	13,321	2,097	15,418	1,074	16,491
Amortization of goodwill	—	263	1,763	—	2,025	84	2,110	—	2,110
Interest income	29	11	328	14	382	0	382	12	393
Interest expense	515	461	2,416	566	3,958	226	4,184	(1,965)	2,219
Equity in earnings (losses) of affiliates	(19)	(53)	14,141	670	14,739	3,043	17,782	0	17,782
Investments in equity method affiliates	8,566	570	46,959	4,611	60,707	39,214	99,921	7	99,928
Increase in property, plant and equipment and intangible assets (Note 4)	3,195	4,706	13,132	4,257	25,289	1,145	26,434	144	26,579

Notes 1 “Other” refers to business segments not included in the reporting 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 unaffiliated customers of 594 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 -3,150 million yen include 182 million yen in eliminated inter-segment transactions, 3,260 million yen of retirement benefits liability adjustments (gain) and 6,227 million yen of corporate loss, which are not allocated to any of the reporting segments.

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

(3) Adjustments for segment assets of 186,464 million yen include 11,671 million yen of inter-segment eliminations and 198,135 million yen of corporate assets, which are not allocable to any of the reporting 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, 2022 – December 31, 2022)

(million yen)

	Reporting segment					Other (Note 1)	Total	Adjustments (Note 2)	Carrying amounts in the Consolidated Balance Sheet (Note 3)
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Total				
Net sales									
(1) Sales and contract revenues to unaffiliated customers	253,196	533,147	848,023	20,501	1,654,868	14,241	1,669,109	599	1,669,707
(2) Inter-segment sales or inter-segment transfers	20,536	358	701	1,370	22,965	10,312	33,276	(33,276)	—
Total	273,733	533,506	848,724	21,871	1,677,833	24,553	1,702,385	(32,678)	1,669,707
Segment income (loss)	14,878	15,899	161,317	1,392	193,486	1,938	195,423	(429)	194,994
Segment assets	235,952	209,118	766,261	92,583	1,303,913	74,283	1,378,197	159,402	1,537,598
Other items									
Depreciation and amortization (Note 4)	3,611	5,369	3,705	2,200	14,885	1,954	16,838	1,073	17,911
Amortization of goodwill	36	263	2,442	—	2,741	—	2,741	—	2,741
Interest income	40	10	702	44	796	0	796	12	808
Interest expense	688	453	3,247	518	4,905	195	5,100	(1,976)	3,124
Equity in earnings (losses) of affiliates	(252)	(47)	23,244	552	23,496	2,256	25,753	0	25,753
Investments in equity method affiliates	7,082	1,586	67,743	5,352	81,762	40,576	122,338	7	122,344
Increase in property, plant and equipment and intangible assets (Note 4)	4,342	5,673	21,702	2,946	34,663	1,189	35,852	87	35,939

Notes 1 “Other” refers to business segments not included in the reporting 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 unaffiliated customers of 599 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 -429 million yen include 39 million yen in elimination of 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 reporting segments.

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

Corporate assets mainly comprises 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, 2021 – December 31, 2021)

1. Products and services information

(million yen)

	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	202,600	1,154,367	28,964	1,385,930

2. Geographic area information

(1) Net sales

(million yen)

Japan	United States	Other Area	Total
681,565	560,373	143,993	1,385,930

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
106,996	34,734	18,383	24,070	184,183

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, 2022 – December 31, 2022)

1. Products and services information

(million yen)

	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated 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.

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

Previous fiscal year (January 1, 2021 – December 31, 2021)

(million yen)

	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Loss on impairment of non-current assets	161	—	—	—	3,416	241	3,819

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

(million yen)

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

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

Previous fiscal year (January 1, 2021 – December 31, 2021)

(million yen)

	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Amortization of goodwill	—	263	1,763	—	84	—	2,110
Balance of goodwill	—	1,839	2,720	—	—	—	4,559

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

(million yen)

	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Amortization of goodwill	36	263	2,442	—	—	—	2,741
Balance of goodwill	—	1,576	4,335	—	—	—	5,911

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

Not applicable.

(Related Party Transactions)

Previous fiscal year (January 1, 2021 – December 31, 2021)

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)	Amounts (million yen)	Item	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	19,155	—	—

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

Officers and major shareholders (individuals only).

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)	Amounts (million yen)	Item	Balance at the end of the year (million yen)
Officer's relative	Relative of Akira Ichikawa	—	—	—	—	Residential construction contract	Residential construction contract	38	—	—

Note: Matters such as the terms and conditions of the transactions and policy for determining such terms, were determined using the same methods as for third-party transactions.

Transactions between the Company's consolidated subsidiaries and their related parties

Officers and major shareholders (individuals only).

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)	Amount (million yen)	Item	Balance at the end of the year (million yen)
Officer's relative	Relative of Akira Ichikawa	—	—	—	—	Sale of land	Sale of land	56	—	—

Note: Matters such as the terms and conditions of the transactions and policy for determining such terms, were determined using the same methods as for third-party transactions.

Current 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)	Amount (million yen)	Item	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 as the requests of lending banks.

(Per share information)

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Net assets per share (yen)	2,479.76	3,140.26
Net income per share(yen)	457.69	543.80
Net income per share fully diluted(yen)	446.69	530.99

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

	Previous fiscal year (December 31, 2021)	Current fiscal year (December 31, 2022)
Total net assets (million yen)	540,089	682,554
Breakdown of deductions from total net assets (million yen)	44,478	55,044
(Share acquisition rights (million yen))	(116)	(96)
(Non-controlling interests (million yen))	(44,361)	(54,948)
Total net assets for common stock (million yen)	495,612	627,510
Number of common stocks outstanding (shares)	201,200,936	201,218,236
Number of treasury stocks (shares)	1,338,269	1,390,509
Number of common stocks used for the calculation of net asset per share (shares)	199,862,667	199,827,727

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

	Previous fiscal year (January 1, 2021 – December 31, 2021)	Current fiscal year (January 1, 2022 – December 31, 2022)
Net income per share		
Net income attributable to shareholders of parent (million yen)	87,175	108,672
Net income not attributable to shares of common stock (million yen)	—	—
Net income attributable to shareholders of parent for common stock (million yen)	87,175	108,672
Weighted average number of shares of common stock issued (shares)	190,465,847	199,838,137
Net income per share fully diluted		
Adjusted net income attributable to shareholders of the parent (million yen)	—	—
Breakdown of increase in common stock (shares)	4,689,918	4,819,837
(Convertible bond-type bonds with share acquisition rights (shares))	(4,591,346)	(4,680,883)
(Share acquisition rights (shares))	(98,572)	(90,000)
(Performance-linked stock compensation (shares))	(—)	(48,954)
Overview of potentially dilutive shares not included in the calculation of diluted net income per share due to absence of dilutive effects	—	—

(Significant Subsequent Events)

(Business combination through acquisition)

On January 13, 2023 (U.S. time), the Company acquired 80% stake in SI HoldCo, LLC, which is the holding company of the Southern Impression Homes Group in the United States, through the Company's consolidated subsidiary Gehan Homes, Ltd. and made it a consolidated subsidiary of the Company.

1. Summary of the business combination

(1) Name of the acquired company and description of its business

Name of the acquired company: 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) Ratio of voting rights acquired

80%

(6) Main basis for determining the acquiring company

Gehan Homes, Ltd., a consolidated subsidiary of the Company acquired the shares for a cash consideration.

2. Breakdown of consideration for acquisition and type of consideration

<u>Consideration for acquisition</u>	<u>Cash</u>	<u>11,520 million yen</u>
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Acquisition cost:		11,520 million yen
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Note: The above consideration for acquisition does not include the conditional acquisition price.

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 combination

Not currently confirmed.

6. Description of conditional acquisition price stipulated in business combination agreement, and policy for accounting methods after the fiscal year under review

Based on the agreement, additional payments shall be made corresponding to the degree of achievement of future performance indicators by the acquired company. Variable portion of the conditional acquisition price will be recognized in accordance with U.S. Generally Accepted Accounting Principles.

(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) (Note 2)	September 27, 2018	10,035	10,015 (10,015)	—	Unsecured	2023
Sumitomo Forestry Co., Ltd.	Seventh Series Unsecured Straight Bonds	March 6, 2019	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	—	—	164 (12)	152 (12)	—	—	—
Total	—	—	100,199 (12)	100,167 (10,027)	—	—	—

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

2 The following are details on the bonds with stock acquisition rights.

Issue name	Zero Coupon Convertible Bonds due 2023 (the Bonds with Stock Acquisition Rights)
Shares to be issued	The Company's common stock
Pay-in amount in exchange for the stock acquisition rights (yen)	No pay-in of monies is required
Conversion price of shares (yen)	2,134.7 *2
Total issue price (million yen)	10,000
Total issue price of shares issued through the exercise of stock acquisition rights (million yen)	—
Percentage of stock acquisition rights granted (%)	100
Exercise period of stock acquisition rights	From October 11, 2018 to September 13, 2023

*1 When exercising each stock acquisition rights, investment shall be made in the corporate bonds related to the stock acquisition rights in question, and the value of the corporate bonds in question shall be the same as its par value.

*2 At the 83rd Ordinary General Meeting of Shareholders held on March 30, 2023, the proposed appropriation of surplus with a year-end dividend of 65 yen per share was approved, and it was decided that the annual dividend for the year ended 2022 would be 125 yen per share. Accordingly, in accordance with the

conversion price adjustment provisions contained in the terms and conditions of convertible bonds maturing in 2023 (bonds with stock acquisition rights), the conversion price was adjusted from 2,134.7 yen to 2,074.8 yen retroactively from January 1, 2023.

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

Within 1 year (million yen)	Between 1 and 2 years (million yen)	Between 2 and 3 years (million yen)	Between 3 and 4 years (million yen)	Between 4 and 5 years (million yen)
10,012	10,012	10,012	20,012	12

[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	6,836	21,803	4.18	—
Current portion of long-term borrowings	18,188	24,163	2.30	—
Current portion of lease obligations	825	2,120	2.60	—
Long-term borrowings (excluding current portion of long-term borrowings)	168,278	187,807	3.45	2024 - 2035
Lease obligations (excluding current portion of lease obligations)	8,438	12,263	2.15	2024 - 2049
Total	202,565	248,157	—	—

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).

	Between 1 and 2 years (million yen)	Between 2 and 3 years (million yen)	Between 3 and 4 years (million yen)	Between 4 and 5 years (million yen)
Long-term borrowings	30,639	55,737	60,973	18,168
Lease obligations	3,029	1,902	1,423	1,377

[Schedule of asset retirement obligations]

As the amount of asset retirement obligations at the beginning and the end of the fiscal year under review is below one-hundredth of the total amount of liabilities and net assets at the beginning and the end of the fiscal year under review, 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)	353,898	782,784	1,206,293	1,669,707
Profit before income taxes	(million yen)	35,894	91,192	139,503	188,385
Profit attributable to owners of parent	(million yen)	22,598	49,563	82,718	108,672
Net income per share (quarterly)	(yen)	113.07	248.01	413.92	543.80

(Accounting period)		First quarter	Second quarter	Third quarter	Fourth quarter
Net income per share (quarterly)	(yen)	113.07	134.93	165.91	129.88

Independent Auditor’s Audit Report and Internal Control Audit Report

March 30, 2023

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	Yoshikatsu Nakahara
Certified Public Accountant	
Designated Engagement Partner	Natsuki Saiki
Certified Public Accountant	

< 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, 2022 to December 31, 2022, 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, 2022, 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 7,736 million yen in the consolidated balance sheet as of December 31, 2022. 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 13,762 million yen. Of this amount, deferred tax assets (before offsetting against deferred tax liabilities) recorded by Sumitomo Forestry Co., Ltd. was 5,519 million yen, as stated in the Notes to Consolidated Financial Statements (related to tax effect accounting).</p> <p>Taxable income of Sumitomo Forestry Co., Ltd. has decreased due to increases in costs associated with rising material prices in the Housing and Construction Business as well as other factors, starting from this fiscal year, thus impacting the scheduling of temporary differences, etc. and the estimated recoverable amount of deferred tax assets based on future deductible temporary differences and tax loss carryforwards using estimates of taxable income for the subsequent one fiscal year.</p> <p>Estimates of 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 and Construction Business, and forecasts of unit selling prices, sales volumes, gross profit margin, and expenses in the Timber and Building Materials Business.</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"> • 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. • 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"> - We made inquiries with persons-in-charge in the Company to understand the Company's determination of the scheduling period for documentation prepared by the Company. - We examined the appropriateness of the Company's scheduling by comparing relevant materials with the scheduling period. • 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. • We compared the budgets and actual performance of previous fiscal years to evaluate the effectiveness of the management's estimation process when preparing budgets. • 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 and Construction 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"> - 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. - 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. - We compared the assumptions used by management with historical performance and externally published available data.

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 Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<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, 2022 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, 2022 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 Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of internal control in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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.

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.