

Seeds for a Sustainable Society



 SUMITOMO FORESTRY CO.,LTD.

Corporate Communications Department IR Team
Keidanren Kaikan, 3-2, Otemachi 1-chome,
Chiyoda-ku, Tokyo 100-8270, Japan
Tel: 81-3-3214-2270 Fax: 81-3-3214-2272
URL: <http://sfc.jp/english/>

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

In the Integrated Report for 2021 (reporting results for the fiscal year ended December 2020), the pages after the messages from top management are divided into four parts: “Sumitomo Forestry value creation,” “Business activities & value creation (reports on the results of each business segment),” “Sustainability Management” and “Corporate Governance.” The report includes information about the Group’s strategy and value creation centered on pursuing the shared benefit of forest resources, presented together with concrete initiatives and results. It also provides systematic coverage of the governance and sustainability initiatives that underpin those initiatives and results. The report also includes two special features on the topic, “Creating value by harnessing forest resources.”

We hope this report will serve as a basis for deeper discussions with our shareholders, investors and all stakeholders.

Scope of reporting

Reporting period

Fiscal year ended December 2020
(April 1, 2020 to December 31, 2020)

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

Scope of reporting

Sumitomo Forestry Co., Ltd. and Group companies

Framework and guidance referred to

- International Integrated Reporting Council (IIRC) International Integrated Reporting Framework
- “Guidance for Collaborative Value Creation” issued by Japan’s Ministry of Economy, Trade and Industry



Regarding change of fiscal term

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

Information disclosure

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

 Corporate, IR and CSR Information <https://sfc.jp/english/>

Third-party assurance regarding ESG information

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

<https://sfc.jp/english/information/society/index.html>

Contents

Editorial policy	1
Message from the Chairman	3
Message from the President	5
Financial and non-financial highlights	11

Part 1
Sumitomo Forestry value creation

The history of Sumitomo Forestry	15
Value creation model	19
Special Feature Creating value by harnessing forest resources 1 Sustainable forest management and timber usage for non-residential buildings	25
Special Feature Creating value by harnessing forest resources 2 Using our forest management know-how for forest conservation in Asia and Oceania	29

Part 2
Business activities & value creation

Timber and Building Materials Business	35
Housing and Construction Business	39
Overseas Housing and Real Estate Business	43
Environment and Resources Business	47
Lifestyle Services Business	51
column: For our future and the future of the planet	53

Part 3
Sustainability Management to
support our growth strategy

Sumitomo Forestry Group’s approach to sustainability management	57
Five material issues	59
Human rights initiatives	63
Supply chain management	64
Diversity & inclusion	67
Promoting health management	68
Identification and measures for environmental risk	69
Addressing climate change	70

Part 4
Corporate Governance as a
foundation for growth

Introducing the Board of Directors and Statutory Auditors	75
Corporate Governance System	79
Analysis / Evaluation and its results of effectiveness of the Board of Directors	81
Executive remuneration	82
Risk management	83
Managing business continuity	85
Ensuring management transparency	86

Eleven-year consolidated financial summary	87
Management’s discussion and analysis	89
Financial Section	94
Sumitomo Forestry Group overview	122
Organization chart	125
Corporate profile	126





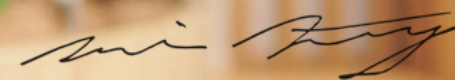
The ongoing COVID-19 pandemic has had a grave impact on our lives, including restrictions on movement and disruption of supply chains. The very frameworks of social and economic activities have been greatly altered. As natural disasters have simultaneously grown increasingly severe throughout the world, people are becoming more aware of the threat posed by climate change and activities geared toward a decarbonized society are accelerating in many different countries. The vulnerabilities of our modern society which have been revealed by the pandemic and these disasters are driving a shift in values away from short-term economic efficiency and toward an emphasis on sustainability. Companies are also expected to play a larger role than ever in contributing to the sustainable development of society.

Sumitomo's Business Philosophy which the Sumitomo Forestry Group has inherited includes the concept of *Jiri-rita*, or "Benefit self and benefit others," and *Koushi-ichinyo*, or "Private and public interests are one and the same." To put it another way, Sumitomo's business "must benefit the nation and society." Our corporate history dates back to involvement in procuring timber for charcoal and mine building in conjunction with the opening of the Besshi Copper Mines in 1691. Since then, the spirit of harmony with the public interest has been ingrained in the fundamentals of our management long before age of concepts such as ESG and the SDGs. One example is the Large-Scale Reforestation Plan created in 1894 to revitalize forests through large-scale tree planting, which was launched when the forests surrounding the Besshi Copper Mines were in danger of being devastated.

In addition to the management of precious natural capital of forest resources, the Sumitomo Forestry Group has carried on the emphasis our predecessors placed on the public interest, supporting the environment and society through our business in a wide variety of fields from forestry management, the distribution and production of timber and building materials, as well as wooden construction in Japan and abroad, renewable energy, and elderly care. Together with all of our stakeholders, we will continue adapting to the changing times and creating business that solves social issues and serves a purpose in people's everyday lives in order to contribute to the realization of a prosperous, sustainable society.

A stylized, handwritten signature in black ink, consisting of a series of loops and curves.

Akira Ichikawa
Chairman and Representative Director



Toshiro Mitsuyoshi
President and Representative Director

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

A look back at 2020

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

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

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

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

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

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

Message from the President

Results for the fiscal year ended December 2020

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

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

Business strategies for 2021

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

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

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

Strengthening our business foundations for sustainable growth

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



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

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

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

Financial strategy and shareholder returns

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

Message from the President

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

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

Towards a decarbonized society

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



ability to absorb CO₂ and fix carbon, in the construction industry and as biomass fuel.

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

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

The Green Growth Strategy established by the government of Japan in December 2020 shows that forest resources play a major role in the achievement of a carbon-neutral society by the year 2050 due to their ability to absorb CO₂ and their use in wood biomass power generation. The Sumitomo Forestry Group promotes sustainable forest management in Japan and overseas. Additionally, with the expanded use of wood products and wood construction, we seek to contribute to the realization of a decarbonized society by taking part in cyclical economic activities, also called a “circular bioeconomy,”^{*2} which reduce global warming and avoid placing a burden on the biosphere.

The role forests play as natural capital goes beyond absorbing CO₂ and fixing carbon: they also perform various functions such as preventing landslides and conserving the soil and water sources. Beyond that, they furnish human lifestyles with a high amount of value in a variety of aspects including scenery, recreation, arts and crafts, and traditional culture. While some calculations of shared benefit converted to monetary value suggest a figure of 70 trillion yen, the academic basis for this scientific analysis is still in the development stages and no real link to economic value has been established. In September 2020, Sumitomo Forestry signed an industry-university collaboration agreement with the University of Tokyo. We plan to spend ten years conducting joint research into ways to increase “the value of trees” through such means as quantifying their “shared benefit.” Visualizing the shared benefit provided by forests and the timber that comes from them will not only increase the value of the approximately 280,000 hectares of forest assets held and managed by the Group in Japan and elsewhere but will also increase the value of forests and wood buildings worldwide, contributing to the

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

^{*1} ZEB (Net Zero Energy Building)

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

To our stakeholders

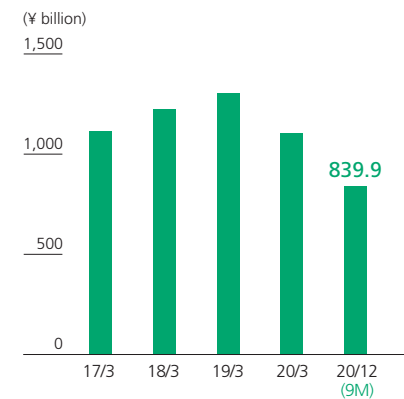
Although countries around the world have begun to administer the coronavirus vaccine, the presence of mutant strains means that the end of the coronavirus crisis remains hard to predict. However, it is certain that societies and economies will make large strides in coping with the “new normal” and creating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

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

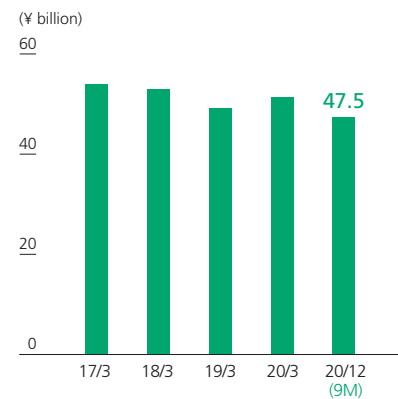
Financial and non-financial highlights

Financial highlights

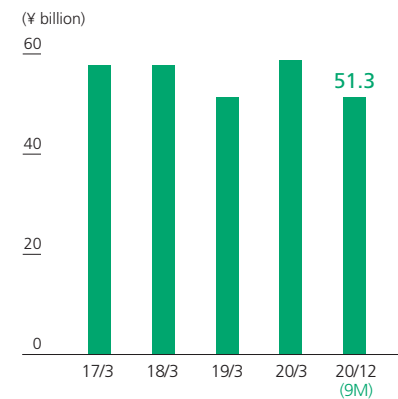
Net sales



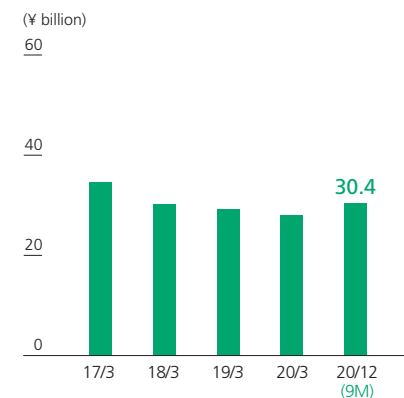
Operating income



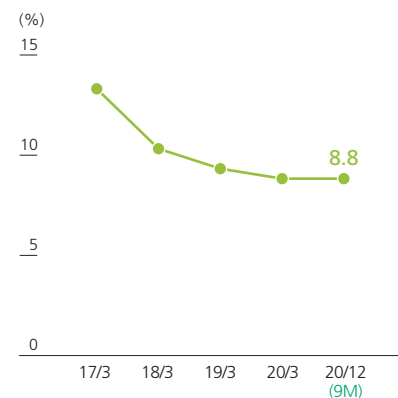
Recurring income



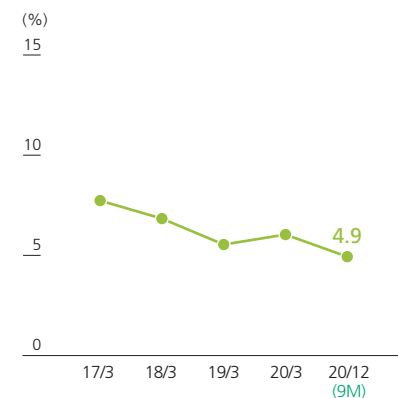
Net income attributable to shareholders of parent



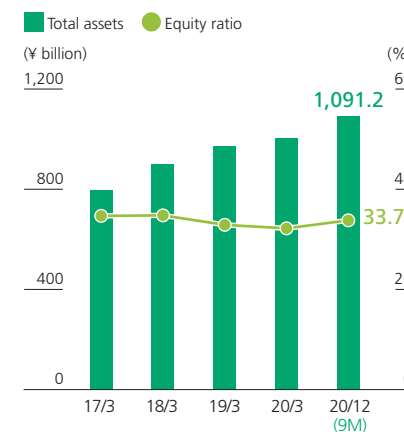
ROE (Return on equity)



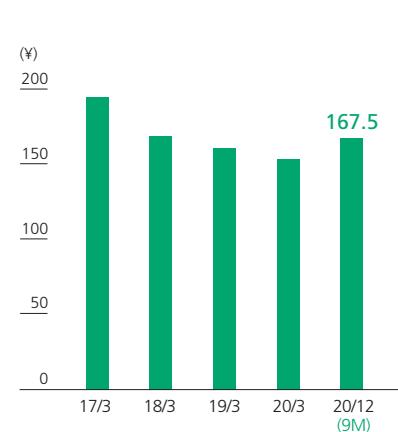
ROA (Return on assets)



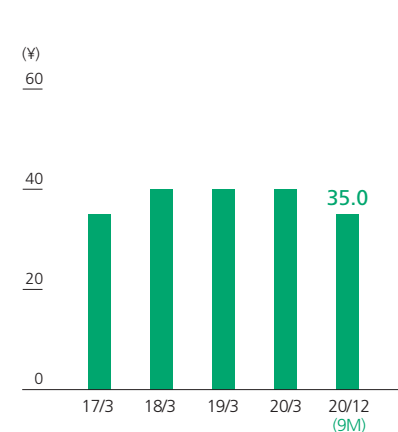
Total assets / Equity ratio



Net income per share



Dividend per share / Dividend payout ratio

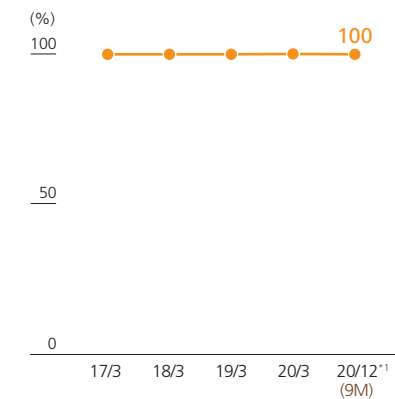


*1 Regarding the application of the Accounting Standard for Revenue Recognition, the Sumitomo Forestry Group has been applying the Accounting Standard for Revenue Recognition from the FY ended March 2020. From this fiscal year, primarily in the Timber and Building Materials Business, for transactions where the Company's role in providing the product to the customer is fulfilled by an agent, sales are displayed as a net amount instead of transaction totals. In addition, in regard to construction contracts in the Housing and Construction Business and the Overseas Housing and Real Estate Business, revenue is recognized for all construction over a fixed period as performance obligations are fulfilled.

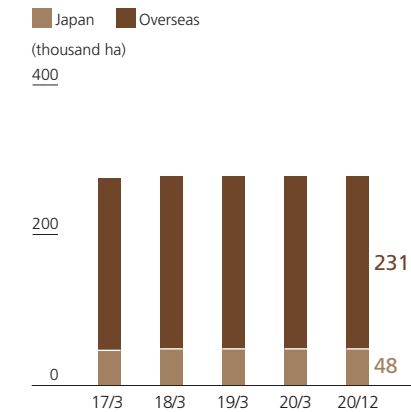
*2 The end of the fiscal year was changed from March 31 to December 31 starting in the fiscal year ended December 2020. This fiscal year is a nine-month transition period from April 1 to December 31, 2020 for the change in the start and end of our fiscal year.

Non-financial highlights

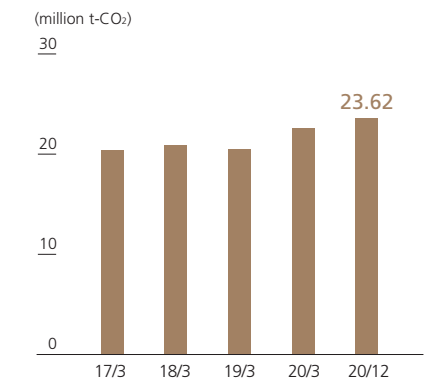
Sustainability procurement survey implementation rate of suppliers of imported timber



Area of forest owned, managed, etc.

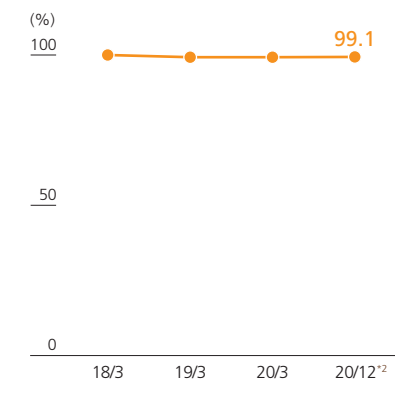


Carbon stock in company-owned forests in Japan and plantation forests overseas

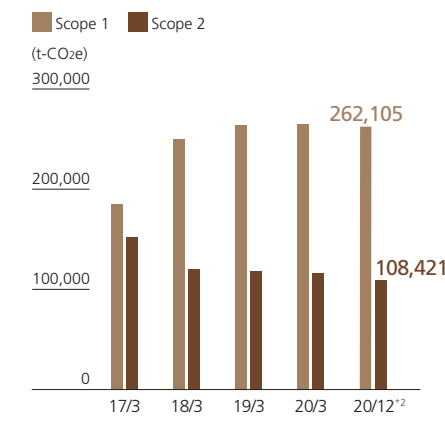


* Carbon dioxide equivalent

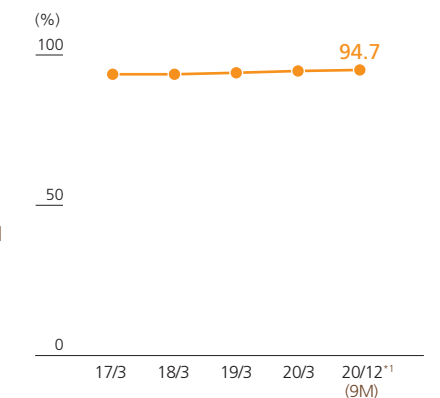
Recycling rate at manufacturing plants in Japan



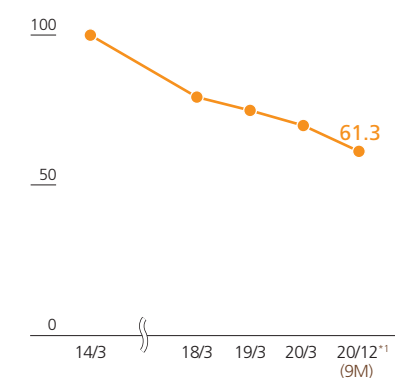
CO₂ emissions



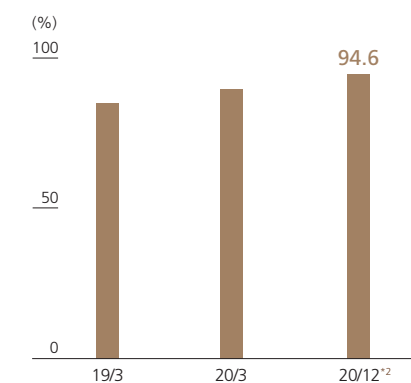
Ratio of houses certified as Excellent Long-Term Housing among new custom-built detached houses



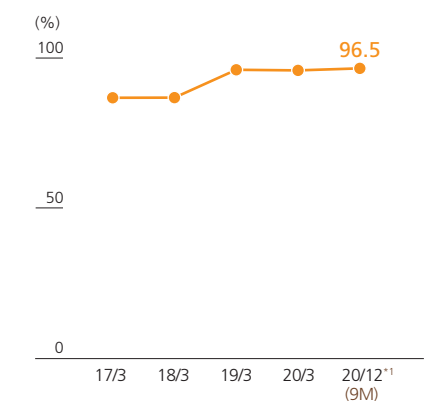
Hours of overtime work (comparison of hours against base year of FY ended March 2014 set at 100) (non-consolidated basis)



Rate of sustainable timber and timber products handled



Customer satisfaction regarding custom-built detached houses according to surveys conducted when owners move in



*1 Calculation period: April to December 2020

*2 Calculation period: January to December 2020

Part 1

Sumitomo Forestry value creation

Corporate Philosophy

The Sumitomo Forestry Group utilizes wood as a healthy and environmentally friendly natural resource to provide a diverse range of lifestyle-related services that contribute to the realization of a sustainable and prosperous society. All our efforts are based on Sumitomo's Business Spirit, which places prime importance on fairness and integrity for the good of society.

Our Values

We provide high-quality products and services that bring joy to our customers.
We create new businesses that lead to happiness for generations to come with a fresh perspective.
We promote a free and open-minded corporate culture that respects diversity.
We set and strive to achieve ambitious goals through ongoing effort.
We do work that wins us the trust of society with fair and honest conduct.

Sumitomo Forestry Group Code of Conduct

Purpose and scope of application

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

Fair and transparent corporate activities

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

Ethical conduct

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

A respectful, healthy workplace

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

Business activities that respect society and the environment

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

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

Our sustainable business model draws out the potential of trees

Sumitomo's Business Spirit which started it all, passed down through generations

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

Sumitomo also left behind writings such as "Value trust and make certainty a principle" advocating the importance of integrity, "Refrain from the pursuit of easy gains" which warns against being blinded by thirst for quick profits, and the concept of *Jiri-rita*, or "Benefit self and benefit others," and *Koushi-ichinyo*, or "Private and public interests are one and the same" with which Sumitomo urges harmony with the public interest - between the individual, the nation and society.

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

1691 Founding of Sumitomo Forestry

Opening of the House of Sumitomo Besshi Copper Mine
Began management of the forest surrounding the copper mine



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



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

1865

Saihei Hirose appointed manager of Besshi

1882

Rules Governing the House of Sumitomo established

1894

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

1899

Masaya Suzuki appointed manager of Besshi
Established the sustainable forestry approach



Teigo Iba (Sumitomo Historical Archives Collection)

1909

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

1919

Forestry Section established at Sumitomo Sohonten

1948

Six companies formed (established) from the Forestry Department of Sumitomo under the government's zaibatsu dissolution order. Through two subsequently mergers the six companies form into two, Toho Norin and Shikoku Ringyo

1800s

1900s



Mount Besshi devastated the impact of mining operations during the Meiji era (Sumitomo Historical Archives Collection)



Mountains surrounding Besshi in the present day

Sumitomo Forestry's origin in management of the forest surrounding the Copper Mine

The House of Sumitomo opened the Besshi Copper Mine in present-day Niihama, Ehime Prefecture in 1691. Sumitomo Forestry's origin can be traced back to the management of the forest surrounding the copper mine. Timber for charcoal essential to copper smelting and wood used for tunnel support posts were sourced from the forest, as were building materials for the homes of the workers.

Start of the large-scale reforestation plan and sustainable forestry

In the late 19th century, the forests surrounding the Besshi Copper Mine were in danger of being devastated after a long period of excessive logging and smoke pollution. The then manager of the mine, Teigo Iba, believed "Allowing this land to be degraded while moving forward with business made possible by its fruits runs counter to the proper course of our relationship with nature. We must return all the mountains of Besshi to their verdant state." With this belief, he

launched the Large-Scale Reforestation Plan in 1894 to restore the forests that had been lost. Through a process of trial and error, and by implementing large-scale planting efforts of a maximum of more than two million trees per year, the mountains were eventually returned to a state of rich greenery. This concept of sustainable forestry has been passed on to the present day.

The public benefits of the forests, which are sustainable natural capital

Forests are resources that can be used continuously by planting, raising, using and replanting them. Moreover, forests and trees provide more than wood building materials and fuel; they also serve many functions that benefit the public. For example, they preserve biodiversity, cultivate water sources, protect the soil, prevent damage from landslides, and absorb and fix CO₂, the

cause of global warming. The Sumitomo Forestry Group helps to maintain the public benefits provided by forests and trees through its forest management in Japan and overseas while also striving to deploy businesses that leverage the renewable natural capital offered by forests and trees globally and expand their presence.



* Apart from the above, they also create a comfortable environment through climate mitigation and dirt adhesion, and serve cultural functions by, for example, providing beautiful scenery and opportunities to come into contact with nature. Source: "Multiple functions of forests" Forestry Agency.

Absorb CO₂

Through photosynthesis, trees absorb CO₂ and fix it in the form of carbon. The carbon fixing continues even when they are used for buildings or other purposes. Moreover, the carbon released when a tree is burned originates from the CO₂ the tree absorbed as it was growing, which means that the tree's life cycle does not affect the density of CO₂ in the atmosphere, making it carbon neutral.

At present, as the rise in energy demands and the global warming caused by the increase in CO₂ have become problems for the whole world, much hope is being placed on the expansion of wood biomass power generation from construction waste and unused timber from forests.

Cultivate water sources

By storing rain water, the soil levels out the amount of water flowing into rivers and mitigates flooding, stabilizing the flow rate of rivers. Furthermore, when rain water passes through the soil in forests, the water will be purified.

Preserve biodiversity

In Japan, two-thirds of which is covered by forest area, forests make up the foundation of the ecosystem network and support rich biodiversity. The majority of domestic biological species live, breed and grow in forests, so forestry plays a large role in the preservation of biodiversity.

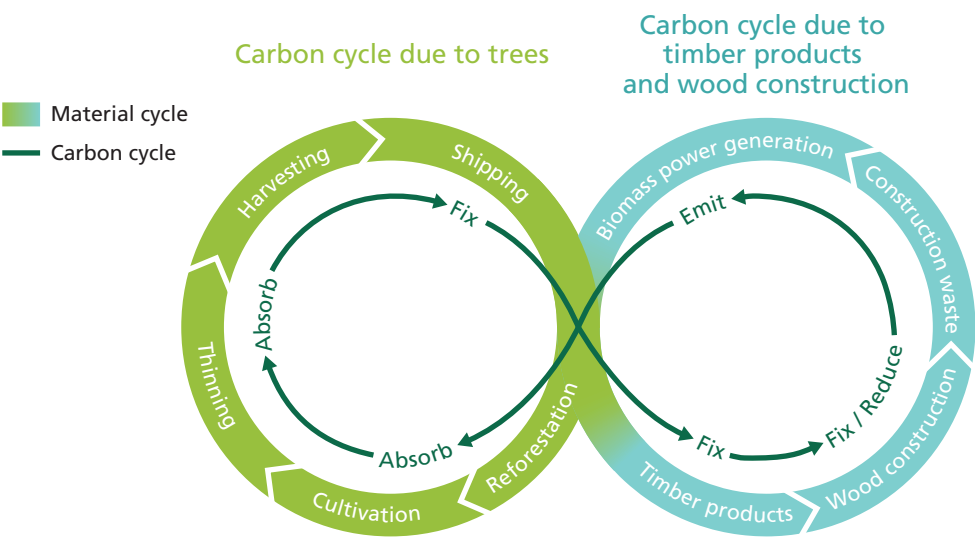
Prevent damage from landslides / Protect soil

Forest top soil is covered in fallen leaves and branches. This prevents the rain from touching the soil directly during heavy rain, protecting the surface of the ground from erosion. Moreover, the spreading roots of trees and shrubs prevent landslides.

Health / Recreation

A wide variety of plants and animals inhabit forests, and they play an important role as locations for mountain climbing, camping, recreational activities involving contact with nature, and environmental education.

Carbon cycle of forests and trees that support circular society

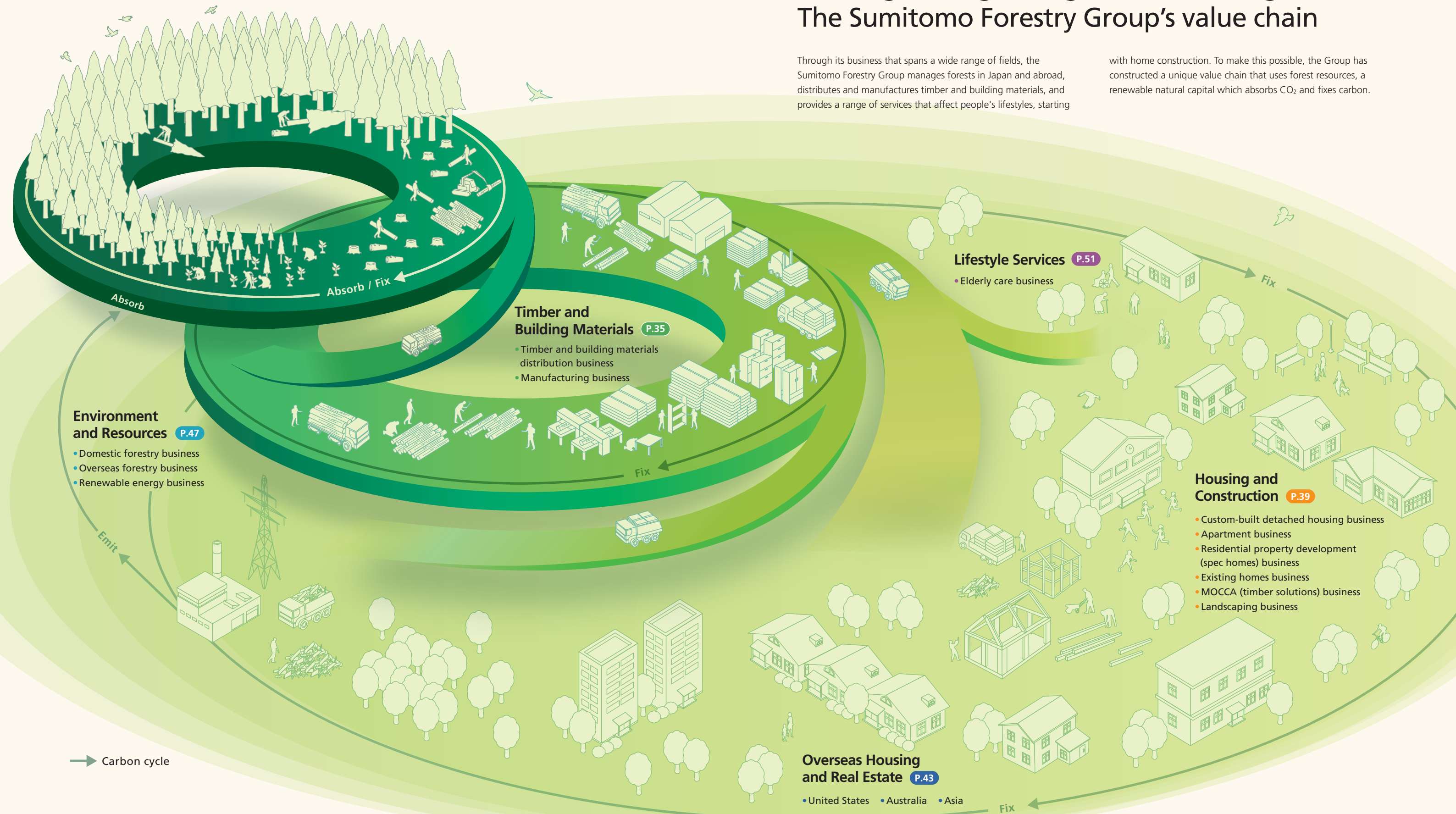


As trees grow, they "absorb" CO₂ and emit oxygen. The CO₂ continues to be "fixed" as carbon even when the trees are harvested and used in timber products and wood construction. Using timber products instead of materials that emit large amounts of greenhouse gases during the process of procuring raw materials to production can help reduce the relative amount of emissions. Timber products and wood buildings are used for as long as possible and fix carbon continuously, and when they are scrapped, they are used as fuel in biomass power generation. The CO₂ emitted when this is done is the same CO₂ that was absorbed in the growing process, so biomass power generation is said to be "carbon-neutral."

Planting trees, growing forests, utilizing wood The Sumitomo Forestry Group's value chain

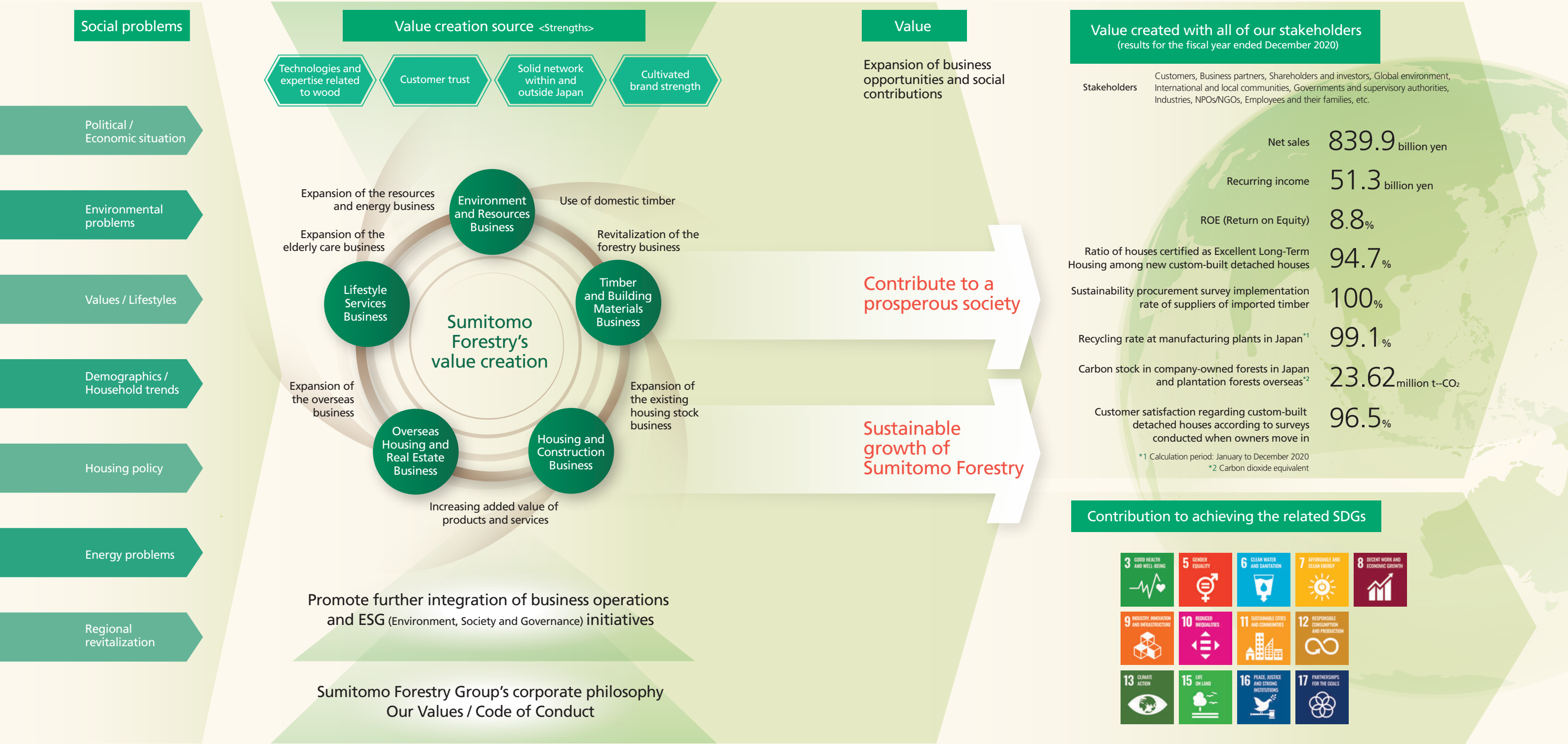
Through its business that spans a wide range of fields, the Sumitomo Forestry Group manages forests in Japan and abroad, distributes and manufactures timber and building materials, and provides a range of services that affect people's lifestyles, starting

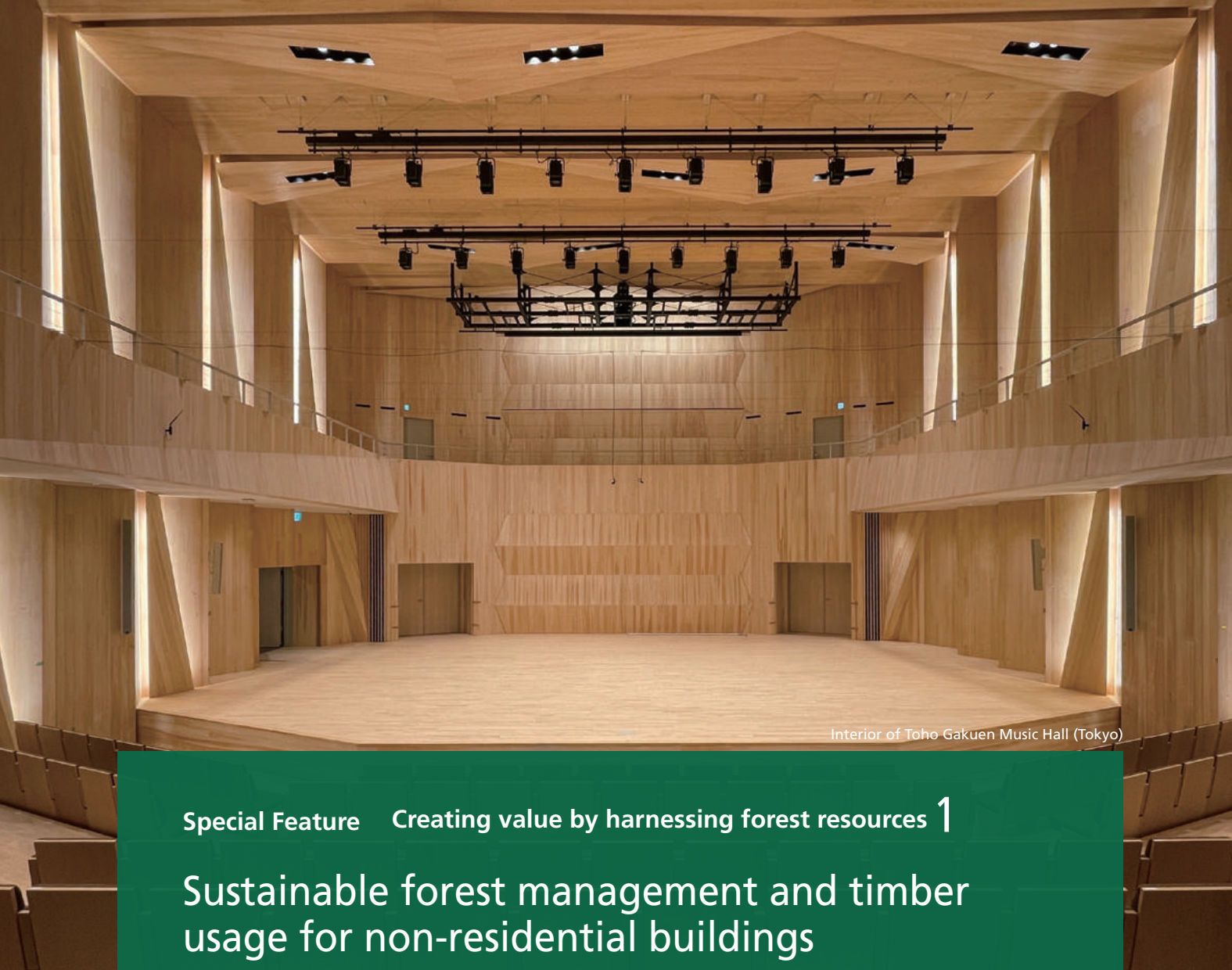
with home construction. To make this possible, the Group has constructed a unique value chain that uses forest resources, a renewable natural capital which absorbs CO₂ and fixes carbon.



Harnessing forest resources and contributing to sustained growth and a prosperous society

The Sumitomo Forestry Group has accumulated technologies and expertise related to wood through forest management since our establishment in 1691. We have used these together with the Group's unique strengths, namely our connections to customers, a network within and outside Japan and cultivated brand strength, to expand our business areas by resolving societal issues. We will continue using the renewable natural capital represented by forest resources and timber to create shared benefit from environmental value and social value and thereby contribute to the creation of a prosperous and sustainable society.



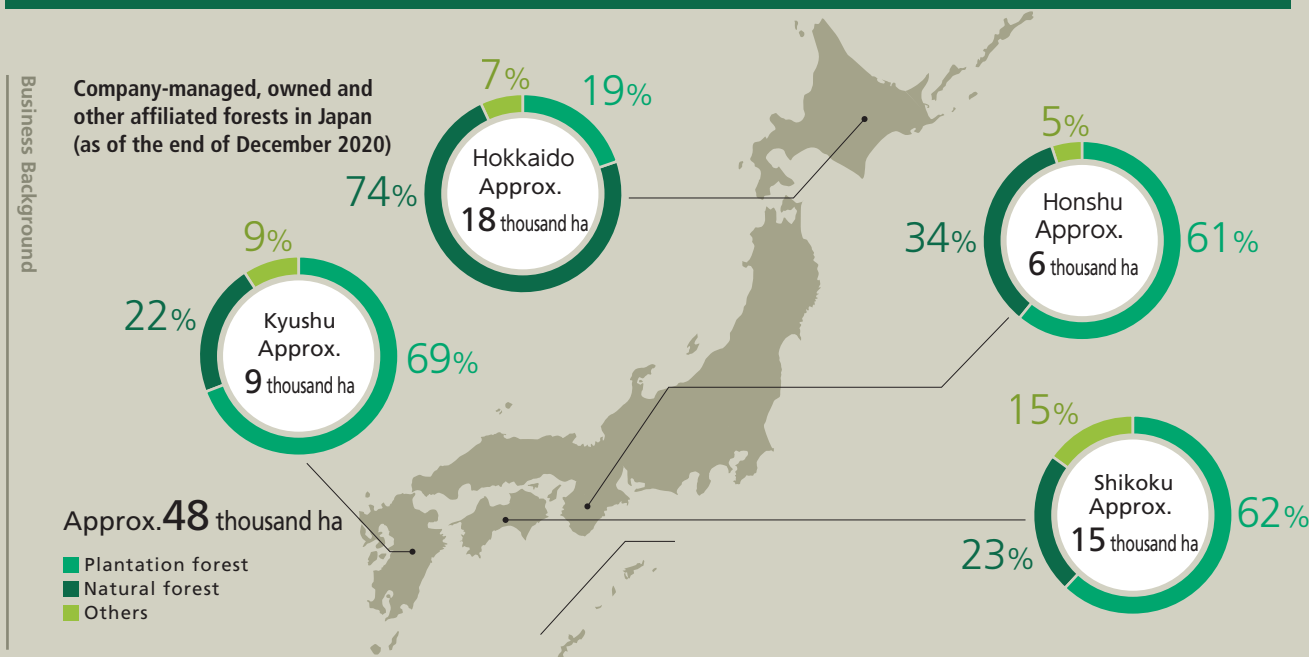


Interior of Toho Gakuen Music Hall (Tokyo)

Special Feature Creating value by harnessing forest resources 1

Sustainable forest management and timber usage for non-residential buildings

Based on our roughly 330-year history working with trees since the time of our founding, the Sumitomo Forestry Group has been practicing sustainable forest management in its vast areas of company-owned forests throughout Japan. Additionally, we have been operating the MOCCA (Timber Solutions) business in recent years to promote the use of wood mainly in non-residential buildings. Through this business we have been drawing out the attractiveness and potential of wood, while also contributing to forest restoration and development in Japan - which are National policy priorities as well.



Expanding company-owned forests with “sustainable forestry” as a philosophy

Japan is a land of trees, with forests covering approximately 70% of its soil. In addition to usage for buildings and paper, people receive a variety of other benefits from trees such as cultivating water sources and preventing damage from landslides.

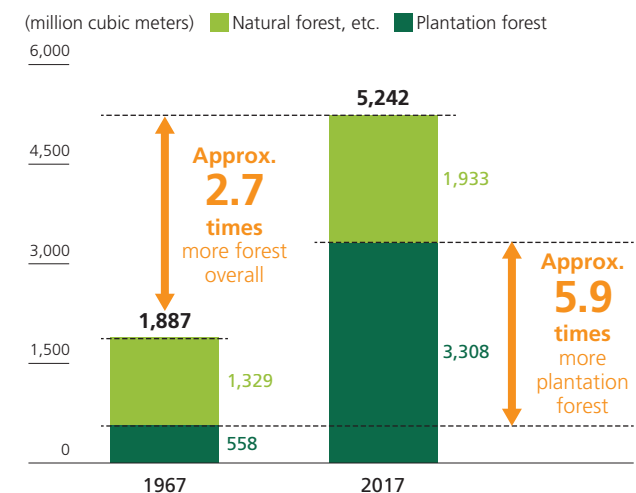
The Sumitomo Forestry Group practices sustainable forestry in Japan and abroad, aiming to keep these great benefits of trees sustainable while continuously being able to utilize timber resources over the long haul.

Our forest management is rooted in the philosophy of “sustainable forestry” of planting, growing, cutting, utilizing trees and then replanting trees. Based on this philosophy we have been expanding our company-owned forests in areas throughout Japan. Currently we own a total of approximately 48,000 hectares of forest in Japan, a vast area equivalent to roughly one eight-hundredth of Japan as a whole. These company-owned forests have been granted forest certification. We practice sustainable forest management through systematic afforestation and logging, while striving to be eco-friendly including considerations for the surrounding ecosystems.

Increasing accumulation of carbon in Japan’s forests

Total forest area has hardly changed at all over the past 50 years, but forest accumulation is increasing each year. Nearly all of the increase is from plantation forests of trees planted for the purpose of timber production. The total area of plantation forests in Japan today is a staggering 5.9 times greater than 50 years ago.

Forest accumulation in Japan



Source: Forestry Agency, State of Forest Resources

One major reason why plantation forests accumulation has increased was a wave of tree plantings all at once, which was promoted after the end of World War II. Many of the plantation forests in Japan were planted at least 50 years ago, and have now reached the “harvest period” to be logged, used, and replanted for the next generation. However, due to the combined factors of decreasing demand for domestic timber, the falling and aging population of foresters, and lagging mechanization of forestry, little progress has been made in tree thinning and regeneration cutting.

If trees that can be used as resources are not logged and replanted for the next generation, forest resources run the risk of excessive aging in the future. Additionally, forests could be devastated if they are not properly managed (cared for), including systematic logging. This is said to be a possible precursor to various environmental problems such as declining carbon dioxide absorption and capture, and an increase in landslides.

Japanese government measures for use of domestic timber

The government has introduced a variety of measures to tackle these problems concerning Japan’s forests and forestry.

The Forest and Forestry Revitalization Plan was formulated in 2009, setting out the goal of raising Japan’s timber self-sufficiency rate to at least 50% as a metric for the revitalization of the country’s forests and forestry. Then the next year in 2010, the government took the initiative by announcing a basic policy for tackling timber usage with the Act for Promotion of Use of Wood in Public Buildings, etc. Then in 2018, part of the Building Standards Act was revised to loosen regulations on which wooden buildings must be built to be fire-resistant.

Government measures for use of domestic timber

Laws and regulations to promote forest development and more active timber usage	
2009	Forest and Forestry Revitalization Plan formulated
2019	Forest Management Act takes effect
2019	Act on Forest Environment Taxes and Transfer Taxes takes effect
2020	Tree Harvesting Rights System (Revision of National Forestry Management and Administration Act) begins
Laws promoting use of wood in buildings	
2010	Act for Promotion of Use of Wood in Public Buildings, etc. takes effect
2018	Partial revision of Building Standards Act (regulatory easing)

Thanks to these supportive efforts by the government, usage of domestic timber has been gradually increasing - mainly in the sector of non-residential buildings. Wood buildings still comprise only around 10% of all non-residential buildings, but recently there have been many more diverse types of large wooden buildings constructed, including public facilities such as elementary schools and community centers, in addition to commercial facilities. This increase in the use of wood construction in the non-residential sector is also expected to result in greater usage of domestic timber.

MOCCA aims to increase use of domestic timber

In order to increase the use of domestic timber, we launched the MOCCA (Timber Solutions) business in 2011 which promotes the use of wood in the non-residential buildings sector.

In addition to public buildings such as administration buildings for local governments and community educational facilities, MOCCA has produced proposals in a broader range of sectors including commercial facilities, offices, care facilities, nursing homes, and nursery schools. For example, using wood as the materials for the floors of nursing homes can reduce physical strain on occupants and health care workers from walking about the building. Actively incorporating timber and wood building materials into office spaces and school classrooms has also been reported to raise people's productivity according to the results of surveys. Our MOCCA business has been steadily establishing a



Interior of Senri Rehabilitation Hospital (Osaka Prefecture)



Exterior of Senri Rehabilitation Hospital (Osaka Prefecture)



Interior of Tully's Coffee in Itami (Hyogo Prefecture)

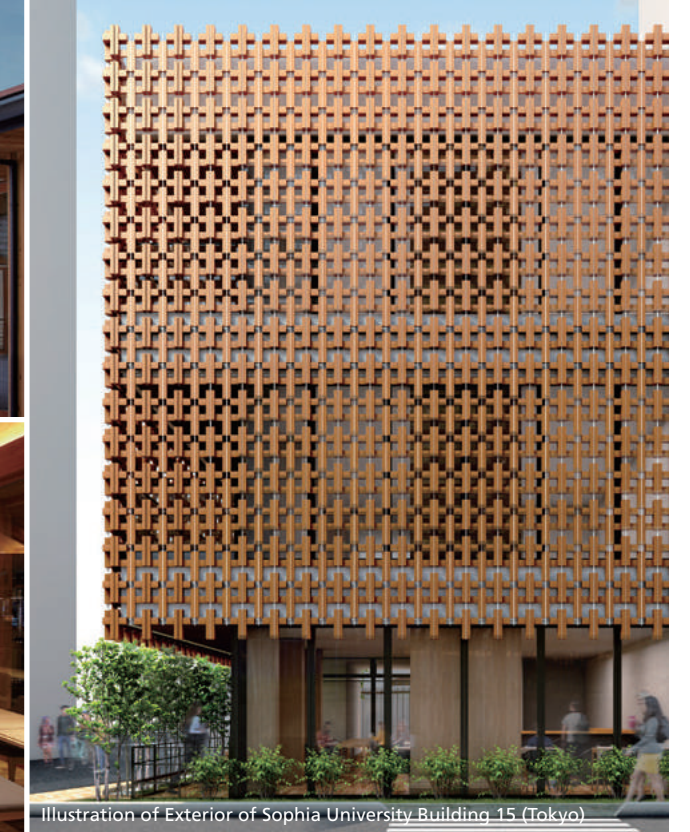


Illustration of Exterior of Sophia University Building 15 (Tokyo)

track record by proposing new wood usages such as these to a variety of customers.

In 2017, we also established a business and capital alliance with construction company Kumagai Gumi Co., Ltd., and we are forming an organizational structure to collaborate with them on business that leverages trees and greenery. Together with Kumagai Gumi, we have a shared recognition of issues pertaining to forest resources and a common vision for how to utilize them. Our aim is to drive the effective utilization of timber in the civil works and construction sectors and energize the forestry industry, while also helping to conserve national land and the earth's environment.

Contributions to the SDGs through wooden buildings

Wooden buildings not only emit little carbon dioxide during construction, but the timber used as construction material can help reduce carbon dioxide through continuous carbon fixation of carbon dioxide in the air. Additionally, once the buildings are no longer in use and dismantled, the discarded materials can be reused as fuel for wood biomass power generation. Since wooden buildings contribute in these ways to reductions in environmental impact throughout the product life cycle, we consider the expansion of our MOCCA business to be part of our activities toward achieving the SDGs.

Wood is a renewable natural resource. Using wood in various buildings where people spend time can create comfortable spaces that add calm to our lives. Through forest management balanced with environmental conservation, and by drawing out the maximum potential of wood through sustainable use of forest

resource, the Sumitomo Forestry Group will continue contributing to the development of forestry in Japan and the creation of a bright future.

MOCCA business and contributions to the SDGs

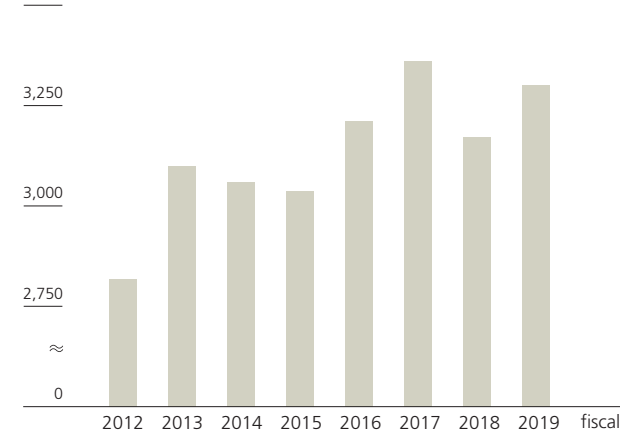


Goals related to achieving the SDGs (excerpts)

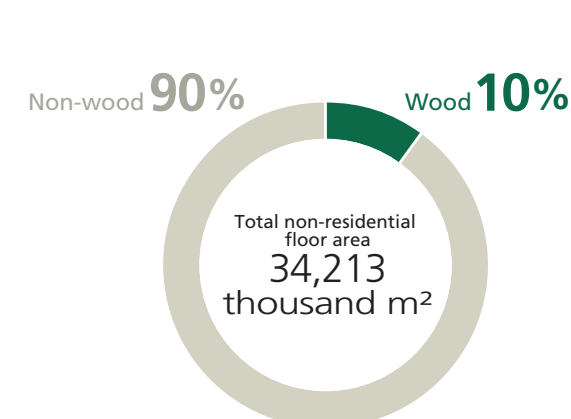
- Increase carbon fixation by making wooden buildings more prevalent
- Increase recycling rates at building sites

Wooden non-residential buildings total floor area

(X 1,000 m²)



Non-residential buildings by structure type total floor area



Source: Compiled from MLIT Survey of Building Construction Work Started (Statistical, fiscal 2019)

Topics

Doubling efforts to promote wood usage in non-residential together with COHNAN KENSETSU INC.

In January 2021 Sumitomo Forestry acquired 100% of the shares of "Koue Kousan K.K." which owns a 53.59% stake in COHNAN KENSETSU INC. making adding it to the Sumitomo Forestry group. COHNAN KENSETSU is a general construction company that was established in 1948, and is based in both Osaka Prefecture and in Tokyo. They have large numbers of highly experienced technicians on staff. Leveraging their strength in handing everything from planning and proposals to design, construction, and maintenance afterward in a streamlined manner, COHNAN KENSETSU has

an extensive track record in construction. This includes multi-family housing, commercial and educational facilities, care facilities, facilities for research and production activities.

Combining the steel frame and reinforced concrete building sales capabilities and construction management expertise of COHNAN KENSETSU with our wood building and interior/exterior wood materials technology, together we will push forward with projects in both mixed structures and wood construction while pioneering new markets for wooden building construction.



New Zealand plantation forests

Special Feature Creating value by harnessing forest resources 2

Using our forest management know-how for forest conservation in Asia and Oceania

Forests are more than simply sources of the precious and renewable resource known as wood. They also provide many functions that benefit the world. They absorb and fix CO₂, the main cause of climate change, preserve biodiversity, prevent landslide disasters and recharge water sources. The Sumitomo Forestry Group uses the forestry management know-how it has cultivated over long years in Japan to protect and renew forests in Indonesia, New Zealand and Papua New Guinea.

Business Background



Reductions in worldwide forest area and the primary causes

The total amount of forest area in the world is approximately 4 billion hectares. They make up 31% of all land area on earth. However, at present the world's forest areas are continually shrinking. In the 30-year span from 1990 to the present, approximately 180 million hectares of forest are believed to have disappeared from the planet. This is nearly equal to 4.7 times the land area of Japan.

In recent years, although some countries appear to be reducing the speed of forest area decline, the area of new forest planted is also declining, and the amount of forest area in the world has reduced by approximately 5 million hectares a year in the past ten years.

There are several reasons for deforestation, including massive forest fires, drought and illegal logging, but the greatest factor is the conversion of forests into farmland such as large-scale plantations. Demand for food is rising rapidly as the population of the world grows. Thus large forests are being developed and turned into farmland, and the development of forests has a major effect on the lives of people in the region. To create a sustainable society, in addition to securing food on a global scale and working toward the economic development of various local communities, forest conservation should also be carried out with a long-term view in mind.

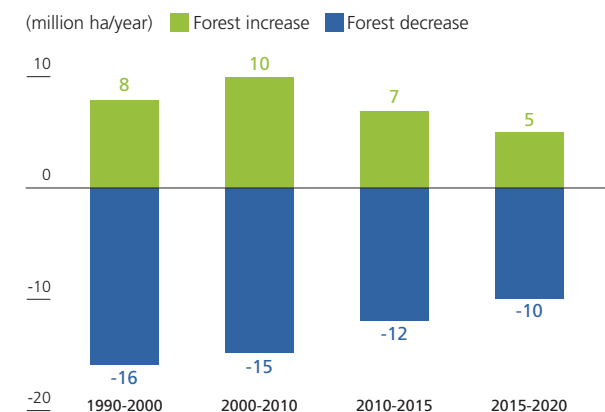
Overseas forest management and contributions to the SDGs

As deforestation continues worldwide, the Sumitomo Forestry Group has endeavored to expand its forestry management both in Japan and overseas in order to secure raw materials sustainably. Currently we hold and manage forests in three countries, namely Indonesia, New Zealand and Papua New Guinea. We have obtained FSC® and other forest certifications* and established a sustainable system where harvesting and reforestation are carried out in a regular cycle. The Group holds and controls a forest area of approximately 231 thousand hectares in three countries, and the timber produced in those forests is used for furniture, as building material, as pulp raw material for paper-making and for a host of other applications in markets all over the world.

When conducting this kind of forest management overseas, we proceed with activities systematically after establishing numerical targets concerning topics such as "maintaining forest certification," "expanding the area managed" and "forest carbon stock." At the same time, we are also committed to SDG-conscious initiatives such as those that preserve biodiversity and foster coexistence with local residents.

* Forest certification: An environmental labeling system from private-sector entities whereby independent third-party organizations certify that forest management and the distribution of timber and timber products is being carried out appropriately based on certain standards. (FSC® license code: FSC-C113957)

Fluctuations in worldwide forest area



Source : FAO Global Forest Resources Assessment 2020

Causes of forest decrease

Change in land use
Spread of fire from slash-and-burn agriculture
Excessive timber logging

Forest management business and contributions to the SDGs



Goals related to achieving the SDGs (excerpts)

- Maintain and expand certified forest area
- Increase number of seedlings supplied
- Display carbon stock (forests)



Grown and felled timber



Donated seedlings



Free distribution of seedlings and guarantee to purchase logs



Monitoring peatland water levels

Helping regional communities through “social forestry”

When we manage forests overseas, in addition to “industrial reforestation” that targets the sustainable production of timber and “environmental reforestation” aimed at environmental conservation, we also actively engage in “social forestry” which affects the economies of local communities while earning us the cooperation of residents in the surrounding area. For example, in Indonesia, PT. Kutai Timber Indonesia (KTI), a Group company, has been carrying out an initiative for the past 20 years where it distributes seedlings it has raised to local farming families for free. When the trees grow, KTI purchases them at market price and uses them as raw material in factories that produce plywood and building material.

This has the benefit of not only securing a stable supply of raw materials for the Group on one hand but also allowing local farming families to increase their cash incomes by growing the seedlings on land not suitable for farming, thus improving their livelihoods. This initiative received an award from Indonesia's Ministry of Environment and Forestry in recognition of its contribution to environmental conservation through reforestation.

Establishing a management model for peatland

We have been carrying out large-scale industrial reforestation in the West Kalimantan province of Indonesia since 2010. The forest in the target area of this business was devastated by industrial

logging between the sixties and early nineties as well as by repeated illegal logging and slash-and-burn farming. The objective of the project is to revive this land as a reforestation area while at the same time preventing the further deterioration of the forest by coexisting with the local residents.

The whole project area is peatland, made up of an accumulation of withered vegetation that has barely decomposed over thousands of years. Peatland contains precious ecosystems and plays a major role in storing carbon and in the water cycle. However, when it dries up, the organic matter in the ground decomposes and releases greenhouse gases while also potentially triggering huge forest fires. This makes appropriate management of the water level essential.

That is why the Sumitomo Forestry Group first performed a thorough topographical survey as well as a boring survey to understand the density and distribution of the peat. Based on the detailed data obtained through the survey, we created waterways with the function of regulating the water level throughout the project area, thereby establishing a globally unprecedented management model capable of keeping the groundwater level stable even during the dry season. This management model has come to the attention of other countries with large areas of peatland. Therefore, in the future we will be able to help alleviate global environmental problems and promote sustainable development by deploying and popularizing the know-how cultivated in Indonesia.

Developing new uses for timber and building material

Sumitomo Forestry runs timber and building material manufacturing businesses in different countries around the world, but our businesses in Indonesia are the largest in terms of scale and the oldest in terms of history. The oldest manufacturing base there celebrated its 50th anniversary of founding in 2020. The manufacturing bases in Indonesia produce not only products close to raw materials such as plywood and particleboard but also highly processed items like musical instruments and interior finish material for construction.

Timber is the key material for such products, making up a high percentage of the manufacturing cost. This makes securing a

stable supply of raw material an extremely important undertaking. For those reasons, all Group companies in Indonesia endeavor to expand their reforestation activities, planting especially fast-growing tropical trees which can be used as raw material in a short period of four to seven years.

All the companies are also focusing their efforts on developing products and technologies aimed at increasing the number of uses for timber. One example is a species of tree called balsa. It produces the lightest timber and is used for building and modeling because it is easy to process. Due to these special qualities, as demand for renewable energy has increased in recent years, its range of uses has increased to include the cores of wind power turbine blades.



Field of seedlings for reforestation

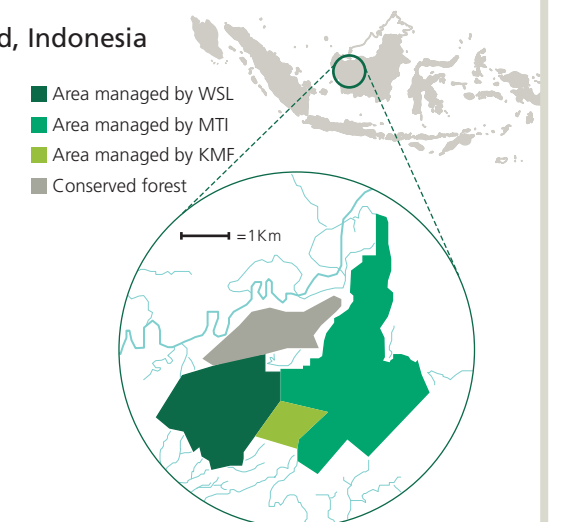


Balsa

Topics

Expanding reforestation activities on Kalimantan Island, Indonesia

In December 2020, PT. Kubu Mulia Forestry, a member of the Sumitomo Forestry Group, obtained the business rights to the industrial reforestation asset bordering the Group's project area in West Kalimantan in Indonesia. This has expanded the total area managed by the Group in that area to from roughly 145 thousand hectares to approximately 155 thousand hectares. After a thorough survey of the plants and animals was conducted, the whole project area was strictly divided into the area for protection and the area for use, and a net was installed in the area for protection to prevent the isolation of rare animals. This expansion of the project area has made it possible to conserve the ecosystems of an even wider area. Additionally, through the unification of water level management, we will further promote the sustainable use of peatland and the reduction in the emission of CO₂. Going forward, we will further refine our sustainable peatland management model which combines economic efficiency with environmental conservation and endeavor to deploy and popularize it overseas.



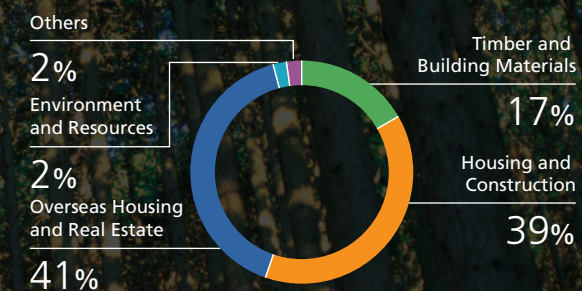
Part 2

Business activities & value creation

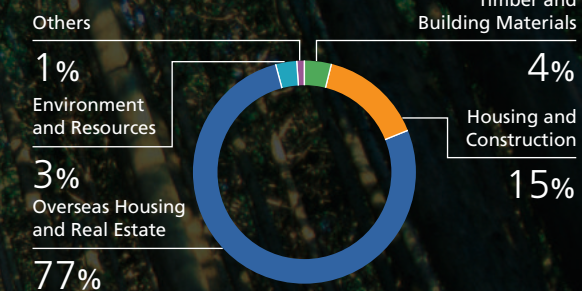
The Sumitomo Forestry Group builds unique value chains centered on utilizing renewable forest resources and timber resources, and engages in a variety of efforts in the five business segments of Timber and Building Materials, Housing and Construction, Overseas Housing and Real Estate, Environment and Resources, and Other.

In each segment we strive to create and nurture new value by accelerating R&D and technological innovation utilizing trees, while at the same time deploying future-oriented strategies. We aim to build a strong business portfolio that is capable of flexibly adapting to changes in the environment while achieving even more growth for the Group as a whole.

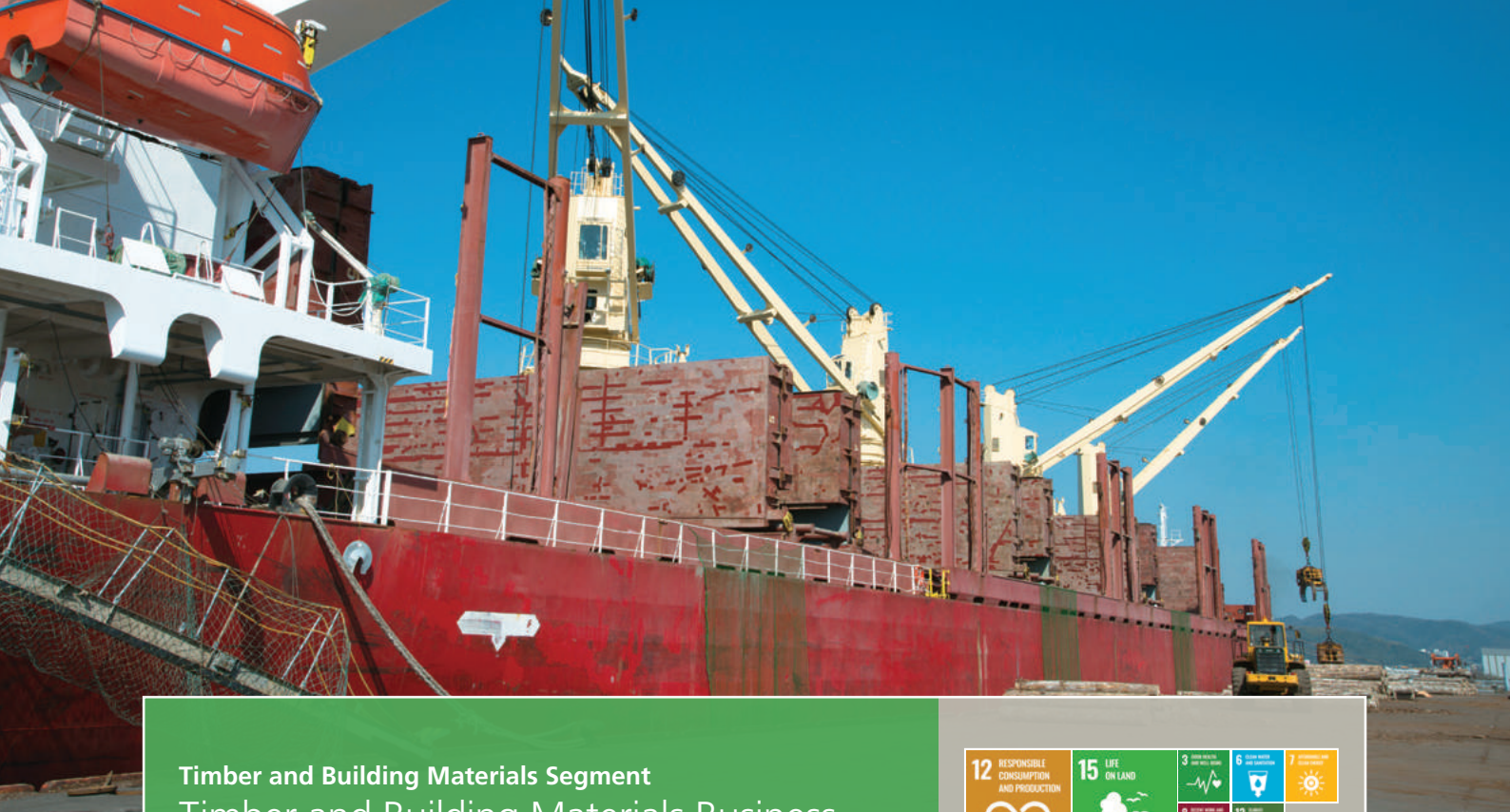
Net sales composition by segment
(Fiscal Year ended December 31, 2020)



Recurring income composition by segment
(Fiscal Year ended December 31, 2020)



* In the fiscal year ended December 2020, the Timber and Building Materials Business and Housing and Construction Business were sluggish due to the effects of the COVID-19 pandemic, but performance was strong in the Overseas Housing and Real Estate Business. For details about performance trends and more, see reports on the results of each business segment (page 35-52) and Management's discussion and analysis (page 89).



Timber and Building Materials Segment Timber and Building Materials Business



Koji Tanaka

Managing Executive Officer
Divisional Manager of Timber and Building
Materials Division

As the No. 1 share company in the domestic timber and building materials distribution markets, we provide total solutions, from distribution to the manufacture and sale of timber and building materials.

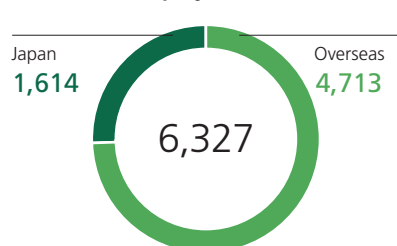
Based on a global network built up over years of developing operations worldwide, the timber and building materials distribution business sources stable supplies of high-quality timber from properly managed forests. As the No. 1 share company in the domestic timber and building materials distribution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

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

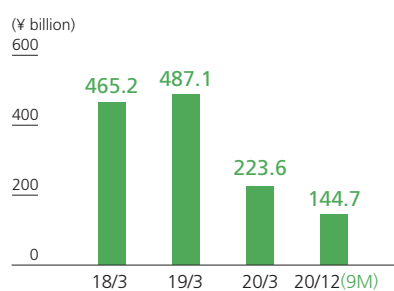
See page 64 for details about our initiatives for our Group's supply chain management

Data

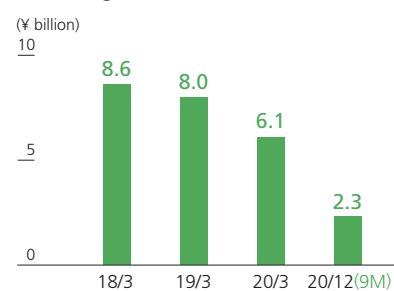
Number of employees



Net sales



Recurring income



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

Initiatives towards growth

In the timber and building materials distribution business, we utilize supply chains for sustainable procurement of timber to promote sales of eco-friendly products like plantation timber, while also continuing to expand our efforts in the non-residential building construction market and to build a stable supply system for wood fuel used in biomass power generation. We will continue increasing the range of variations for KIKORIN-PLYWOOD, a high-quality, eco-friendly plywood that the Company developed, giving customers a

broader selection of products.

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

We are also working on ways to generate new revenue sources through DX (digital transformation) efforts.

Progress in FY ended December 2020

In the timber and building materials distribution business, we worked to strengthen collaboration with our trading partners and developed a versatile business portfolio, continuing to focus on expanding our lineup of fuel wood for biomass power generation, increasing exports of domestic materials, and strengthening efforts in non-housing and construction markets. We also put more focus on expanding sales of plywood made with sustainable plantation timber in the aim of reducing environmental impact. However, performance was sluggish due to the decreased sales volume of plywood and other lumber products resulting from weakness in the

domestic housing market caused by the COVID-19 pandemic.

In the manufacturing business, business was sluggish domestically due to the decreased sales volume of fixtures, flooring, and other products resulting from weakness in the housing market. Overseas, the sales volume of medium density fiberboard (MDF) from New Zealand decreased, particularly in Japan, but performance was strong due to the reduction in manufacturing costs. In Indonesia, performance was sluggish due to the decreased sales volume of plywood, particle board, and other products.

DX efforts: Launched structural design support services for builders and pre-cut factories

In August 2020, the Company began to offer Structure Express, a service for builders and pre-cut factories that helps them with structural design, as a new business that utilizes our know-how accumulated in the housing and construction business and networks in the timber and building materials business. Based on architectural drawing data created by builders, the system utilizes AI to automatically generate the structural calculations and data that links pre-cut and CAD^{*1}, then provides these online. In addition to being helpful for builders who struggle with long work hours due to labor shortages, and improving productivity at pre-cut factories, it can also automatically calculate the optimal materials needed to achieve seismic performance level 3^{*2} which helps to make safe, secure housing more prevalent.

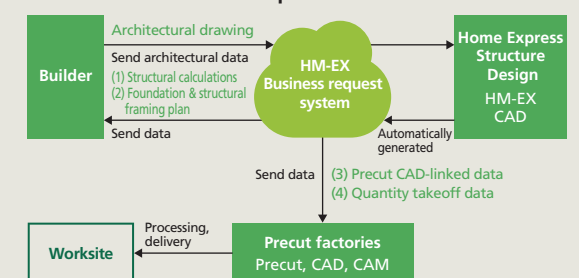
The Sumitomo Forestry Group aims to maximize synergies within the Group by dedicating efforts to spec-in activities for builders which incorporates structural design services, and will target 300 builders and 3,000 buildings by the fiscal year ending December 2023, while also capturing the related materials sales

for these projects.

*1 Data which serves as the basis of schematic drawings for pre-cut timber.

*2 The level at which a building will not collapse or disintegrate when subjected to force 1.5 times greater than an earthquake that occurs only once every several hundred years.

Overview of structure express



Timber and building materials distribution business

Delivering quality timber and building materials through solid relationships with suppliers around the world

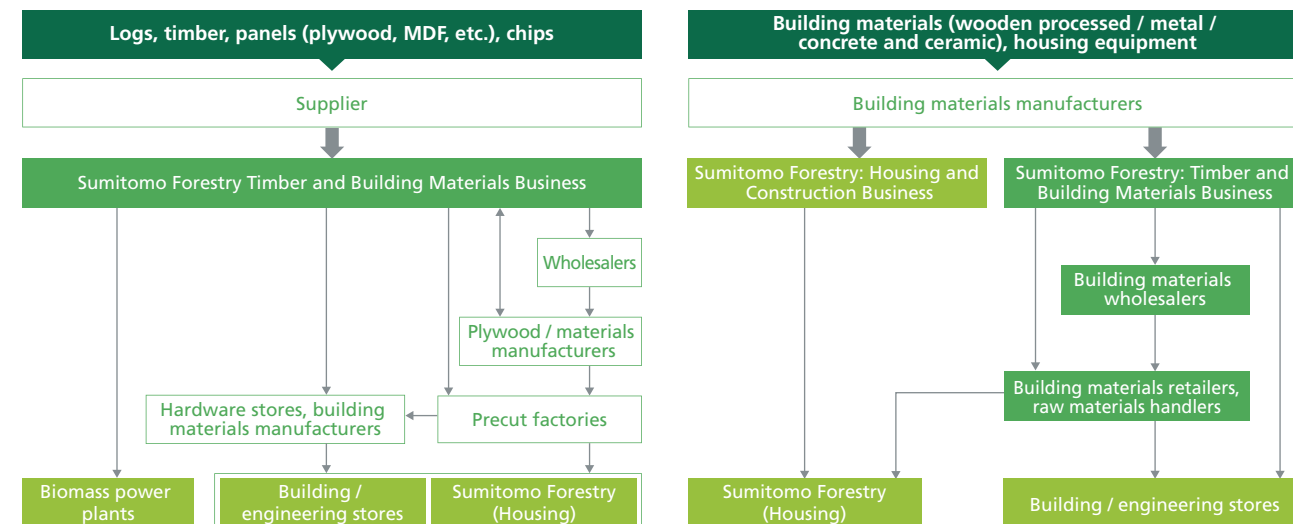
In recent years, Sumitomo Forestry has concentrated on handling wood chips as fuel for biomass power plants, demand for which is likely to expand, as well as domestically grown timber that is ready for harvesting. Furthermore, we are focusing on increasing the use of wood in non-residential building construction, by supporting the design of wooden retail stores and offices, while supplying structural wood for medium- to large-scale building construction.

In overseas distribution operations, we established a sustainable business cycle in New Zealand, spanning forestation, logging and distribution, and we also export logs from the forests we manage and own in New Zealand to markets across Asia. From our administrative base in Singapore, we mainly focus on selling



timber and building materials to countries in Southeast Asia. In Vietnam, which has huge growth potential, we have a business alliance with An Cuong Wood-Working JSC, Vietnam's leading manufacturing and distribution company for interior building materials. We have put into place an integrated structure from raw material procurement to home construction.

Main commercial logistics flowchart



KIKORIN-PLYWOOD

KIKORIN-PLYWOOD is a JAS-compliant product made of at least 50% certified timber and sustainable plantation timber. Some of the sales proceeds are used for reforestation activities conducted by the Group in Indonesia. Starting in FY ending December 2021, the definition of KIKORIN-PLYWOOD was revised to "plywood made with 100% certified sustainable timber" for consistency with the procurement criteria for timber.

KIKORIN-PLYWOOD won the EcoPro Award in 2018.



Manufacturing business

Developing and selling high-value-added products through integrated manufacturing and sales structure

In recent years, in the international market for wooden board products, competition has intensified as major manufacturers have expanded their facilities. As a result, the development of high-value-added products that cater to user requirements and marketing is more demanding than ever before.

For this reason, the Group has integrated its overseas and domestic manufacturing operations and sales operations of timber and building materials, and organized and improved each company's production technologies and factory management methods to ensure thorough cost reductions, and enhanced product development and marketing functions. We are also



Sumitomo Forestry Crest Co., Ltd., Kashima Plant



Example by Canyon Creek Cabinet Company

working to build a robust business base by developing personnel with high-level expertise in manufacturing technology. We will continue to build enterprise value and achieve sustainable growth over the medium and long terms.

Domestic manufacturing group companies

Japan



Sumitomo Forestry Crest Co., Ltd.

Manufacturing/wooden housing-related materials, housing equipment, engineering wood, stair materials, counters, dressed lumber, synthetic resin adhesives, chemical materials

Sumitomo Forestry Crest Co., Ltd.'s Kashima Plant

Overseas manufacturing group companies

New Zealand



Nelson Pine Industries Ltd.

Manufacturing/medium density fiberboard (MDF), veneer and laminated veneer lumber (LVL)

United States



Canyon Creek Cabinet Company

Manufacturing/kitchen cabinets

Vietnam



Vina Eco Board Co., Ltd.

Manufacturing/particle board

India



Spacewood Furnishers Pvt. Ltd.

Manufacturing/kitchen cabinets, wooden building materials, wooden furniture, etc.

Indonesia



PT. Kutai Timber Indonesia

Manufacturing/plywood, secondary processed plywood, processed timber products and particle board



PT. Rimba Partikel Indonesia

Manufacturing/particle board and low pressure laminate (melamine)



PT. Sinar Rimba Pasifik

Manufacturing/wooden building materials, wooden furniture, etc.



PT. AST Indonesia

Manufacturing/materials for musical instruments, wooden building materials and wooden furniture



Housing and Construction Segment Housing and Construction Business



MyForest BF



Ikuro Takahashi

Managing Executive Officer
Divisional Manager of Housing and
Construction Division

Comfortable homes worth living in even longer, with the unique feeling and functionality of wood

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

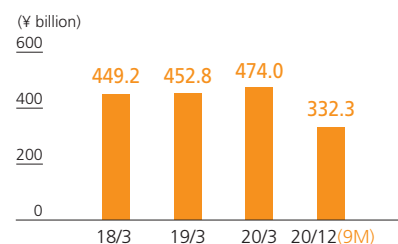
Leveraging our design and technological capabilities accumulated in the custom-built housing business, Sumitomo Forestry has expanded its range of business operations to offer the unique, comforting feel of wood in the apartment business, residential property development (spec homes) business, landscaping business, and existing homes business as well. In recent years we have also been engaged in wood construction and the use of wood materials in the non-residential building construction fields due to increasing new production and consumption of timber, which has also been attracting attention in government policies. The Sumitomo Forestry Group will continue to offer abundant lifestyles by providing high-value-added products and services while harnessing synergies in housing-related businesses.

Data

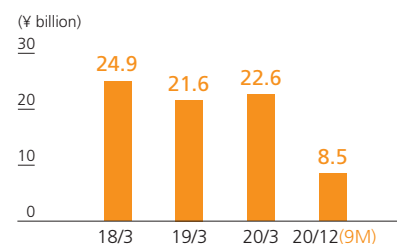
Number of employees



Net sales



Recurring income



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

Initiatives towards growth

The number of new housing starts is likely to tend downward, alongside the declining population and number of households amid a falling birthrate and aging population. At the same time, new demand is emerging amid the “new normal” and values unique to mature markets due to the COVID-19 pandemic.

With these changes in mind, Sumitomo Forestry builds highly satisfactory homes for customers in our custom-built detached housing business by proposing layouts with working spaces and interior wood materials that only Sumitomo Forestry can offer, in addition to providing living environments that are comfortable yet strong against natural disasters, while promoting net zero energy houses (ZEH). We are also making progressively more use of the data accumulated through our sales activities to ambitiously transform our sales model. To address worsening labor shortages at

worksites, we are accelerating initiatives to strengthen and streamline productivity by reducing the amount of labor involved with pre-cast foundations, as well as transitioning toward pre-cuts and panels of various materials.

Sumitomo Forestry will establish a diverse earnings base by also striving to expand business in renovations, apartments and residential property development (spec homes) while promoting the use of wood in non-residential building construction fields. At the same time, we are accelerating efforts to establish infrastructure and mechanisms to stay connected with existing customers throughout our Housing and Construction Business, striving also to construct business models for providing ongoing services tailored to customers’ needs and their stages in life.

Progress in FY ended December 2020

In our custom-built detached housing business, we focused on online sales activities, such as rolling out MYHOME PARK, a service that allows users to experience our home building virtually. In addition, we leveraged our design capabilities to focus on proposing plans corresponding to new lifestyles, such as the changes in work styles brought about by the spread of telecommuting. As a result, orders have increased compared to the same time last year. On the other hand, profitability was down due to increased production costs, including labor costs, and there were delays in construction. As such, performance was sluggish.

In the apartment business, we worked on expanding orders for apartments constructed via our original “Wall Frame (WF) method. In our residential property development (spec homes) business, we

focused on online sales activities on top of the previous efforts of procuring excellent land and preparing a construction system, and as a result, the number of houses sold remained strong.

In the renovation business, we focused energy on expanding orders, including for earthquake resistance renovations utilizing our high level of technical capabilities, including our proprietary seismic resistance/seismic vibration damper method.

In January 2021, as a measure toward further expanding our business in medium- to large sized wood buildings, we also added general construction company COHNAN KENSETSU INC. which has bases in both Osaka Prefecture and Tokyo, to the Sumitomo Forestry Group.

MyForest BF, our new custom-built detached housing product

In April 2021 we launched our new custom-built detached housing product MyForest BF. Mainly characterized by the use of PRIME WOOD, our original new material made with high-quality wood, along with our high-strength, highly-advanced BF (Big-Frame) construction method and a universally appealing outer appearance that incorporates materials derived from wood and tiles to blend in with the neighborhood. MyForest BF is a wood-themed living space brimming with wooden textures. (Outside view: Top of page 39)

Custom-built detached housing business

Comfortable housing propositions in tune with customers' lives

We construct most of our houses using our original Big-Frame (BF) construction method that employs a wooden-beam Rahmen structure. This enables us to satisfy a variety of customer needs by allowing flexible design. In addition, there has been a strong need for long-lasting, high-quality homes that reflect full consideration of factors such as safety, durability, and environmental impact. In these circumstances, we have been promoting the widespread adoption of homes specified as ZEH (net zero energy house) which produce a net balance of zero annual primary energy consumption per household. We supply living environments that are resilient to natural disasters and comfortable year-round.

People are thinking about housing in many more different ways than before as a result of changes in their values and lifestyles.



We are harnessing the wealth of ideas and know-how that we have built up until now to make our customers' dream homes a reality. In doing so, we focus on providing housing that meets the demands of an array of customers, from first-time home buyers to double-income households and married couples that are done raising their children and seeking a residence for themselves. With telecommuting on the rise due to the spread of COVID-19, we are also making proposals for floor plans that offer sufficient workspace. By making housing with new value-added features more widely available in society, we will contribute to the reliability and safety of as many customers as possible.

Reducing environmental impact through business

ZEH (Net Zero Energy House)

We have long provided homes that are comfortable to live in throughout the year by using wood, which is a renewable natural resource that absorbs and stores CO₂ during its growth process, as a primary structural material, and by incorporating our Ryouonbou natural heating and cooling design concept, which utilizes elements of our natural surroundings like wind and sunlight. Combining our expertise utilizing these properties of trees and blessings of nature with "technologies to reduce energy consumption" such as higher-performance insulation and energy saving equipment, and "technologies to use energy wisely" such as devices that generate and store energy and HEMS*, we are reducing household CO₂ emissions by enhancing



energy efficiency in the home.

* Home Energy Management System. HEMS manages energy in the home, and visualizes the amount of electricity generated and consumed.

Sumirin Denki electricity service for post-FIT owners

Since November 2019 we have been offering a service called Sumirin Denki, in which Sumitomo Forestry serves as an agent for the purchase of surplus electricity from home solar power generation as well as for electricity supply for house owners whose 10-year purchase period under the renewable energy feed-in-tariff (FIT) scheme has ended ("post-FIT"). Through this service we are working to increase customer satisfaction, and we

will link it to the achievement of our greenhouse gas reduction Science Based Targets (SBT) for 2030 by effectively utilizing renewable energy purchased from owners in our offices, showrooms and other business facilities.

* See page 70 for more details about SBT

Apartment & residential property development (spec homes) business



Beautiful townscape in harmony with nature

In the apartment business, the Group provides apartments with an appeal that only it can offer by fully utilizing its expertise in wood, including its original construction methods that leverage its technological capabilities and specifications from the viewpoint of residents. For residential property development, the Group's spec homes operations construct quality detached houses based on the technology and knowledge accumulated in the Group's businesses, such as the custom-built housing business and the landscaping business. Features of these homes are that they respect regional histories, environments, and cultures, and that they are built as townscape in harmony with nature. In addition to the design codes of buildings that consider all aspects of housing, from location selection to space designs, our aim is to create townscape with a sense of unity between the homes and nature.

Landscaping business



Support for charming environments surrounded by nature

The landscaping business encompasses all aspects of "greenery," from general housing to urban spaces and the creation of communities with an emphasis on biodiversity. In our residential landscaping business, we offer a range of services from planning and design to the installation and maintenance of exterior and outdoor greenery in order to enhance the value of the residence. In environmental landscaping business, we provide total support for the design, construction and maintenance of natural environments in parks, office buildings and other urban spaces. We also offer landscaping consulting services for a variety of facilities, including factories and research centers.

Existing homes business



Home renovation with value to "sustain and utilize"

As Japan's housing stock has risen to around 62 million homes while the number of households is roughly 54 million, the Japanese government is promoting policies to make use of established housing and ensure the "formation of housing stock of good quality." The Group is developing home renovation technologies to improve disaster prevention and mitigation performance, such as by enhancing seismic-reinforcement construction methods. We also operate business in resales of renovated properties, real estate brokerage, real estate rental and management, and more. We contribute to society through this eco-friendly business model of properly evaluating housing stock and utilizing it effectively as high-quality assets.

MOCCA (timber solutions) business



Promoting wooden construction methods and the use of wood for medium- to large sized buildings in the non-residential sector

Interest is growing in wooden construction non-residential buildings in consideration of aspects like responding to climate change and being considerate to the environment. Using the expertise in wood that we have accumulated in various businesses, as well as our technological and design capabilities in the Housing and Construction Business, we are concentrating our efforts on expanding the MOCCA (Timber Solutions) business, which promotes wooden construction methods and the use of wood in non-residential buildings, such as children's facilities, welfare facilities, lodging facilities, and low-rise buildings. Going forward, we will continue passing down the culture of wood through this business while seeking to reinvigorate Japan's forestry industry and contribute to the realization of a sustainable society where the economy is in harmony with the environment.



Street view of houses sold by Gehan Holmes Group (United States)

Overseas Housing and Real Estate Segment Overseas Housing and Real Estate Business



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

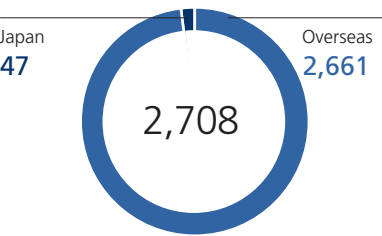
Diversifying revenue streams and entering into new areas, while contributing to each country's society and regional communities

Since the launch of the detached housing business in the United States in 2003, the Group has actively entered into new and promising growth markets, and it is currently conducting businesses in the United States, Australia, and Asia. In these regions, it is expected that demand for housing will be solid in the medium to long term against the backdrop of their stably growing populations. In addition to detached housing business mainly aimed at customer demographics with immediate demand, we are also active in real estate development in the regions where we operate. Being active in a wide range of business domains, we intend to diversify and stabilize our revenue streams and diversity our business while contributing to the abundance of life in each of these areas.

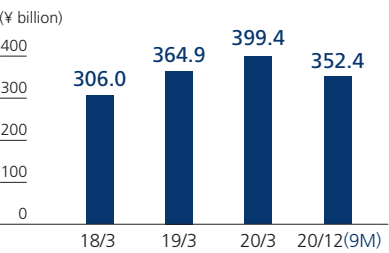
Housing is a business with strong local characteristics due to changing local customs and lifestyle habits. Therefore, we manage this business to make full use of the knowledge of our group companies in each region and our ability to propose products tailored to the needs of those regions. Adapting to the increasingly varied housing needs in recent years, we are expanding our product lineup with town homes, condominiums, and other offerings. Leveraging the comprehensive strength of the Group, we are creating synergies, and adding competitive strength in each business area through materials procurement, establishing business infrastructure and sharing of various types of information, while striving to manage in a way that fosters group-wide unity and bolstering out governance.

Data

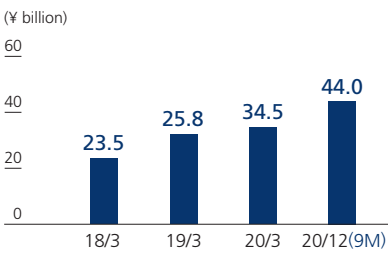
Number of employees



Net sales



Recurring income



Initiatives towards growth

In the detached housing business in the United States and Australia, we are focusing on increasing the number of homes sold through sales activities that are based on sales strategies tailored to characteristics of each region. In the real estate development business in the United States as well, we are establishing a business structure to stabilize revenue. Based on the organic growth of each company, we also aim to achieve steady growth by diversifying revenue streams and entering into new areas. Furthermore, we are widely engaged in real estate development projects in order to grow the Asia region into our third overseas revenue pillar after the

United States and Australia.

Regarding real estate investment risk, we appropriately conduct monitoring based on internal regulations, including confirming the inventory conditions of real estate for sale and the latest price trends, while at the same time doubling our efforts to respond flexibly to the market conditions and economic climate.

From the viewpoint of growth in the future as well, through our businesses, we are aiming to contribute to local communities, solidify the business foundation, and further grow the business scale.

Progress in FY ended December 2020

In the detached housing business in the United States, sales activities have been hampered by effects of the COVID-19 pandemic such as temporary entry restrictions to showrooms. However, the market has recovered and performance has been strong thanks to historically low housing loan interest rates as well as increasing demand for newly constructed detached housing in the suburbs caused by the spread of telecommuting. The Group entered the markets in the Metro Atlanta region in Georgia and the

state of Alabama for the first time through the transfer acquisition of business from a local builder by Sumitomo Forestry Group company DRB Group in December 2020.

In our detached housing business in Australia, construction starts were delayed due to the COVID-19 pandemic, but there have been signs of market recovery as the government's support initiatives including the housing construction subsidy system have produced results.

Gehan Homes Group in the U.S. wins Grand Award for Builder of the Year by Texas Association of Builders

Texas, USA-based detached housing builder Gehan Homes Group was awarded Volume Builder of the Year at the 2020 Star Awards organized by the Texas Association of Builders. Since its establishment in 1992, the Star Awards has established a long history designating winning individual and corporations involved in the residential housing business, from residential housing builders to renovators, designers, and more. Gehan Homes Group won the Grand Award for Builder of the Year for the third time, after previously winning it in 2010 and 2017.



Houses built by Gehan Homes Group

United States

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

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

2021, Gehan Homes Group entered the market in the Metro Denver region in Colorado. Together with new market entry in the Metro Atlanta region in Georgia and in Alabama by DRB Group the previous year, this broadened our business presence in the Sun Belt region where economic growth has been significant. The Group now has business presence in 17 states and special districts, including Crescent Communities which operates in the real estate development business, and Mark III Properties which operates in residential land development.

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

Detached housing business areas in U.S.

Edge Homes Group
UT : Utah

Gehan Homes Group
TX : Texas
AZ : Arizona
CO : Colorado

DRB Group

PA : Pennsylvania
MD : Maryland
WV : West Virginia
VA : Virginia
NC : North Carolina
SC : South Carolina
DE : Delaware
GA : Georgia
AL : Alabama

MainVue Homes Group

WA : Washington
TX : Texas

Bloomfield Homes Group
TX : Texas

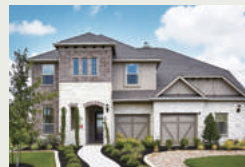
Detached housing business group companies



MainVue Homes Group (WA/TX)



Edge Homes Group (UT)



Gehan Homes Group (TX/AZ/CO)

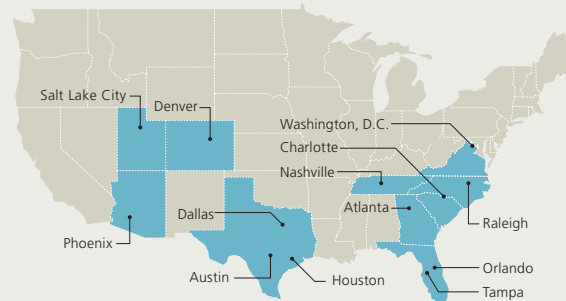


Bloomfield Homes Group (TX)



DRB Group (MD/VA/WV/NC/SC/PA/DE/GA/AL)

Crescent Communities business areas



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

Australia

Operating our detached housing business throughout Australia

In Australia we mainly construct and sell custom-built housing and spec homes. Since launching our housing business there in 2008 we have been steadily expanding our business area. We currently operate in all the major five cities - Melbourne, Brisbane, Sydney, Adelaide, and Perth. Utilizing a network spanning all Australia, we are building and selling high-quality wooden housing. Sumitomo Forestry Group company the Henley Property Group has been garnering high acclaim, including multiple times winning the Professional Major Builder Award which is presented to the building company with the greatest overall capabilities operating in each state, and selection for the second time as Australia's No. 1 in 2020 after previously winning it in 2015. We are also dedicating our comprehensive efforts to providing exquisite living environments, including through our spec homes business in communities that we develop ourselves, and by developing housing that is considerate of the environment and residents' health.

In Australia, where the population is expected to grow in the medium to long term, we are offering housing that meets the

Detached housing business areas in Australia

Henley Properties Group

VIC : Victoria
QLD : Queensland

NSW : New South Wales
SA : South Australia



Detached housing business group companies



Henley Properties Group(VIC/QLD/NSW/SA)



Scott Park Group(WA)



Wisdom Properties Group(NSW)

needs of a wide range of demographics by developing multiple brands each with their own characteristics.

Asia

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

We are engaged in joint development of condominiums for sale and the detached spec homes business with local companies in Hong Kong, Vietnam, Indonesia, and Thailand. Business is being developed in all four of these markets based on actual demand alongside the regions' medium- to long-term economic growth. As our next area for overseas business expansion after the United States and Australia for the Group, we aim to strengthen our earnings base.

Through joint ventures with local companies in each country, we strive to provide high-quality living environments by harnessing the functions and resources of these companies while utilizing our accumulated design expertise in the effective use of spaces and improvement of functionality in order to create attractive interiors rich with the essence of wood. We are aiming to stabilize our business foundation while capturing housing demand that is strong during this time in which infrastructure is being rapidly established, population is increasing, and income levels are rising, as we also



help to improve the living environments of people in local communities.



New Zealand plantation forest

Environment and Resources Segment
Environment and Resources Business



Masanobu Nishikawa
Executive Officer
Divisional Manager of Environment and
Resources Division

Planting trees, nurturing forests, and utilizing them as resources.
Utilizing resources effectively for local production and consumption of energy

In the Environment and Resources Business, Sumitomo Forestry owns a total of approximately 48 thousand hectares of forest in Japan, which is approximately one eight-hundredth of the country's land area, for which we engage in sustainable forestry management based on a "sustainable forestry" approach of planting, growing, logging, and utilizing trees, and then replanting trees. This includes acquiring forestry certification from the Sustainable Green Ecosystem Council (SGEC). Overseas, we own and manage approximately 231 thousand hectares of plantation forests in Indonesia, Papua New Guinea, and New Zealand, including forests that have acquired third-party forestry certification such as FSC®, while we are also contributing to preserving biodiversity and developing local communities.

In our Renewable Energy Business to make effective use of wood and other resources, we are mainly active in wood biomass power generation in Japan.
(FSC® license code: FSC-C113957)

Initiatives towards growth

The Japanese government has declared the goal of reducing greenhouse gas emissions to virtually zero by 2050, and society at large is progressing toward decarbonization. In our Environment and Resources Business we are striving to enhance our corporate value by utilizing sustainable forest resources effectively.

Currently in Japan, forests planted after WWII have matured and reached their harvesting period, and reforms are being progressed to turn the forestry industry into a growth industry by promoting the use of wood. While the use of domestic timber is being promoted, clearcut logging is also expected to continue. Securing reliable supplies of the seedlings needed for reforestation is therefore becoming a pivotal issue. In the Group's domestic forestry business, we are aiming to improve productivity and ensure safety by introducing advanced forestry machinery. At the same

time, we are establishing and strengthening our container seedling production system and striving to implement sustainable forestry management that is competitive internationally.

In our overseas forestry business, natural wood supplies are expected to further diminish due to global deforestation and the tightening of logging restrictions in natural forests. In this situation, we will continue to grow stably and over the long term by supplying sustainable high-quality wood from the forests we have planted, while also looking to expand our forest area.

For our renewable energy business which has been attracting greater attention since the Japanese Government pledged to become carbon neutral by 2050, we will strengthen our wood biomass power generation business and accelerate our effective utilization of other sustainable resources.

Progress in FY ended December 2020

In our domestic forestry business, we signed a comprehensive partnership with Nishiawakura Village, Aida-gun, Okayama and Sumitomo Mitsui Trust Bank, Limited for the promotion of a forest trust with a forestation asset as the trust property in August, 2020. As forestry experts, we will provide management support with respect to forestation asset management methods and increasing the efficiency of forestation, felling, and other activities carried out by a forest management company. Utilizing the know-how cultivated through this agreement, we will contribute to the promotion of regional revitalization based on forestry as we roll out our forest trust efforts.

Business results were also strong, owing primarily to increased

sales volume in Tasman Pine Forests Ltd., in Nelson, a city in the South Island of New Zealand. Additionally, we made an equity-method affiliate, which is engaged in reforestation and forest management in West Kalimantan, Indonesia, into a consolidated subsidiary, and also acquired a neighboring forest asset as we worked to reinforce the structure of our sustainable business operations.

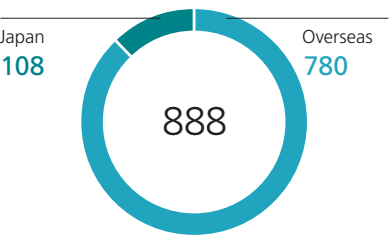
In renewable energy business, business results were strong in biomass power generation owing to stable operations of our three wood biomass power plants across Japan, including in Mombetsu City, Hokkaido.



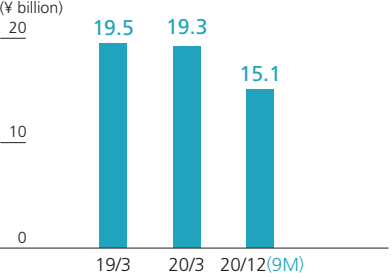
Shooting location: Wakayama (Japan)

Data

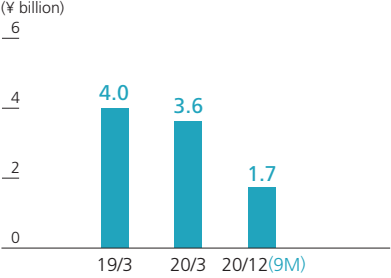
Number of employees



Net sales



Recurring income



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

Domestic forestry business

Revitalizing domestic forestry and contributing to regional revitalization

The Group is making forest management more efficient by deploying high-performance timber machinery such as the lumber-gathering Tower Yarder that promotes safer and more efficient operations in steep forests, and the Harvester that combines the functions of felling, collecting, and lumbering trees in a single machine. Together with Nippon Caterpillar we have also developed the Taser winch assist forestry machine which makes it possible to operate heavy tree harvesters and skidders on sloped terrain. We are also pursuing development of the cutting-edge technologies as evidenced by the development of a forestry assistance suit that reduces workload, as well as seedling transport drones and test forestation with fast-growing tree species. The Group has greenhouse seedling cultivation centers in six locations nationwide as production infrastructure for container seedlings of cedar, Japanese larch, and other trees. In addition to our own



Mowing weeds and vines that hinder the growth of cedar seedlings

company-owned forests, we also provide seedlings to national and private-owned forests. At our facilities we monitor the environment of in which seedlings are raised in greenhouses and produce seedlings year-round regardless of the season.

The domestic forestry business is the core of our business, which constitutes the roots of the Sumitomo Forestry Group. As we pursue sustainable business models going forward, we will also be working to help revitalize local economies and the domestic forestry sector. This includes using our expertise and experience from managing our company-owned forests to actively develop forest-based asset management businesses for the public and private sector.

Overseas forestry business

Reducing environmental burden and creating sustainable forests

Radiata pine trees planted in New Zealand grow quickly and provide stable supply. With its homogeneity and broad usability, this tree species has price competitiveness. Furthermore, the Group has built an integrated supply chain by utilizing trees obtained from these forests as raw material in production of medium-density fiberboard (MDF) and laminated veneer lumber (LVL) in the country. The supply chain carries out sustainable forest management and industrial material production in harmony with the local society and environment.

In Indonesia we have been operating a large-scale reforestation in West Kalimantan since 2010. There, our initiative together with the Indonesian government to manage peatland in a way that maintains business while curtailing greenhouse gas emissions has also garnered international acclaim as a case study in advanced, high-quality peatland management. We have given COP presentations for three consecutive years since COP23 in 2017 at the request of the Indonesian government. In December 2020 we established wholly-owned subsidiary PT. Kubu Mulia Forestry (KMF)



Indonesia plantation forest

and acquired plantation forests adjacent to our other Group companies in Indonesia, PT. Wana Subur Lestari (WSL) and PT. Mayangkara Tanaman Industri (MTI). Adding KMF has enabled us to further improve upon the peatland ecosystem management that we have been engaged in.

In Papua New Guinea, the Group practices sustainable forest management through our own directly-managed operations, and operates clinics and markets for local areas that lack sufficient social infrastructure, thereby contributing to improvements in health and living conditions of local people.

Renewable energy business

Utilizing construction waste and unused timber from forests as an energy resource

Our wood biomass power generation business, which uses chips made from construction waste, unused timber from forests* and other materials as fuel, possesses an operational advantage in stable access to fuel, leveraging the Group's procurement sources attained in the Timber and Building Materials Businesses, while also holding a high level of social significance through effective utilization of timber, curb increases in CO₂ emissions, and contributions to the development of forestry such as improving forest environments in regional areas.

In our wood biomass power generation business, we aim to provide society with even more renewable energy, boost the added value of forest resources through utilization of wood resources, and ultimately strengthen and enliven forests and their essential function of carbon absorption and capture.

The Group is promoting renewable energy business suited to

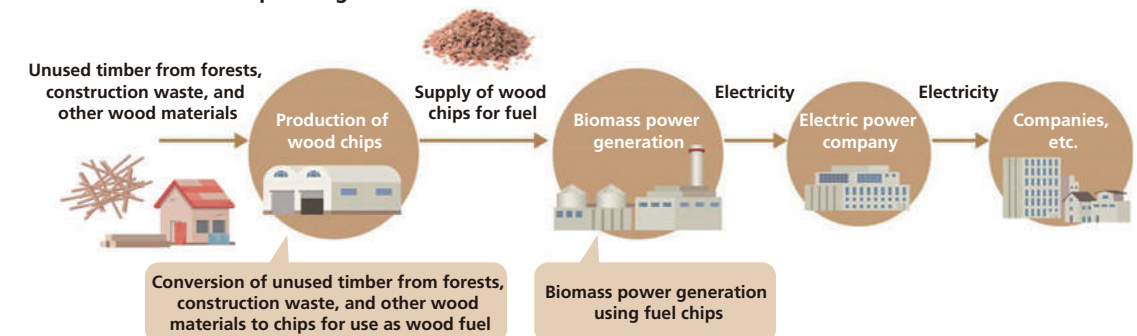


Mombetsu biomass power plant

local characteristics and conditions by harnessing our know-how, networks, and other management resources as well as experience in the wood biomass power generation business.

* Refers to thinned wood and felled timber left in forests without being used due to curved shape or small diameter. This wood harms the environment in the forest when it is abandoned and interferes with proper forest management and forestation efforts.

Main flow of wood biomass power generation



Wood biomass power generation is carbon neutral

Wood biomass power generation is considered to be a power generation method that does not result in changes in CO₂ levels. Since CO₂ emitted by combustion of the wood is the CO₂ in air that is absorbed by trees through photosynthesis during the growth process, this power generation does not increase CO₂ in the atmosphere during the trees' lifecycle. This concept of a carbon cycle is known as carbon neutral and curtails increase in CO₂ concentration in the atmosphere.

Our wood biomass power plants (as of March 31, 2021)

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



Care manager at work (at rear in photo)

Other Segment Lifestyle Services Business



Kunihiro Takagiri
Managing Executive Officer
Divisional Manager of Lifestyle Service Division

Solving social issues, offering fulfillment and comfort in each stage of life

In the lifestyle services business, the Group offers a wide range of living-related services centered on our elderly care services business.

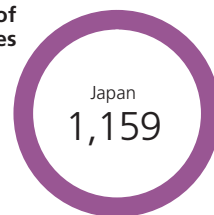
Japan is currently confronted with a multitude of social issues. One particularly glaring issue is the country's rapidly accelerating birthrate decline and aging population.

The Sumitomo Forestry Group operates services such as private-pay elderly care facilities and home care services, catering to a wide variety of needs. Our private-pay elderly care facilities leverage our expertise in creating spaces with the comforting effect of wood and lifestyles that incorporate the greenery of the seasons, in order to offer our residents comfortable places to live that are fulfilling for both mind and body.

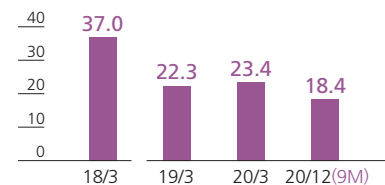
Decline in Japan's regional areas due to the falling population is also a serious problem. In response, our Group is actively involved in regional revitalization initiatives to spur regional economies, including participation in the development of commercial facilities opened as an industry-government-academia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

Data

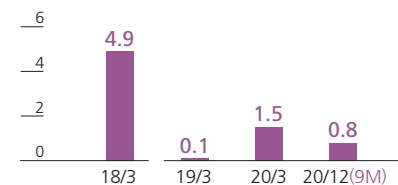
Number of employees



Net sales (¥ billion)



Recurring income (¥ billion)



* Starting in the fiscal year ended March 31, 2020, Sumitomo Forestry adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29). For transactions where the Company's role in providing the product to the customer is fulfilled by an agent, revenue is now shown as the net amount instead of the total amount. We also separated the Environment and Resources Business as an independent category from the Other Segment in FY3/20. Net sales and recurring income up to FY3/18 correspond to the categories before this change. The Other Segment covers elderly care services business, insurance agency business related to homes, and various other service businesses. Recurring profit includes equipment-method investment income from Kumagai Gumi Co., Ltd.

Initiatives towards growth

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

In terms of regional revitalization, we are part of a new lodging and accommodations business aimed at energizing the community at the largest commercial facility in Japan called Vison, which is now open in the town of Taki, Mie Prefecture. Vison is an industry-government-academia joint project centered on the keywords of food, knowledge, and health, with the goals of promoting industry and creating jobs utilizing local resources. Working together with multiple companies and government

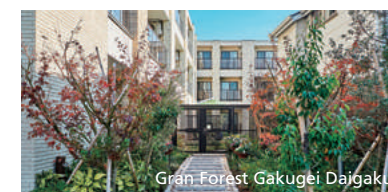
agencies participating in the project, Sumitomo Forestry intends to expand business opportunities and contribute to local revitalization by deploying open innovation to solve problems in communities.



VISON distant view

Sumirin Fill Care

Number of private-pay elderly care facilities operated: 16
Number of day care business facilities operated: 3
(As of end of March 2021)



Sumirin Fill Care Co., Ltd. operates 16 private-pay elderly care facilities and three day care business facilities, mainly in the Greater Tokyo area, advocating "the warmth of people and trees" and "elderly care services for changing times." With the introduction of advanced systems that use ICT and the guidance of specialists in that field, the Company is actively undertaking initiatives that use the latest technology for elderly care, such as operating our original service "Forest Life" which maintains and improves the living environment and health status of facility users.

Sumirin Care Life

Number of private-pay elderly care facilities operated: 3
Number of private-pay elderly care facilities (residences that include living support services) operated: 1
(As of end of March 2021)



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

column

For our future and
the future of the planet



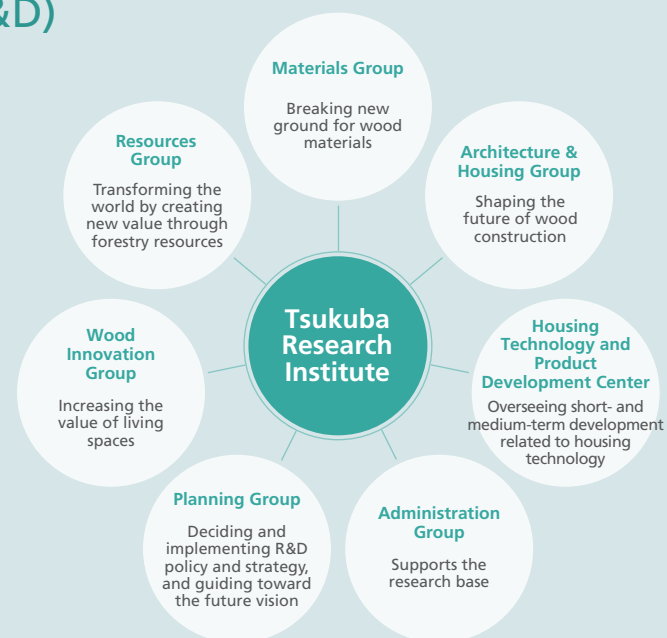
New research building of the Tsukuba Research Institute; Interior view

Research and Development (R&D)

Promoting the W350 Plan, changing cities into forests

In order to enhance the potential of trees and their added value, it will be absolutely essential to continuously develop technologies.

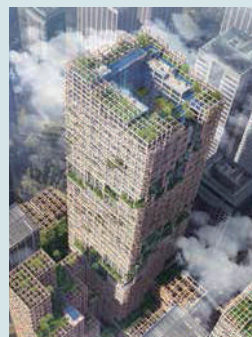
The Tsukuba Research Institute will serve as the driving force behind this effort. Ever since it was established in 1991, the Tsukuba Research Institute has supported the foundations of the Sumitomo Forestry Group with its advanced tree-related research and technological development capabilities. At present, the institute conducts two main types of R&D activities: (1) Corporate R&D, which seeks to create future technologies over the long term, and (2) R&D through collaboration between business divisions which aims to boost earnings over the short and medium terms. The Tsukuba Research Institute is pushing ahead with these R&D activities through an organizational structure of seven different groups. The institute is also playing a central role in a research technology development concept called the W350 Plan.



Research technology development concept: The W350 Plan

The W350 Plan is the research technology development concept to be completed by 2041, which will mark the 350th year since the Company's founding. Characterized by the construction of wooden high-rise buildings, the plan is intended to create "Environmentally-Friendly and Timber-Utilizing Cities" that transform cityscapes into forests. We strive to bring about innovation that encourages a sustainable cycle for timber-utilization and forestry management, and realize a vision for environmentally-friendly timber-using cities where people, trees and diverse plant and animal life can coexist with the planet.

The potential of trees is expected to provide important solutions to a host of issues we face. These issues range from the global environment to urban environments, living environments, and the mental and physical well-being of every individual. The Tsukuba Research Institute has produced various research achievements. The Sumitomo Forestry Group, through its business activities, will return the benefits derived from these R&D achievements to individuals and society as a whole. By doing so, the Group will contribute to the realization of a sustainable and prosperous society.



Co-Creation Activities

Collaboration with Kumagai Gumi: Creating new markets through innovation

Sumitomo Forestry has been collaborating with Kumagai Gumi through eight working groups in five sectors since our business and capital alliance started in November 2017. Specific initiatives we are engaged in include joint efforts between K&E (Kumagai Gumi Group) and Sumitomo Forestry Home Tech in the non-residential renovation business, and we have established a collaborative team for design and construction of mid- to large-sized wooden buildings. In greenery and civil projects, the alliance is steadily accumulating a track record in environmental real estate utilizing Kumagai Gumi's construction technology and Sumitomo Forestry Landscaping's environmental greening know-how.

In March 2021, the "with TREE" brand was launched as an initiative of one of the working groups, the Mid- to Large-sized Wooden Building Working Group. From the procurement of raw materials to building and consulting, we will integrate the respective expertise of Sumitomo Forestry and Kumagai Gumi to offer total solutions for health and environmentally-conscious construction that advances the use of wood materials and wood construction in medium- and large-scale building projects.

In overseas business, the two Groups established a joint venture in Singapore in January 2020 to develop real estate in Asia. The first collaborative overseas project is development of a high-rise condominium building and commercial and mixed use complexes with a local company in Jakarta (Indonesia). The two Groups intend to continue their efforts to create new markets with innovation that transcends their existing frameworks through collaboration.



Outside view of a green building (Illustration)

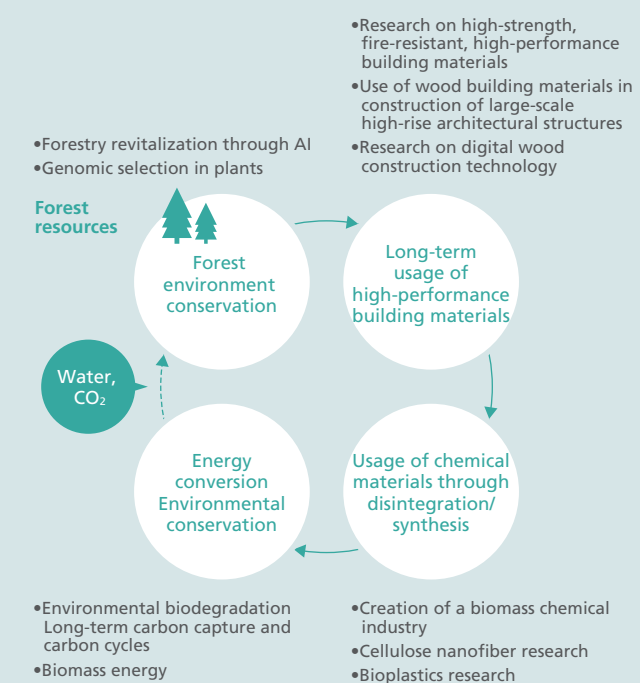
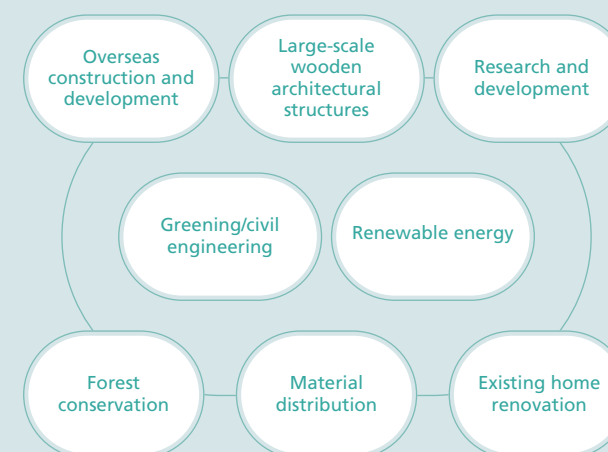
Collaboration with the University of Tokyo - Building a circular bioeconomic system for wood resources

In September 2020, Sumitomo Forestry entered into an industry-academia collaboration agreement with the University of Tokyo. Together, we are working to build a future society of cyclic regeneration through the creation of new value from trees and plants. Leveraging cutting-edge scientific research of both partners over the next decade, this project will increase the value of trees, and build a circular bioeconomic system of wood recycling. The ultimate goal is to create a sustainable future society in which both people and the environment can flourish.

Specifically, this project seeks multifaceted co-creation of global commons* through a three-pronged effort to boost the economic value of trees and plants, make the shared benefit of forest resources more evident, and quantify relationships between people, trees and plants. The project also includes collaborative efforts in human resources development and venture companies.

Sumitomo Forestry remains dedicated to making the value of trees and forest resources evident and creating new value. Leveraging the University of Tokyo's cutting-edge research findings alongside our 330 years of experience in forestry management and expertise in the timber and housing industries, we will build a cyclic symbiotic economy and generate new business.

* Earth's systems such as climate and biodiversity which must be shared among humans and all life on the planet



Part 3

Sustainability Management to support our growth strategy

In the Sumitomo Forestry Group, we engage in business and ESG initiatives in a unified manner with the aim of improving our corporate value in ways that cannot be explained by economics alone, and as a natural outcome of fulfilling the expectations of society including the SDGs.

In the 2021 Medium-Term Management Plan of which fiscal 2021 is the final year, we defined the Mid-Term Sustainability Targets which incorporate our strategies and five material issues for sustainability. Based on these material issues, we have also established 15 qualitative targets, as well as evaluative

metrics (quantitative goals) that we are targeting for FY ending December 2021.

Each company and division within the Group is making steady progress toward achieving these numerical targets by incorporating them into their fiscal year budget plans, and repeating PDCA cycles. We also actively join and sponsor international initiatives geared toward achieving a sustainable society.

These initiatives in the Group have earned a certain level of external recognition, and Sumitomo Forestry has been added to multiple sustainability stock indexes.

Socially responsible investment (SRI) indices / ESG indices (as of March 2021)

Member of
Dow Jones Sustainability Indices
Powered by the S&P Global CSA

2020
Sompo Sustainability Index

FTSE4Good

FTSE Blossom Japan

S&P/JPX Carbon Efficient Index

Bloomberg Gender-Equality Index 2021

2021 CONSTITUENT MSCI JAPAN *
EMPOWERING WOMEN INDEX (WIN)

2021 CONSTITUENT MSCI JAPAN *
ESG SELECT LEADERS INDEX

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

External recognitions

CDP A LIST 2020
CLIMATE

NADE SHI BRAND 2021 KO

2021 健康経営優良法人
Health and productivity

Sustainability Award Gold Class 2021
S&P Global

Participation in initiatives

wbcsd

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

WE SUPPORT UN GLOBAL COMPACT

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

RE 100
THE CLIMATE GROUP **CDP**

Sumitomo Forestry Group’s approach to sustainability management

Corporate philosophy and sustainability management

Operates under its Corporate Philosophy to utilize timber in a way that is friendly to people and the global environment and contribute to the realization of a sustainable and prosperous society through all types of lifestyle-related services according to Sumitomo's Business Spirit, which aims to be beneficial to society based on the principles of integrity and sound management. We have been operating based on this corporate philosophy and engaging in sustainability management. We redefined the Sumitomo Forestry Group Code of Conduct in July 2017 so that it conforms to the requirements of society, such as recent international standards and initiatives.

We formulate various policies and guidelines according to these principles, such as our environmental, procurement and human rights policies, and endeavor to imbue these principles in each and every employee.

Through the monitoring of effectiveness and operational status by the Sustainability Committee, within the context of the Corporate Philosophy, Our Values and Code of Conduct, as well as proactive communications with stakeholders based on ISO 26000, Sumitomo Forestry will continue to engage in sustainability management with the ultimate aim of contributing to a sustainable society.

Formulation and management of Mid-Term Sustainability Targets

In 2015, the Sumitomo Forestry Group identified five material issues and established a Medium-Term Sustainability Management Plan that specified strategies and targets for each issue. With the fiscal year ended March 2021 set as the target year, each company and division within the Group has been engaged toward achieving those goals.

Interest in ESG has been higher than ever before, including moves to strengthen governance structures and to address risks related to climate change and human rights, amid technological innovation with advances in ICT and rapid changes in industry structures caused by accelerating globalization. Companies are expected to pursue growth while contributing to SDGs by solving these issues.

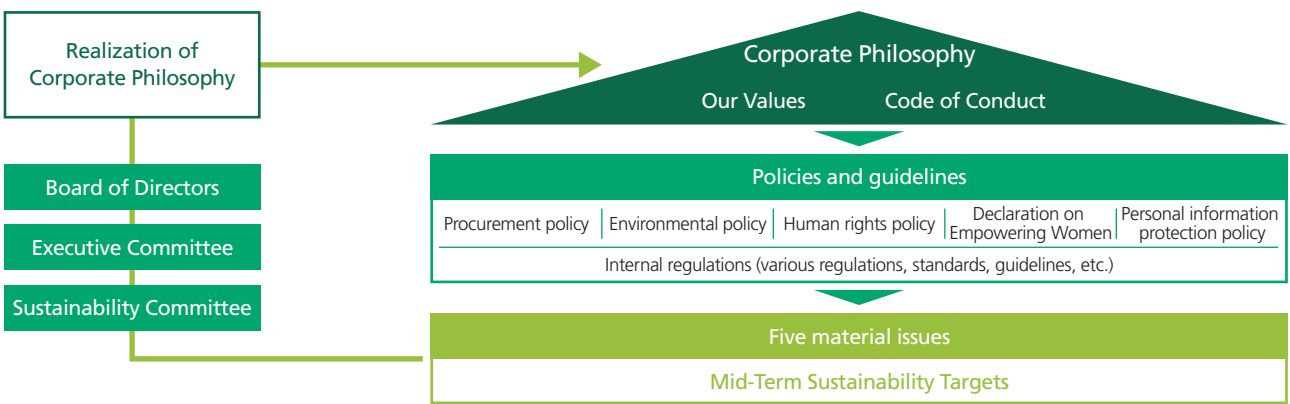
Affected by these changes to our business environment, we have determined that there is a need to work on promoting sustainability management to an even greater extent. In addition, “promote further integration of business operations and ESG initiatives” was advocated as a basic policy of the Sumitomo Forestry Group's 2021 Medium-Term Management Plan, and we also formulated the new Mid-Term Sustainability Targets which incorporate sustainability strategies and material issues, while also revising some of our five material issues.

In the Mid-Term Sustainability Targets, we establish 15 qualitative targets based on contributions to achieving SDGs and on our five material issues. In addition, we specified evaluative indices (quantitative goals) for each qualitative target item, which serve as

our targets for the fiscal year ending December 2021.

Each Group company and department has set a “Sustainability Budget” with numerical targets set for the fiscal year and is engaged in initiatives toward achieving these goals.

The Sumitomo Forestry Group fully implements a PDCA cycle for the progress and achievement of each target at the Sustainability Committee convened two times a year in addition to providing reports to the Board of Directors.



Sustainability Committee

In response to increased demand for medium- to long-term initiatives regarding Environment, Social, and Governance (ESG) and the disclosure of such information, and also in order to address SDGs, TCFD guidelines, and human rights issues, Sumitomo Forestry established a Sustainability Committee in the fiscal year ended March 2019.

The Sustainability Committee is comprised of executive officers and directors, as well as general managers, with the President and Executive Officer acting as the committee chairman. At committee meetings held four times a year, committee members monitor the Company's operational status and effectiveness within the context of Our Values and the Code of Conduct, along with the formulation and promotion of initiatives that address medium- to long-term ESG issues which concern the Sumitomo Forestry

Group's sustainability, starting with climate change. The meetings also analyze risks and opportunities, and manage progress on the Mid-Term Sustainability Targets, which incorporate business strategies that contribute to achieving SDGs.

For example, regarding climate change, the Company has been analyzing scenarios based on TCFD while coordinating with each business division since the fiscal year ended March 2019 (-> P.72). We evaluate risks and opportunities that could have a serious financial impact at the Company-wide and division level, based on the latest information and data gathered from each department. . Minutes of the committee's meetings are reported in their entirety to the Board of Directors with the aim of integrating business with solutions to social issues.

Risk check for new business plans by the Executive Committee

In addition to normal business risks, Sumitomo Forestry checks for risks throughout the entire supply chain that may affect the environment and society when the Executive Committee, which debates important matters, draws up plans for new businesses and projects.

If risks are identified in this process, details about each risk and countermeasures are compiled in a report that is referred to when business execution decisions are made.

Environment

1. Greenhouse gases, 2. Preservation of biodiversity (including protected lands), 3. Waste, 4. Water resources, 5. Soil pollution, 6. Noise, 7. Other

Society

1. Relationships with suppliers, 2. Prevention of corruption in various forms, including coercion and bribes, 3. Respect for human

- rights of workers and other stakeholders, 4. Diversity in workforce, 5. Prohibition of forced labor and child labor, 6. Appropriate work hours and wages, 7. Occupational health and safety, 8. Impact on local communities (including residents, residents' association, industry groups, NPOs, civic groups, and indigenous peoples)

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

Five material issues

Identifying material issues

Following the changes in the economic, environmental and social situation, in March 2015, the Sumitomo Forestry Group identified new material issues.

The Group surveyed both internal and external stakeholders as well as outside experts, receiving responses from about 2,700 people. In preparing the questionnaire, 27 issues most closely related to the Sumitomo Forestry Group were specified, based on the Sumitomo Forestry Group's Corporate Philosophy and Our Values, and taking into account such matters as ISO 26000, the international standard on the social responsibility of organizations, and evaluation points linked to socially responsible investment (SRI). After incorporating management

perspectives, the survey results were mapped out against axes of "management" and "stakeholders," before determining the materiality of each issue. Twelve of these issues were identified as being highly material, and rearranged into five material issues.






In conjunction with the formulation of the Mid-Term Sustainability Targets in 2018, we also revised our material issues in light of new demands from society.

We are currently working in revising these material issues leading up to the formulation of our subsequent medium-term plan, for which work will commence in January 2022.

Material Issue

1

Ongoing timber and materials procurement that considers sustainability and biodiversity



With businesses centered on wood, the Sumitomo Forestry Group promotes sustainable forest management and timber procurement both domestically and abroad. In procuring wood and timber products, we engage in management under specified numerical targets, placing it as an important theme of sustainability that encompasses environmental aspects such as climate change measures and biodiversity conservation as well as social aspects such as human rights.





With the increase in concern about forest depletion as one of the causes of climate change, demand for sustainability in procurement of

timber is on the rise. Amid these circumstances, the Sumitomo Forestry Group has declared the goal of handling all of its timber and timber products to be sustainable by the end of the fiscal year ending December 2021. We have heightened our evaluation criteria for sustainable timber procurement as we work to step up our confirmation system. As we continue to contribute to solving social issues, we have defined KPIs to establish timber procurement that achieves both forest resource utilization and biodiversity conservation.

Material Issue

2

The development and sale of reliable and safe products and services that consider the environment and society



The Sumitomo Forestry Group offers a lineup of timber-centered products and services for our customer's lifestyles, mainly in the field of housing. While it goes without saying that we attend to customer's peace of mind and safety in providing products and services, we also believe that engaging in development and sales mindful of creating a sustainable society is a crucial role that our Group must fulfill.





One of the areas that we could contribute the most in reducing environmental impact is the reduction of greenhouse gas emissions

from housing. Net zero energy houses (ZEH) and other housing measures in Japan offer guidance to promote eco-products as well as advocate excellent long-term housing as an asset. We have set targets for the ratio of orders we receive for ZEH and other environmentally friendly products to contribute to a sustainable society while serving customers in keeping with their needs by reducing household energy consumption through recommending houses built to ZEH specifications.

Material Issue

3

The reduction of the environmental impact of our business activities



With the impact of climate change becoming increasingly problematic on a global scale, companies are being asked to reduce emission of greenhouse gases that cause global warming and to implement energy-saving initiatives. In consideration of the environmental impact of these operations, the Sumitomo Forestry Group fully recognizes the importance of reducing greenhouse gas emissions and taking other measures to combat climate change through the promotion of strict energy-saving activities, renewable energy use and other efforts. With a medium- to long-term perspective of the future, in 2018, we




* Science Based Targets: A request for corporations to set scientifically-matched reduction targets in order to limit global warming to below 2°C

established greenhouse gas emission reduction goals for 2030, and were certified as SBT* in July 2018. Furthermore, Sumitomo Forestry joined RE100, an international initiative that aims to achieve 100% renewable energy for electricity used in Group business activities and for fuel used to generate electric power in the power generation business by 2040. In addition, to reduce environmental burden and more effectively utilize natural resources, we are promoting the reduction, reuse and recycling of industrial waste.

Material Issue

4

A vibrant work environment where a diverse workforce can unharness their skills and individuality



The Group promotes a free and open-minded corporate culture that respects diversity in accordance with Our Values. We are also committed to securing an appropriate balance between work and individual commitments such as caring for children and the elderly, maintaining a safe and healthy work environment, and implementing regular educational and training programs to prepare for disasters,

accidents and so forth, as stipulated in the Sumitomo Forestry Group Code of Conduct established in 2017. Further, we are advancing development of a vibrant workplace where diverse human assets can be actively engaged without regard to gender, age, nationality, race, religion or disability.

Material Issue

5

Corporate ethics and governance structures



With the background of globalization, diversification and expansion of our business, the Group is reviewing its philosophy structure. Sustainability management based on the Corporate Philosophy, Our Values, and Code of Conduct complies with international codes, international initiatives, and other social demands. In addition, we are

working to reinforce the mechanism for managing business risk-which also encompasses Group companies-by constantly managing prioritized risks through the Risk Management Committee while strengthening the Business Continuity Management (BCM) system as a measure against disasters.

Participation in the United Nations Global Compact

We support the ten principles of the United Nations Global Compact and joined the compact in December 2008. The ten principles of the United Nations Global Compact are based on globally established agreements, including the Universal Declaration of Human Rights and the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work. They incorporate support of and respect for the protection of human rights and the eradication of forced labor and child labor.



World Business Council for Sustainable Development (WBCSD)

Sumitomo Forestry joined the WBCSD* in January 2020, and has moved ahead with initiatives to solve social issues through business, including contributions to SDGs, in order to realize a sustainable society.



*** World Business Council for Sustainable Development:** A CEO-led organization of over 200 international companies. It aims to achieve sustainable development and help with the transition to a sustainable society.

Mid-Term Sustainability Targets as part of the 2021 Medium-Term Management Plan & Results

The Sumitomo Forestry Group has changed the end of its fiscal year from March 31 to December 31, beginning from the fiscal year ended December 31, 2020. As a result of this change, fiscal 2020 refers to the irregular nine-month fiscal period that starts on April 1, 2020 and ends on December 31, 2020, and fiscal 2021 refers to the period from January 1 to December 31, 2021. In principle, ratios for our fiscal year 2020 results are calculated according to the 9-month period from April to December, while quantities were calculated over the 12-month period from January to December.

Material issue 1: Ongoing timber and materials procurement that considers sustainability and biodiversity

Target	Specific steps based on issues and strategies	Indicators for evaluation (numerical targets)	Fiscal 2020 target	Fiscal 2020 results	Fiscal 2021 target
Management forests while mitigating climate change and protecting biodiversity	Maintain and expand certified forest area	Domestic and overseas certified forest area (ha)	222,144	221,644	221,467
Expanding the utilization of sustainable forest resources	Expand seedling reforestation area in Japan and overseas	Area of forest plantation with in-house produced seedlings (ha)	7,456	3,263 ^{*1}	7,920
		Number of seedlings supplied (ten thousand trees)	509	213 ^{*1}	726
	Increase volume of fuel wood chips and pellets handled	Volume of fuel wood chips and pellets handled (t) ³	1,217,541	1,465,901 ^{*1}	1,363,930
	Increase the amount of sustainable timber and wood products handled and used	Rate of sustainable timber and timber products handled (%)	93.0	94.6 ^{*1}	100
		Rate of sustainable timber used as primary building material (%)	100	95.8 ^{*1}	100
Building sustainable supply chains	Update Sustainability Procurement Survey form and formulate survey plan	Sustainability Procurement Survey implementation rate in the supply chain of the domestic housing department (%) ⁴	88.0	97.3 ^{*2}	80.0
		Sustainability Procurement Survey implementation rate of suppliers of imported timber (%) ⁵	100	100 ^{*2}	100

Material issue 2: The development and sale of reliable and safe products and services that consider the environment and society

Target	Specific steps based on issues and strategies	Indicators for evaluation (numerical targets)	Fiscal 2020 target	Fiscal 2020 results	Fiscal 2021 target
Increasing environmentally conscious products and services	Promote energy-saving and standards for energy generation and conservation	Percentage of orders for ZEH type houses out of new custom-built detached housings (%)	80.0	52.1 ^{*2}	80.0
		Rate of orders for eco-friendly renovation (%)	55.0	62.2 ^{*2}	60.0
		Sales of sashes, glass wool, and solar power generation systems in the building material business (millions of yen)	22,980	21,362	24,040
		Carbon stock in wooden architecture in Japan (t-CO ₂)	199,417	185,715 ^{*1}	199,509
	Increase added value by carbon stock from use of timber	Rate of orders (%) for eco-friendly products ⁶	59.0	56.8 ^{*2}	63.0
Creating an environment that considers biodiversity	Propose products utilizing local saplings and natural cycles	Carbon stock in wooden architecture in Japan (t-CO ₂)	199,417	185,715 ^{*1}	199,509
Expanding businesses that contribute to resolving social issues	Expand the Renewable Energy Business	Rate of orders (%) for eco-friendly products ⁶	59.0	56.8 ^{*2}	63.0
Promoting sustainable and innovative technological development	Solve technical issues toward achieving the W350 Plan	Number of local species sold (trees)	450,000	416,000 ^{*1}	500,000
	Increase the number of rooms through new facilities construction	Number of rooms for private-pay elderly care facilities (rooms)	1,764	1,764	2,014
	Expand the Renewable Energy Business	Amount of electricity supplied in the Renewable Energy Business (converted to number of households) ⁷	220,486	215,768 ^{*1}	373,826
	Solve technical issues toward achieving the W350 Plan	Status of progress on the W350 Plan	Establish basic concepts towards realization of W30 Plan (plan to design using actual properties)	Complete basic plan	Develop materials and implement basic designs towards realization of the W70 Plan

Material issue 3: The reduction of the environmental impact of our business activities

Target	Specific steps based on issues and strategies	Indicators for evaluation (numerical targets)	Fiscal 2020 target	Fiscal 2020 results	Fiscal 2021 target
Reducing greenhouse gas emissions toward creating a decarbonized society (SBT: Scope 1 & 2)	Reduce greenhouse gas emissions	Reduce greenhouse gas emissions (t-CO ₂ e) (Percent of change compared to fiscal 2017)	371,855 + 0.6%	370,526 ^{*1} + 0.2%	402,768 + 8.9%
		Carbon efficiency (t-CO ₂ e/net sales (millions of yen))	0.331	0.324	0.318
Protecting resources, reducing the generation of waste and achieving zero emissions	Promote industrial waste separation	New housing construction sites ⁸	97.7	95.2 ^{*1}	98.0
		Housing demolition work sites ⁹ (Main section construction base)	98.0	99.0 ^{*1}	98.0
		Renovation Business ¹⁰	82.0	72.3 ^{*1}	84.0
		Power generation business	79.3	91.0 ^{*1}	56.5
		Overseas manufacturing plants	98.2	98.4 ^{*1}	98.0
		Domestic manufacturing plants	99.2	99.1 ^{*1}	99.5
		Lifestyle Service Business ¹¹	93.1	83.7 ^{*1}	98.0
	Waste reduction Promote zero emissions	Final disposal volume of industrial waste (t) compared to fiscal 2017	56,632 -11.0%	40,548 ^{*1} -36.3%	54,087 -15.0%
		Total industrial waste emissions (amount of waste per detached home) (kg/building) compared to fiscal 2017	2,950 -11%	2,977 -10%	2,730 -18%
Conserving and effectively utilizing water resources	Properly manage water resources	Water consumption (1,000 m ³)	Lower than 2,824	2,851 ^{*1}	Lower than 3,011

Material issue 4: A vibrant work environment where a diverse workforce can unharness their skills and individuality

Target	Specific steps based on issues and strategies	Indicators for evaluation (numerical targets)		Fiscal 2020 target	Fiscal 2020 results	Fiscal 2021 target
Creating a work environment that generates diverse ideas, job satisfaction and vibrancy	Promotion of women's participation and advancement in the workplace	Female employees in management positions (%)	Sumitomo Forestry	5.0	4.8	5.5
			Consolidated in Japan	6.7	7.1	7.3
	Improve employee satisfaction	Employee satisfaction level (%)	Sumitomo Forestry	81.0	80.1	85.0
		Change in employee satisfaction compared to base year (%)	Consolidated in Japan	61.5	63.0	compared to fiscal 2019 110
Securing human resources by training younger workers and utilizing older ones	Develop human resources from a long-term perspective according to the revision of the evaluation system (April 2019) and evaluator training	Three-year turnover rate among newly hired graduates (%)	Sumitomo Forestry	15.6	17.7	15.0
			Consolidated in Japan	10.2	20.6	12.9
	Enhance training programs	Training costs per employee (thousands of yen)	Sumitomo Forestry	132	77	132
			Consolidated in Japan	66	27	66
		Total number of training participants (people)	Sumitomo Forestry	13,000	9,105 ^{*1}	13,000
			Consolidated in Japan	15,700	16,659 ^{*1}	16,176
	Training time per employee (hours)	Sumitomo Forestry	14.4	13.0	15.5	
		Implementing interviews for retirees prior to full-term retirement at the beginning of the fiscal year	Employment rate over 60 (including rehires)(%)	Sumitomo Forestry	82.0	91.9 ^{*13}
	Consolidated in Japan			67.7	78.5 ^{*13}	78.0
	Reducing long work hours through workstyle reforms	Guidance for improvement to departments with low rates of paid leave use	Average paid leave taken by employees (days)	Sumitomo Forestry	13.5	11.6 ^{*1}
Consolidated in Japan				10.6	10.3 ^{*1}	11.3
Expand departments using flexitime and internal inspections		Average reduction rate of overtime hours compared to fiscal 2013 (%)	Sumitomo Forestry	-30.0	-38.7	-32.0
			Average reduction rate of overtime hours compared to fiscal 2017 (%)	Consolidated in Japan	-9.9	-23.2
Eliminating occupational injuries	Implement reciprocal safety audits and manufacturing department safety audits Share case studies and implement risk assessments	Number of serious occupational injuries (four or more days of work leave)	Manufacturing sites (contractors and subcontractors)	0	14 ^{*1}	0
			Plantation sites (contractors)	0	4 ^{*1}	0
			New Construction sites ^{*12} in Japan	0	21 ^{*1}	0
			New Construction sites outside Japan	0	5 ^{*1}	0
		Number of occupational injuries (one to three days of work leave)	New Construction sites in Japan	0	31 ^{*1}	0

Material issue 5: Corporate ethics and governance structures

Target	Specific steps based on issues and strategies	Indicators for evaluation (numerical targets)	Fiscal 2020 target	Fiscal 2020 results	Fiscal 2021 target
Reinforcing risk management and compliance structures	Progress check of prioritized risk items set by the Risk Management Committee and share materialized risks	Progress of management for prioritized risks (conducted on a quarterly basis by the Risk Management Committee) (%)	100	100	100
	Understand the extent of compliance awareness and enhance channels for reporting misconduct and compliance violations	Regular implementation and phased deployment of compliance awareness surveys	Major Group companies in Japan	Implemented by Sumitomo Forestry alone	Implemented in alternate years; not planned
	Obtain external certification for Business Continuity Management (BCM)	Obtaining Resilience Certification	Sumitomo Forestry and all Group companies in Japan	Not conducted	Sumitomo Forestry and all Group companies in Japan
	Analyze and disclose potential financial impact from climate-related risks that could (potentially) have on the organization	Conduct scenario analysis and disclosure consistent with guidance from the Task Force on Climate-related Financial Disclosures (TCFD)	Re-examination of analysis results and expansion of scope of application for two sectors: domestic Housing Business and Timber and Building Materials Business	Improvement of information disclosed such as sustainability reports	Completion of re-examination of analysis results for all business departments, and incorporation into the subsequent medium-term plan

^{*1} "Fiscal 2020 results" applying to the period from January to December 2020.
^{*2} "Fiscal 2020 results" applying to the period from April to December 2020.
^{*3} Refers to Japan Bio Energy, Okhotsk Bio Energy, Michinoku Bio Energy, and Sumitomo Forestry's Timber and Building Materials Business.
^{*4} Implementation rate calculated as the percentage of the total annual purchase amount comprised by suppliers with whom transactions occurred the previous fiscal year.
^{*5} Percentage of suppliers which implemented the Sustainability Procurement Survey as part of the Timber Procurement Committee's commitment to due diligence in the relevant fiscal year.
^{*6} Eco-friendly products are (1) Local saplings (2) Permeable pavement materials (3) Wall greening (4) Rooftop greening (5) Biotopes (6) Use of recycled materials.
^{*7} The amount of electricity supplied by renewable energy business annually converted to the number of households as 3,120 kWh a year per household.
^{*8} For new housing construction sites of the Housing & Construction Division, Sumitomo Forestry Landscaping, and Sumitomo Forestry Home Engineering
^{*9} Applicable to specified construction materials (concrete, ascon, wood waste) under the Construction Material Recycling Law
^{*10} Applies to Sumitomo Forestry Home Tech renovation sites and excludes debris difficult to recycle and asbestos.
^{*11} Applies to emissions generated in the Lifestyle Services Business, housing-related materials sales, etc.
^{*12} The number includes sole proprietorships.
^{*13} As of March 31, 2021

Human rights initiatives

In July 2019, we formulated the Sumitomo Forestry Group Human Rights Policy based on respect for the International Bill of Human Rights (the Universal Declaration of Human Rights and the International Covenants on Human Rights), the International Labour Organization's (ILO) Core Labour Standards, the 10 Principles of the United Nations Global Compact, and the United Nations Guiding Principles on Business and Human Rights. We also joined the United Nations Global Compact and World Business Council for

Sustainability Development (WBCSD). Based on these international standards, the Sumitomo Forestry Group Code of Conduct advocates respect for human rights and the creation of healthy workplaces. With the aim of spreading acceptance of these policies at our business partners, we periodically conduct assessments of our partners. We also conduct due diligence of human rights, address risks related to human rights, and further engage in reducing risks related to human rights.

 Sumitomo Forestry Group Human Rights Policy <https://sfc.jp/english/corporate/philosophy/humanrights.html>

Due diligence and addressing significant risks

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



Respect for human rights at overseas plantations

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

2012

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

2013 and 2015

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

2018

With help from the IFC, Sumitomo Forestry set up grievance mechanisms at WSL and MTI to collect information and opinions from local residents. With the Universitas Indonesia, Sumitomo Forestry launched a three-year social survey covering its business sites and surrounding areas.

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

Supply chain management

The Sumitomo Forestry Group is aware of its responsibility to respect human rights and solve environmental problems in its supply chain and is working to promote the spread of timber from certified forests in order to help create a sustainable society throughout its supply chain.

We are working even harder to implement these principles throughout the Group. In 2015 we revised our Timber Procurement Philosophy & Policy into the Sumitomo Forestry Group Procurement Policy, and then in 2017 we formulated the Sumitomo Forestry Group Code of Conduct which also applies to supply chains.

The Sumitomo Forestry Group Procurement Policy (Excerpt)

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

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

Timber procurement management

The Sumitomo Forestry Group established the Timber Procurement Committee, comprising managers from departments in charge of timber procurement, to promote Group-wide management of timber procurement through confirming legality of imported timber, setting procurement standards and risk assessments for illegal logging and such.

In the fiscal year ended December 2020, the committee met

three times and confirmed legal compliance and conducted sustainability surveys at all 117 direct suppliers subject to inspections, as well as 19 suppliers for overseas Group companies (distributors). Sumitomo Forestry periodically checks legal compliance and sustainability at these suppliers, including new and existing suppliers, once a year-no more than two years from the current year.

Initiatives for enabling sustainable timber procurement

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

Access to information

The Timber & Building Materials Division, Housing & Construction Division, and the timber procurement divisions across the Group conduct due diligence to ensure suppliers supply timber and wood products that meet logging compliance requirements.

Procurement managers gather information in accordance with the due diligence manual for timber procurement.

Risk assessments and measures to reduce risk

With this information sorted by country, region, wood species, and timber type, risk assessment on illegal logging or human rights violation is carried out based on procurement standards stipulated by the committee. Risk categories are A (low risk), B (medium risk) and C (high risk). Timber and wood products in the B (medium risk) and C (high risk) categories should not be solely evaluated with documentation to prove that they are legally harvested according to that country's laws and regulations. In addition, when necessary, company staff are sent for on-site inspections to ensure traceability back to the logging site.

Consideration for human rights, labor, biodiversity conservation and local communities

The following items are checked, through supplier surveys and local interviews for the products that are being procured:

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

Each procurement division reports the status and progress of these initiatives to the Timber Procurement Committee, facilitating continuous improvements throughout the supply chain. In the fiscal year ended December 2020, we used a Sustainability Procurement Survey form that had been revised from the year before to add societal and environmental aspects. Based on suppliers’ responses, we then strengthened the management system with new scoring for survey outcomes to improve the visualization of suppliers’ sustainability initiatives.



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

Strengthening sustainability initiatives for timber and wood products

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

Policy on “Sustainable Timber and Wood Products”

In the Mid-Term Sustainability Targets as part of the 2021 Medium-Term Management Plan, we set a target of 100% procurement of sustainable timber and wood products by the end of the fiscal year ending December 2021. Even in situations where legality can be confirmed, we will promote the gradual increased use of alternative wood (natural timber from forest thinning or plantation timber) to stop the handling of items that do not fall under our definition of sustainable timber or timber products.

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

Engagement

In December 2020, a year and a half into our action plan aiming to achieve, “100% procurement of sustainable timber and wood products,” we organized the second stakeholder dialogue to meet with environmental NGOs and ESG experts and researchers. Experts from World Wildlife Fund (WWF) Japan, FoE Japan, Global Environment Forum, Institute for Global Environmental

Strategies, Rainforest Action Network, and Takasaki City University of Economics came to participate. After reflecting on the previous session, discussions touched on the implementation status of the Sustainability Procurement Survey, and updates on the rate of sustainable timber and timber products handled.

A smooth response to the Clean Wood Act

In May 2017, Japan implemented the “Act on Promotion of Use and Distribution of Legally-Harvested Wood and Wood Products,” commonly known as the “Clean Wood Act.” This law aims to encourage the use of timber made from trees harvested in conformity with the laws and ordinances of Japan and other

countries of origin, and to form markets that exclude illegally logged wood that leads to environmental destruction. At Sumitomo Forestry, each business division has been registered as a business operator under this law, and the entire Group makes every effort to procure legal timber.

Diversity & inclusion

Equal opportunity and diversity in employee hiring and compensation practices are respected based on international standards for the human rights of people from all walks of life. These principles are set out in the Sumitomo Forestry Group Code of Conduct.

Activities for diverse talent acquisition

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

If there has been a compliance violation, the employee will be dealt with appropriately in accordance with Employment Regulations.

Unfair dismissals are not allowed.

Sumitomo Forestry strives for talent acquisition, a major issue for management, by properly reflecting these employment and treatment policies in our recruitment activities. The Workstyle Diversification Department, an independent organization within the Personnel Department, takes the lead in supporting the activities of our diverse workforce, including female employees, re-employed retirees, and employees with disabilities.

Employment and promotion of women (non-consolidated)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Ratio of female employees ^{*1}	20.0%	20.4%	21.0%	21.6%	22.0%
Ratio of female employees in management positions ^{*1}	2.8%	3.2%	3.7%	4.2%	4.8%
Ratio of newly graduated female recruits ²	22.8%	18.0%	24.8%	26.9%	30.2%

Status of female recruitment / Employment (domestic subsidiaries)

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Ratio of female employees ^{*1}	30.7%	31.6%	32.0%	32.7%	32.4%
Ratio of female employees in management positions ^{*1}	4.2%	4.6%	6.0%	6.1%	7.1%
Ratio of newly graduated female recruits ²	40.3%	40.2%	43.5%	45.7%	43.4%

^{*1} The ratio of female employees and the ratio of female employees in management positions between fiscal 2016 and fiscal 2019 are calculated based on the number of employees as of March 31 each year. Calculated based on the number of employees as of December 31 due to the change in accounting period in fiscal 2020. Includes individuals on loan to affiliated companies, does not include officers, hosted from other companies or exchange dispatches.

^{*2} The ratio of newly graduated female recruits is calculated based on the number of employees as of April 1 each year.

Employment of persons with disabilities (non-consolidated)^{*1}

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Employment ratio of persons with disabilities	2.12%	2.26% ^{*2}	2.32% ^{*3}	2.40% ^{*3}	2.25% ^{*3}

^{*1} Calculated as of March 31 for the fiscal years from 2016 to 2019, and as of December 31 for fiscal 2020 due to a change in the accounting period.

^{*2} For fiscal 2017 the calculation includes special subsidiary company Sumirin Wood Peace Co., Ltd.

^{*3} For fiscal 2018 and onward, the calculation includes special subsidiary company Sumirin Wood Peace Co., Ltd. and Group affiliate Sumirin Business Service Co., Ltd.

Promoting health management

To maintain and improve the health of individual employees, we promote the creation of workplaces where employees will be able to work with enthusiasm.

Initiatives to maintain and improve employee health

The Healthcare Promotion Team in the Workstyle Diversification Department of the Personnel Department employs one clinical psychologist and two public health nurses and the team undertakes a variety of initiatives aimed at maintaining and improving employee health, starting with health management self-care training during new employee training and including publishing articles and information about health-related events on the Workstyle Diversification Department intranet.

Sumitomo Forestry use an appointment system for regular physical examinations which are crucial for disease prevention, and we maintain a medical examination rate of 100%. Furthermore, we ensure

that business sites with a small number of workers also have a system where they can consult occupational physicians and public health nurses for regular checkups, or consult them about overwork and follow-up measures for stress checks. For example, business sites with 50 or fewer employees have an assigned occupational physician.

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

Practicing mental healthcare

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

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

^{*} Employee Assistance Program (EAP) : A workplace mental healthcare service

Using stress checks

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

In the fiscal year ended December 2020, to further encourage active healthy living, we added items that measure presenteeism and absenteeism to the stress check and analyzed them. Moreover, as a follow-up measure for stress checks, we distributed the organizational

analysis results sheet for individual business sites and organized stress check results feedback training for general managers to help raise their awareness about creating livelier workplaces. Apart from that, we also conducted online self-care training and line care training to match the issues faced by different departments. We follow up on training conducted by sharing the contents with the whole company through e-learning.

Results of mental disorder prevention measures

	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019	Fiscal 2020
Stress check response rate (%)	88.2	92.1	91.6	93.3	96.4

Identification and measures for environmental risk

We recognize that changes in the environment, such as climate change or biodiversity, may have an impact on our business activities. We therefore collect relevant information, conduct analyses when necessary, and make use of the results in business risk assessments.

Depending on the degree of risk, each department decides on specific measures and assessment indicators for risks that arise in day-to-day operations and delivers a progress report every quarter to the Risk Management Committee, while for longer-term risks, countermeasures are formulated by the Sustainability Committee.

Moreover, risks with the potential to have a major impact on

operations are reported to the Board of Directors for discussion on countermeasures. In the fiscal year ended December 2020, the Sustainability Committee invited an outside instructor to lead a study group on the topic, “Forest policy and issues facing the world’s forests: Matters arising from climate change and COVID-19.” Speaking on expectations for private enterprises of the future, the instructor stressed the need for business stories tailored for post-corona societies that are also coping with climate change, as well as the importance of making changes and commitments aimed at fulfilling the SDGs.

Risks and strategies related to changes in climate and biodiversity

Risks related to natural disasters
Damage from a major earthquake, wind, flood, or other destructive natural element could result in cost increases arising from interrupted operations at facilities or verification of safety in our housing sales, delays in the completion of construction contracts, or other events. A significant increase in costs caused by a natural disaster could influence the Group’s operating results and financial position.

Strategies
Sumitomo Forestry promotes sales of homes using its BF (Big-Frame) construction method, which offers high earthquake resistance, as well as disaster-resilient homes with functions that allow people to stay for a certain period of time even if lifeline services are disrupted. The Company is also creating services that offer rapid assistance in the event of a natural disaster by using IoT technology to remotely look for damage.

Risks related to changes in timber resources and procurement restrictions
Given that timber is our main material and the source of our products, depletion of timber resources or changes in vegetation as a result of climate change and the loss of biodiversity may mean that Sumitomo Forestry will incur costs and be forced to change suppliers if restrictions are put in place.

Strategies
Sumitomo Forestry imports timber from over 20 countries as a measure to mitigate the risk of changes in forest conditions and new regulations on timber procurement, and has dispatched employees to key countries in order to gather information and check the legality of timber procurement by headquarters staff.

Also, Sumitomo Forestry was the first company in Japan to be registered as a Type 1 Wood-Related Entity under the Clean Wood Act that came into effect in May 2017, and makes a concerted effort to procure legally harvested timber for the entire Group.

Risks related to mandatory emission reductions
As the movement to reduce greenhouse gas (GHG) emissions gains momentum globally, there is the possibility that reduction of GHG emissions will be imposed upon businesses in countries where the Sumitomo Forestry Group has a presence. If Group companies with bases in these countries are unable to meet reduction targets, they will be required to purchase carbon emission credits, a risk that will increase business costs. In Japan as well, introduction of a new carbon tax could influence business activities and costs.

Strategies
We have set greenhouse gas emission reduction targets for each Group company and business division, and work to reduce emissions in line with targets set each fiscal year.

Risk related to energy supply shortages
In countries such as New Zealand for example, which consumes electricity generated by hydropower plants, operations at our Group’s plants that use hydroelectric power could come to a halt if dam levels fall as a result of less rainfall and hydroelectric power transmission is suspended.

Strategies
We have set greenhouse gas emissions reduction targets for each Group company and business division, and work to reduce emissions in line with targets set each fiscal year. In addition to the actions, we have promoted reduction of electricity consumption.

Risks related to reputational damage
If Sumitomo Forestry makes mistakes when addressing risks, such as climate change and the preservation of biodiversity, the Company’s reputation may be damaged and earnings, such as sales, would be directly affected.

Strategies
The Risk Management Committee and the Sustainability Committee take a comprehensive approach to analyzing and responding to risks related to the environment, society and corporate governance from short-, medium- and long-term perspectives.

Addressing climate change

In December 2015, COP21 (2015 United Nations Climate Change Conference) negotiated and adopted the Paris Agreement, the new framework for addressing climate change starting in the year 2020. The global aim of the agreement, which entered into force in November 2016, is to maintain global average temperature levels that do not rise more than 2°C from what they were before the Industrial Revolution.

Energy conservation and reductions in greenhouse gas emissions in business activities

As the impact of climate change becomes more imminent globally, companies are required to reduce greenhouse gas emissions as a measure against global warming. The Sumitomo Forestry Group declared in June 2017 that it would set Science Based Targets (SBT) under the SBT initiative*1 and establish new greenhouse gas emission reduction targets for the entire Group. Subsequently, those targets were officially approved as SBT in July 2018. The SBT for the Sumitomo Forestry Group are as follows.

SBT (Science Based Targets)

① Scope 1 and 2*2: Total 21% reduction (Target year 2030; Base year 2017).

② Scope 3*2: Total 16% reduction in categories 1*3 and 11*3 (Target year 2030; Base year 2017)

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

*2 Scope 1: Direct GHG emissions of a company, including those from fuel consumption. For example, CO₂ emissions from using gasoline in company vehicles.
Scope 2: Indirect GHG emissions (including CH₄ and N₂O) from purchased electricity and heat. For example, CO₂ emissions from using electricity in office buildings.
Scope 3: GHG emissions occurring in the supply chain. For example, CO₂ emissions when sold products are used.

*3 Category 1 (in Scope 3): GHG emissions when harvesting, manufacturing, or transporting purchased (or acquired) goods and services.
Category 11 (in Scope 3): GHG emissions when using sold goods and services.

In October 2018, The Intergovernmental Panel on Climate Change (IPCC) which reports the latest in scientific knowledge on global warming published its Special Report on Global Warming of 1.5°C. This report showed just how large of a difference the impact on the global environment would be between keeping temperature increases below 2°C and below 1.5°C.

Following the awareness amplified by the Special Report on Global Warming of 1.5°C, the SBT initiative updated its target validation criteria in April 2019 to only accept targets along two different pathways, those that are consistent with limiting warming to “well below” 2°C, and those that limit warming to 1.5 °C above pre-industrial levels (applied starting in October 2019). The Sumitomo Forestry Group is currently coordinating internally to make further reductions to the greenhouse gas emissions from our business activities in line with this revision by the SBT initiative.

State of progress of SBT

	Fiscal 2017 (reference year)*1,2	Fiscal 2020*1
Scope 1 and 2: Total 21% reduction (Target year 2030; Base year 2017)	369,785 t-CO ₂ e	370,526 t-CO ₂ e
Scope 3: Total 16% reduction in categories 1 and 11 (Target year 2030; Base year 2017)	8,895 thousand	8,311 thousand

*1 The calculation period for emissions in fiscal 2017, was April 2017 to March 2018, and the calculation period for total emissions in fiscal 2020 was January to December 2020.

*2 Revised Scope 3 Category 1 calculation method since the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) went into effect starting in fiscal 2019

Participation in RE100, targeting 100% renewable energy

At the Sumitomo Forestry Group, we have positioned the “reduction of the environmental impact of our business activities” as a material issue, and endeavor to conserve energy and utilize renewable energy. As a part of these efforts, in March 2020,

Sumitomo Forestry joined RE100*, an international initiative that aims for 100% renewable energy for electricity used, and accelerated its efforts to reduce greenhouse gases.

* RE100 is an international initiative that collaborates with international environmental NGOs The Climate Group and CDP. As of February 2021, it had 290 member companies from around the world, including 50 Japanese firms.

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

State of Progress of RE100 Targets

Sumitomo Forestry Group's implementation of renewable energy includes solar power generation panels installed at our housing exhibition sites and generated power for our own use (including an adjacent wood fuel chip factory) from our biomass power generation sites. In the fiscal year ended December 2020, renewable energy accounted for about 17% of our total group electricity usage. Additionally, the percentage of biomass-derived fuel in the amount of fuel consumed by power generation businesses is 88%. To accelerate the implementation of renewable energy, we plan to have each business division set its own targets and tackle the issue as a company-wide initiative.

Approaches to the 100% Use of Renewable Energy

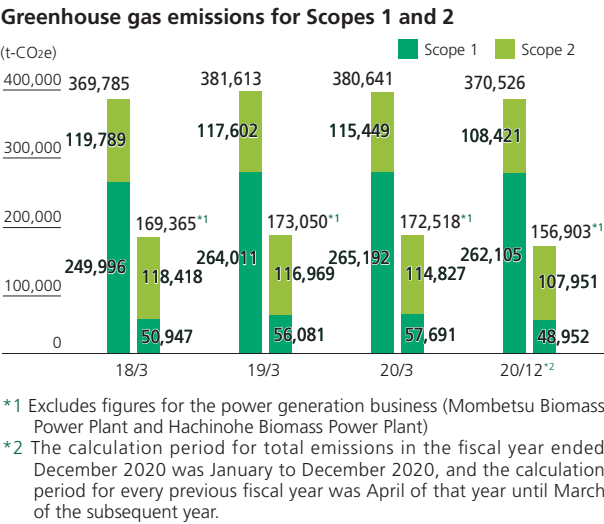
In order to derive 100% of the electric power used in our business activities from renewable energy, we are examining the use of “Sumirin Denki,” a service where we purchase surplus power as well as supply electricity generated from solar power systems of Sumitomo Forestry Home houses, and installing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

Greenhouse gas emissions by Scope, based on the GHG Protocol

Since the fiscal year ended March 2013, we have obtained quantitative data for each scope that conforms to the GHG Protocol, the widely used global greenhouse gas measurement standard. In light of increasing demand for renewable energy in recent years, the Group made entry into the biomass power generation business in 2011 and has invested in six of these power plants as of the fiscal year ended December 2020. Mombetsu Biomass Power Plant which is a consolidated subsidiary uses coal as a supplementary fuel to ensure smooth operation and maintenance.

For that reason, Scope 1 and Scope 2 emissions have increased significantly since the fiscal year ended March 2017 in which the Mombetsu Biomass Power Plant went into operation. Due mainly to revised methods for estimating emissions resulting in a decrease in emissions (8,879 t-CO₂) at overseas subsidiaries in the Overseas Housing and Real Estate Business, and decreased production at overseas manufacturing plants due to the COVID-19 pandemic, Scope 1 and Scope 2 emissions in January through December 2020 decreased 2.7% compared to the fiscal year ended March 2020. Of the total for Scope 1 and 2 greenhouse gas emissions recognized under the GHG Protocol, overseas plants emitted 27.7%, while domestic plants and the power generation business accounted for 60.1%. We started measuring Scope 3 emissions in


the fiscal year ended March 2014 and significantly broadened the scope of our measurements in the fiscal years ended March 2016 and March 2018.



Response to TCFD

The Sumitomo Forestry Group understands that climate change poses great risks. We announced our support for the TCFD* in July 2018. In the same year, we began to analyze scenarios based on TCFD guidelines. The Group envisioned conditions in the Company's core Timber and Building Materials Business and Housing and

Construction Business in 2030 according to two scenarios. In one scenario, the average global temperature would be 2°C higher than prior to the industrial revolution; the alternative scenario analysis entailed a 4°C increase. The results of these analyses were reported to the Sustainability Committee and Board of Directors.



* Task Force on Climate-related Financial Disclosures (TCFD): The Financial Stability Board directed the creation of a task force for disclosing financial information related to climate in December 2015, which led to a framework for companies to voluntarily disclose information on climate-related risks and opportunities.

Climate change initiatives

Governance

- Chaired by the President and Executive Officer, the Sustainability Committee meets four times a year. The committee works to promote integration of businesses and ESG initiatives and all discussions are reported to the Board of Directors.
- The committee addresses medium- to long-term ESG issues including analysis of climate change-related risks and opportunities.

Strategies

Scenario analysis

Risks, opportunities and strategies related to climate change and biodiversity (examples based on opportunities)

- Expand sales of homes in tune with government's net zero energy house promotion
- Expand the need for renewable energy

Improve strategic resilience to be prepared for uncertain future conditions

Risk management system


Based on experts' reports and analysis from business divisions, climate change-related risks are discussed by the Sustainability Committee. Medium- to long-term risks and, opportunities and countermeasures are evaluated

Report and submit to the Board of Directors

Reflect in business execution

* The Risk Management Committee discusses and responds to short-term risks and risks that have become apparent.

KPIs and targets



▶ Please see page 70 for SBT initiatives targeting 2030.

Part 4

Corporate Governance as a foundation for growth

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

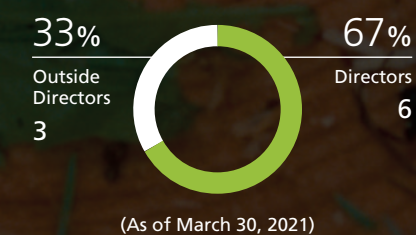
corporate governance.

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

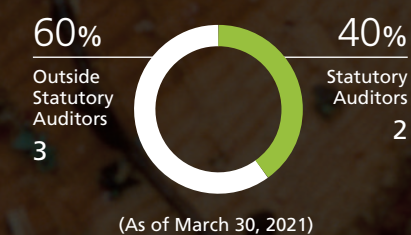
Outline of the Corporate Governance System

Organizational Structure	Company with a Board of Statutory Auditors
Number of Independent Officers	6
Number of Board of Directors Meetings (fiscal year ended December 2020)	10 times
Adoption of the Executive Officer System	Yes
Nomination and Remuneration Advisory Committee	Yes
Accounting Auditor	Ernst & Young ShinNihon LLC
Sumitomo Forestry Basic Policy on Corporate Governance	https://sfc.jp/english/ir/management/pdf/CorporateGovernance.pdf

Number of directors and composition ratio



Number of Statutory Auditors and composition ratio



Outside Directors' Board of Directors Meeting attendance rate (Fiscal year ended December 2020)





Tatsumi Kawata	Shigeru Sasabe	Mitsue Kurihara	Junko Hirakawa	Akira Ichikawa	Toshiro Mitsuyoshi	Izumi Yamashita	Tatsuru Satoh	Atsushi Kawamura
Director	Representative Director	Outside Director	Outside Director	Representative Director, Chairman of the Board	Representative Director, President/Director	Outside Director	Representative Director	Director

Introducing the Board of Directors and Statutory Auditors (As of March 30, 2021)

Director

* Are independent directors. Attendance is the number of Board of Directors Meetings attended in the fiscal year ended December 2020, and Company Shares Held is current as of December 31, 2020.



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

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

Attendance: 10/10 Company shares held: 73,700

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



Toshiro Mitsuyoshi
Representative Director, President/Director (Born May 23, 1962)

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

Attendance: 10/10 Company shares held: 16,300

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



Shigeru Sasabe
Representative Director (Born Feb. 28, 1954)

Career history
Apr. 1977 - Joined the Company
Jun. 2008 - Executive Officer
Apr. 2010 - Managing Executive Officer
Jun. 2010 - Director
Apr. 2014 - Senior Managing Executive Officer, Divisional Manager of Overseas Business Division
Apr. 2016 - Representative Director (current position), Executive Vice President and Executive Officer (current position)
Apr. 2018 - Divisional Manager of Overseas Housing and Real Estate Division
Apr. 2020 - Divisional Manager of Timber and Building Materials Division

Attendance: 10/10 Company shares held: 41,121

Reason for appointment as a director
Shigeru Sasabe has abundant experience and achievements related to the Sumitomo Forestry Group's business and management. He was appointed as Director in 2010, having held positions such as Divisional Manager of Overseas Housing and Real Estate Division and Divisional Manager of Timber and Building Materials Division. He currently serves as Executive Vice President and Executive Officer.



Tatsuru Satoh
Representative Director (Born Dec. 14, 1955)

Career history
Apr. 1978 - Joined the Company
Jun. 2012 - Executive Officer
Apr. 2013 - Managing Executive Officer
Jun. 2013 - Director
Apr. 2016 - Senior Managing Executive Officer
Apr. 2018 - Representative Director (current position), Executive Vice President and Executive Officer (current position)
[Important concurrent jobs] Statutory Auditor at Kumagai Gumi Co., Ltd.

Attendance: 10/10 Company shares held: 34,900

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



Tatsumi Kawata
Director (Born Oct. 4, 1962)

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

Attendance: 10/10 Company shares held: 9,700

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



Atsushi Kawamura
Director (Born Feb. 24, 1965)

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

Attendance: 9/9 (after assuming office in June 2020)
Company shares held: 15,500

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



Junko Hirakawa*
Outside Director (Born Oct. 9, 1947)

Career history
Apr. 1973 - Registered as Attorney at Law admitted in Japan
Feb. 1979 - Registered as Attorney at Law admitted in the State of New York, U.S.A.
Oct. 1983 - Partner of Yuasa and Hara
Oct. 1997 - Established Hirakawa, Sato & Kobayashi (currently City-Yuwa Partners), Partner of Hirakawa, Sato & Kobayashi
Feb. 2003 - Partner of City-Yuwa Partners (current position)
Jun. 2012 - Outside Statutory Auditor of the Company
Jun. 2014 - Outside Director of the Company (current position)
[Important concurrent jobs] Lawyer, Outside Director of Tokyo Financial Exchange Inc., Outside Director of Hitachi Construction Machinery Co., Ltd.

Attendance: 10/10 Company shares held: 0

Reason for appointment as a director
As an attorney, Junko Hirakawa has practical knowledge of corporate law in Japan and abroad, and has been judged to play an appropriate role in strengthening the Company's corporate governance by making recommendations to management from an expert's perspective.



Izumi Yamashita*
Outside Director (Born Feb. 1, 1948)

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

Attendance: 10/10 Company shares held: 0

Reason for appointment as a director
Izumi Yamashita has abundant experience in the financial industry and deep insight as a corporate manager, and has been judged to play an appropriate role in strengthening the Company's corporate governance by making recommendations to management.



Mitsue Kurihara*
Outside Director (Born Apr. 7, 1964)

Career history
Apr. 1987 - Joined the Japan Development Bank (currently Development Bank of Japan Inc.)
Jun. 2008 - Served as a visiting fellow at the Freeman Spogli Institute for International Studies, Stanford University, U.S.A.
Jun. 2010 - Assistant Director of Finance, Development Bank of Japan Inc.
May. 2011 - Section chief in Corporate Finance 4th Medical & Lifestyle Office, Development Bank of Japan Inc.
Apr. 2013 - 6th Divisional Manager of Corporate Finance, Development Bank of Japan Inc.
Feb. 2015 - Full-time Statutory Auditor, Development Bank of Japan Inc.
Jun. 2020 - Chairman and Representative Director, Value Management Institute, Inc. (current position)
Mar. 2021 - Outside Director of the Company (current position)
[Important concurrent jobs] Chairman and Representative Director of Value Management Institute, Inc., Outside Director of Chubu Electric Power Co., Inc.

Attendance: - Company shares held: 0

Reason for appointment as a director
Mitsue Kurihara has deep knowledge and abundant experience in the field of finance, and is believed to be capable of playing an appropriate role in strengthening the Company's corporate governance by making recommendations to management from an expert point of view.

Statutory Auditors

* Are independent officers. Attendance is the number of Board of Directors meetings (left), and Board of Statutory Auditors meetings (right) attended in the fiscal year ended December 2020

Senior Statutory Auditor (full-time)	Akihisa Fukuda Attendance: 9/9, 8/8 (after assuming office in June 2020) Reason for appointment: Akihisa Fukuda has abundant experience related to the Sumitomo Forestry Group's business, having served as Director, as an Executive Officer who oversees Corporate Planning, Finance and Information Systems, and as Divisional Manager of Timber and Building Materials Division among other positions.
Statutory Auditor (full-time)	Noriaki Toi Attendance: 10/10, 10/10 Reason for appointment: Noriaki Toi has served as a statutory auditor since 2015 and has a wealth of experience in financial and accounting matters.

Outside Statutory Auditors	Yoshitsugu Minagawa* Attendance: 9/10, 9/10 Reason for appointment: Since Yoshitsugu Minagawa has abundant experience and deep insight on forestry administration as well as the agricultural, forestry and fishing sectors, the Company believes that he is utilizing these factors in auditing duties.
	Yoshimasa Tetsu* Attendance: 10/10, 9/10 Reason for appointment: As a certified public accountant, Yoshimasa Tetsu has a high level of specialized knowledge and a wealth of experience in financial and accounting matters, which we have determined can be utilized in the Company's audit operations.
	Makoto Matsuo* Attendance: 9/10, 10/10 Reason for appointment: As a lawyer with extensive experience in corporate legal affairs both in Japan and abroad, Makoto Matsuo is expected to appropriately execute the Company's audit operations with his specialized perspective.

Executive Officers

* Doubles as Director and Executive Officer

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

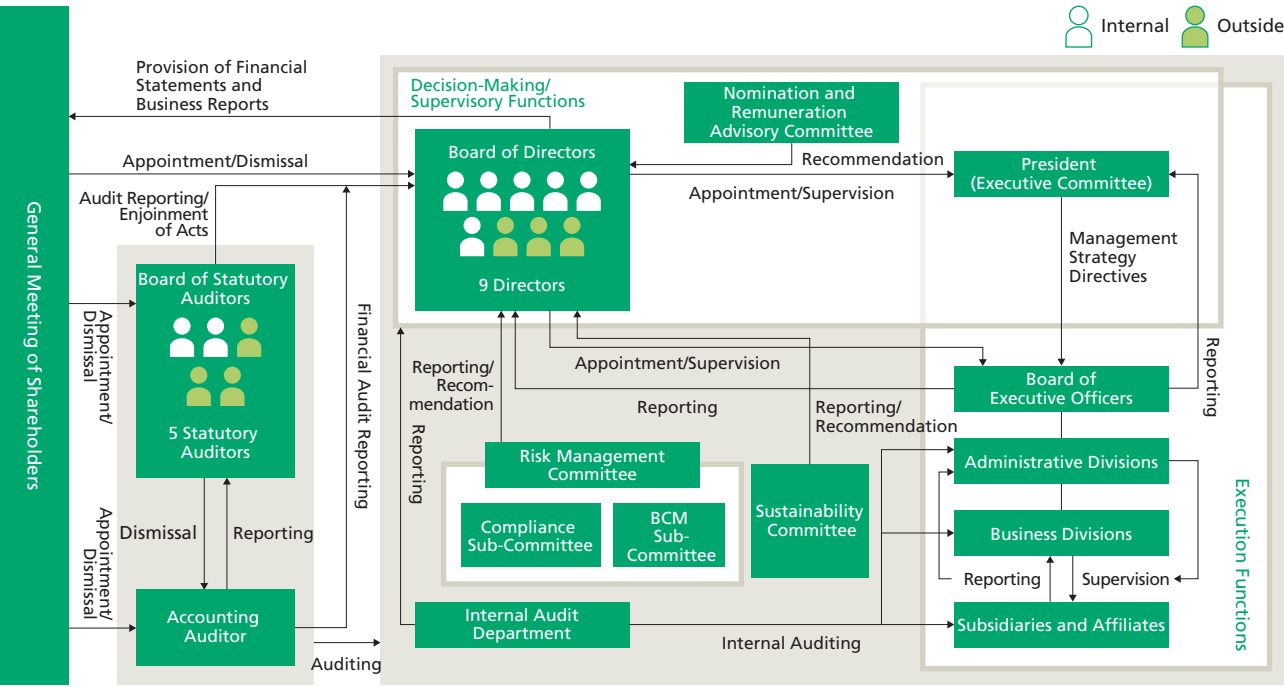
Position	Name	Responsibility
Executive Officers	Junko Saishu	In charge of Working-style Reform and Women's Empowerment and General Manager of Workstyle Diversification Department
	Koichi Shimizu	General Manager of IT Solutions Department
	Kazutaka Horita	President and Director of Sumitomo Forestry Crest Co., Ltd.
	Yoichi Hosoya	Deputy Divisional Manager of Timber and Building Materials Division and General Manager of Domestic Marketing Department
	Yutaka Kamiya	President and Director of Sumitomo Forestry Landscaping Co., Ltd.
	Atsushi Iwasaki	Deputy Divisional Manager of Overseas Housing and Real Estate Division (In charge of North American Business) and President of Sumitomo Forestry America, Inc.
	Takumi Shimahara	President and Director of Sumitomo Forestry Home Tech Co., Ltd.
	Masanobu Nishikawa	Divisional Manager of Environment and Resources Division
	Tomio Tozaki	Deputy Divisional Manager of Housing and Construction Division (Overseeing Customer Relations and Construction Market Development) and General Manager of Administration and Planning Department, Housing and Construction Division

Corporate Governance System

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

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

Corporate Governance System



Reforms to Corporate Governance (from 2014)

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

Board of Directors and Executive Committee

The Board of Directors usually meets once a month, making decisions on important issues, checking up on performance and other matters, and carrying out its supervisory functions. Prior to the Board of Directors meeting, the Executive Committee, an advisory body for the president, holds a meeting twice a month, in principle, and is attended by those directors who also serve as executive officers, as well as the full-time statutory auditors. The Board of Directors met 10 times and the Executive Committee met 17 times in the fiscal year ended December 2020. Directors and statutory auditors strive to maintain a Board of Directors meeting attendance rate of at least 75%.

At the Ordinary General Meeting of Shareholders held on March 30, 2021, to strengthen the supervisory functions of the Board of Directors, the number of female outside directors was increased by one and the ratio of independent outside directors on the Board of Directors was increased to 1/3.

Statutory Audit System

Each statutory auditor audits the directors’ execution of duties utilizing the deep insights and diverse perspectives they have acquired from their various backgrounds. As assistants to the statutory auditors, ten auditing inspectors, who double as senior managers of major departments, are assigned particularly to enhance the function of audits from a practical perspective. Under this system, the statutory auditors attend important meetings such as Board of Directors meetings and Executive Committee meetings, and are able to obtain accurate information regarding the managerial decision-making process at appropriate times. To enhance the effectiveness of audits, the statutory auditors strive to cooperate with the accounting auditor as well as the Internal Audit Department. They also receive reports regularly from the divisions responsible for risk management and compliance, accounting and labor, and monitor and verify that internal controls are functioning effectively. The statutory auditors are also provided with opportunities to express their opinions regarding the directors’ execution of operations whenever needed. In addition, the Group Board of Statutory Auditors, attended by the Company’s full-time statutory auditors and the statutory auditors of major subsidiaries, meets regularly in an effort to strengthen the monitoring functions regarding the status of execution of Group management. Furthermore, in line with the monthly Board of Statutory Auditors meeting, opportunities are provided for the assigned executive officers to explain matters discussed at the Executive Committee meeting so that all statutory auditors and outside directors can understand important matters in detail. The statutory auditors and representative directors also exchange

opinions regularly. This system ensures that the statutory auditors can provide adequate monitoring functions of the directors’ execution of operations from the perspective of shareholders. The Board of Statutory Auditors met 10 times and the Group Board of Statutory Auditors met 4 times in the fiscal year ended December 2020.

Nomination and Remuneration Advisory Committee

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

Attendance at Nomination and Remuneration Advisory Committee Meetings (fiscal year ended December 2020)

Position	Name	Nomination and Remuneration Advisory Committee	
		Number of meetings attended	Attendance rate
Director, Chairman of the Board	Akira Ichikawa	2	100
Director, President	Toshiro Mitsuyoshi	2	100
Director (Outside)	Junko Hirakawa	2	100
Director (Outside)	Izumi Yamashita	2	100
Statutory Auditor (Outside)	Yoshitsugu Minagawa	2	100
Statutory Auditor (Outside)	Yoshimasa Tetsu	2	100
Statutory Auditor (Outside)	Makoto Matsuo	2	100

Analysis / Evaluation and its results of effectiveness of the Board of Directors

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

Main issues in the effectiveness evaluation performed in the fiscal year ended March 2020

- Improve the way Nomination and Remuneration Advisory Committee meetings are run.
- Make better use of preliminary meetings among officers to enhance deliberations by the Board of Directors.
- Hold discussions about future business strategies in light of the COVID-19 crisis.



Effectiveness evaluation and its results for the fiscal year ended December 2020

Evaluation method

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

Results of evaluation

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

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

- Confirmed the status of initiatives concerning the training and appointment of management talent identified by the Nomination and Remuneration Advisory Committee.
- Confirmed whether officers had discussed future business strategies in light of the COVID-19 crisis and the next medium-term management plan at informal meetings in order to enhance deliberations at Board of Directors' meetings.

<Future issues>

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

Executive remuneration

Sumitomo Forestry has created an officer remuneration system commensurate with the duties of directors and statutory auditors that are expected by stakeholders in order to realize the Group's Corporate Philosophy.

Remuneration for Directors (Excluding Outside Directors)

Remuneration for directors, excluding outside directors, is comprised of basic remuneration and performance-linked remuneration. Basic remuneration comprises monthly remuneration and remuneration paid as restricted stocks (referred to below as "restricted stocks").

The Company sets the amount of basic remuneration commensurate with the duties and responsibilities of each director's position. Under basic remuneration, monthly remuneration is paid as a fixed amount of cash. Furthermore, as a basic principle, 10% of the basic remuneration is paid in the form of restricted stocks. The amount of cash payments, based on a resolution passed by the General Meeting of Shareholders, does not exceed ¥40 million per month (and no more than ¥5 million for outside directors). The amount of restricted stocks paid out does not exceed ¥100 million per year, per a resolution passed by the General Meeting of Shareholders.

Restricted stock remuneration is offered as a medium and long-term incentive to increase the motivation and ambition of officers to enhance the corporate value of Sumitomo Forestry, while also sharing this value with our shareholders to increase the Company's share price.

Performance-linked remuneration is awarded in presupposed amounts calculated based on a certain mathematical formula (a calculation method where the size of the bonus fluctuates in proportion to the amount of profit) that are commensurate with profit attributable to owners of the parent as well as consolidated recurring income, excluding actuarial differences in retirement benefit accounting for the relevant accounting period, which are generally decided upon and approved by the General Meeting of Shareholders.

Remuneration for Directors (Excluding Outside Directors)

Types of Remuneration		Outline
Basic Remuneration	Monthly Remuneration	At the 76th Ordinary General Meeting of Shareholders held on June 24, 2016, passage of a resolution set remuneration at up to ¥40 million per month (and no more than ¥5 million for outside directors).
	Restricted Stock	As of the 78th General Meeting of Shareholders held on June 22, 2018, the Company introduced a remuneration system for allocating shares with restrictions on their transfer, in lieu of stock-based compensation stock options. The maximum limit of monetary remuneration allocated to directors, excluding outside directors, through restricted stock was resolved to be ¥100 million annually. * In addition, with this resolution, excluding those that have already been issued, remuneration of stock-based compensation stock options in the form of share options was abolished.
Performance-Linked Remuneration	Bonuses	A set amount is approved at the annual Ordinary General Meeting of Shareholders.

Outside Director remuneration

Remuneration for outside directors consists solely of monthly remuneration as basic remuneration. The amount set is commensurate with the duties and responsibilities of the outside director.

Statutory Auditor remuneration

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

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

Remuneration (fiscal year ended December 2020)

* Excluding Outside Directors and Outside Statutory Auditors (¥ million)

	Total remuneration	Total remuneration by type			Number of eligible officers
		Monthly remuneration	Restricted stock compensation	Bonus	
Directors*	341	211	24	106	9
Statutory Auditors*	36	36	—	—	3
Outside Officers	42	42	—	—	5

*1 The above includes three directors and one auditor who resigned at the end of the 80th Ordinary General Meeting of Shareholders held on June 23, 2020.

*2 The 81st Ordinary General Meeting of Shareholders held on March 30, 2021 approved a resolution that sets the amount of performance-linked remuneration for six directors, excluding outside directors, at ¥106 million.

*3 The total amount of restricted stock paid as basic remuneration to nine directors excluding outside directors was ¥24 million.

Risk management

Establishment of internal controls system

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

Risk Management System

To strengthen the risk management system for the entire Group, the Company has formulated the Risk Management Basic Regulations. Accordingly, the President and Executive Officer of Sumitomo Forestry has been appointed as the highest authority on risk management for the Sumitomo Forestry Group. Executive officers in charge of the Head Office Administrative Division and each business division are appointed to positions responsible for risk management, while general managers are responsible for advancing risk management. The basic regulations also comprehensively encompass risks with ESG aspects.

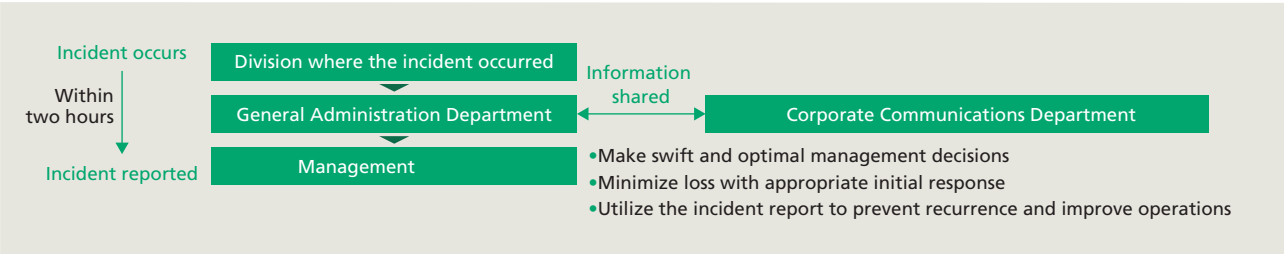
The Company has established the Risk Management

Committee, which is chaired by the President and Executive Officer and comprised of all other executive officers. Each executive officer identifies and analyzes manageable risks in their respective field and formulates action plans. The committee meets regularly once every quarter to share and discuss the state of plan execution. The committee discusses short-term risks, such as compliance pertaining to prevention of corruption and other matters, and responses to risks that have already materialized. These activities are reported to the Board of Directors, and reflected in business execution.

Established under the umbrella of the Risk Management Committee, the Compliance Subcommittee and the BCM Subcommittee are comprised of the general manager of the General Administration Department, who serves as committee chairman, and the staff in charge of risk management, including those of the departments supervising subsidiaries. These subcommittees work to enhance the effectiveness of risk management pertaining to Group-wide risks, namely, compliance risks related to core business and business interruption.

In the fiscal year ended December 2020, the Risk Management Committee convened three times, the Compliance Subcommittee once, and the BCM Subcommittee twice, and the Board of Directors received reports from them three times.

Two-hours rule and use of risk information



Rapidly identifying and responding to risk

In addition to the normal reporting line, we have a “two-hours rule,” which is a system designed to rapidly and accurately relay information to the management via the headquarters’ risk management division in the event of an emergency situation that may cause a serious impact on Company management.

This allows us to make swift and optimal management decisions and take immediate action so as to avoid or minimize losses. The information thus reported is also used to compile case studies, which are shared to prevent recurrences of the same incident and improve business operation. When a major issue arises, the information is shared with the Corporate Communications Department and disclosed to stakeholders in a timely and appropriate manner.

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

Internal auditing

The Internal Audit Department conducts additional risk assessment for the approximately 200 business sites of the Sumitomo Forestry Group. It selects around 60 business sites every year and conducts an internal audit. These business sites are given priority and selected based on two perspectives: operational risks (performance, scale, business complexity) and risk control (management system for risks). In principle, the auditors travel to the site to check and evaluate the actual documents, but in the fiscal year ended December 2020, to prevent the spread of the COVID-19 pandemic, we included the method of auditing data and written documents without the auditors visiting the site.

The audits are conducted to verify the status of each business site’s business execution, including compliance, and management of administrative actions. The results of these assessments are reported to the president, executive officer in charge of internal audits and statutory auditors as well as managers, executive officers and directors in charge of the offices being audited. In the case that audit findings are made, the Internal Audit Department verifies that improvements are being implemented at the business site by requesting written reports and carrying out quarterly follow-up audits. These actions are reported to the president, executive officer in charge of internal audits, and statutory auditors.

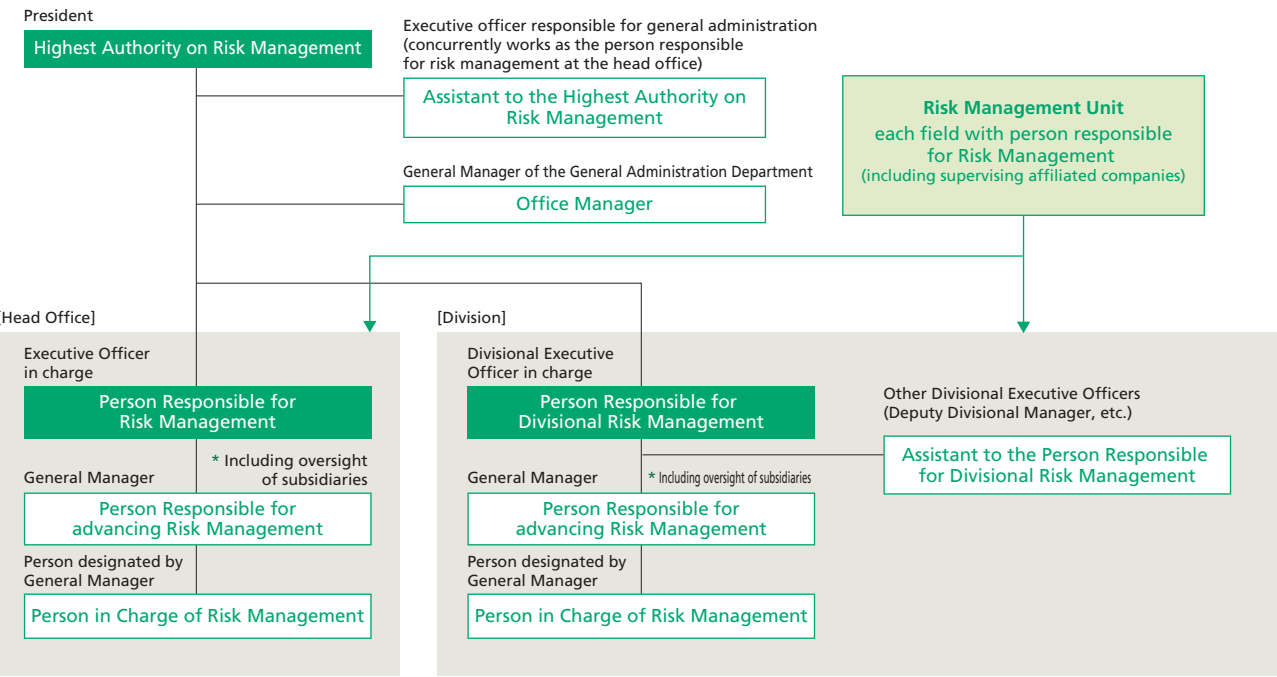
Compliance promotion system

The Compliance Subcommittee responds to compliance risk across the Group. The subcommittee has set Group standards, including management systems and tools for legal compliance with the Construction Business Act and other laws and regulations, and efficiently responds to compliance risk.

The subcommittee was convened once in the fiscal year ended December 2020 and undertook ongoing improvement of the compliance system such as by studying important legal and regulatory requirements essential for the continuation of business.

Moreover, at a compliance seminar to which external experts are invited as instructors, the subcommittee provides opportunities for individuals in charge of compliance, including individuals working for subsidiaries, to keep up with up-to date knowledge, improve their skill levels, work on the same level as others, and develop a shared awareness of risk. These activities of the subcommittee are reported quarterly to the Board of Directors,

Risk management structure of the Sumitomo Forestry Group



Managing business continuity

System for managing business continuity

Sumitomo Forestry has established the BCM Subcommittee to address risks presented by events or emergency situations which are extremely difficult for a company to prevent on its own, and which can have serious impacts on headquarters' functions such as, for example, major natural disasters and outbreaks of new strains of influenza. The BCM Subcommittee is responsible for spreading awareness of and strengthening the business continuity management (BCM) structure, formulating, revising and improving business continuity plans (BCP), and conducting drills based on BCP. In the fiscal year ended December 2020, the BCM Subcommittee met twice, providing an opportunity to organize the basic approach to BCM. In addition to encouraging each department and company to tackle BCM proactively and voluntarily, the committee also provided information about the changes the Company has made to the organization of its fire brigade due to the COVID-19 crisis.

Ensuring employee safety and continuation of company operations

The Sumitomo Forestry Group has distributed a portable risk response card to all Group employees in Japan. The card contains instructions to follow in the event of a major earthquake as well as rules for reporting to supervisors in their divisions. All Group companies in Japan have introduced safety confirmation systems linked to weather information, in addition to the emergency contact networks within the organization in order to obtain as much information as possible about the safety of employees before communication lines become congested and restrictions are placed on outgoing communications. These initiatives allow safety confirmations to be made via multiple routes. Furthermore, safety confirmation drills are conducted at domestic Group companies every year. In the fiscal year ended December 2020, a total of 14,860 people participated in these drills.

In response to COVID-19, Sumitomo Forestry introduced a flexible work schedule system Company-wide, and put employees on staggered shifts to reduce the number of people at one workplace at the same time, while encouraging employees to balance working from home with commuting to work. During the state of emergency, employees in regions subject to lockdown were required in principle to work from home.

Initiatives towards supply chain business continuity initiatives

In preparation for the potential disruption of its Housing and Construction Business supply chain following a major disaster, Sumitomo Forestry shares the specifications and processes for

property construction along with site progress statuses and other information with business partners, including component makers and building contractors. By enabling advanced procurement of materials and production, the Company is striving to reduce the risk of a disruption to operations. The COVID-19 outbreak that spread across the world in 2020, however, led to delays in construction projects and parts and materials procurement.

In light of these circumstances, in the event of an earthquake or other natural disaster, or a fire accident, we asked our suppliers to examine their methods for reporting disasters to Sumitomo Forestry and developing systems for historical records management. We are also endeavoring to build a structure where as a principle we can procure the same parts or material from two or more companies (including two or more production locations for the same part of material) as a way of guarding against such contingencies.

To deal with delays in parts and materials procurement caused by COVID-19, Sumitomo Forestry asked its suppliers to stockpile inventories of materials that experienced delays, as a short-term preparation. For medium- to long-term preparations, Sumitomo Forestry plans to work with its suppliers on reducing risk by geographically dispersing their production bases, moving from having them in a single country toward establishing bases in other countries. Regarding suppliers of construction materials and other materials, Sumitomo Forestry added questions related to business continuity, such as whether alternate supply routes can be ensured during an emergency, to the supplier survey it conducts every year to facilitate decisions on whether to continue transactions with each supplier. Through these efforts, the Company strives to further reduce the risk of business disruption.

Maintaining customer service

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

Ensuring management transparency

Basic policy on disclosure

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

Initiatives to encourage execution of voting rights

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

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

Disclosure of a wide range of information

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

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

IR activities

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

Separate meetings

After the quarterly announcement of accounts, the Company holds separate meetings for securities analysts and institutional investors. We spoke with a total of 117 companies in Japan and abroad in the fiscal year ended December 2020. In addition to

this, we will also hold small meetings and on-site briefings as appropriate.

Briefings for individual investors


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

IR activities for overseas institutional investors and shareholders

We issue English versions of accounting-related material for the benefit of overseas institutional investors and shareholders. Additionally, in the fiscal year ended December 2020, management held an online meeting with institutional investors and shareholders in Europe. There was an exchange of opinions in addition to explanations about business performance and strategy.

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

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

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

Eleven-year consolidated financial summary

	2020/12(9M)	2020/3	2019/3	2018/3
Operating results: (¥ million)				
Net sales	¥ 839,881	¥1,104,094	¥1,308,893	¥1,221,998
Gross profit	191,323	242,689	232,146	219,315
Selling, general and administrative expenses	143,862	191,312	182,899	166,294
Operating income	47,462	51,377	49,247	53,021
Recurring income	51,293	58,824	51,436	57,865
Net income attributable to shareholders of parent / Net income	30,398	27,853	29,160	30,135
Recurring income (excluding actuarial differences)	46,470	61,396	54,846	55,574
Financial position:				
Total assets	¥1,091,152	¥1,004,768	¥ 970,976	¥ 899,120
Working capital *1	297,669	273,167	236,047	209,506
Interest-bearing debt	302,933	268,491	248,885	200,630
Net assets	399,456	357,064	353,489	345,639
Cash flows:				
Cash flows from operating activities	¥ 46,840	¥ 45,724	¥ 40,689	¥ 13,732
Cash flows from investment activities	(44,635)	(38,874)	(71,659)	(46,250)
Cash flows from financing activities	(6,782)	1,142	11,523	25,156
Cash and cash equivalents at the end of the year	122,220	112,565	105,102	125,555
Capital investment:				
Property, plant and equipment *2	¥ 18,124	¥ 32,414	¥ 17,071	¥ 17,685
Intangible fixed assets	2,989	3,470	3,173	2,470
Others	2,834	2,267	2,088	3,792
Total *3	23,946	38,151	22,331	23,947
Depreciation and amortization	11,503	14,388	13,696	13,727
Per share data (¥)				
Net income	¥ 167.54	¥ 153.54	¥ 160.80	¥ 168.49
Net assets	2,025.13	1,777.57	1,755.06	1,719.05
Cash dividends	35.0	40.0	40.0	40.0
Financial ratios: (%)				
Gross profit margin	22.8	22.0	17.7	17.9
Operating income margin	5.7	4.7	3.8	4.3
Recurring income margin	6.1	5.3	3.9	4.7
Return on assets (ROA)*4	4.9	6.0	5.5	6.8
Return on equity (ROE)*4	8.8	8.8	9.3	10.3
Equity ratio	33.7	32.1	32.8	34.7
Interest-bearing debt ratio*5	45.2	45.4	43.9	39.2
Current ratio	178.3	175.3	163.2	158.8
Interest coverage ratio (times)*6	24.9	16.9	20.1	9.6

*1 Working capital = Current assets - Current liabilities

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

*3 Does not match amounts of capital expenditures in Management's discussion and analysis (p.89-93) due to differences in exchange rates applied.

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

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

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

2017/3	2016/3	2015/3	2014/3	2013/3	2012/3	2011/3
¥1,113,364	¥1,040,524	¥997,256	¥972,968	¥845,184	¥831,870	¥797,493
204,138	183,134	169,492	160,162	141,436	136,873	132,568
150,149	153,041	135,498	126,747	116,105	117,682	118,330
53,989	30,093	33,994	33,415	25,330	19,191	14,238
57,841	30,507	36,424	33,567	26,981	20,714	14,206
34,532	9,727	18,572	22,531	15,923	9,271	5,175
52,860	42,038	36,681	34,586	26,630	25,631	16,998
¥ 794,360	¥ 710,318	¥665,538	¥645,197	¥547,973	¥503,496	¥489,417
190,386	178,215	158,110	120,725	91,335	94,509	89,665
163,817	119,069	103,369	92,975	69,229	67,923	69,229
295,857	265,257	260,782	226,078	193,250	169,335	163,110
¥ 40,337	¥ 45,705	¥ 14,709	¥ 54,057	¥ 45,910	¥ 26,873	¥ 17,515
(62,350)	(9,972)	(23,575)	(10,476)	(28,662)	(32,903)	(13,247)
14,267	1,813	(17,286)	8,511	(5,305)	(5,622)	372
132,707	141,265	103,296	128,343	75,658	63,839	75,582
¥ 48,204	¥ 18,042	¥ 12,617	¥ 14,735	¥ 7,058	¥ 10,970	¥ 11,923
2,839	2,006	2,488	2,417	2,890	2,786	2,434
3,085	400	282	252	343	194	215
54,128	20,448	15,388	17,404	10,291	13,950	14,572
12,887	11,753	11,453	9,810	8,978	8,469	8,437
¥ 194.95	¥ 54.92	¥ 104.85	¥ 127.20	¥ 89.89	¥ 52.34	¥ 29.21
1,552.04	1,374.47	1,387.39	1,234.53	1,086.68	954.81	919.54
35.0	24.0	21.5	19.0	17.0	15.0	15.0
18.3	17.6	17.0	16.5	16.7	16.5	16.6
4.8	2.9	3.4	3.4	3.0	2.3	1.8
5.2	2.9	3.7	3.4	3.2	2.5	1.8
7.7	4.4	5.6	5.6	5.1	4.2	3.0
13.3	4.0	8.0	11.0	8.8	5.6	3.2
34.6	34.3	36.9	33.9	35.1	33.6	33.3
37.3	32.8	29.6	29.8	26.5	28.7	29.8
158.8	156.9	154.1	137.0	133.1	137.1	136.8
27.1	43.1	12.6	44.2	34.9	20.0	13.7

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

Regarding change in fiscal year end

The fiscal year-end of the Company was changed from March 31 to December 31 starting from the fiscal year under review, and the Group’s fiscal year-ends have been consolidated on December 31. As such, since the fiscal year from April 1 to December 31, 2020 resulting from the change of the end of the fiscal year will be an irregular nine-month fiscal year, the percentages of year-on-year changes represent comparisons with the first nine months of the previous fiscal year (from April 1 to December 31, 2019, which will be referred to hereinafter as the “same period of the previous fiscal year”).

For the consolidated results of the same period of the previous fiscal year, the financial statements prepared as of December 31, 2019 are used for the Company and those consolidated subsidiaries with fiscal year-ends in March, and the financial statements prepared as of September 30, 2019 are used for those consolidated subsidiaries with fiscal year-ends in December. However, for the fiscal year under review, the financial statements prepared as of December 31, 2020 are used for the Company and all consolidated subsidiaries.

Net income and cash flow from January 1 to March 31, 2020 at consolidated subsidiaries with fiscal year-ends of December are not included in the results for the fiscal year under review. Instead, the balance of retained earnings and the balance of cash and cash equivalents have been adjusted accordingly.

Market overview

In the period under review, the global economy rapidly plunged into harsh conditions due to COVID-19, but there were signs of economic recovery in the United States and China prompted by enactment of monetary and fiscal policies that brought about a resumption of economic activity. The Japanese economy was also hit hard by the reduced comings and goings, particularly the lodging, transportation, and restaurant industries. However, consumer spending and exports have been trending toward recovery.

In the domestic housing market, the number of new housing starts was sluggish due primarily to weakened consumer sentiment and restrictions on business activities under the declaration of a state of emergency associated with the COVID-19 pandemic. In the United States, the housing market fell into temporary decline up to the beginning of the fiscal year, but against a backdrop of historically low mortgage rates and low existing home inventory, the market recovered and has been performing favorably overall. Additionally, in Australia, which faced its first economic recession in 29 years, the market was declining initially, but signs of a recovery appeared owing in part to lower mortgage interest rates and the government’s housing construction subsidy program.

In the midst of such business conditions, the Group kept up its business activities, prioritizing the safety of its customers, trading

partners, and its employees and their families while taking the utmost precaution to prevent the spread of the virus. This fiscal year marked the second year of our 2021 Medium-Term Management Plan. In Japan, we made the decision to bring a general contractor into the Group for the purpose of expanding our medium- to large-sized timber constructed building business and also began participating in a wood biomass power generation project in Sendai City. In the United States, we focused on promoting the business for further growth of the Group, including expanding the area of our detached housing business.

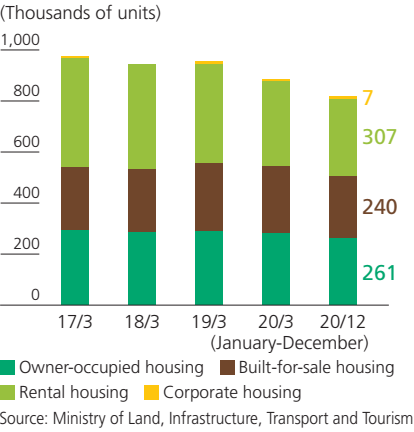
Consolidated operating results

Net sales were ¥839,881 million (up 4.6% compared to the same period of the previous fiscal year), operating income was ¥47,462 million (up 24.0%), recurring income was ¥51,293 million (up 19.1%), and net income for the period attributable to shareholders of parent was ¥30,398 million (up 34.4%). Actuarial differences for retirement benefit accounting came to ¥4,823 million, and recurring income excluding actuarial differences was ¥46,470 million.

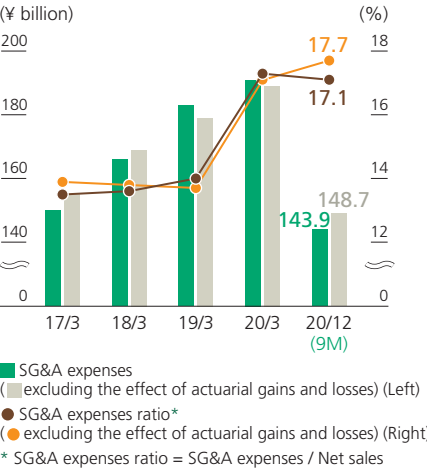
Return on equity (ROE) was 8.8% (for the nine months from April 1 to December 31, 2020). However, the Company still targets ROE of at least 10%.

Operating results for the fiscal year			
	(¥ million)		
	2020/12(9M)	2020/03 3Q	Percent of change
Net sales	¥839,881	¥802,741	+4.6%
Operating income	47,462	38,263	+24.0%
Recurring income	51,293	43,070	+19.1%
Net income attributable to shareholders of parent	30,398	22,614	+34.4%
Recurring income (excluding actuarial differences)	46,470	—	—

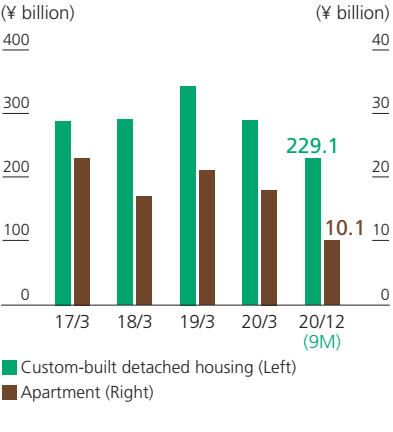
Number of new housing starts in Japan



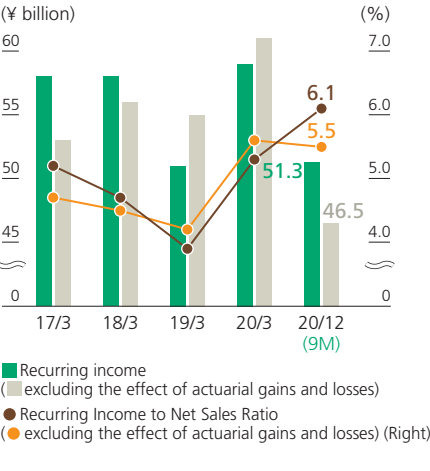
SG&A expenses and SG&A expenses ratio



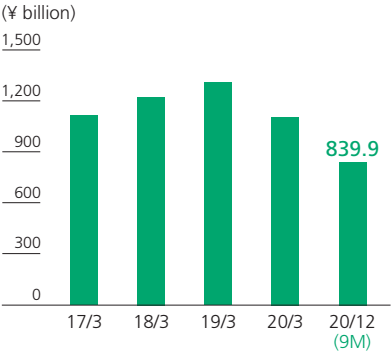
Amount of orders received in Japan (Housing and construction business)



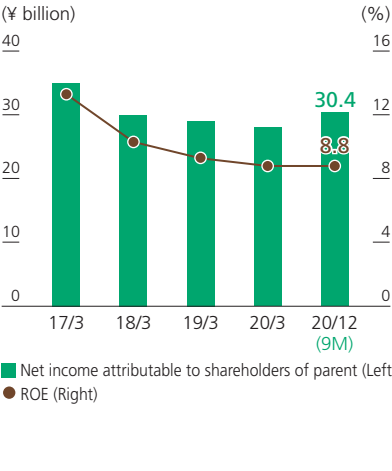
Recurring income and recurring income margin



Net sales



Net income attributable to shareholders of parent and ROE



Segment Performance Highlights

	(¥ million)	
	2020/3	2020/12(9M)
Net sales	¥1,104,094	¥839,881
Timber and Building Materials Business	223,627	144,652
Housing and Construction Business	474,003	332,316
Overseas Housing and Real Estate Business	399,360	352,371
Environment and Resources Business	19,263	15,058
Other businesses	23,425	18,402
Adjustments	(35,584)	(22,918)
Recurring income	¥ 58,824	¥ 51,293
Timber and Building Materials Business	6,095	2,334
Housing and Construction Business	22,570	8,454
Overseas Housing and Real Estate Business	34,541	44,032
Environment and Resources Business	3,551	1,683
Other businesses	1,484	757
Adjustments	(9,419)	(5,966)

* From the fiscal year ended March 31, 2020, we adopted “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29). From the fiscal year ended March 31, 2020, the Environment and Resources Business was transferred from the “Other” segment.

Housing and construction business

		2018/3	2019/3	2020/3	2020/12(9M)
Orders					
Custom-Built Detached Housing	(¥ million)	¥290,326	¥343,204	¥289,342	¥229,079
	(Units)	7,608	8,513	7,726	5,924
Apartments	(¥ million)	¥ 17,195	¥ 20,872	¥ 18,294	¥ 10,058
	(Units)	948	1,071	966	528
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 63,315	¥ 73,661	¥ 60,673	¥ 38,473
Sales					
Custom-Built Detached Housing	(¥ million)	¥288,582	¥291,921	¥310,999	¥219,948
	(Units)	7,556	7,628	7,427	5,292
Apartments	(¥ million)	¥ 20,114	¥ 17,821	¥ 17,957	¥ 12,107
	(Units)	1,353	1,074	959	409
Spec homes	(¥ million)	¥ 12,360	¥ 11,929	¥ 13,979	¥ 14,051
	(Units)	308	272	311	292
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 62,700	¥ 66,720	¥ 66,982	¥ 41,721

Net sales and recurring income of main subsidiaries

Timber and Building Materials Business	Net sales		Recurring income (¥ million)	
	2020/3	2020/12(9M)	2020/3	2020/12(9M)
Sumitomo Forestry Crest Co., Ltd.	¥ 33,119	¥ 21,449	¥ 503	¥ 235
	2019/1~12	2020/4~12(9M)	2019/1~12	2020/4~12(9M)
Overseas Subsidiaries*				
PT. Kutai Timber Indonesia (Indonesia)	¥ 12,472	¥ 6,723	¥ 193	¥ (260)
Nelson Pine Industries Ltd. (New Zealand)	14,841	9,537	740	806

Housing and Construction Business	Net sales		Recurring income (¥ million)	
	2020/3	2020/12(9M)	2020/3	2020/12(9M)
Sumitomo Forestry Residential Co., Ltd.	¥ 29,357	¥ 22,971	¥ 1,702	¥ 1,224
Sumitomo Forestry Home Service Co., Ltd.	8,107	5,575	698	(135)
Sumitomo Forestry Landscaping Co., Ltd.	27,599	17,085	1,168	121
Sumitomo Forestry Home Tech Co., Ltd.	70,226	44,029	2,297	(682)

Overseas Housing and Real Estate Business	Net sales		Recurring income (¥ million)	
	2019/1~12	2020/4~12(9M)	2019/1~12	2020/4~12(9M)
Overseas subsidiaries*				
Housing Business in the U.S.	¥303,968	¥279,267	¥35,876	¥41,796
Housing Business in Australia	72,271	58,840	2,944	2,629

* Figures for overseas subsidiaries have been converted into Japanese yen at the following rates:
Jan-Dec 2019 : US\$ 109.01 AU\$ 75.80 NZ\$ 71.86 / Apr-Dec 2020 (9 months) : US\$ 106.02 AU\$ 74.32 NZ\$ 69.48

Financial position

Total assets totaled ¥1,091,152 million at the end of the current consolidated fiscal year, an increase of ¥86,385 million compared to the end of the previous consolidated fiscal year. This was due mainly to an increase in investment securities from the rise in market value of listed stocks held and an increase in inventories associated with expansion of the overseas housing and real estate business. Liabilities increased ¥43,993 million compared to the end of the previous consolidated fiscal year to ¥691,696 million due mainly to increases in commercial paper issued and debt. Net assets totaled ¥399,456 million, and the equity ratio was 33.7%.

Cash flows

There was a net increase of ¥9,656 million in cash and cash equivalents (hereafter: “cash”) to ¥122,220 million. The increase includes an adjustment of ¥13,170 million in conjunction with the change in fiscal year-end.

A summary of cash flows is presented below.
In conjunction with the change in fiscal year-end, the fiscal year under review is an irregular transition period covering the nine months from April 1 to December 31, 2020. For that reason, no figures are provided for year-on- year comparison.

Cash flows from operating activities

Net cash provided by operating activities increased ¥46,840 million. The increase was attributable mainly to an increase in cash resulting from posting ¥50,211 million in income before income taxes despite a decrease in cash resulting from an increase in inventories associated with expansion of the overseas housing and real estate business.

Cash flows from investment activities

Net cash decreased ¥44,635 million as a result of investment activities. This was due mainly to the use of cash to construct an assisted living facility in Japan and to develop multi-family housing as well as commercial and mixed use complexes, and to take over a spec homes business in the United States.

Cash flows from financing activities

Net cash used in financing activities was ¥6,782 million. This was attributable mainly to an increase in cash from issuance of commercial papers and an increase in debt as well as a decrease in cash from payment of dividends and purchase of additional equity interests in consolidated subsidiaries.

Regarding the capital resources and capital liquidity of the Sumitomo Forestry Group, the Company's basic policy is to take a flexible approach to optimizing fund-raising methods based on the long/short-term use of funds, while staggering repayment time lines and reducing procurement costs.
Sumitomo Forestry has taken a variety of measures to lessen

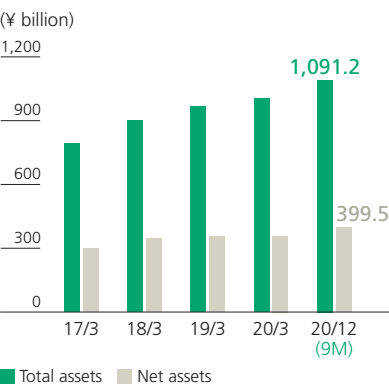
risks in fund procurement, such as maintaining business relationships with financial institutions, diversifying fund-raising sources, and setting up commitment lines with a number of financial institutions. As of the end of the fiscal year under review, interest-bearing debt totaled ¥302,933 million, including loans and lease obligations.

Capital expenditures (Capital investment)

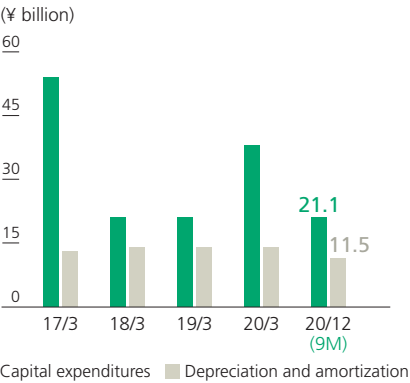
The Sumitomo Forestry Group (Sumitomo Forestry and its consolidated subsidiaries) spent ¥21,090 million on capital expenditures. In the Timber and Building Materials Business, capital expenditures amounted to ¥3,027 million, including for the construction of a building materials manufacturing plant and the purchase of machinery and equipment. In the Housing and Construction Business, capital expenditures totaled ¥3,962 million, for investments in areas such as building new model homes. Capital expenditures came to ¥9,345 million in the Overseas Housing and Real Estate Business, mainly for the building of new model homes and the development of multi-family housing and commercial and mixed-use facilities. In the Environment and Resources Business, capital expenditures of ¥1,837 million were made for forestation activities. In Other Businesses, capital expenditures totaled ¥1,150 million, including investments in systems to improve business efficiency.

The amounts shown above include investments in tangible fixed assets, intangible fixed assets, and long-term prepaid expenses. The Company did not dispose or sell any critical equipment during the fiscal year under review.

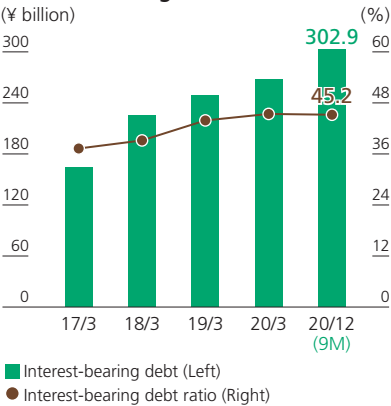
Total assets and net assets



Capital expenditures and depreciation and amortization



Interest-bearing debt and interest-bearing debt ratio



Business risk

The main business and other related risks pertaining to the Sumitomo Forestry Group that may influence the decisions of investors are listed here. Aware that these risks may materialize, the Sumitomo Forestry Group makes every effort to avoid them and minimize their impact if they materialize.

The risks shown here, which include future risks, are those identified by the Company as of the end of December 2020. This is not an exhaustive list of all business risks.

- 1 Risks related to trends in domestic and overseas housing markets
- 2 Risks related to laws and regulations
- 3 Risks related to foreign exchange rates
- 4 Risks related to quality control
- 5 Risks related to provision of credit to business partners
- 6 Risks related to business activities overseas
- 7 Risks related to owning and managing mountain forests and reforestation operations
- 8 Risks related to information leaks
- 9 Risks related to retirement benefit accounting
- 10 Risks related to climate change
- 11 Risks related to emergency situations, such as natural disasters

Consolidated Balance Sheet

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

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	December 31, 2020	March 31, 2020	December 31, 2020
Current assets:			
Cash and deposits (Notes 7, 11, 16)	¥ 85,850	¥ 92,774	\$ 829,472
Notes and accounts receivable - trade (Notes 7, 15, 16, 17)	119,687	123,030	1,156,401
Accounts receivable from completed construction contracts (Note 7)	45,095	34,766	435,705
Marketable securities (Notes 5, 11, 16)	3,204	3,658	30,957
Merchandise and finished goods	13,762	18,949	132,966
Work in process	1,312	1,254	12,678
Raw materials and supplies	8,080	8,188	78,066
Costs on construction contracts in progress (Note 7)	14,993	14,164	144,858
Real estate for sale (Note 7)	54,010	66,734	521,838
Real estate for sale in process (Note 7)	225,298	185,405	2,176,788
Short-term loans receivable (Note 11)	35,390	20,461	341,929
Accounts receivable - other (Notes 7)	46,468	46,377	448,967
Other (Note 7)	25,208	20,845	243,559
Allowance for doubtful accounts	(396)	(545)	(3,829)
Total current assets	677,962	636,059	6,550,355
Non-current assets:			
Property, plant and equipment			
Buildings and structures (Notes 7, 19)	107,217	100,932	1,035,916
Accumulated depreciation	(45,620)	(42,496)	(440,772)
Buildings and structures, net	61,597	58,436	595,144
Machinery, equipment and vehicles (Note 7)	76,794	76,946	741,975
Accumulated depreciation	(53,123)	(51,583)	(513,262)
Machinery, equipment and vehicles, net	23,672	25,362	228,713
Land (Notes 7, 19)	40,725	39,603	393,482
Timber	35,753	34,243	345,444
Leased assets	11,850	11,211	114,488
Accumulated depreciation	(3,743)	(4,138)	(36,165)
Leased assets, net	8,106	7,073	78,323
Construction in progress (Note 7)	10,667	9,399	103,066
Other	18,338	17,537	177,184
Accumulated depreciation	(12,913)	(12,207)	(124,761)
Other, net	5,426	5,330	52,423
Total property, plant and equipment	185,948	179,446	1,796,595
Intangible assets			
Goodwill	6,556	7,588	63,340
Other	15,071	14,886	145,610
Total intangible assets	21,626	22,474	208,950
Investments and other assets			
Investment securities (Notes 5, 7, 16)	175,262	137,845	1,693,357
Long-term loans receivable	5,471	4,165	52,864
Retirement benefit asset (Note 18)	326	92	3,147
Deferred tax assets (Notes 7, 8)	6,835	5,983	66,041
Other (Note 7)	18,631	19,564	180,011
Allowance for doubtful accounts	(909)	(860)	(8,786)
Total investments and other assets	205,617	166,789	1,986,635
Total non-current assets	413,191	368,709	3,992,180
Total assets	¥1,091,152	¥1,004,768	\$10,542,536

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

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

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	December 31, 2020	March 31, 2020	December 31, 2020
Current liabilities:			
Notes and accounts payable - trade (Notes 5, 15, 16, 17)	¥ 111,612	¥ 109,179	\$ 1,078,381
Accounts payable for construction contracts (Note 16)	80,219	83,281	775,060
Short-term borrowings (Notes 6, 7, 17)	50,106	39,403	484,113
Commercial papers (Note 6)	10,000	—	96,618
Lease obligations (Note 6)	1,005	495	9,713
Income taxes payable	1,937	4,862	18,711
Advances received on construction contracts in progress	32,956	35,224	318,418
Provision for bonuses	16,781	15,337	162,137
Provision for bonuses for directors (and other officers)	106	143	1,024
Provision for warranties for completed construction	6,175	5,388	59,665
Provision for loss on business liquidation	368	—	3,556
Asset retirement obligations (Note 24)	945	857	9,132
Other	68,082	68,721	657,802
Total current liabilities	380,293	362,892	3,674,330
Long-term liabilities:			
Bonds payable (Notes 6, 16)	90,000	90,000	869,565
Bonds with share acquisition rights (Note 6)	10,055	10,070	97,147
Long-term borrowings (Notes 6, 7, 16, 17)	133,255	120,537	1,287,489
Lease obligations (Note 6)	8,512	7,986	82,238
Deferred tax liabilities (Note 8)	18,578	6,262	179,494
Provision for retirement benefits for directors (and other officers)	111	125	1,074
Retirement benefit liability (Note 18)	18,700	22,574	180,673
Asset retirement obligation (Note 24)	1,544	1,378	14,914
Other	30,650	25,880	296,133
Total long-term liabilities	311,403	284,811	3,008,727
Total liabilities	691,696	647,704	6,683,057
Net assets:			
Shareholders' equity (Note 12):			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 187,778,336 shares in December 31, 2020 and 182,752,036 shares in March 31, 2020	32,803	32,786	316,936
Capital surplus	18,485	21,290	178,595
Retained earnings	283,416	255,545	2,738,319
Treasury shares: 1,327,588 shares in December 31, 2020 and 1,326,898 shares in March 31, 2020	(2,340)	(2,339)	(22,611)
Total shareholders' equity	332,363	307,282	3,211,240
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	44,337	16,842	428,374
Deferred gains (losses) on hedges	1,762	2,531	17,029
Foreign currency translation adjustment	(11,098)	(4,240)	(107,223)
Remeasurements of defined benefit plans	96	82	929
Total accumulated other comprehensive income	35,098	15,215	339,108
Share acquisition rights	120	120	1,156
Non-controlling interests	31,875	34,448	307,975
Total net assets	399,456	357,064	3,859,479
Total liabilities and net assets	¥1,091,152	¥1,004,768	\$10,542,536
Yen			U.S. dollars (Note 4)
Per share of common stock:			
Net assets (Note 22)	¥2,025.13	¥1,777.57	\$19.57

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Net sales (Note 20)	¥839,881	¥1,104,094	\$8,114,788
Cost of sales	648,557	861,405	6,266,256
Gross profit	191,323	242,689	1,848,532
Selling, general and administrative expenses (Note 10)	143,862	191,312	1,389,967
Operating income	47,462	51,377	458,565
Non-operating income			
Interest income	232	451	2,237
Purchase discount	240	365	2,318
Dividend income	1,237	1,552	11,951
Share of profit of entities accounted for using equity method	3,318	8,097	32,059
Other	3,401	3,020	32,860
Total non-operating income	8,428	13,485	81,426
Non-operating expenses			
Interest expense	1,830	2,706	17,680
Sales discounts	440	693	4,250
Foreign exchange losses	271	101	2,616
Other	2,056	2,538	19,861
Total non-operating expenses	4,596	6,038	44,407
Recurring income	51,293	58,824	495,585
Extraordinary gains			
Gain on sales of non-current assets (Note 9)	—	102	—
Gain on sales of investment securities (Note 5)	—	3	—
Total extraordinary gains	—	105	—
Extraordinary loss			
Loss on sales of non-current assets (Note 9)	—	35	—
Loss on retirement of non-current assets (Note 9)	—	227	—
Loss on valuation of investment securities (Note 5)	1,082	1,943	10,453
Loss on liquidation of subsidiaries and associates	—	265	—
Loss on change in equity	—	111	—
Impairment loss	—	389	—
Loss on disaster	—	840	—
Total extraordinary loss	1,082	3,811	10,453
Profit before income taxes	50,211	55,118	485,132
Income taxes - current (Note 8)	9,940	16,730	96,036
Income taxes - deferred (Note 8)	110	(477)	1,066
Total income taxes	10,050	16,253	97,103
Net income	40,161	38,865	388,029
Net income attributable to non-controlling interests	9,763	11,013	94,325
Net income attributable to shareholders of parent	¥ 30,398	¥ 27,853	\$ 293,705
Yen			U.S. dollars (Note 4)
Per share of common stock:			
Net income attributable to shareholders of parent (Note 22):			
Basic	¥167.54	¥153.54	\$1.62
Diluted	163.34	149.68	1.58
Cash dividends	35.00	40.00	0.34

See accompanying notes to consolidated financial statements

Consolidated Statement of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Net income	¥40,161	¥38,865	\$388,029
Other comprehensive income (Note 23):			
Valuation difference on available-for-sale securities	27,575	(8,128)	266,427
Deferred gains (losses) on hedges	(534)	1,778	(5,159)
Foreign currency translation adjustment	(7,211)	(2,990)	(69,670)
Share of other comprehensive income of entities accounted for using equity method	(2,922)	(286)	(28,235)
Total other comprehensive income (loss)	16,908	(9,626)	163,363
Comprehensive income	¥57,069	¥29,239	\$551,392
Comprehensive income attributable to:			
Shareholders of parent	¥50,282	¥18,835	\$485,812
Non-controlling interests	6,788	10,404	65,580

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

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

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

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at April 1, 2020	¥16,842	¥2,531	¥ (4,240)	¥82	¥15,215	¥120	¥34,448	¥357,064
Changes during the period:								
Issuance of new shares								35
Issuance of new shares(exercise of share acquisition rights)								—
Dividends of surplus (¥35.00 per share)								(5,474)
Net income attributable to shareholders of parent								30,398
Purchase of treasury shares								(1)
Change in ownership interest of parent due to transactions with non-controlling interests								(2,823)
Change in retained earnings due to change of fiscal year end								2,947
Net changes in items other than shareholders' equity	27,494	(768)	(6,857)	14	19,883	—	(2,573)	17,310
Total changes during the period	27,494	(768)	(6,857)	14	19,883	—	(2,573)	42,392
Balance at December 31, 2020	¥44,337	¥1,762	¥(11,098)	¥96	¥35,098	¥120	¥31,875	¥399,456

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury share	Total shareholders' equity
Balance at April 1, 2019	¥32,752	¥22,247	¥241,427	¥(2,337)	¥294,088
Cumulative effects of changes in accounting policies			(6,437)		(6,437)
Restated balance	32,752	22,247	234,990	(2,337)	287,651
Changes during the period:					
Issuance of new shares	26	26			52
Issuance of new shares (exercise of share acquisition rights)	8	8			15
Dividends of surplus (¥40.00 per share)			(7,297)		(7,297)
Net income attributable to shareholders of parent			27,853		27,853
Purchase of treasury shares				(2)	(2)
Change in ownership interest of parent due to transactions with non-controlling interests		(991)			(991)
Net changes in items other than shareholders' equity					
Total changes during the period	34	(957)	20,555	(2)	19,630
Balance at March 31, 2020	¥32,786	¥21,290	¥255,545	¥(2,339)	¥307,282

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at April 1, 2019	¥25,196	¥ 752	¥(1,733)	¥17	¥24,232	¥135	¥35,034	¥353,489
Cumulative effects of changes in accounting policies								(6,437)
Restated balance	25,196	752	(1,733)	17	24,232	135	35,034	347,052
Changes during the period:								
Issuance of new shares								52
Issuance of new shares (exercise of share acquisition rights)								15
Dividends of surplus (¥40.00 per share)								(7,297)
Net income attributable to shareholders of parent								27,853
Purchase of treasury shares								(2)
Change in ownership interest of parent due to transactions with non-controlling interests								(991)
Net changes in items other than shareholders' equity	(8,354)	1,778	(2,507)	65	(9,017)	(15)	(586)	(9,619)
Total changes during the period	(8,354)	1,778	(2,507)	65	(9,017)	(15)	(586)	10,012
Balance at March 31, 2020	¥16,842	¥2,531	¥(4,240)	¥82	¥15,215	¥120	¥34,448	¥357,064

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 4)				
	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury share	Total shareholders' equity
Balance at April 1, 2020	\$316,768	\$205,701	\$2,469,036	\$(22,600)	\$2,968,905
Changes during the period:					
Issuance of new shares	168	168			336
Issuance of new shares (exercise of share acquisition rights)					—
Dividends of surplus (\$0.34 per share)			(52,891)		(52,891)
Net income attributable to shareholders of parent			293,705		293,705
Purchase of treasury shares				(11)	(11)
Change in ownership interest of parent due to transactions with non-controlling interests		(27,273)			(27,273)
Change in retained earnings due to change of fiscal year end			28,469		28,469
Net changes in items other than shareholders' equity					
Total changes during the period	168	(27,105)	269,283	(11)	242,335
Balance at December 31, 2020	\$316,936	\$178,595	\$2,738,319	\$(22,611)	\$3,211,240

	Thousands of U.S. dollars (Note 4)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at April 1, 2020	\$162,728	\$24,450	\$(40,971)	\$793	\$147,001	\$1,156	\$332,833	\$3,449,894
Changes during the period:								
Issuance of new shares								336
Issuance of new shares (exercise of share acquisition rights)								—
Dividends of surplus (\$0.34 per share)								(52,891)
Net income attributable to shareholders of parent								293,705
Purchase of treasury shares								(11)
Change in ownership interest of parent due to transactions with non-controlling interests								(27,273)
Change in retained earnings due to change of fiscal year end								28,469
Net changes in items other than shareholders' equity	265,645	(7,421)	(66,252)	136	192,107	—	(24,858)	167,249
Total changes during the period	265,645	(7,421)	(66,252)	136	192,107	—	(24,858)	409,584
Balance at December 31, 2020	\$428,374	\$17,029	\$(107,223)	\$929	\$339,108	\$1,156	\$307,975	\$3,859,479

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Cash flows from operating activities:			
Profit before income taxes	¥ 50,211	¥ 55,118	\$ 485,132
Depreciation	11,503	14,388	111,140
Impairment loss	—	389	—
Amortization of goodwill	1,055	6,143	10,192
Increase (decrease) in allowance for doubtful accounts	7	35	70
Increase (decrease) in provision for bonuses	3,305	1,021	31,936
Increase (decrease) in provision for bonuses for directors (and other officers)	(37)	—	(357)
Increase (decrease) in provision for warranties for completed construction	963	1,681	9,303
Increase (decrease) in provision for loss on business liquidation	368	—	3,556
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(14)	(2)	(134)
Increase (decrease) in retirement benefit liability	(4,052)	2,814	(39,150)
Interest and dividend income	(1,468)	(2,003)	(14,188)
Interest expenses	1,830	2,706	17,680
Share of loss (profit) of entities accounted for using equity method	(3,318)	(8,097)	(32,059)
Loss (gain) on sales of short-term and long-term investment securities	—	(3)	—
Loss (gain) on valuation of short-term and long-term investment securities	1,082	1,943	10,453
Loss on disaster	—	840	—
Loss on liquidation of subsidiaries and affiliates	—	265	—
Loss (gain) on change in equity	—	111	—
Loss (gain) on sales and retirement of non-current assets	—	160	—
Decrease (increase) in trade receivables	(5,803)	(1,152)	(56,065)
Decrease (increase) in inventories	(10,951)	(7,415)	(105,811)
Decrease (increase) in other current assets	(3,710)	(1,986)	(35,841)
Increase (decrease) in trade payables	1,106	(10,506)	10,686
Increase (decrease) in advances received	4,151	1,041	40,104
Increase (decrease) in advances received on construction contracts in progress	(2,564)	(2,789)	(24,772)
Increase (decrease) in accrued consumption taxes	1,478	(1,142)	14,276
Increase (decrease) in other current liabilities	6,907	2,274	66,736
Other, net	3,633	(847)	35,102
Subtotal	55,682	54,987	537,988
Interest and dividends received	8,473	10,991	81,866
Interest paid	(1,880)	(2,697)	(18,159)
Income taxes paid	(15,435)	(17,557)	(149,135)
Net cash provided by operating activities	46,840	45,724	452,560
Cash flows from investment activities:			
Payments into time deposits	(288)	(7,273)	(2,784)
Proceeds from withdrawal of time deposits	2,259	5,298	21,830
Decrease (increase) in short-term loans receivable	645	304	6,228
Proceeds from sales and redemption of securities	544	305	5,257
Purchase of property, plant and equipment	(25,390)	(21,998)	(245,311)
Proceeds from sales of property, plant and equipment	2,780	2,816	26,862
Purchase of intangible assets	(2,487)	(3,156)	(24,027)
Purchase of investment securities	(9,189)	(15,810)	(88,784)
Proceeds from sales of investment securities	267	6	2,583
Payments for acquisition of businesses (Note 11)	(13,960)	—	(134,878)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(1,158)	—
Payments for long-term loans receivable	(1,524)	(1,771)	(14,728)
Collection of long-term loans receivable	43	262	411
Other payments	(2,435)	(3,762)	(23,523)
Other proceeds	4,100	7,065	39,613
Net cash used in investment activities	(44,635)	(38,874)	(431,251)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(13,806)	(17,153)	(133,391)
Net increase (decrease) in commercial papers	10,000	—	96,618
Repayments of finance lease obligations	(1,361)	(1,565)	(13,147)
Proceeds from long-term borrowings	41,616	39,782	402,087
Repayments of long-term borrowings	(23,631)	(22,682)	(228,318)
Proceeds from issuance of bonds payable	—	20,000	—
Proceeds from share issuance to non-controlling shareholders	103	3,576	992
Dividends paid	(5,474)	(7,297)	(52,891)
Dividends paid to non-controlling shareholders	(7,694)	(11,108)	(74,334)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(5,491)	(3,449)	(53,057)
Net decrease (increase) in restricted deposits	(1,043)	1,040	(10,075)
Other proceeds	—	0	—
Other payments	(1)	(2)	(11)
Net cash provided by (used in) financing activities	(6,782)	1,142	(65,527)
Effect of exchange rate change on cash and cash equivalents	447	(528)	4,322
Net increase (decrease) in cash and cash equivalents	(4,129)	7,463	(39,896)
Cash and cash equivalents at the beginning of the year	112,565	105,102	1,087,582
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	615	—	5,939
Increase (decrease) in cash and cash equivalents due to change of fiscal year end	13,170	—	127,249
Cash and cash equivalents at the end of the year (Note 11)	¥122,220	¥112,565	\$1,180,874

Notes to Consolidated Financial Statements

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

1. Nature of Operations

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

2. Basis of Presenting Consolidated Financial Statements

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

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

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

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

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

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

3. Summary of Significant Accounting Policies

(a) Basis of consolidation and investments in affiliates

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

Investments in affiliates (15 to 50 percent-owned companies except subsidiaries) in which the ability to exercise significant influence exists are stated at cost plus equity in undistributed earnings (losses). Net consolidated income includes the Company’s share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits. As of December 31, 2020, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 267 and 107 (244 and 100 as of March 31, 2020), respectively. PT. Kubu Mulia Forestry and 28 other companies, whose shares were newly acquired, have been included in the scope of consolidation from the fiscal year ended December 31, 2020. PT. Mayangkara Tanaman Industri and 1 other company, which were included as equity-method affiliates in the previous fiscal year, have been included in the scope of consolidation due to the additional acquisition of shares. On the other hand, Paragon Wood Product (Dalian) Co., Ltd. and 7 other companies, which were included in the scope of consolidation in the previous fiscal year, have been excluded from the scope of consolidation due to the completion of liquidation.

VISON Hotel Management Co., Ltd. and 9 other companies, whose shares were newly acquired, have been included as equity-method affiliates from the fiscal year ended December 31, 2020. On the other hand, PT. Mayangkara Tanaman Industri and 2 other companies, which were included as equity-method affiliates in the previous fiscal year, have been excluded from the scope of consolidation in the fiscal year ended December 31, 2020.

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

(b) Translation of foreign currency transactions and accounts

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

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

(c) Statement of cash flows

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

(d) Allowance for doubtful accounts

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

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

(e) Provision for bonuses

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

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

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

(g) Provision for warranties for completed construction

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

(h) Provision for loss on business liquidation

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

(i) Retirement benefit liability or retirement benefit assets

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

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

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

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

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

(k) Marketable securities and investment securities

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

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

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

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

(l) Derivatives

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

(m) Inventories

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

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

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

The Company recognized ¥715 million (\$6,913 thousand) in valuation loss on inventories in cost of sales for the fiscal year ended December 31, 2020.

(n) Property, plant and equipment

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

(o) Intangible assets

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

(p) Impairment of non-current assets

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

(q) Hedge accounting

i) Hedge accounting method

The deferred hedge accounting method is applied.

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

ii) Hedging method

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

iii) Scope of hedging

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

iv) Hedge effectiveness evaluation method

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

(r) Amortization method and period of goodwill

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

(s) Revenue recognition

The Company adopted "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 30, 2018) from the beginning of the fiscal year ended March 31, 2020, as they are applicable from the beginning of fiscal years starting on or after April 1, 2018.

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

(t) Income taxes

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

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

(u) Consumption taxes

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

(v) Appropriations of retained earnings

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

(w) Earnings per share of common stock

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

(x) Finalization of provisional accounting treatment of business combinations

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

(y) Accounting standards issued but not yet effective

(Accounting Standard and Implementation Guidance on Revenue Recognition)

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

i) Overview

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

ii) Scheduled date of adoption

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

(Accounting Standards for Fair Value Measurement)

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

i) Overview

The ASBJ developed the accounting standard and implementation guidance on fair value measurement mainly focusing on the guidance and disclosure on the fair value measurement of financial instruments

based in international accounting standards with nearly identical detailed guidance issued by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (IFRS 13 by the IASB and Topic 820 by the FASB) and issued them from a standpoint of enhancing comparability between financial statements of companies in Japan and overseas.

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

ii) Scheduled date of adoption

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

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

(Accounting Standard for Disclosure of Accounting Estimates)

On March 31, 2020, the ASBJ issued "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31).

i) Overview

Based on requests for disclosing the assumptions and other sources of estimation uncertainty underlying amounts, which is required in accordance with paragraph 125 "Presentation of Financial Statements" (IAS 1) issued by the IASB in 2003, as highly useful information for users of financial statements, the ASBJ developed and issued "Accounting Standard for Disclosure of Accounting Estimates".

As the basic policy of the ASBJ in developing the accounting standard, the ASBJ used paragraph 125 of the IAS 1 as a reference and clarified the principles for the disclosure but did not elaborate on each note, and left for entities to decide the specific details on disclosures in accordance with the underlying principles.

ii) Scheduled date of adoption

The Company expects to adopt the accounting standard from the end of the fiscal year ending December 31, 2021.

(Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections)

On March 31, 2020, the ASBJ revised "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 24).

i) Overview

The ASBJ issued "Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" in light of proposals to consider the development of notes where accounting principles and procedures based on specific accounting standards are unclear.

In case of developing such notes, the ASBJ decided to apply the policies of note 1-2 on Corporate Accounting Principles in order not to impact treatment where requirements in the appropriate accounting standard are clear.

ii) Scheduled date of adoption

The Company expects to adopt the accounting standard from the end of the fiscal year ending December 31, 2021.

(z) Change of Fiscal Year End

Effective from the fiscal year ended December 31, 2020, the Company and its domestic subsidiaries changed their fiscal year end from March 31 to December 31. The change is to align the closing date of the

Companies in order to disclose management information in a timely and accurate manner and to enhance the transparency of management.

Accordingly, the fiscal year ended December 31, 2020, is a nine-month period from April 1, 2020, to December 31, 2020, for the Company and its subsidiaries.

Net income and cash flows from January 1, 2020, to March 31, 2020, for foreign subsidiaries, whose fiscal year end is on December 31, were adjusted on the consolidated statement of changes in net assets and the consolidated statement of cash flows, respectively.

4. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥103.50 =US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of December 2020. This translation should not be construed as a representation that the yen amounts actually represent, have been or could be converted into, U.S. dollars.

As permitted under the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen are rounded in the consolidated financial statements. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes thereto do not necessarily agree with the sum of the individual amounts.

5. Securities

(a) The carrying amounts and estimated fair values of the securities classified as held-to-maturity at December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen		
	December 31, 2020		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities whose fair value exceeds their carrying amount:			
Debt securities	¥914	¥927	¥14
Subtotal	914	927	14
Held-to-maturity securities whose fair value does not exceed their carrying amount:			
Debt securities	50	50	(0)
Subtotal	50	50	(0)
Total	¥964	¥977	¥13

	Millions of yen		
	March 31, 2020		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities whose fair value exceeds their carrying amount:			
Debt securities	¥1,458	¥1,481	¥23
Subtotal	1,458	1,481	23
Held-to-maturity securities whose fair value does not exceed their carrying amount:			
Debt securities	—	—	—
Subtotal	—	—	—
Total	¥1,458	¥1,481	¥23

	Thousands of U.S. dollars		
	December 31, 2020		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities whose fair value exceeds their carrying amount:			
Debt securities	\$8,828	\$8,960	\$131
Subtotal	8,828	8,960	131
Held-to-maturity securities whose fair value does not exceed their carrying amount:			
Debt securities	483	480	(3)
Subtotal	483	480	(3)
Total	\$9,311	\$9,440	\$128

(b) The carrying amounts and estimated fair values of the securities classified as available-for-sale at December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen		
	December 31, 2020		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	¥84,948	¥20,500	¥64,448
Debt securities	—	—	—
Other	—	—	—
Subtotal	84,948	20,500	64,448
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	2,763	3,019	(257)
Debt securities	—	—	—
Other	3,000	3,000	—
Subtotal	5,763	6,019	(257)
Total	¥90,710	¥26,519	¥64,192

	Millions of yen		
	March 31, 2020		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	¥46,884	¥21,117	¥25,768
Debt securities	—	—	—
Other	—	—	—
Subtotal	46,884	21,117	25,768
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	2,326	3,484	(1,158)
Debt securities	—	—	—
Other	3,000	3,000	—
Subtotal	5,326	6,484	(1,158)
Total	¥52,211	¥27,600	¥24,610

	Thousands of U.S. dollars		
	December 31, 2020		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	\$820,751	\$198,063	\$622,688
Debt securities	—	—	—
Other	—	—	—
Subtotal	820,751	198,063	622,688
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	26,693	29,172	(2,479)
Debt securities	—	—	—
Other	28,986	28,986	—
Subtotal	55,679	58,157	(2,479)
Total	\$876,430	\$256,221	\$620,209

(c) Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses for the fiscal years ended December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Proceeds	¥247	¥ 6	\$2,391
Gross gains	142	3	1,376
Gross losses	—	—	—

(d) Impairment of securities

Impairment losses on available-for-sale securities for the fiscal years ended December 31, 2020 and March 31, 2020 were ¥1,082 million (\$10,453 thousand) and ¥1,943 million, respectively.

(e) Investments in affiliates included in “Investment securities” as of December 31, 2020 and March 31, 2020 were ¥83,953 million (\$811,142 thousand) and ¥84,906 million, respectively.

6. Short-Term and Long-Term Debt

Short-term and long-term debt as of December 31, 2020 and March 31, 2020 were represented by short-term borrowings bearing interest of 0.81% and 2.41% per annum, current portion of long-term borrowings of 1.68% and 2.35%, and long-term borrowings of 2.04% and 2.67%, respectively. Long-term debt as of December 31, 2020 and March 31, 2020 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Long-term borrowings, principally from banks and insurance companies, due 2021 to 2035:			
Secured:			
Long-term borrowings	¥ 13,823	¥ 22,662	\$ 133,557
Unsecured:			
Bonds payable	90,000	90,000	869,565
Bonds with share acquisition rights	10,055	10,070	97,147
Long-term borrowings	119,432	97,874	1,153,932
Lease obligations	8,512	7,986	82,238
	¥241,822	¥228,593	\$2,336,440
Portion due within one year:			
Long-term borrowings	28,359	11,953	273,998
Lease obligations	1,005	495	9,713
Commercial paper	10,000	—	96,618
	¥ 39,364	¥ 12,449	\$ 380,329

The aggregate annual maturities of bonds payable (including bonds with share acquisition rights), loans and lease obligations, due within 5 years (with exception of portion due within 1 year) from the fiscal year end were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Bonds payable	Long-term borrowings	Lease obligations	Bonds payable	Long-term borrowings	Lease obligations
2022	¥ —	¥ 14,617	¥1,292	\$ —	\$ 141,226	\$12,483
2023	10,000	50,522	1,067	96,618	488,133	10,306
2024	10,000	40,063	853	96,618	387,085	8,245
2025	10,000	9,375	659	96,618	90,580	6,368
	¥30,000	¥114,577	¥3,871	\$289,855	\$1,107,024	\$37,402

7. Pledged Assets and Secured Liabilities

(a) Pledged assets

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Cash and deposits	¥ 3,182	¥ 314	\$ 30,744
Notes and accounts receivable – trade	36	36	349
Accounts receivable from completed construction contracts	1,692	766	16,344
Costs on construction contracts in progress	602	258	5,816
Real estate for sale	2,135	3,237	20,625
Real estate for sale in process	7,606	8,048	73,488
Accounts receivable – other	12	134	116
Buildings and structures	12,256	8,399	118,414
Machinery, equipment and vehicles	13,332	10,444	128,810
Land	3,819	2,485	36,894
Construction in progress	3,058	2,359	29,547
Investment securities	16,112	12,728	155,668
Other	3,434	1,923	33,178
	¥67,274	¥51,131	\$649,993

(b) Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Short-term borrowings	¥ 9,771	¥ 2,813	\$ 94,401
Long-term borrowings	13,823	22,662	133,557
	¥23,594	¥25,475	\$227,958

8. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise corporation tax, enterprise tax, and prefectural and municipal inhabitants taxes. The effective statutory tax rate for the fiscal years ended December 31, 2020 and March 31, 2020 was 30.6%.

The table below shows the differences in the effective statutory tax rate and the effective income tax rate.

	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020
Effective statutory tax rate	30.6%	—
Non-deductible expenses for tax purposes	0.5	—
Non-taxable dividend income	(5.6)	—
Per capita portion of inhabitant tax	0.5	—
Amortization of goodwill	0.6	—
Equity in earnings of affiliates	(1.0)	—
Tax rate differences with overseas subsidiaries	(8.0)	—
Other	2.4	—
Effective income tax rate	20.0%	—

The reconciliation between the effective statutory tax rate and the effective income tax rate for the fiscal year ended March 31, 2020 is not disclosed because such difference was less than 5% of the effective statutory tax rate.

The significant components of deferred tax assets and liabilities at December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Deferred tax assets:			
Allowance for doubtful accounts	¥ 521	¥ 445	\$ 5,032
Provision for bonuses	3,652	3,616	35,281
Accrued legal welfare expense on employees' bonuses	554	539	5,348
Enterprise taxes	99	443	959
Devaluation of real estate for sale	406	358	3,925
Retirement benefit liability	5,433	6,650	52,490
Devaluation of non-current assets	732	740	7,068
Devaluation of financial instruments	1,886	2,000	18,226
Tax loss carryforwards	6,144	4,936	59,364
Impairment loss	1,771	1,776	17,113
Provision for warranties for completed construction	1,322	1,201	12,773
Unrealized gain on non-current assets	629	636	6,078
Other	7,929	5,155	76,607
Gross deferred tax assets	31,077	28,496	300,263
Valuation allowance for tax loss carryforwards	(3,570)	(4,596)	(34,497)
Valuation allowance for other	(5,408)	(5,747)	(52,249)
Valuation allowance	(8,978)	(10,343)	(86,746)
Total deferred tax assets	22,099	18,153	213,517
Deferred tax liabilities:			
Deferred gains on sales of non-current assets	(757)	(757)	(7,312)
Gain on securities contributed to employee retirement benefit trusts	(1,168)	(1,168)	(11,282)
Valuation difference on available-for-sale securities	(19,445)	(7,439)	(187,877)
Land revaluation differences	(847)	(853)	(8,187)
Taxes on undistributed earnings of subsidiaries	(3,606)	(2,969)	(34,839)
Other	(8,019)	(5,245)	(77,474)
Gross deferred tax liabilities	(33,841)	(18,432)	(326,970)
Net deferred tax assets (liabilities)	¥(11,742)	¥ (279)	\$(113,453)

The breakdowns of amount of tax loss carryforwards and deferred tax assets by expiration period as of December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen						
	December 31, 2020						
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	Total
Tax loss carryforwards*	¥ 100	¥ 355	¥ 128	¥ 447	¥ 253	¥ 4,861	¥ 6,144
Valuation allowance	(100)	(355)	(128)	(447)	(253)	(2,287)	(3,570)
Deferred tax assets	—	—	—	—	—	2,574	2,574

	Millions of yen						
	March 31, 2020						
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	Total
Tax loss carryforwards*	¥ 981	¥ 161	¥ 380	¥ 144	¥ 512	¥ 2,758	¥ 4,936
Valuation allowance	(981)	(161)	(380)	(144)	(512)	(2,418)	(4,596)
Deferred tax assets	—	—	—	—	—	340	340

	Thousands of U.S. dollars						
	December 31, 2020						
	Within 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Later than 5 years	Total
Tax loss carryforwards*	\$ 966	\$ 3,430	\$ 1,237	\$ 4,319	\$ 2,444	\$ 46,966	\$ 59,362
Valuation allowance	(966)	(3,430)	(1,237)	(4,319)	(2,444)	(22,097)	(34,493)
Deferred tax assets	—	—	—	—	—	24,870	24,870

* Tax loss carryforwards are measured using the effective statutory tax rates.

9. Extraordinary Gains (Losses) on Sales and Retirement of Non-current Assets

Extraordinary gains (losses) on sales and retirement of non-current assets for the fiscal years ended December 31, 2020 and March 31, 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Gain on sales of non-current assets:			
Machinery, equipment and vehicles	¥—	¥ 18	\$—
Land	—	57	—
Others	—	28	—
Total gain on sales of non-current assets	—	102	—
Loss on sales of non-current assets:			
Buildings and structures	—	25	—
Other	—	10	—
Total loss on sales of non-current assets	—	35	—
Loss on retirement of non-current assets:			
Buildings and structures	—	131	—
Other	—	97	—
Total loss on retirement of non-current assets	¥—	¥227	\$—

10. Selling, General and Administrative Expenses

The components of “Selling, General and Administrative Expenses” for the fiscal years ended December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Salaries and allowances	¥49,954	¥61,887	\$482,647
Provision for bonuses	10,221	9,613	98,753
Provision for bonuses for directors (and other officers)	106	143	1,024
Retirement benefit expenses	(2,241)	5,853	(21,654)
Provision for retirement benefits for directors (and other officers)	13	26	127
Provision of allowance for doubtful accounts	(71)	106	(688)
Provision for warranties for completed construction	¥ 2,020	¥ 3,104	\$ 19,522

Research and development expenses charged to selling, general and administrative expenses for the fiscal years ended December 31, 2020 and March 31, 2020 were ¥1,883 million (\$18,190 thousand) and ¥2,271 million, respectively.

11. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2020 and March 31, 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Cash and deposits	¥ 85,850	¥ 92,774	\$ 829,472
Less: Deposits which mature or become due over three months after the date of acquisition	(223)	(2,190)	(2,157)
Cash equivalents included in marketable securities	3,000	3,000	28,986
Restricted deposits	(1,406)	(1,018)	(13,584)
Cash equivalents included in short-term loans receivable	34,999	20,000	338,158
Cash and cash equivalents	¥122,220	¥112,565	\$1,180,874

The breakdown of assets and liabilities acquired through the business transfer and the relationship between the transfer price of the business and the expenditure for the business transfer were mainly as follows:

DRB Group (DRB Group Georgia, LLC and DRB Group Alabama, LLC)

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	December 31, 2020	December 31, 2020
Current assets	¥13,059		\$126,175
Non-current assets	60		577
Goodwill	1,470		14,204
Current liabilities	(6)		(57)
Acquisition cost	14,583		140,899
Cash and cash equivalents	—		—
Accounts payable	(623)		(6,021)
Net expenditure for business transfer	¥13,960		\$134,878

12. Shareholders' Equity

The Japanese Corporate Law (“the Law”) enforced on May 1, 2006 provides that an amount equivalent to 10% of cash dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends. Legal reserve and additional paid-in capital may be reversed without limitation and no further appropriation is required when the sum of legal reserve and additional paid-in capital equals 25% of the common stock.

The Law also provides that the common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of shareholders.

The balances of the legal reserve of the Company at December 31, 2020 and March 31, 2020, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$27,605 thousand) and ¥2,857 million, respectively.

Year-end dividends are approved by shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Law.

13. Finance Leases

(Lessee)
Depreciation costs of finance lease transactions that do not transfer ownership are calculated based on the straight-line method over the lease periods of the leased assets, with no residual value of the assets at the end of the lease periods.

Disclosure of information concerning lease transactions as lessor has been omitted, due to insignificance of disclosure of such information in the consolidated financial statements.

14. Contingent Liabilities

Contingent liabilities as of December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Guarantee on loans from financial institutions:			
Customers using housing loans	¥19,776	¥29,559	\$191,071
Affiliated companies of Crescent Communities group	23,161	27,322	223,778
Kanda Biomass Energy K.K.	12,298	10,578	118,817
Morinomiyako Biomass Energy G.K.	2,066	0	19,957
Kawasaki Biomass Electric Power Co., Ltd.	263	285	2,539
Total	¥57,563	¥67,744	\$556,162

15. Matured notes at the end of the fiscal year

Matured notes are settled on the clearance dates. The following notes are included in the consolidated balance sheet as of December 31, 2020 as the maturity date was on a business holiday for financial institutions in Japan.

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Notes receivable	¥6,018	¥—	\$58,141
Notes payable	3,196	—	30,881

16. Financial Instruments

(a) Policy for financial instruments

The Companies invest temporary cash surplus in financial assets with high degrees of safety and mainly use bank loans and bonds payable in order to raise funds. Furthermore, the Companies use derivative transactions to mitigate the risk of currency exchange rates related to normal foreign currency-denominated transactions and the risk of interest rate fluctuation related to interest payment for loans, and do not conduct for speculative purposes.

(b) Details of financial instruments and related risk

Trade receivables are exposed to customers’ credit risk. Short-term borrowings are mainly used for repurchase agreement that has a contract with a financial institution with a rating of more than a certain level, and therefore credit risk is insignificant. Marketable securities are mainly negotiable deposit certificates subject to settlement in the short term. Investment securities are mainly bonds for held-to-maturity and equities of customers and suppliers of the Companies and those are exposed to market price fluctuation risk. Almost all of trade payables have payment due dates within one year. Bank loans and bonds payable are mainly used for operating capital expenses and capital investment. Although bank loans with floating rate interest are exposed to market risk of interest rate fluctuation, the Companies use derivative transactions (interest rate swaps) for hedging a part of such loans. Derivative transactions include forward foreign currency exchange contracts and currency swaps to mitigate market risk of fluctuation in foreign currency exchange rates related to foreign currency-denominated transactions and interest rate swaps to mitigate market risk of interest rate fluctuation related to interest payments for borrowings.

(c) Risk management for financial instruments

(Credit risk management)
The Companies review due date and receivable balance of each customer in accordance with the Credit Management Guideline. In addition, the Companies monitor credit standing of principal customers at least once a year.

(Risk management of foreign currency exchange rate fluctuation and interest rate fluctuation)
With respect to investment securities, the Companies regularly monitor prices and the issuer’s financial status. Except for held-to-maturity bonds, the Companies constantly review investment strategy by taking the market situation and relationship with issuers into consideration. Derivative transactions are executed and managed in accordance with internal rules and policies by the responsible section of each Group Company, and the status of derivative positions is reported regularly to the Board of Directors.

The Companies believe that market risk relating to derivative instruments is very low since the contracts entered into are spread among highly creditworthy financial institutions both in Japan and abroad.

(Risk management of liquidity risk that the Companies cannot meet its contractual obligation in full on maturity dates)
The Finance Department of the Company manages liquidity risk by establishing and revising cash flow plan based on reports from each section.

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

The fair values of financial instruments include market prices or reasonably estimated values if there are no market prices. Because estimation of fair values incorporates variable factors, adopting different assumptions can change the values.

(e) Fair value of financial instruments

Fair values of financial instruments were as follows. Items for which fair values are extremely difficult to establish are not included in the following table.

	Millions of yen		
	Carrying amount	Fair value	Difference
December 31, 2020			
Cash and deposits	¥ 85,850	¥ 85,850	¥ —
Notes and accounts receivable – trade	119,687	119,687	—
Marketable securities and investment securities:			
Held-to-maturity	964	977	13
Shares in affiliates	33,917	24,320	(9,597)
Available-for-sale	90,710	90,710	—
Total	¥ 331,129	¥ 321,546	¥(9,584)
Notes and accounts payable – trade	¥(111,612)	¥(111,612)	¥ —
Accounts payable for construction contracts	(80,219)	(80,219)	—
Bonds payable	(90,000)	(89,726)	(274)
Long-term borrowings**	(161,614)	(160,905)	(709)
Total	¥(443,445)	¥(442,462)	¥ (983)
Derivatives***:			
Hedge accounting not applied	¥ 110	¥ 110	¥ —
Hedge accounting applied	2,741	2,741	—
Total	¥ 2,851	¥ 2,851	¥ —

	Millions of yen		
	Carrying amount	Fair value	Difference
March 31, 2020			
Cash and deposits	¥ 92,774	¥ 92,774	¥ —
Notes and accounts receivable – trade	123,030	123,030	—
Marketable securities and investment securities:			
Held-to-maturity	1,458	1,481	23
Shares in affiliates	33,815	23,412	(10,403)
Available-for-sale	52,211	52,211	—
Total	¥ 303,287	¥ 292,907	¥(10,380)
Notes and accounts payable – trade	¥(109,179)	¥(109,179)	¥ —
Accounts payable for construction contracts	(83,281)	(83,281)	—
Bonds payable	(90,000)	(89,555)	(445)
Long-term borrowings**	(132,490)	(131,896)	(594)
Total	¥(414,951)	¥(413,912)	¥ (1,039)
Derivatives***:			
Hedge accounting not applied	¥ 29	¥ 29	¥ —
Hedge accounting applied	3,531	3,531	—
Total	¥ 3,560	¥ 3,560	¥ —

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
December 31, 2020			
Cash and deposits	\$ 829,472	\$ 829,472	\$ —
Notes and accounts receivable – trade	1,156,401	1,156,401	—
Marketable securities and investment securities:			
Held-to-maturity	9,311	9,440	128
Shares in affiliates	327,705	234,980	(92,725)
Available-for-sale	876,430	876,430	—
Total	\$ 3,199,318	\$ 3,106,722	\$(92,596)
Notes and accounts payable – trade	\$(1,078,381)	\$(1,078,381)	\$ —
Accounts payable for construction contracts	(775,060)	(775,060)	—
Bonds payable	(869,565)	(866,920)	(2,645)
Long-term borrowings**	(1,561,487)	(1,554,636)	(6,851)
Total	\$(4,284,493)	\$(4,274,998)	\$ (9,496)
Derivatives***:			
Hedge accounting not applied	\$ 1,062	\$ 1,062	\$ —
Hedge accounting applied	26,488	26,488	—
Total	\$ 27,549	\$ 27,549	\$ —

* Liabilities are shown in brackets
** Long-term borrowings include the current portion.
*** Assets and liabilities from derivatives transactions are shown in the net amount. If the total is negative, the amount is shown in brackets.

Notes:

1. Method of estimating the fair values of financial instruments and items relating to securities and derivative transactions

(1) Assets
(Cash and deposits, Notes and accounts receivable - trade)
Because these are settled in the short term, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(Marketable securities and investment securities)
The fair values of equity securities, including shares in affiliates, are based on market prices. The fair values of debt securities are based on market prices or quoted prices obtained from financial institutions. For negotiable deposit certificates, the book value is almost the same as the market value because of their short maturities.

(2) Liabilities
(Notes and accounts payable - trade, Accounts payable for construction contracts)
Because these are settled in the short term, fair values and book values are nearly equivalent. Therefore, relevant book values are used.

(Bonds payable)
The fair values of bonds payable are based on market prices.

(Long-term borrowings)
The fair values of long-term borrowings with floating interest rates approximate book values because the interest rate of long-term borrowings reflects market interest rate quickly and the Company's credit standing has not changed significantly since implementing the loans. Therefore, relevant book values are used. The fair values of long-term borrowings with fixed interest rates are principally estimated by discounting based on estimated interest rates if similar new borrowings were implemented.

(3) Derivative transactions
See Note 17.

2. Financial instruments whose fair values are extremely difficult to determine

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Unlisted equity securities	¥ 2,839	¥ 2,929	\$ 27,431
Investment in affiliates	50,036	51,090	483,438

3. The redemption schedule for monetary claims and held-to-maturity debt securities after the consolidated balance sheet date

	Millions of yen			
	December 31, 2020			
	1 year or less	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
Cash and deposits	¥ 85,672	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	119,687	—	—	—
Marketable securities and investment securities:				
Government bonds	204	709	50	—
Other	3,000	—	—	—
Total	¥208,564	¥709	¥ 50	¥ —

	Millions of yen			
	March 31, 2020			
	1 year or less	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
Cash and deposits	¥ 92,093	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	123,030	—	—	—
Marketable securities and investment securities:				
Government bonds	658	737	62	—
Other	3,000	—	—	—
Total	¥218,781	¥737	¥62	¥ —

	Thousands of U.S. dollars			
	December 31, 2020			
	1 year or less	More than 1 year but within 5 years	More than 5 years but within 10 years	More than 10 years
Cash and deposits	\$ 827,750	\$ —	\$ —	\$ —
Notes and accounts receivable - trade	1,156,401	—	—	—
Marketable securities and investment securities:				
Government bonds	1,972	6,850	483	—
Other	28,986	—	—	—
Total	\$2,015,108	\$6,850	\$483	\$ —

17. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen			
	December 31, 2020			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,728	¥ —	¥104	¥104
Sell (U.S. dollar)	313	—	6	6
Total	¥2,041	¥ —	¥110	¥110
Interest rate swap contracts:				
Pay fixed / receive variable	¥ —	¥ —	¥ —	¥ —
Total	¥ —	¥ —	¥ —	¥ —

	Millions of yen			
	March 31, 2020			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,787	¥ —	¥36	¥36
Sell (U.S. dollar)	273	—	(7)	(7)
Total	¥2,060	¥ —	¥29	¥29
Interest rate swap contracts:				
Pay fixed / receive variable	¥1,578	¥ —	¥ —	¥ —
Total	¥1,578	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
	December 31, 2020			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	\$16,696	\$ —	\$1,001	\$1,001
Sell (U.S. dollar)	3,024	—	60	60
Total	\$19,720	\$ —	\$1,062	\$1,062
Interest rate swap contracts:				
Pay fixed / receive variable	\$ —	\$ —	\$ —	\$ —
Total	\$ —	\$ —	\$ —	\$ —

Note: The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

Derivative transactions to which hedge accounting is applied at December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen			
	December 31, 2020			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounted for by the deferred hedge method:				
Sell (U.S. dollar)	Accounts payable - trade	¥ 3,848	¥ —	¥ 17
Sell (Euro)		1,581	—	(19)
Sell (Thai baht)		3,878	3,878	(65)
Buy (U.S. dollar)	Accounts payable - trade	26,346	17,680	2,737
Buy (Euro)		4,428	—	72
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable - trade	217	—	*
Total		¥40,298	¥21,558	¥2,741
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term borrowings	¥ 1,810	¥ 996	*
Total		¥ 1,810	¥ 996	¥ —
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term borrowings	¥ 2,859	¥ —	*
Total		¥ 2,859	¥ —	¥ —

	Millions of yen			
	March 31, 2020			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounted for by the deferred hedge method:				
Sell (U.S. dollar)	Accounts payable - trade	¥ 3,997	¥ —	¥(53)
Sell (Euro)		1,574	—	(3)
Sell (Thai baht)		2,958	2,958	(89)
Buy (U.S. dollar)	Accounts payable - trade	26,743	18,587	3,703
Buy (Euro)		4,321	—	(27)
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable - trade	27	—	*
Total		¥39,620	¥21,545	¥3,531
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term borrowings	¥ 1,810	¥ 1,047	*
Total		¥ 1,810	¥ 1,047	¥ —
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term borrowings	¥ 2,859	¥ 2,859	*
Total		¥ 2,859	¥ 2,859	¥ —

	Thousands of U.S. dollars			
	December 31, 2020			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Forward foreign currency exchange contracts:				
Accounted for by the deferred hedge method:				
Sell (U.S. dollar)	Accounts payable - trade	\$ 37,180	\$ —	\$ 160
Sell (Euro)		15,279	—	(180)
Sell (Thai baht)		37,468	37,468	(632)
Buy (U.S. dollar)	Accounts payable - trade	254,554	170,823	26,443
Buy (Euro)		42,781	—	698
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable - trade	2,093	—	*
Total		\$389,355	\$208,291	\$26,488
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term borrowings	\$ 17,488	\$ 9,622	*
Total		\$ 17,488	\$ 9,622	\$ —
Interest rate and currency swap contracts:				
Accounted for by the exceptional method and allocation method:				
Pay fixed Yen / receive variable U.S. dollar	Long-term borrowings	\$ 27,626	\$ —	*
Total		\$ 27,626	\$ —	\$ —

* Derivative transactions that meet certain hedging criteria, regarding forward foreign currency exchange contracts, or interest rate swap contracts, are treated in combination with the hedged items; trade accounts receivable - trade accounts payable or long-term borrowings, and the fair values of these derivatives are included in those of the hedged items.

Note: The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, etc.

18. Employees’ Retirement Benefits and Pension Plans

The Company and most of its consolidated subsidiaries have either funded or unfunded defined benefit plans and/or defined contribution plans. Certain domestic consolidated subsidiaries have a Smaller Enterprise Retirement Allowance Mutual Aid Plan.

The Company and its consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans, annuity payment plans, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities. In certain cases, special retirement benefits may be paid to employees.

The changes in the retirement benefit liabilities for the fiscal years ended December 31, 2020 and March 31, 2020 were as follows (except for the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Balance at the beginning of the year	¥79,127	¥76,685	\$764,509
Service cost	2,622	3,415	25,335
Interest cost	265	388	2,565
Actuarial gain and loss	(718)	862	(6,938)
Retirement benefits paid	(1,654)	(2,257)	(15,978)
Prior service cost	108	—	1,046
Other	63	33	605
Balance at the end of the year	¥79,813	¥79,127	\$771,143

The changes in plan assets for the fiscal years ended December 31, 2020 and March 31, 2020 were as follows (except for the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Balance at the beginning of the year	¥57,932	¥58,461	\$559,730
Expected return on plan assets	826	1,228	7,976
Actuarial gain and loss	4,104	(1,710)	39,657
Contributions	1,341	1,779	12,958
Retirement benefits paid	(1,476)	(1,826)	(14,259)
Balance at the end of the year	¥62,727	¥57,932	\$606,062

The changes in the retirement benefit liabilities, which were calculated by the simplified method for the fiscal years ended December 31, 2020 and March 31, 2020, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Balance at the beginning of the year	¥1,287	¥1,359	\$12,438
Retirement benefit expense	143	263	1,385
Retirement benefits paid	(64)	(104)	(617)
Contributions	(71)	(72)	(682)
Other	(8)	(159)	(79)
Balance at the end of the year	¥1,288	¥1,287	\$12,445

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of December 31, 2020 and March 31, 2020 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Funded retirement benefit obligation	¥ 74,748	¥74,695	\$722,207
Plan assets at fair value	(63,602)	(58,701)	(614,512)
	11,146	15,994	107,695
Unfunded retirement benefit obligation	7,227	6,488	69,830
Net retirement benefit liability in the balance sheet	18,374	¥22,482	177,525
Retirement benefit liability	18,700	¥22,574	180,673
Retirement benefit assets	(326)	(92)	(3,147)
Net retirement benefit liability in the balance sheet	¥ 18,374	¥22,482	\$177,525

The components of retirement benefit expense for the fiscal years ended December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Service cost	¥2,622	¥3,415	\$25,335
Interest cost	265	388	2,565
Expected return on plan assets	(826)	(1,228)	(7,976)
Amortization of actuarial gain and loss	(4,823)	2,572	(46,595)
Amortization of prior service cost	108	—	1,046
Retirement benefit expense under the simplified method	143	263	1,385
Other	—	0	0
Retirement benefit expense	¥(2,509)	¥5,411	\$ (24,241)

The fair value of plan assets, by major category, as a percentage of total plan assets at December 31, 2020 and March 31, 2020 were as follows:

	December 31, 2020	March 31, 2020
Bonds	44%	47%
Stocks	28%	23%
General account	12%	13%
Other	16%	17%
Total	100%	100%

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	December 31, 2020	March 31, 2020
Discount rates	0.000%–0.729%	0.000%–0.451%
Expected rates of return plan assets	1.9%	2.1%
Expected rate of salary increase (point based plan)	5.0%	5.0%

Contributions to defined contribution retirement benefit plans of the Company and its consolidated subsidiaries were ¥1,080 million (\$10,438 thousand) and ¥1,343 million for the fiscal years ended December 31, 2020 and March 31, 2020, respectively.

19. 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 income from the investment properties for the fiscal years ended December 31, 2020 and March 31, 2020 was ¥334 million (\$3,223 thousand) and ¥714 million, respectively. The income is recognized in net sales and the expense is principally charged to cost of sales. The amounts recognized in the consolidated balance sheets and fair values related to investment properties were as follows:

Millions of yen		Thousands of U.S. dollars	
December 31, 2020	March 31, 2020	December 31, 2020	
Carrying amount		Carrying amount	
Fair value		Fair value	
¥32,786	¥31,406	¥26,683	¥25,610
		\$316,772	\$303,440

The main components of net change in carrying amount above included an increase of ¥11,925 million (\$115,220 thousand) due to acquisitions of real estate and a decrease of ¥4,591 million (\$44,356 thousand) due to change in the holding purpose of properties to real estate for sale, a decrease of ¥4 million (\$37 thousand) due to change in the use of property from rental use to in-house use, a decrease of ¥3 million (\$27 thousand) due to sales of real estate, a decrease of ¥1,090 million (\$10,527 thousand) due to exchange rate fluctuations and a decrease of ¥136 million (\$1,312 thousand) due to depreciation for the fiscal year ended December 31, 2020.

Additionally, fair value is evaluated mainly by third-party appraisers.

20. Revenue Recognition

Revenue from contracts with customers is recognized based on the following five-step approach, at the amount of consideration for which the Company expects to be entitled in exchange for goods or services when the control of the promised goods or services is transferred to the customer.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies the performance obligation

(1) Revenue from sales of goods

Revenue from the sales of goods mainly includes the sales of timber and building materials through wholesale, retail, manufacturing and processing, and the sales of real estate for sale. At the time of delivery, the performance obligation is satisfied with the customer having control over the goods, and the Company recognizes revenue at that time.

(2) Revenue from construction contracts

Revenue from construction contracts mainly includes construction of detached houses and development of multi-family homes. Revenue is recognized over a certain period of time as the performance obligation is satisfied. The method of estimating the progress on the performance obligations satisfied over time is mainly the input method based on costs incurred.

However, for construction contracts for which the period from the commencement date of the contract to the date when it is expected that the performance obligation will be fully satisfied is very short, revenue is

not recognized over a certain period of time, and the performance obligation is judged to be satisfied at the time of delivery, and revenue is recognized at that time.

(3) Revenue from services and other sales

Revenue from services and other sales mainly includes commissions related to agency transactions for timber and building materials, commissions related to guarantee services for detached houses and multi-family housing, and commissions related to the management and brokerage of real estate. Revenue from these transactions is recognized when the performance obligation is satisfied when the contractual terms of the contracts are fulfilled. For transactions that satisfy the performance obligation over a certain period of time, revenue is recognized based on the degree of progress in satisfying the performance obligation.

21. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance. The Group's operations are based on the comprehensive strategies for products and services planned by each division. Accordingly, the Group is classified into four segments (Timber and Building Materials, Housing and Construction, Overseas Housing and Real Estate, and Environment and Resources) based on division and identified by products, services and geographical areas:

Timber and Building Materials: procurement, manufacture, processing and sale of timber and building materials, etc.

Housing and Construction: construction, maintenance and renovation of detached houses and apartment buildings, sale of spec homes, leasing, management, purchase and sale and brokerage of real estate, house exterior fixtures, landscaping works contracting, urban greening works, CAD, site surveys, etc.

Overseas Housing and Real Estate: sale of spec homes, and construction of detached houses, development of multi-family housing and commercial complexes in overseas markets, etc.

Environment and Resources: biomass power generation business and forestation, etc.

Other: private pay-elderly care facilities and elderly residence that combines living support service business, insurance agency business, and civil engineering and construction work, etc.

Millions of yen									
As of/Fiscal year ended December 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥131,112	¥332,007	¥351,842	¥14,233	¥829,193	¥10,239	¥839,432	¥ 449	¥839,881
Inter-segment transfers	13,541	309	529	825	15,204	8,163	23,367	(23,367)	—
Total	144,652	332,316	352,371	15,058	844,397	18,402	862,798	(22,918)	839,881
Segment profit (loss)	2,334	8,454	44,032	1,683	56,503	757	57,259	(5,966)	51,293
Segment assets	187,331	182,111	378,772	99,435	847,649	80,961	928,610	162,542	1,091,152
Other items:									
Depreciation and amortization	2,302	3,487	1,945	1,533	9,267	1,559	10,826	677	11,503
Amortization of goodwill	—	—	848	80	928	126	1,055	—	1,055
Interest income	24	14	131	50	219	0	219	12	232
Interest expense	418	363	1,921	315	3,017	142	3,159	(1,329)	1,830
Equity in earnings (losses) of affiliates	(738)	(702)	3,484	(5)	2,039	1,279	3,318	0	3,318
Investments in affiliates	6,427	623	37,590	1,978	46,618	37,328	83,946	7	83,953
Increase in property, plant and equipment and intangible assets	3,027	3,962	9,345	1,837	18,171	1,150	19,321	1,770	21,090

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥449 million (\$4,337 thousand) of administration department profit.
2. Adjustments for segment profit and loss include ¥429 million (\$4,143 thousand) of elimination of inter-segment profit and loss, ¥4,823 million (\$46,595 thousand) of retirement benefits liability adjustments (gain), ¥6,422 million (\$62,046 thousand) of adjustment (loss) to provision for bonuses associated with the change of fiscal year end, and ¥3,938 million (\$38,050 thousand) of corporate general administration expense, which are not allocable to the reportable segments.
3. Adjustments for segment assets include ¥8,986 million (\$86,818 thousand) of inter-segment eliminations, ¥171,528 million (\$1,657,276 thousand) of corporate assets, which are not allocable to the reportable assets.

Millions of yen									
As of/Fiscal year ended March 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥202,525	¥473,151	¥398,780	¥16,248	¥1,090,705	¥12,765	¥1,103,470	¥ 625	¥1,104,094
Inter-segment transfers	21,102	852	579	3,015	25,548	10,661	36,209	(36,209)	—
Total	223,627	474,003	399,360	19,263	1,116,253	23,425	1,139,678	(35,584)	1,104,094
Segment profit (loss)	6,095	22,570	34,541	3,551	66,758	1,484	68,243	(9,419)	58,824
Segment assets	195,591	181,789	336,580	75,900	789,860	77,146	867,007	137,761	1,004,768
Other items:									
Depreciation and amortization	2,987	4,632	2,449	2,022	12,090	1,649	13,739	649	14,388
Amortization of goodwill	—	—	5,975	—	5,975	168	6,143	—	6,143
Interest income	73	45	187	123	428	0	428	23	451
Interest expense	777	560	3,098	516	4,951	207	5,158	(2,453)	2,706
Equity in earnings (losses) of affiliates	(559)	7	6,535	391	6,374	1,722	8,096	0	8,097
Investments in affiliates	7,827	1,337	37,928	1,932	49,024	34,132	83,156	8	83,164
Increase in property, plant and equipment and intangible assets	4,061	3,399	13,962	1,677	23,098	10,705	33,804	4,099	37,903

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥625 million of administration department profit.
2. Adjustments for segment profit and loss include ¥482 million of elimination of inter-segment profit and loss, ¥2,572 million of retirement benefits liability adjustments (loss), and ¥6,365 million of corporate general administration expense, which are not allocable to the reportable segments.
3. Adjustments for segment assets include ¥8,314 million of inter-segment eliminations, ¥146,075 million of corporate assets, which are not allocable to the reportable assets.

Thousands of U.S. dollars									
As of/Fiscal year ended December 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	\$1,266,778	\$3,207,796	\$3,399,438	\$137,515	\$8,011,526	\$98,925	\$8,110,451	\$4,337	\$8,114,788
Inter-segment transfers	130,826	2,983	5,113	7,974	146,897	78,869	225,765	(225,765)	—
Total	1,397,605	3,210,778	3,404,551	145,489	8,158,423	177,794	8,336,216	(221,429)	8,114,788
Segment profit (loss)	22,549	81,680	425,428	16,264	545,920	7,309	553,229	(57,644)	495,585
Segment assets	1,809,963	1,759,524	3,659,630	960,725	8,189,841	782,236	8,972,077	1,570,458	10,542,536
Other items:									
Depreciation and amortization	22,242	33,693	18,795	14,807	89,536	15,066	104,603	6,537	111,140
Amortization of goodwill	—	—	8,194	777	8,971	1,221	10,192	—	10,192
Interest income	228	140	1,265	485	2,118	2	2,120	117	2,237
Interest expense	4,041	3,506	18,562	3,039	29,148	1,373	30,521	(12,841)	17,680
Equity in earnings (losses) of affiliates	(7,132)	(6,781)	33,660	(48)	19,699	12,357	32,056	3	32,059
Investments in affiliates	62,095	6,021	363,186	19,109	450,412	360,659	811,070	72	811,142
Increase in property, plant and equipment and intangible assets	29,243	38,277	90,293	17,751	175,564	11,109	186,673	17,097	203,770

(Related information)

(1) Products and services information

Millions of yen			
Fiscal year ended December 31, 2020	Timber and Building Materials	Housing	Other
Sales and contract revenues to unaffiliated customers	¥134,135	¥683,849	¥21,896

Millions of yen			
Fiscal year ended March 31, 2020	Timber and Building Materials	Housing	Other
Sales and contract revenues to unaffiliated customers	¥205,287	¥871,932	¥26,875

Thousands of U.S. dollars			
Fiscal year ended December 31, 2020	Timber and Building Materials	Housing	Other
Sales and contract revenues to unaffiliated customers	\$1,295,994	\$6,607,233	\$211,560

(2) Geographic area information

Sales information by geographic area was as follows:

Millions of yen			
Fiscal year ended December 31, 2020	Japan	United States	Other Area
	¥459,790	¥295,290	¥84,801

Millions of yen			
Fiscal year ended March 31, 2020	Japan	United States	Other Area
	¥675,686	¥331,894	¥96,514

Thousands of U.S. dollars			
Fiscal year ended December 31, 2020	Japan	United States	Other Area
	\$4,442,419	\$2,853,040	\$819,329

Information on property, plant and equipment by geographical areas was as follows:

Millions of yen					
Fiscal year ended December 31, 2020	Japan	New Zealand	United States	Other Area	Total
	¥105,530	¥33,381	¥24,172	¥22,865	¥185,948

Millions of yen					
Fiscal year ended March 31, 2020	Japan	New Zealand	United States	Other Area	Total
	¥104,932	¥33,753	¥20,286	¥20,475	¥179,446

Thousands of U.S. dollars					
Fiscal year ended December 31, 2020	Japan	New Zealand	United States	Other Area	Total
	\$1,019,611	\$322,518	\$233,548	\$220,918	\$1,796,595

(3) Customer information

Customer information has been omitted since sales and contract revenues from no single customer exceeded 10% of consolidated net sales.

(Information on loss on impairment of non-current assets)

Millions of yen							
Fiscal year ended December 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Loss on impairment of non-current assets	¥—	¥—	¥—	¥—	¥ 98	¥—	¥ 98

Millions of yen							
Fiscal year ended March 31, 2020	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	¥—	¥249	¥—	¥—	¥140	¥—	¥389

Thousands of U.S. dollars							
Fiscal year ended December 31, 2020	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	\$—	\$—	\$—	\$—	\$944	\$—	\$944

(Amortization and balance of goodwill)

As of/Fiscal year ended December 31, 2020	Millions of yen						Total
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	
Amortization of goodwill	¥—	¥—	¥ 848	¥80	¥ 126	¥—	¥1,055
Balance of goodwill	—	—	4,155	—	2,401	—	6,556

As of/Fiscal year ended March 31, 2020	Millions of yen						Total
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	
Amortization of goodwill	¥—	¥—	¥5,975	¥—	¥ 168	¥—	¥6,143
Balance of goodwill	—	—	5,061	—	2,527	—	7,588

As of/Fiscal year ended December 31, 2020	Thousands of U.S. dollars						Total
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	
Amortization of goodwill	\$—	\$—	\$ 8,194	\$777	\$ 1,221	\$—	\$10,192
Balance of goodwill	—	—	40,146	—	23,194	—	63,340

22. Amounts per Share

(a) Basic and diluted net income attributable to shareholders of parent per share

Details on the computation of net income per share and net income per share fully diluted as of December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Net income attributable to shareholders of parent per share—Basic:			
Net income attributable to shareholders of parent	¥ 30,398	¥ 27,853	\$293,705
Net income not attributable to shares of common stock	—	—	—
Net income attributable to shares of common stock	30,398	27,853	293,705
Weighted average number of shares issued	181,442,403	181,406,905	—
Net income attributable to shareholders of parent per share fully diluted—Diluted:			
Adjusted net income attributable to shareholders of parent	—	—	—
Common shares increase	4,662,581	4,671,111	—
(Bonds with share acquisition rights)	(4,562,044)	(4,562,044)	—
(Share acquisition rights)	(100,537)	(109,067)	—

(b) Net assets per share

Details on the computation of net assets per share as of December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Net assets per share:			
Total net assets	¥399,456	¥357,064	\$3,859,479
Amounts deducted from total net assets:			
(share acquisition rights)	31,995	34,568	309,130
(Non-controlling interests)	(120)	(120)	(1,156)
	(31,875)	(34,448)	(307,975)
Net assets attributable to shares of common stock	367,461	322,496	3,550,348
The number of shares of common stock used for the calculation of net assets per share	181,450,748	181,425,138	—

23. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the fiscal years ended December 31, 2020 and March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Valuation difference on available-for-sale securities:			
Amount incurred during the year	¥38,742	¥(11,898)	\$374,316
Reclassification adjustments for gains and losses included in net income	839	209	8,111
Amount before tax effect	39,581	(11,688)	382,427
Tax effect	(12,006)	3,560	(116,000)
Valuation difference on available-for-sale securities	27,575	(8,128)	266,427
Deferred gains (losses) on hedges:			
Amount incurred during the year	(704)	2,701	(6,806)
Reclassification adjustments for gains and losses included in net income	(114)	(108)	(1,102)
Amount before tax effect	(818)	2,593	(7,908)
Tax effect	285	(815)	2,749
Deferred gains (losses) on hedges	(534)	1,778	(5,159)
Translation adjustments:			
Amount incurred during the year	(7,183)	(2,876)	(69,399)
Reclassification adjustments for gains and losses included in net income	(40)	(165)	(390)
Amount before tax effect	(7,223)	(3,041)	(69,789)
Tax effect	12	50	119
Translation adjustments	(7,211)	(2,990)	(69,670)
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	(2,657)	(249)	(25,669)
Reclassification adjustments for gains and losses included in net income	(266)	(37)	(2,566)
Share of other comprehensive income of affiliates accounted for by the equity method	(2,922)	(286)	(28,235)
Total other comprehensive income	¥16,908	¥ (9,626)	\$163,363

24. Asset Retirement Obligations

In accordance with exhibition contracts at housing exhibition sites and tenancy contracts for offices, the Company and certain subsidiaries are obligated to remove leasehold improvements attached to these housing exhibitions and offices and return the property to its original state after vacating the premises.

The asset retirement obligations are determined and discounted to their present value using the discount rates ranging from 0.00% to 2.15% and the expected usage term ranging from 5 years to 49 years.

The changes in the asset retirement obligations for the fiscal years ended December 31, 2020 and March 31, 2020 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Balance at beginning of the year	¥2,235	¥2,010	\$21,597
Liability incurred for assets acquired	81	217	787
Change in estimates	343	80	3,313
Accretion expense	8	10	74
Liabilities settled	(178)	(81)	(1,724)
Balance at end of the year	¥2,489	¥2,235	\$24,047

25. Related Party Transactions

Principal transactions between the Company, its consolidated subsidiaries and their related parties for the fiscal years ended December 31, 2020 and March 31, 2020 were summarized as follows:

Fiscal year ended December 31, 2020			Millions of yen		Thousands of U.S. dollars	
Name	Title	Transactions	Amounts	Balance at the end of the year	Amounts	Balance at the end of the year
Kanda Biomass Energy K.K.	Affiliate	Guarantee of indebtedness	¥12,298	¥—	\$118,821	\$—

Notes: The Company provided guarantees of indebtedness as the requests of lending banks

Fiscal year ended December 31, 2020			Millions of yen		Thousands of U.S. dollars	
Name	Title	Transactions	Amounts	Balance at the end of the year	Amounts	Balance at the end of the year
Relative of Toshiro Mitsuyoshi	Director's relative	Receipt of rent for private-pay elderly care facility	¥—	¥12	\$—	\$116

Notes: 1. The terms and conditions of the transactions were determined using the same methods as third party transactions.
2. Balance at the end of the year does not include consumption tax.

Fiscal year ended March 31, 2020			Millions of yen	
Name	Title	Transactions	Amounts	Balance at the end of the year
Kanda Biomass Energy K.K.	Affiliate	Guarantees of indebtedness	¥10,578	¥—

Notes: The Company provided guarantees of indebtedness as the requests of lending banks.

Fiscal year ended March 31, 2020			Millions of yen	
Name	Title	Transactions	Amounts	Balance at the end of the year
Relative of Toshiro Mitsuyoshi	Director's relative	Receipt of rent for private-pay elderly care facility	¥18	¥14

Notes: 1. The terms and conditions of the transactions were determined using the same methods as third party transactions.
2. The transaction amounts and balance at the end of the year do not include consumption tax.

26. Business Combination

(Business Transfer by Consolidated Subsidiary)

1. Summary of the business combination

- (1) Name of the acquiree and business description
Name of the acquiree: Builders Professional Group, LLC
Description of business: Construction and sales of spec homes
- (2) Main reason for implementing the business combination
The Company is taking over the business from Builders Professional Group, LLC, which is engaged in the spec homes business under the brand Knight Homes in the Atlanta, Georgia area, the third largest housing market in the United States, in order to enter that market.
- (3) Date of the business combination
December 1, 2020 (U.S. date)
- (4) Legal form of the business combination
Cash-based business transfer
- (5) Name of company after business combination
DRB Group (DRB Group Georgia, LLC and DRB Group Alabama, LLC)
- (6) Main reasons for determining the acquirer
Our consolidated subsidiary, DRB Group, is the acquiring company because it is paying cash for the business transfer.

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

From December 1, 2020 to December 31, 2020.

3. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisitions:	¥14,583 million (\$140,899 thousand)
Acquisition cost:	¥14,583 million (\$140,899 thousand)

Note: The above amount includes the account payable of the contingent consideration.

4. Description and amount of primary acquisition-related costs

Advisory fee: ¥245 million (\$2,371 thousand)

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

- (1) Amount of goodwill
¥1,470 million (\$14,204 thousand)

27. Stock Option Plan

(a) Stock option expenses per accounts for the fiscal years ended December 31, 2020 and March 31, 2020

None.

(b) Description of stock options

- (1) Description of stock options

	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Individuals covered by the plan	Directors of the Company: 8 Executive officers of the Company: 11 Total: 19	Directors of the Company: 8 Executive officers of the Company: 13 Total: 21	Directors of the Company: 8 Executive officers of the Company: 12 Total: 20
Number of stock options granted by class of share (Note)	Common stock: 38,800 shares	Common stock: 41,400 shares	Common stock: 38,500 shares
Grant date	August 20, 2015	August 19, 2016	August 18, 2017
Vesting conditions	No provisions	No provisions	No provisions
Eligible service period	No provisions	No provisions	No provisions
Exercise period	From August 21, 2015 to August 20, 2035	From August 20, 2016 to August 19, 2036	From August 19, 2017 to August 18, 2037

Note: Converted into the number of equivalent shares.

- (2) Volume and changes in stock options
The number of stock options is converted into the number of equivalent shares.

- (2) Reason for recognition
The acquisition cost exceeded the fair value of net assets acquired at the date of business combination.
- (3) Amortization method and period
Straight-line amortization over 2 years

6. Assets acquired and liabilities assumed at the acquisition date

	Millions of yen	Thousands of U.S. dollars
Current assets	¥13,059	\$126,175
Non-current assets	60	577
Total assets	13,119	126,752
Current liabilities	(6)	(57)
Non-current liabilities	—	—
Total liabilities	¥ (6)	\$ (57)

7. Contents of the contingent consideration and their future accounting treatment

Based on the contract, additional payments will be made according to the degree of achievement of future performance of the acquired business. The variable portion of the contingent consideration is recognized based on U.S. GAAP.

8. Estimated impact on the consolidated statement of income in the fiscal year ended December 31, 2020, assuming that the business combination was concluded at the beginning of the fiscal year, and the method of calculation.

Sales	¥15,353 million (\$148,338 thousand)
Recurring income	¥ 2,197 million (\$ 21,223 thousand)
Net income attributable to shareholders of parent	¥ 1,383 million (\$ 13,365 thousand)

(Method by which estimated amounts were calculated)

The estimated amounts were calculated based on the difference between financial information on sales and income calculated on the assumption that the business combination was concluded at the beginning of the fiscal year ended December 31, 2020 and financial information on sales and income contained in the consolidated statement of income of the acquiring company.

The estimated amounts of the impact have not been audited.

- 1) 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)
Fiscal Year ended December 31, 2020			
Unvested stock options			
As of March 31, 2020	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested as of December 31, 2020	—	—	—
Vested stock options			
As of March 31, 2020	29,600	36,800	34,200
Vested	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Unexercised as of December 31, 2020	29,600	36,800	34,200

- 2) 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)
Fiscal Year ended December 31, 2020			
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price when exercised	—	—	—
Fair unit value on the grant date	¥1,233	¥1,092	¥1,256

	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)
Fiscal Year ended December 31, 2020			
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01
Average stock price when exercised	—	—	—
Fair unit value on the grant date	\$11.91	\$10.55	\$12.14

(c) Method for estimating a fair unit price for stock options

No stock options were granted in the fiscal year ended December 31, 2020.

(d) Method for estimating the number of vested stock options

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been forfeited is reflected.

28. Additional Information

(Effect of COVID-19 on Accounting Estimates)

It is extremely difficult to predict the future spread of COVID-19 and when it will end. Although the transaction volume of the Timber and Building Materials business has decreased, the financial performance of the Overseas Housing and Real Estate business has been favorable mainly in the United States because of the increasing demand for domestic detached houses, which led to a recovery trend in orders received in the Housing and Construction Business that has continued from the middle of the fiscal year ended December 31, 2020.

To determine the recoverability of deferred tax assets and the recognition of impairment loss, the Company made best estimates assuming that a minor impact would continue based on the information available at the time of preparation of the consolidated financial statements.

However, in the event it is determined that there are major changes in circumstances upon which the estimates were formed, a reversal of deferred tax assets may occur and estimates may be revised considering any changes in the subsequent fiscal year.

29. Subsequent Events

(Business combination through acquisition)

On January 18, 2021, the Company acquired shares of Kouei Kousan K.K., and made Kouei Kousan K.K., Cohnan Kensetsu Inc. and 3 other companies its consolidated subsidiaries.

1. Summary of the business combination

- (1) Name of the acquiree and business description

Name of the acquiree: Kouei Kousan K.K., Cohnan Kensetsu Inc. and

3 other companies

Description of business: Construction and related business

- (2) Main reason for implementing the business combination
Kouei Kousan K.K. is the holding company that holds 53.59% of the shares of Cohnan Kensetsu Inc. Cohnan Kensetsu Inc. is a construction company based in Osaka and Tokyo. Leveraging of its consistent support from project proposal to design, construction and after-maintenance, Cohnan Kensetsu Inc. has extensive construction experience involving condominiums, commercial facilities, schools, welfare facilities and research and production facilities. The purpose of this acquisition is to strengthen medium- and large-scale wooden construction business, which promotes the use of wood in non-residential building construction.

- (3) Date of the business combination
January 18, 2021
- (4) Legal form of the business combination
Acquisition of the shares for a cash consideration
- (5) Ratio of voting rights acquired
Kouei Kousan K.K.: 100%
Cohnan Kensetsu Inc. and 3 other companies: 53.59%
- (6) Main reasons for determining the acquirer
The Company acquired the shares for a cash consideration

2. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisition:	Cash	¥5,200 million (\$50,242 thousand)
Acquisition cost:		¥5,200 million (\$50,242 thousand)

3. Description and amount of primary acquisition-related costs

Advisory fee: ¥141 million (\$1,362 thousand)

4. Amount of goodwill, reason for recognition, and amortization method and period
Not yet determined.

5. Assets acquired and liabilities assumed at the acquisition date
Not yet determined.

Independent Auditor's Report

The Board of Directors
Sumitomo Forestry Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the nine-month period then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the nine-month period 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.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the nine-month period ended December 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

March 30, 2021

/S/ Tatsuya Chiba

Tatsuya Chiba
Designated Engagement Partner
Certified Public Accountant

/S/ Yoshikatsu Nakahara

Yoshikatsu Nakahara
Designated Engagement Partner
Certified Public Accountant

/S/ Natsuki Saiki

Natsuki Saiki
Designated Engagement Partner
Certified Public Accountant

Sumitomo Forestry Group overview (As of end of March 2021)

Domestic Group overview

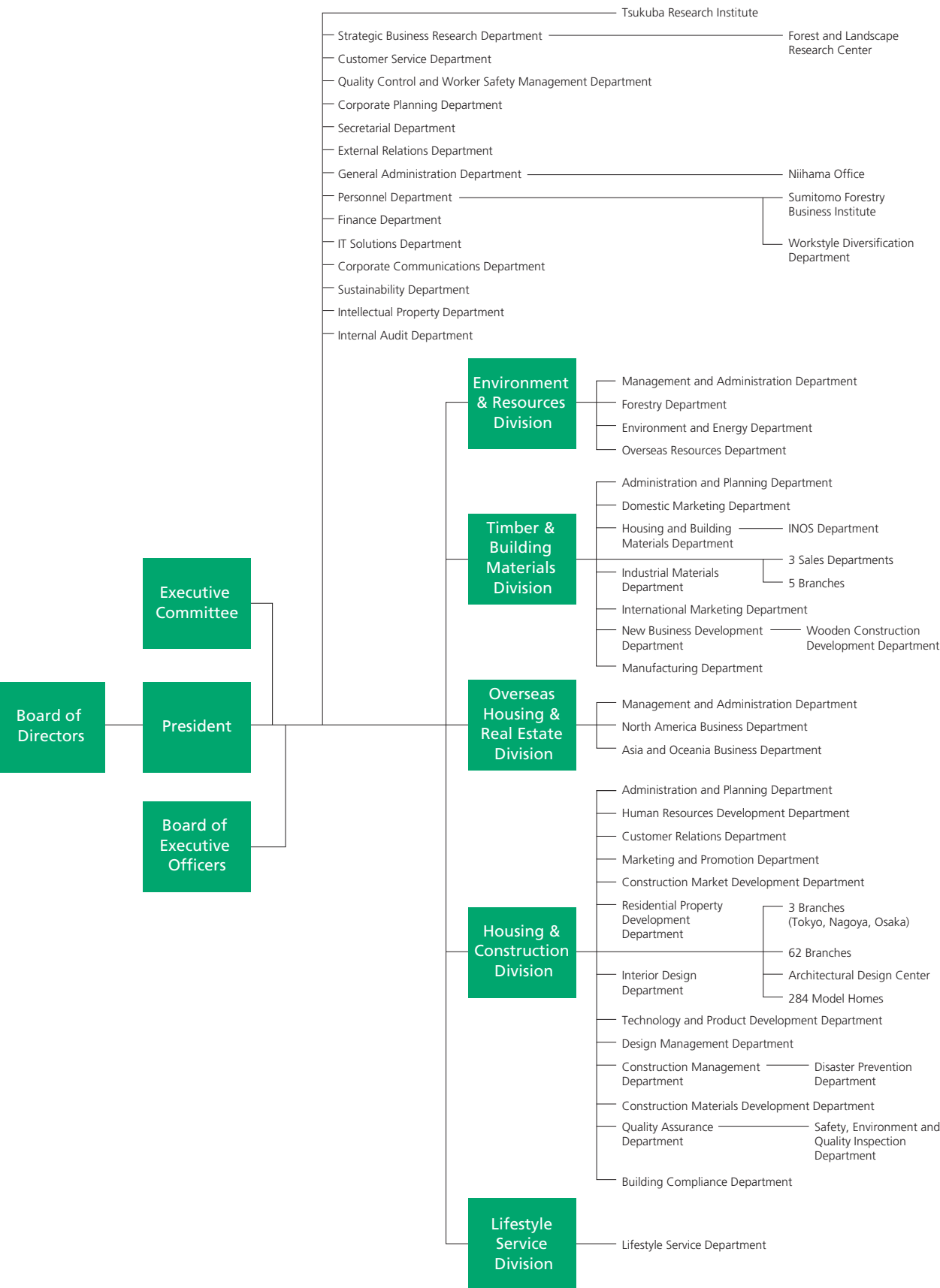
■ Sumitomo Forestry Crest Co., Ltd.	Manufacture and sale of various types of plywood, building components for housing, and adhesives, etc.
■ Sumitomo Forestry Wood Products Co., Ltd.	Procurement and sale of timber and forestry-related businesses
■ Sumirin Sash Co., Ltd.	Secondary processing and sale of aluminum sashes, exterior finishing
■ Sumikyo Wintec Co., Ltd.	Sale of door and window sashes for housing and low- and mid-rise buildings and exterior finishing materials
■ Sumikyo Co., Ltd.	Secondary processing and sale of aluminum sashes, exterior finishing
■ Igeto Co., Ltd.	Sale of housing materials and equipment
■ Daiichisansho Co., Ltd.	Sale of housing materials and equipment, interior and exterior finishing
■ Nihei Co., Ltd.	Sale of housing materials and equipment, ancillary work
■ Home Eco Logistics Co., Ltd.	Distribution services for home building materials
■ Home Express Structure Design Co., Ltd.	Fiduciary business of design assistance of custom-built wooden detached homes, sale of software
■ Nichiha Fuji Tech Co., Ltd.	Manufacture and sales of construction materials
■ Sumitomo Forestry Home Service Co., Ltd.	Sales agent for land and housing
■ Sumitomo Forestry Residential Co., Ltd.	Management of condominiums and apartments
■ Sumitomo Forestry Home Tech Co., Ltd.	Renovation and maintenance of Sumitomo Forestry's custom-built wooden detached homes and renovation of regular detached houses, stores and offices, as well as condominiums, etc.
■ Sumitomo Forestry Landscaping Co., Ltd.	Urban greening, landscaping for private residences, plant management, procurement and sale of trees and landscape materials, plant rental, etc.
■ Sumitomo Forestry Home Engineering Co., Ltd.	Construction and construction supervision of Sumitomo Forestry's custom-built wooden detached homes
■ Sumitomo Forestry Archi Techno Co., Ltd.	Design, production support, site and foundation surveys, analysis of foundation and application for housing performance evaluation for Sumitomo Forestry's custom-built wooden detached homes
■ Meikan Honchosha PFI Co., Ltd.	Redevelopment of headquarters, etc. of Nagoya Port Authority
■ COHNAN KENSETSU INC.	Construction and peripheral businesses
■ AIM CREATE Co., Ltd.	Spatial production, management of commercial facilities, advertising business
■ Japan Bio Energy Co., Ltd.	Supply and sale of wood chips
■ Kawasaki Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Okhotsk Bio Energy Co., Ltd.	Supply and sale of wood chips
■ Mombetsu Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Michinoku Bio Energy Co., Ltd.	Supply and sale of wood chips
■ Hachinohe Biomass Electric Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Tomakomai Biomass Power Co., Ltd.	Electric power generation using wood-chip biomass, wholesale of electric power
■ Kanda Biomass Energy K.K.	Electric power generation using wood pellet biomass, wholesale of electric power
■ Morinomiyako Biomass Energy G.K.	Electric power generation using wood pellet biomass, wholesale of electric power
■ Sumitomo Forestry Information Systems Co., Ltd.	Development of computer systems, etc.
■ Sumirin Wood Peace Co., Ltd.	Bed log shiitake mushroom cultivation and sale, production and processing of timber and interior products, printing
■ Sumirin Enterprises Co., Ltd.	Various services for insurance agency, equipment leasing, office services, etc.
■ Sumirin Business Service Co., Ltd.	Staffing business, training, business contracting
■ Kawanokita Development Co., Ltd.	Management of the Takinomiya Country Club golf course
■ Sumirin Fill Care Co., Ltd.	Management of private-pay elderly care facilities, etc.
■ Sumirin Care Life Co., Ltd.	Management of private-pay elderly care facilities, home nursing care service
■ Kumagai Gumi Co., Ltd.	Construction and peripheral businesses
■ Aqaignis Taki Hotel Asset Co., Ltd.	Ownership, management and rental business of accommodation facilities

■ Timber and Building Materials Business ■ Housing and Construction Business
■ Environment and Resources Business ■ Other businesses

Overseas Group overview

United States	
■ Sumitomo Forestry America, Inc.	Oversight and participation in management of affiliated companies in the U.S.A.
■ Canyon Creek Cabinet Company	Manufacture and sale of kitchen cabinets, etc.
■ Bloomfield Homes Group	Construction and sale of spec homes
■ Gehan Homes Group	Construction and sale of spec homes
■ MainVue Homes Group	Construction and sale of spec homes
■ Dan Ryan Builders Group	Construction and sale of spec homes
■ Edge Homes Group	Construction and sale of spec homes
■ Crescent Communities Group	Construction and sale of multi-family housing, commercial complex developments, etc.
■ Mark III Properties, LLC	Land development and sale
Australia	
■ Sumitomo Forestry Australia Pty Ltd.	Oversight and participation in management of affiliated companies in Australia; import/export and wholesale of timber and building materials
■ Henley Properties Group	Construction and sale of custom-built homes and spec homes
■ Wisdom Properties Group	Construction and sale of custom-built homes and spec homes
■ Scott Park Group	Construction and sale of custom-built homes
New Zealand	
■ Sumitomo Forestry NZ Ltd.	Management of affiliated companies in New Zealand
■ Nelson Pine Industries Ltd.	Manufacture and sale of medium-density fiberboard (MDF), veneer and laminated veneer lumber (LVL)
■ Tasman Pine Forests Ltd.	Large-scale forestation
Papua New Guinea	
■ Open Bay Timber Ltd.	Large-scale forestation
Singapore	
■ Sumitomo Forestry (Singapore) Ltd.	Import/export and wholesale of timber and building materials, oversight and participation in management of affiliates in Asia
■ SFKG Property Asia Pte. Ltd.	Real estate development business in Asia region
China	
■ Sumitomo Forestry (Dalian) Ltd.	Import/export and wholesale of timber and building materials
■ Dalian Sumirin Information Technology Service Co., Ltd.	Contracted CAD work and other business processing
Indonesia	
■ PT. Sumitomo Forestry Indonesia	Import/export and wholesale of timber and building materials
■ PT. Mayangkara Tanaman Industri	Large-scale forestation
■ PT. Wana Subur Lestari	Large-scale forestation
■ PT. Kubu Mulia Forestry	Large-scale forestation
■ PT. Kutai Timber Indonesia	Manufacture and sale of plywood, secondary processed plywood, processed timber products and particle board
■ PT. Rimba Partikel Indonesia	Manufacture and sale of particle board and melamine faced chipboard
■ PT. Sinar Rimba Pasifik	Manufacture and sale of wooden interior products
■ PT. AST Indonesia	Manufacture and sale of materials for musical instruments and wooden building materials
■ PT. Summa Sinar Fajar	Development, construction and sale of detached houses
Myanmar	
■ Sumitomo Forestry (Singapore) Ltd. Yangon Branch	Wholesale of timber and building materials, collect information on overseas locations
Thailand	
■ SF Holdings (Thailand) Co., Ltd.	Management of affiliated companies in Thailand
■ PAN ASIA PACKING LTD.	Procurement and sale of wooden packaging materials and wood products
■ Grand Star Co., Ltd.	Development, construction and sale of condominiums
■ Grand River Forest Co., Ltd.	Development, construction and sale of condominiums
■ PF Forestry Co., Ltd.	Development, construction and sale of detached houses
Vietnam	
■ Sumitomo Forestry Vietnam Co., Ltd.	Import/export and wholesale of timber and building materials
■ Vina Eco Board Co., Ltd.	Manufacture and sale of particle board
■ An Cuong Wood-Working Joint Stock Company	Manufacture, sale and construction of fabricated decorative board and wooden interior building materials
India	
■ Sumitomo Forestry India Pvt. Ltd.	Import/export and wholesale of timber and building materials
■ Spacewood Furnishers Pvt. Ltd.	Manufacture and sale of wooden interior products
Overseas offices	
■ Vancouver Office (Canada)	
■ Amsterdam Office (Netherlands)	
■ Timber and Building Materials Business ■ Overseas Housing and Real Estate Business ■ Environment and Resources Business	

Organization chart (As of January 1, 2021)



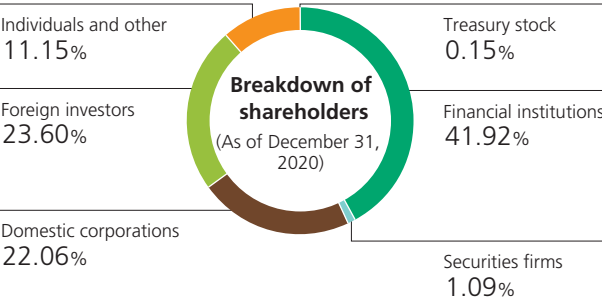
Corporate profile (As of December 31, 2020)

Corporate profile

Company name	Sumitomo Forestry Co., Ltd.
Founded	1691
Incorporated	1948
Paid-in capital	¥32,803 million
Head office	Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Consolidated subsidiaries	267 (Overseas 234)
Affiliated companies	107 (Overseas 97)
Number of employees (consolidated)	20,562
Homepage	https://sfc.jp/english/
Accounting auditor	Ernst & Young ShinNihon LLC
Contact information	Sumitomo Forestry Co., Ltd. Corporate Communications Department IR Team Tel : 81-3-3214-2270 Fax: 81-3-3214-2272 IR Contact (in Japanese) https://sfc.jp/php/contact/ir/form.php

Shareholders & stock info

Stock exchange listing	Tokyo
Total number of authorized shares	400,000,000
Total number of shares issued	182,778,336
Ordinary general meeting of shareholders	March
Number of shareholders	10,533



Percentages in breakdown of shareholders are rounded down.

Major shareholders

Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	15,021	8.2
Sumitomo Metal Mining Co., Ltd.	10,110	5.5
Custody Bank of Japan, Ltd. (trust account)	9,770	5.3
The Iyo Bank, Ltd.	5,849	3.2
Kumagai Gumi Co., Ltd.	5,197	2.8
Sumitomo Corporation	4,383	2.4
Sumitomo Life Insurance Company	4,227	2.3
The Hyakujushi Bank, Ltd.	4,197	2.3
Sumitomo Mitsui Banking Corporation	3,536	1.9
Sumitomo Forestry Group Employee Shareholding Association	3,087	1.6

Number of shares held and shareholding ratio are rounded down. Shareholding ratio is calculated by subtracting treasury stock from the total number of outstanding shares.