[TRANSLATION]

The 83rd Ordinary General Meeting of Shareholders
Other Matters Related to Electronic Provision Measures
(Matters Omitted from the Delivery Document)

Business Report

■Matters concerning stock acquisition rights and other of the Company… 1

■Matters concerning Accounting Auditor…………………………………… 2

■System to ensure the appropriateness of business operations and outline of the operational status of such system ……………………………………… 3

Consolidated Financial Statements

■Consolidated Statements of Changes in Net Assets ……………………… 7

■Notes to the Consolidated Financial Statements …………………………… 8

Non-consolidated Financial Statements

■Non-consolidated Statements of Changes in Net Assets …………………… 19

■ Notes to the Non-consolidated Financial Statements ……………………… 20

（January 1, 2022, to December 31, 2022）

Sumitomo Forestry Co., Ltd.

Matters concerning shock acquisition rights and other of the Company

(1) Stock acquisition rights held by directors as of the end of the current fiscal year

Name	Allotment date	Number of share acquisition rights	Type and number of shares to be issued	Issue price	Exercise price	Exercise date	Number of people holding
Sumitomo Forestry Co., Ltd. 2015 Stock Acquisition Rights (Stock-based Compensation Type)	August 20, 2015	80	Common stock of the Company 8,000 shares	¥1,233/share	¥1/share	August 21, 2015, to August 20, 2035	2 (excluding outside directors)
Sumitomo Forestry Co., Ltd. 2016 Stock Acquisition Rights (Stock-based Compensation Type)	August 19, 2016	127	Common stock of the Company 12,700 shares	¥1,092/share	¥1/share	August 20, 2016, to August 19, 2036	5 (excluding outside directors)
Sumitomo Forestry Co., Ltd. 2017 Stock Acquisition Rights (Stock-based Compensation Type)	August 18, 2017	111	Common stock of the Company 11,100 shares	¥1,256/share	¥1/share	August 19, 2017, to August 18, 2037	4 (excluding outside directors)

(Note) A portion of stock acquisition rights held by directors include those allotted during their tenure as executive officers.

(2) Stock acquisition rights held by statutory auditors as of the end of the current fiscal year

Name	Allotment date	Number of share acquisition rights	Type and number of shares to be issued	Issue price	Exercise price	Exercise date	Number of people holding
Sumitomo Forestry Co., Ltd. 2017 Stock Acquisition Rights (Stock-based Compensation Type)	August 18, 2017	24	Common stock of the Company 2,400 shares	¥1,256/share	¥1/share	August 19, 2017, to August 18, 2037	1 (excluding outside statutory auditors)

(Note) Stock acquisition rights held by statutory auditors are those allotted during their tenure as directors.

(3) Important matters concerning other stock acquisition rights

A summary of Zero Coupon Convertible Bonds Due 2023 issued by the Company on September 27, 2018, is as follows.

Number of Stock Acquisition Rights	Type and number of shares to be issued	Conversion price	Exercise period	Number of Stock Acquisition Rights as of December 31, 2022
1,000	Common stock of the Company 4,684,498 shares	¥2,134.7/share	October 11, 2018, to September 13, 2023	1,000

Matters concerning Accounting Auditor

(1) Name of the Accounting Auditor

Ernst & Young ShinNihon LLC

(2) Amount of remuneration and other of the Accounting Auditor

	Item	Amount paid
i.	Amount of remuneration and other to be paid by the Company to the Accounting Auditor for services related to Article 2, Paragraph 1 a of the Certified Public Accountants Act (auditing or certification services)	¥ million 98
ii.	Total amount of money and other financial benefits to be paid by the Company and its subsidiaries to the Accounting Auditor	146

(Note) １． The Board of Statutory Auditors has confirmed and reviewed the details of the audit plan of the Accounting Auditor, the status of execution of the duties of the accounting audit, and the basis for calculation of the estimate of remuneration by obtaining the necessary materials and hearing reports from directors, relevant internal departments, and the Accounting Auditor. As a result, the Board of Statutory Auditors has determined that the amount of remuneration and other paid to the Accounting Auditor is appropriate.

２． In the audit contract between the Company and the Accounting Auditor, the amount of remuneration for the audit based on the Companies Act and for the audit based on the Financial Instruments and Exchange Act are not and cannot be separated practically. Hence, the amount in item ① indicates the sum of these amounts.

３． The Company has engaged the Accounting Auditor to perform services other than those stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act (non-audit services) and has paid compensation for these services, including advisory services for the development and operation of an internal control system over financial reporting.

４． Of the Company's major subsidiaries, Henley Arch Unit Trust, Bloomfield Homes, L.P., Crescent Communities, LLC, DRB Enterprises, LLC, Edge Utah HoldCo, LLC, Gehan Homes, Ltd., MainVue Homes LLC, and Mark III Properties, LLC are audited by auditors other than the Company's Accounting Auditors.

(3) Policy on the dismissal or non-reappointment of the Accounting Auditor

The Board of Statutory Auditors shall dismiss the Accounting Auditor upon the consent of all Statutory Auditors in the event that it is determined that any item under Article 340, Paragraph 1 of the Companies Act applies to the Accounting Auditor.

In addition, if it is determined that the Accounting Auditor is unable to appropriately perform its duties, following a decision by the Board of Statutory Auditors, the Board of Directors will submit a resolution for the dismissal or non-reappointment of the Accounting Auditor at the General Meeting of Shareholders.

System to ensure the appropriateness of business operations and outline of the operational status of such system

＜The system to ensure the appropriateness of business operations＞

(1) Basic Policy for Execution of Duties

i. Since its establishment in the Genroku Era (1688-1704), the Sumitomo Business Spirit, as exemplified by such phrases as "placing prime importance on integrity and sound management" and "under no circumstances shall Sumitomo pursue easy gains or act imprudently," has been the core of our management. Along with our philosophy of "national gratitude" where we aim to be a corporate entity that is truly essential to nations and society, our business stance to create "sustainable forestry" where we nurture and manage forests continuously in an environmentally conscious manner, and the "Sumitomo Business Spirit" where we benefit society by placing emphasis on fairness and integrity, the Company aims to contribute to a sustainable and prosperous society through all types of lifestyle-related services that utilize healthy and environmentally friendly wood. To realize these goals, the following five Action Guidelines have been set:
   - We provide high-quality products and services that bring joy to our customers.
   - With a fresh perspective, we create new jobs that lead to happiness for generations to come.
   - We promote a free and open 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.

ii. The Company's ethics guidelines and values, which all Group executives and employees must observe and which we are sincerely striving to fulfill, have been set forth as the Group Code of Conduct and other rules.

iii. Maintaining an uncompromising stance against anti-social activities is part of the Group's basic policy and one that we adhere to.

(2) System to Ensure Compliance by Executives and Employees to Laws, Regulations and the Articles of Incorporation

i. The Company, as part of the Group's basic policy, has positioned the promotion of compliance as an important management issue and is working to implement the systems and environment to secure this.

ii. For the complete and thorough management of compliance, the Company has formulated relevant regulations and established a Company-wide compliance system with the aim to reinforce internal control functions and enhance remedial capacity across the entire Group on an ongoing basis. It has done so by creating a horizontal, Group-wide compliance promotion committee and an internal reporting system (compliance counter) that can be used by the Group's and subcontractor's executives and employees, which reports to an outside law firm and the general manager of the General Administration Department.

iii. For a system to adequately and appropriately protect financial and accounting statements and other information, the Company will formulate documents with relevant rules and the standardization of operational procedures. The Company has created a system where major departments verify the appropriateness of the financial reporting process and the effectiveness of internal control systems, which is then evaluated by the Internal Audit Department. The Company continues to work to improve the quality of internal control-related functions associated with the appropriateness of financial reporting.

(3) System for the Storing and Maintaining Information Related to Director Duties

i. The Company, in accordance with regulations regarding the storage and maintenance of documents and information, appropriately records and stores important documents, such as minutes of the General Meeting of Shareholders, minutes of the Board of Directors meetings and other legal documents, and other important documents related to decision making, such as requests for management approval.

ii. The Company will work to improve the storage, viewing and sharing functions of information using IT.

(4) Regulations Concerning the Management of the Risk of Loss or Other Relevant Risk Management System at the Company and its Subsidiaries

i. With the aim to establish unified internal control and risk management systems, the Company has formulated regulations regarding risk management and at the same time, has created a committee on risk management, which grasps and assesses Group risks and formulates countermeasures. In such ways, the Company puts into place and reinforces in an ongoing manner the Group's risk management system.

ii. The committee on risk management monitors the progress of countermeasures to various risk scenarios and makes regular reports to the Company's Board of Directors and statutory auditors.

iii. For serious emergency situations that occur within the Group, Group employees must strive to appropriately apply the "two-hour rule" and report to Company top management in a timely manner. The Company works in an ongoing manner to reinforce the ability to avoid or reduce risk.

iv. In preparation for large-scale disasters, pandemics and other emergencies, the Company promotes business continuity management (BCM) including the formulation of business continuity planning (BCP) to mitigate losses from continuing business operations and thus creates a structure to handle emergency situations. Furthermore, the Company is providing the necessary guidance and advice on promoting BCM to subsidiaries.

(5) System to Ensure the Effective Execution of Business Duties of Company Directors, Subsidiary Directors and Others

i. With the implementation of the executive officer system, the Company has separated decision-making and supervisory functions from operational functions, and with the Board of Directors made up of a small number of members, has created a structure that allows for speedy decision making. Each of the Executive Officers, as the person in charge of the execution of operations, must effectively perform the duties of the operation he/she is responsible for under the guidance and supervision of the Board of Directors.

ii. To enable speedy decision making in response to changes in the operating environment and the optimal assignment of authority, the Company reevaluates in an appropriate manner the Board of Directors agenda criteria, administrative authority regulations and other.

iii. Based on the Group's long-term management plan, the Company formulates a medium term management plan as well as annual fiscal budget goals and concrete strategies for each business segment and strives to optimally and effectively allocate management resources to fulfill them.

iv. In compliance with internal regulations, the Company assigns a department with primary responsibility for each of the individual subsidiaries. The Company has officers and employees of the departments with primary responsibility assume the position of director at the subsidiaries and so on to appropriately manage the progress of management measures and policies and to effectively promote the execution of business duties at the subsidiaries.

(6) System Regarding the Reporting by Directors and Others of the Subsidiaries on the Execution of Duties and System to Ensure the Appropriateness of Operations of the Corporate Entity Comprising of the Company and its Subsidiaries

i. The Company, through the primary departments in charge, requires important subsidiary management issues to be brought up and the execution of duties to be reported to the Board of Directors, and in doing so, exercises a system of control, checks and balances for the entire corporate entity.

ii. The Company, to ensure effective internal controls of the entire corporate entity, formulates regulations for each of the subsidiaries. In addition, taking into account each company's situation, the Company puts in place an internal audit department and other efforts to promote an environment for autonomous, internal control at each company.

iii. The Company, through the Internal Audit Department, the primary departments in charge, etc., reinforces the checks and balances system and strives in an ongoing manner to raise the quality of oversight and supervision functions, including enhancing compliance systems, of each of the subsidiaries.

(7) In Situations Where the Company's Statutory Auditors Request Support Staff to Aid in Their Duties, Matters Concerning Support Staff to Statutory Auditors, the Independence of Support Staff from the Directors and Ensuring the Effectiveness of Statutory Auditors' Instructions to Support Staff.

i. The Company's representative directors and directors, upon discussion with the statutory auditors, may assign appropriate personnel as support staff to the statutory auditors, and in the event of a transfer, assessment or disciplinary action of such personnel, will seek the approval of the statutory auditors.

ii. As needed, the Company's statutory auditors will conduct audit work by directing support staff.

iii. The Company's statutory auditors, to ensure that the support staff's independence is not unfairly controlled, will make any necessary requests to the Company's representative directors or the Board of Directors. The representative directors or the Board of Directors will take the necessary measures in regard to these requests.

(8) System for Reporting to Statutory Auditors by the Company's Directors and Support Staff, the Company's Subsidiary Directors and Others, Auditors, Staff and People Who Receive Reports from Them, and Other Systems Related to Reporting to Statutory Auditors.

i. The Company's statutory auditors, to grasp the decision-making process of important items and the execution of duties by directors, attend the Company's Board of Directors meetings and as needed, Executive Committee meetings and other important meetings.

ii. The Company's executives and employees, when requested by the statutory auditors to report on items related to their execution of duties, will do so in a timely manner. In addition, the Company's executives and employees, in the event they become aware of a situation that could cause grave damage to the Company, unethical behavior or a serious incident that is in violation of laws or regulations, must report to the Company's statutory auditors.

iii. The Company's statutory auditors receive regular reports from the Company's Internal Audit Department and others regarding the Group's compliance, status of risk management activities and internal audit results, and supervise and verify that they are all functioning effectively.

iv. The Company's representative directors regularly exchange opinions with the Company's statutory auditors and at the same time, work to secure an audit environment that ensures the effectiveness of audits.

v. The Company appoints appropriate personnel as statutory auditors for the major subsidiaries and regularly holds Group Board of Auditor meetings to improve the effectiveness of audits at each company and to exchange information.

(9) System to Ensure that People Who Have Made Reports Under the Provisions Listed Above Are Not Subjected to Disadvantageous Treatment

The Company, in the event that an executive or employee makes a report to the statutory auditors under the provisions listed above, will formulate rules and systems to ensure that the reporter is not subjected to disadvantageous treatment and in addition, will create a strict information management system for that reporter and the content of the report, and will ensure the full understanding of this to the subsidiaries.

(10) Matters Concerning Policy on Procedures for Prepayment or Refund of Expenses Arising in Relation to Performance of Duties as Statutory Auditors and Processing of Expenses or Obligations Arising in Relation to the Performance of Other Duties

The Company's Board of Statutory Auditors will accommodate for expenses required by statutory auditors for the execution of duties in the Company's budget. In addition, for emergency or extraordinary expenditures required by the Company's statutory auditors in the execution of duties, the statutory auditor may request a reimbursement from the Company after the fact. The representative directors or the Board of Directors will take the necessary measures in regard to these requests.

(11) Other Relevant Systems to Ensure the Proper Functioning of Audits

i. The Company's Board of Statutory Auditors will strive to ensure the effectiveness of audits by exchanging information and closely coordinating with the Company's Board of Directors during the process of important decision making.

ii. The Company's Board of Statutory Auditors will regularly exchange information with Accounting Auditors to ensure more effective audits.

＜Outline of the operational status of the system to ensure the appropriateness of business operations＞

(1) Risk Management and Compliance System

i. At the Company, the Risk Management Committee meets once every three months and each Executive Officer who is a member of the committee shares and discusses risks to be managed, risk analyses, and countermeasure plans. Under the Risk Management Committee, the Company has the Compliance Subcommittee and the Business Continuity Management (BCM) Subcommittee, which enhance the effectiveness of risk management pertaining to Group-wide compliance risks and business interruption risks. The details of these activities are reported to the Board of Directors, and the findings are reflected in the execution of business, such as by the performance of management reviews. During the current fiscal year, the Risk Management Committee met four times, the Compliance Subcommittee met twice, and the BCM Subcommittee met twice, and reports to the Board of Directors were made four times.

ii. To enhance compliance, the Compliance Subcommittee improved the compliance system on an ongoing basis by inspecting legal requirements important for business continuity and other efforts. In addition, the Compliance Counter, the internal reporting contact division, responded appropriately to all reports.

iii. To promote BCM, the Company conducted one safety confirmation and information communication drill and one simulated first response drill. In addition, the Company implemented ongoing measures to prevent the spread of infection in response to COVID-19 pandemic conditions and national and local government trends.

iv. With regard to internal control related to the appropriateness of financial reporting, the Internal Audit Department constantly evaluates each division and subsidiary it oversees in accordance with Company rules and regulations related to financial reporting internal control.

(2) System to Ensure the Efficiency of the Execution of Business Duties by Directors

i. The Company has implemented an executive officer system. In terms of decision-making and supervisory functions, the Board of Directors (held 15 times during the current fiscal year) confirmed important matters related to decision making, progress on the medium-term management plan and the annual budget, financial results, and other matters, and worked to enhance the supervisory function of business execution. In terms of business execution functions, the Board of Executive Officers (held 12 times during the current fiscal year) reported on the progress of business execution and received instructions regarding policies for business execution and other matters from the president.

ii. By appointing officers and employees of the primary departments in charge to serve as officers of subsidiaries, the Company monitored the progress of management initiatives and promoted the efficient execution of business at the subsidiaries.

(3) Systems to Ensure the Appropriateness of Business Operations within the Corporate Group

i. In accordance with the Board of Directors agenda criteria and the affiliated company management regulations, the Company, through the primary departments in charge, discussed important management matters of the subsidiaries and received reports on the execution of business operations at Board of Directors.

ii. In accordance with the affiliated company management regulations, the Internal Audit Department periodically audited subsidiaries and provided guidance and confirmation of improvements when there were matters requiring attention.

(4) Audit system of the statutory auditors

i. The Company has assigned full-time employees to assist Statutory Auditors in their audit duties and auditing inspectors who concurrently hold positions of senior management of major departments and the auditing inspectors' meeting is held once a month. At the auditing inspectors' meeting, Statutory Auditors received reports on the status of business inspections from the auditing inspectors and performed their auditing duties.

ii. Statutory Auditors attended important meetings such as the 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 received reports regularly from the departments responsible for risk management and compliance, accounting and labor, and monitor and verified that internal controls were functioning effectively. Furthermore, Group Board of Statutory Auditors, attended by Statutory Auditors of the major subsidiaries as members, were held five times during the current fiscal year to reinforce the oversight functions of status of Group management activities.

iii. In line with monthly Board of Statutory Auditors, Executive Officers in charge of agenda items of Executive Committee are provided the opportunity to give explanations to and exchange opinions with Statutory Auditors and Outside Directors. In addition, Statutory Auditors also exchange opinions with representative Directors, generally, every half year.

(Figures in the above Business Report that are less than the indicated unit have been rounded off unless otherwise noted.)

Consolidated Financial Statements

Consolidated Statements of Changes in Net Assets (January 1, 2022 to December 31, 2022)

(Unit: million yen)

	Shareholders' equity					Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Capital Stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the current period	50,064	33,899	359,641	△2,362	441,241	37,226	3,403	13,699	42	54,370	116	44,361	540,089
Changes during the consolidated period													
Issuance of new shares					–								–
Issuance of new shares (exercise of share acquisition rights)	10	10			20								20
Dividends of surplus			△21,096		△21,096								△21,096
Net income attributable to shareholders of parent			108,672		108,672								108,672
Purchase of treasury shares				△103	△103								△103
Disposal of treasury stock		0		0	0								0
Changes in ownership interest of parent due to transactions with non-controlling interests		△2,416			△2,416								△2,416
Changes in items other than shareholders' equity (net amount)						△300	372	46,744	6	46,822	△20	10,586	57,388
Total changes during the consolidated period	10	△2,406	87,576	△103	85,076	△300	372	46,744	6	46,822	△20	10,586	142,464
Balance at the end of the current period	50,074	31,493	447,216	△2,465	526,318	36,926	3,775	60,443	49	101,192	96	54,948	682,554

Notes to The Consolidated Financial Statements

Important Fundamental Items and Other Related to the Preparation of the Consolidated Financial Statements

1. Scope of consolidation

There are 348 consolidated subsidiaries. The major consolidated subsidiaries are Sumitomo Forestry Wood Products Co., Ltd., Sumitomo Forestry Home Engineering Co., Ltd., Sumitomo Forestry Home Tech Co., Ltd., Sumitomo Forestry Residential Co., Ltd., Henley Arch Unit Trust, Henley Arch Pty Ltd., Bloomfield Homes, L.P., Crescent Communities, LLC, DRB Enterprises, LLC, Edge Utah HoldCo, LLC, Gehan Homes, Ltd., MainVue Homes LLC and Mark III Properties, LLC.

Beginning the consolidated fiscal year under review, Structural HoldCo, LLC, and 41 other companies, whose shares were newly acquired, are included in the scope of consolidation.
On the other hand, Daiichisansho Co., Ltd. and 9 other companies, which were consolidated subsidiaries in the previous consolidated fiscal year, are excluded from the scope of consolidation, due to the sale of shares or the completion of liquidation. Additionally, CC Independence Park, L.P. and 7 other companies, which were consolidated subsidiaries in the previous consolidated fiscal year, are excluded from the scope of consolidation and have been included as equity-method affiliates due to the reduction in shares.

2. Accounting periods of consolidated subsidiaries

The settlement date for 6 domestic consolidated subsidiaries and 1 overseas consolidated subsidiary is March 31, so when preparing the consolidated financial statements for the consolidated fiscal year under review, the financial statements based on a provisional settlement of accounts conducted as of the consolidated settlement date were used. Additionally, the settlement date for other consolidated subsidiaries is the same as the consolidated settlement date.

3. Application of equity method

(1) There are 164 affiliates that are accounted for by the equity method. The major equity-method affiliate is Kumagai Gumi Co., Ltd..
Beginning the consolidated fiscal year under review, Jefferson Centerpointe Manager, LLC and 30 other companies, in which shares were newly acquired, are included as equity-method affiliates.
On the other hand, Crescent Bellevue Joint Venture, LLC and 6 other companies which were equity-method affiliates in the previous consolidated fiscal year, are excluded from the scope of equity method application, due to the sale of shares or the completion of liquidation.
Additionally, CC Independence Park, L.P. and 7 other companies, which were consolidated subsidiaries in the previous consolidated fiscal year, are excluded from the scope of consolidation and have been included as equity-method affiliates due to the reduction in shares.

(2) For equity-method affiliates that have a fiscal year end that differs from the Company's fiscal year end, financial statements for these different fiscal years are used.

4. Significant Accounting Policies

(1) Valuation standards and methods for important assets

i. Securities

Held-to-maturity securities

Amortized cost method (Straight-line method)

Other securities:

Items other than stocks and other with no market price

Value method based on the market price on the settlement date (unrealized gains and losses are reported in the shareholders' equity section. Sales cost of securities is determined by the moving-average method.)

Stocks and other with no market price

Cost method based on the moving-average method

ii. Derivatives

Market value method

iii. Inventories

Merchandise, finished goods, work in progress, raw materials and supplies are stated at cost, which is mainly determined by the moving average method. Costs on uncompleted construction works, real estate for sale, and real estate for sale in process are stated at cost, determined by the specific cost method. The balance sheet amount is calculated using the book value devaluation method in accordance with a decline in profitability.

(2) Method of depreciating significant assets

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

The Company and domestic consolidated subsidiaries primarily use the fixed-percentage method. However, the straight-line method is used for buildings (excluding accessory equipment) acquired on or after April 1, 1998, and for accessory equipment and structures acquired on or after April 1, 2016. Overseas consolidated subsidiaries primarily use the straight-line method.

ii. intangible assets (excluding leased assets)

The straight-line method is used. The straight-line method is used for amortization of software used internally based on the estimated internal use period (five years).

iii. Leased assets

Leased assets in non-ownership-transfer finance lease transactions are depreciated to a residual value of zero over the useful lives using the straight-line method.

(3) Accounting standards for significant allowances

i. Allowance for doubtful accounts

To prepare for possible losses from bad debts, the estimated recoverable amounts are recorded based on historical default ratios for general claims and based on individual recoverability for specific claims, including doubtful accounts.

ii. Provision for bonuses

To prepare for bonus payments to employees, the estimated amount of bonus payments to be borne by the Company in the current fiscal year is recorded.

iii. Provision for director bonuses

To prepare for bonus payments to directors, the estimated amount of bonus payments to be borne by the Company in the current fiscal year is recorded.

iv. Provision for warranties for completed construction

To prepare for repair costs that may be required on completed construction, a provision is recorded based on historical costs and future estimates.

v. Provision for directors' retirement benefits

To prepare for retirement benefits to directors, at certain consolidated subsidiaries, the amount to be paid at the end of the period is recorded in accordance with internal regulations.

(4) Accounting process method of retirement benefits

i. Attribution period method for projected retirement benefits

When calculating retirement benefit obligations, the method of attributing projected retirement benefits to the period up to the end of the consolidated fiscal year under review is used according to the benefit formula standard.

ii. Method of accounting for actuarial differences and past service liabilities

Actuarial differences and past service liabilities are accounted for collectively in the fiscal year in which they occur.

(5) Basis for recording revenues and expenses

The main performance obligations of our primary businesses related to revenue from contracts with the Group's customers and the usual time in which these performance obligations are satisfied (the usual time in which revenue is recognized) are as follows.

i. Sales of products

The Timber and Building Materials Business and the Environment and Resources Business are involved in the sale of timber and building materials, and the Housing and Construction Business and Overseas Housing and Real Estate Business conduct mainly house sales. For these sales, revenue is recognized at the time of delivery to the customer when legal ownership, physical possession, significant risks associated with the ownership of the goods and economic value are transferred, and the right to receive payment is confirmed.

In mainly the Timber and Building Materials Business, for transactions in which the Group provides goods to customers as a sales agent, the Group recognizes revenue as the net amount of the compensation received from the customer, minus the amount paid to the supplier of the goods and other items. Compensation for the transaction is received promptly after delivery. Because the time between the fulfillment of the performance obligation and receipt of the compensation is usually less than 1 year, it is not a significant financial factor.

ii. Construction contracts and other

The Housing and Construction Business and Overseas Housing and Real Estate Business are contracted for the construction of single-family homes and apartment buildings. For these construction and other contracts, revenue is recognized over a specific period of time as performance obligations are fulfilled, the asset is created, and the customer gains control over said asset. Furthermore, the method for estimating the rate of progress as related to the fulfillment of performance obligations is primarily based on the input method based on costs incurred.

However, for construction contracts with a very short period from the date the contract commences to the date performance obligations are due, revenue is not recognized for a certain period of time. Instead, revenue is recognized at the time of delivery when it is deemed that the performance obligation has been fulfilled.

Compensation for transactions is generally received in stages according to the progress of the performance obligation in accordance with the terms of the contract. Because the time between the fulfillment of the performance obligation and receipt of the compensation is usually less than 1 year, it is not a significant financial factor.

(6) Important hedge accounting methods

i. Hedge accounting method

The deferral hedge accounting method is applied. The allocation method is applied to foreign hedging transactions, etc. The exceptional method is used for interest rate swaps if they satisfy the requirements for the exceptional method.

ii. Hedge 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. Hedge scope

In accordance with policies stipulated in the management regulations, some foreign exchange transactions, including planned transactions, and borrowings exposed to interest rate risks are hedged.

iv. Hedge effectiveness evaluation method

Foreign exchange forward contracts and foreign currency swaps are recognized to be highly effective hedging instruments, and hence, an evaluation of their effectiveness has been omitted. An evaluation of the effectiveness of the exceptional accounting method for interest rate swaps has been omitted.

(7) Amortization method and period of goodwill

Goodwill is amortized by the straight-line method over a period of up to 20 years. However, goodwill that is insignificant in amount is amortized in the year in which it is incurred.

Notes on Changes in Accounting Policies

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter, the Accounting Standard for Fair Value Measurement) and others are applied from the beginning of the current fiscal year, and in accordance with the transitional treatment as prescribed in section 19 of the Accounting Standard for Fair Value Measurement and section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policies prescribed by the Accounting Standard for Fair Value Measurement and others will be applied in the future. This has no impact on the consolidated financial statements.

Furthermore, in the Notes on Financial Instruments, the Company has decided to provide notes on such matters as a breakdown of the fair values of financial products by level.

Notes regarding Changes in Presentation Methods

(Consolidated Balance Sheet)

In the previous consolidated fiscal year, “Electronically recorded monetary claims”, which were included in “Notes and accounts receivable-trade” under “Current assets,” and “Electronically recorded payables,” which were included in “Notes and accounts payable-trade” under “Current liabilities” became significant in terms of amount and are therefore separately presented in the current consolidated fiscal year.

(Consolidated Statements of Income)

In the previous consolidated fiscal year, “Gain on sales of investment securities”, which were included in “Other” under “Non-operating income” became significant in terms of amount and are therefore separately presented in the current consolidated fiscal year.

(Application of Accounting Standard for Revenue Recognition, etc.)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter, the Accounting Standard for Revenue Recognition) and others are applied from the beginning of the current fiscal year. For this reason, “Accounts receivable from completed construction contracts” under “Current assets” in the consolidated balance sheet of the previous consolidated fiscal year is now included as “Accounts receivable from completed construction and contract assets” and a portion of “Advances received on uncompleted construction contracts” and “Other” under “Current liabilities” as well as a portion of “Other” under "Long-term liabilities" are now included as "Contract liabilities."

Notes regarding Significant Accounting Estimates

Impairment of non-current assets

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

(Unit: million yen)

	Current consolidated fiscal year
Property, plant, equipment and intangible assets	221,678
Amount of impairment loss	6,609

(2) Information regarding significant accounting estimates for identified items

i. Calculation method

For assets or asset groups that have indicators of impairment, if the sum of the undiscounted future cash flows from such assets or asset groups is less than the sum of the carrying amounts at the time of determination of impairment loss, an impairment loss is recorded for the difference between the carrying amounts at the time of determination of the impairment loss and the recoverable amounts.

ii. Major assumptions used in the calculation of amounts

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

iii. Impact on the consolidated financial statements for the following fiscal year

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

Recoverability of deferred tax assets

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

(Unit: million yen)

	Current consolidated fiscal year
Deferred tax assets (after offsetting)	7,736
Deferred tax liabilities (after offsetting)	35,406

(2) Information regarding significant accounting estimates for identified items

i. Calculation method

Deferred tax assets are recorded for future taxable income based on future benefit plans that provide sufficient assurance of recoverability as determined by an assessment of future deductible temporary differences.

ii. Key assumptions used in the calculation of amounts

To estimate the recoverability of deferred tax assets, the Company considers sales and operating income forecasts based on budgets and medium-to long-term business plans approved by the Board of Directors, as well as the scheduling of future deductible temporary differences.

iii. Impact on the consolidated financial statements of the next fiscal year

The recoverability of deferred tax assets is dependent on the estimation of future taxable income and the scheduling of future deductible temporary differences. Therefore, if there are changes in the conditions and assumptions underlying these estimates, adjustments to deferred tax assets may be recorded as either income or expenses in the consolidated financial statements for the following fiscal year.

Notes to the Consolidated Balance Sheet

1. Balance of contract assets and contract liabilities

The amounts of accounts receivable from completed construction contracts and contract assets arising from contracts with customers are shown in the consolidated financial statements in the"Notes to the Consolidated Financial Statements, Notes regarding Revenue Recognition, 3. (1) Balance of contract assets and contract liabilities, etc." and hence are omitted.

2. Pledged assets and secured liabilities

(1) Pledged assets

Cash and deposits	1,107	(Unit: million yen)
Notes and accounts receivable-trade	1,362	
Accounts receivable from completed construction contracts and contract assets	8,164	
Costs on construction contracts in progress	325	
Real estate for sale	23,996	
Real estate for sale in process	18,668	
Accounts receivable-other	48	
Buildings and structures	12,023	
Machinery, equipment and vehicles	10,965	
Land	7,595	
Construction in progress	2,964	
Investment securities	23,296	
Other	7,282	
Total	117,794	

※Other than the above, the following pledged assets are offset due to consolidated adjustments.

Subsidiary shares	6	(Unit: million yen)
Affiliate borrowings	5,744	

(2) Secured liabilities

Short-term borrowings	11,739	(Unit: Million Yen)
Corporate bonds redeemable within 1 year	12	
Bonds payable	140	
Long-term borrowings	14,889	
Contract Liabilities	321	
Total	27,102	

3. Cumulative depreciation of property, plant and equipment	143,723	(Unit: Million Yen)

4. Guaranteed liabilities, etc.

Guarantee on loans, etc. from financial institutions

Purchasers with housing loans applied	26,356	(Unit: Million Yen)
Crescent Communities Group affiliates	25,846	
Kanda Biomass Energy K.K.	17,426	
DRSFA, LLC	731	
Grand Star Co., Ltd.	598	
Morinomiyako Biomass Energy G.K.	345	
Kawasaki Biomass Electric Power Co., Ltd.	74	
Total	71,376	

5. Matured notes, etc. at the end of the fiscal year

Matured notes, etc. at the end of the fiscal year are settled on the notes exchange date or at the date of note clearing. As the last day of the current consolidated fiscal year was a bank holiday, the following matured notes at the end of the fiscal year are included in the balance at the end of the current consolidated fiscal year.

Notes receivable	2,459	(Unit: Million Yen)
Electronically recorded monetary claims	4,793	
Notes payable	20	
Electronically recorded payables	3,997	

Notes to the Consolidated Statements of Changes in Net Assets

1. The number of issued shares as of the end date of the consolidated fiscal year
   Ordinary shares 201,218,236

2. The number of treasury stock as of the end date of the consolidated fiscal year
   Ordinary shares 1,390,509

3. Items related to dividends

(1) Dividend payment

Resolution	Share type	Total dividends (million yen)	Per share dividends (yen)	Base date	Effective date
March 29, 2022, Ordinary General Meeting of Shareholders	Ordinary shares	9,041	45.00	December 31, 2021	March 30, 2022
August 9, 2022, Board of Directors' meeting	Ordinary shares	12,055	60.00	June 30, 2022	September 8, 2022

(2) Dividends for which the base date falls in the consolidated fiscal year but the effective date falls after the end of the consolidated fiscal year

The following are due to be resolved

Resolution	Share type	Total dividends (million yen)	Dividend source	Per share dividends (yen)	Base date	Effective date
March 30, 2023, Ordinary General Meeting of Shareholders	Ordinary shares	13,060	Retained earnings	65.00	December 31, 2022	March 31, 2023

4. Type and number of shares subject to subscription rights to shares as of the last day of the consolidated fiscal year under review (excluding those for which the execution period has not yet come)
   Ordinary shares 4,764,998

Notes regarding Financial Instruments

1. Matters regarding the status of financial instruments

(1) Policy for financial instruments

The Company and its consolidated subsidiaries ("Group") invest temporary surplus funds in highly safe and secure financial instruments, and use bank loans and bond issues as the primary means of raising capital.

Derivative transactions are used to hedge exchange fluctuation risks of foreign currency denominated transactions and interest rate fluctuation risks of loans payable, not for speculative purposes.

(2) Details and risk of financial instruments

Operating receivables, notes and accounts receivable-trade, electronically recorded monetary claims and accounts receivable-other are exposed to customer credit risks. Short-term loans are primarily repurchase agreement transactions for investment of short-term funds with financial institutions that have a credit rating above a certain level, thus the credit risk is minor. Securities are primarily negotiable certificates of deposit subject to settlement in the short term. Investment securities are primarily held-to-maturity bonds and shares related to our business, and they are exposed to market price fluctuation risks.

Most operating payables, such as notes and accounts payable, electronically recorded payables and construction accounts payables, are due and payable within one year.

Borrowings and corporate bonds are mainly used to procure funds for working capital and capital investments. To hedge interest rate fluctuation risks, the company uses derivative transactions (interest rate swaps) for some borrowings with floating interest rates.

Derivative transactions represent forward exchange contracts and currency swaps to hedge foreign currency exchange rate fluctuation risks, and interest swaps to hedge interest rate fluctuation risks.

(3) Risk management for financial instruments

i. Management of credit risk (risks related to the nonperformance of counterparties)
In accordance with the Group's credit management guidelines, the Company reviews due dates and outstanding balances by corporate customers, and also monitors their credit standing at least once a year.

ii. Management of market risk (fluctuation risk of currency rates, interest rates, etc.)
For investment securities, the Company regularly monitors the market value and financial conditions and other aspects of the issuers (corporate customers), and for except for held-to-maturity bonds, the Company constantly reviews its holdings in consideration of market conditions and its relationships with issuers.
The execution and management of derivative transactions are conducted by the relevant department of each company, within the prescribed limit and in accordance with certain rules outlined in the internal regulations, and the implementation status is regularly reported to the Board of Directors.
Additionally, these transactions are diversified and conducted with domestic and overseas financial institutions with high credit; hence, the default risk is considered to be extremely low.

iii. Management of liquidity risk concerning capital procurement (risk of failure to make payments when due)
The Group manages liquidity risk by having the Finance Department prepare and update funding plans based on reports from each department and consolidated subsidiary.

(4) Supplemental explanation on the market value of financial instruments
Given that variable factors are incorporated into calculations of the fair values of financial instruments, such values are subject to change with the adoption of different assumptions and other factors.

2. Matters regarding the fair value of financial instruments
Consolidated balance sheet amounts, market values, and the differences between them are as follows.

(Unit: million yen)

	Amount stated in consolidated balance sheets*1	Market value*1	Difference
(1) Marketable securities and investment securities*3			
i Held-to-maturity securities	456	445	△11
ii Affiliates shares	42,670	29,901	△12,769
iii Other securities	77,035	77,035	—
Total assets	120,161	107,381	△12,780
(1) Corporate bonds*4	(90,152)	(87,346)	△2,806
(2) Long-term loans payable*5	(211,970)	(209,108)	△2,862
Total liabilities	(302,122)	(296,454)	△5,668
Derivative transactions*6			
i Hedge accounting not applied	58	58	—
ii Hedge accounting applied	5,402	5,402	—
Total derivatives	5,460	5,460	—

*1 Amounts stated under liabilities are shown in parentheses ().

*2 Cash and cash equivalents are omitted from the notes, and deposits, notes and accounts receivable-trade, securities that are negotiable certificates of deposit, notes and accounts payable-trade, and accounts payable-construction are stated at their carrying amounts as they are settled in a short period of time therefore are omitted from the notes. In addition, items of insignificant amount are also omitted.

*3 Investments in shares and other with no market value and in partnerships and other similar entities that are recorded on the consolidated balance sheet at cost equivalent to the net amount of the share of equity are not included in "(1) Marketable securities and investment Securities." The recorded amounts of such financial instruments in the consolidated balance sheet are as follows.

(Unit: Million Yen)

Classification	Current consolidated fiscal year
Unlisted shares	2,668
Affiliate shares	79,674
Union funds, etc.	1,246

*4 Amount of corporate bonds Includes corporate bonds redeemable within 1 year.

*5 Amount of long-term loan payables includes long-term loans payable due within 1 year.

*6 Assets and liabilities from derivative transactions are shown in the net amount. If the total is a negative figure, the amount is show in parentheses ().

3. Matters concerning a breakdown of the fair values of financial products by level, etc.

The fair values of financial instruments are classified into the following three levels based on the observability and materiality of the input used to calculate fair values.

Level 1: Among the input used to calculate observable fair values, fair values are calculated based on the quoted market prices for the assets or liabilities in an active market.

Level 2: Among the input used to calculate observable fair values, fair values are calculated using input other than Level 1 input.

Level 3: Fair values calculated using input that is not observable.

When multiple forms of input having significant impact on the calculation of fair values are used, fair values are classified at the lowest level of input used to calculate fair values.

(1) Financial instruments recorded on the consolidated balance sheet at fair values

(Unit: Million Yen)

Classification	Fair values			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Other marketable securities				
Stocks	77,035	—	—	77,035
Derivative transactions				
Currency related	—	5,800	—	5,800
Total assets	77,035	5,800	—	82,835
Derivative transactions				
Currency related	—	340	—	340
Interest related	—	0	—	0
Total liabilities	—	340	—	340

(2) Financial instruments other than financial instruments recorded on the consolidated balance sheet at fair values

(Unit: Million Yen)

Classification	Fair values			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Held-to-maturity debt securities				
Government bonds, municipal bonds, etc.	445	—	—	445
Affiliate shares	29,901	—	—	29,901
Total assets	30,346	—	—	30,346
Bonds payable	—	87,346	—	87,346
Long-term borrowings	—	209,108	—	209,108
Total liabilities	—	296,454	—	296,454

(Note) Explanation of valuation techniques to calculate fair values and input used to calculate fair values

<u>Marketable securities and investment securities</u>

Listed stocks, government bonds and municipal bonds are valued using market prices. As these are traded in active markets, their fair values are classified as Level 1 fair value.

<u>Derivative transactions</u>

As over-the-counter transactions have no published quoted market price, fair values are calculated based on prices and other factors provided by financial institutions that handle them and are classified as Level 2 fair value.

<u>Corporate bonds</u>

The fair values of bonds are calculated using the discounted current value method based on the total amount of principal and interest and an interest rate, taking into account the remaining term of the bond and credit risk. They are classified as Level 2 fair value.

Long-term borrowings

The fair values of long-term borrowings with floating interest rates are based on book value because the interest rate of long-term borrowings reflects market interest rates quickly and the Company's credit standing has not changed significantly since implementing the loans. The fair values of long-term borrowings with floating interest rates are classified as Level 2 fair value.

The fair values of long-term borrowings with fixed interest rates are based on the present value of the total principal and interest(*) of the relevant long-term borrowings classified by certain periods of time and discounted by the interest rate for similar borrowings. The fair values of long-term borrowings with fixed interest rates are classified as Level 2 fair value.

(*) For long-term borrowings that qualify for extraordinary treatment of interest rate swaps, the fair values are based on the sum of the principal and interest rate of the interest rate swap.

Notes regarding Investment and Rental Property

1. Matters related to leased and other real estate

   The Company and some of its consolidated subsidiaries own rental houses, etc. in areas like Tokyo, and overseas (primarily the United States).

2. Matters related to the market value of leased and other real estate

(Unit: million yen)

Consolidated balance sheet amount	Market value
39,383	38,513

(Note)

1. The amount stated on the consolidated balance sheet is the acquisition cost less the accumulated depreciation.
2. The market value at the end of the term is as follows.
   (1) Figures used for major real estate in Japan are based on appraisal values by real estate appraisers, and for other real estate, are based on indices deemed to appropriately reflect market prices.
   (2) Figures used for overseas real estate are based primarily on appraisal values by local appraisers.

Notes regarding Per Share Information

Net assets per share	¥3,140.26
Net income per share	¥543.80

Notes on Significant Subsequent Events

(Business combinations through acquisitions)

Through its wholly owned subsidiary Gehan Homes, Ltd., the Company acquired an 80% share of SI HoldCo, LLC, the holding company of the US company Southern Impression Homes Group, on January 13, 2023 (US time) and made it a consolidated subsidiary.

1. Outline of business combination

(1) Name of acquired company and business description

Name of acquired company: SI HoldCo, LLC, and 11 companies

Business description: Holding company of Southern Impression Homes Group, which conducts residential land development, construction, sales and rental property management of single-family rental homes

(2) Main reasons for implementing the business combination

Southern Impression Homes Group carries out residential land development, construction, sales and rental property management of single-family rental homes primarily in Florida for investors. With SI Hold Co, LLC becoming a consolidated subsidiary, our company will enter the single-family home business in Florida, one of the leading markets in the United States, to further expand its existing business in the U.S. and enter into the rental management business.

(3) Date of the business combination

January 13, 2023 (US time)

(4) Legal form of the business combination

Acquisition of equity for cash

(5) Ratio of voting rights acquired
80%

(6) Main reasons for deciding on the acquired company
The Company's consolidated subsidiary, Gehan Homes, Ltd., acquired the shares for a cash consideration.

2. Acquisition cost of the acquired company and breakdown by type of consideration

Consideration for acquisition	Cash	11,520 million yen
Acquisition cost		11,520 million yen

(Note) The acquisition consideration does not include the contingent acquisition consideration.

3. Description and amount of primary acquisition-related costs
None confirmed at this time.

4. Amount of goodwill, reason for recognition, and amortization method and period
None confirmed at this time.

5. Assets acquired and liabilities assumed at the acquisition date
None confirmed at this time.

6. Conditional Acquisition Consideration stipulated in the Business Combination Agreement and Accounting Policies for the Current and Subsequent Fiscal Years
In accordance with the agreement, additional payments will be made based on the degree of achievement of future performance indicators of the acquired company. The variable portion of the conditional acquisition consideration will be recognized in accordance with U.S. GAAP.

Notes regarding Revenue Recognition

1. Breakdown information about revenue arising from contracts with customers

(Unit: Million Yen)

		Major regional markets (Note) 1	Current consolidated fiscal year
Reporting segment	Timber and Building Materials Business	Japan	193,545
		Other	59,651
		Subtotal	253,196
	Housing and Construction Business	Japan	505,240
	Overseas Housing and Real Estate Business	USA	744,461
		Australia	103,281
		Other	85
		Subtotal	847,827
	Environment and Resources Business	Japan	15,478
		New Zealand	2,012
		Indonesia	1,493
		Other	1,484
		Subtotal	20,467
Other		Japan	9,529
Revenue from contracts with customers			1,636,259
Other revenue (Note) 2			33,448
Sales to external customers			1,669,707

(Note)
1. Classification is based on the location of the customer.
2. Other revenue includes rental income based on the Accounting Standard for Lease Transactions (ASBJ Statement No. 13).

2. Basic information to understand revenue arising from contracts with customers
Notes are omitted because the same information is presented in the Consolidated Financial Statements in the section, "Notes to the Consolidated Financial Statements, Important Fundamental Items and Other Related to the Preparation of the Consolidated Financial Statements, 4. Significant Accounting Policies (5) Basis for recording revenues and expenses."

3. Information about the relationship between the fulfillment of performance obligations based on contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized in the next consolidated fiscal year based on contracts with customers that exist for the current consolidated fiscal year

(1) Balance of contract assets and contract liabilities, etc.

(Unit: Million Yen)

Classification	Beginning of current fiscal year	End of current fiscal year
Liabilities arising from contracts with customers	142,417	162,335
Contract assets (Note) 1	47,154	50,073
Contract liabilities (Note) 2	75,145	80,095

(Note) 1. Contract assets are primarily unbilled accounts receivable for revenues recognized according to the level of progress in construction and other contracts and are included in the consolidated balance sheets as "Current assets" under "Accounts receivable from completed construction contracts and contract assets." When construction work is completed with the customer's inspection and when the rights of the Company and its consolidated subsidiaries become unconditional, the amount is transferred to receivables.

2. Contract liabilities are primarily advances received from customers for construction contracts, real estate transactions, etc. Performance obligations are fulfilled in line with the level of progress in construction and services provided, and contract liabilities are transferred as revenues. Furthermore, the balance of contract liabilities at the beginning of the consolidated fiscal year is generally recognized as revenue in the current fiscal year. Changes in the balances of contract assets and contract liabilities and the amount of revenue recognized from performance obligations that were fulfilled in prior periods were not material in the current fiscal year.

(2) Transaction prices allocated to remaining performance obligations

For transaction prices allocated to remaining performance obligations, because there are no material contracts with an initially expected contract period of more than a year, the Group applies the practical expedient method and has omitted them from the notes.

Notes regarding Additional Information

(The effect of COVID-19 on accounting estimates)

Although it is extremely difficult to predict the future spread of COVID-19 and when it will become endemic, there has been no significant impact on our Group despite a limited effect on the financial results of the consolidated financial year under review.

Hence, to determine the recoverability of deferred tax assets and the recognition of impairment losses, the Company has made its best estimate as of the end of the current fiscal year based on information available at the time of preparation of the consolidated financial statements and with the assumption that the impact of future COVID infections will continue to be minor. However, if there is a change in the conditions or assumptions underlying these estimates, there is a possibility that there will be an impact on the consolidated statements for the following fiscal year.

Non-consolidated Financial Statements

Non-consolidated Statements of Changes in Net Assets (January 1, 2022, to December 31, 2022)

(Unit: million yen)

	Shareholders' equity									Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Capital stock	Capital surplus		Retained earnings				Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges		
		Legal capital surplus	Other capital surplus	Legal retained earnings	Other retained earnings								
					Reserve for reduction entry	General reserve	Retained earnings brought forward						
Balance at the beginning of the current period	50,064	49,004	259	2,857	1,715	154,722	9,712	△291	268,043	37,645	3,356	116	309,160
Changes during the period													
Issuance of new shares									—				—
Issuance of new shares (exercise of subscription rights to shares)	10	10							20				20
Provision of general reserve						△15,403	15,403		—				—
Dividends from surplus							△21,096		△21,096				△21,096
Net income							3,292		3,292				3,292
Purchase of treasury stock								△2	△2				△2
Disposal of treasury stock			0					0	0				0
Net changes in items other than shareholders' equity (net amount)										△380	56	△20	△345
Total changes during the period	10	10	0	—	—	△15,403	△2,401	△2	△17,785	△380	56	△20	△18,130
Balance at end of current period	50,074	49,014	259	2,857	1,715	139,319	7,311	△293	250,257	37,265	3,412	96	291,030

Notes to Non-Consolidated Financial Statements

Summary of Significant Accounting Policies

1. Valuation standards and method for securities
(1) Held-to-maturity securities
Amortized cost method (Straight-line method)
(2) Shares held in subsidiaries and affiliates
Cost method based on the moving-average method
(3) Other securities:
Items other than stocks and other with no market price
Value method based on the market price on the closing date (unrealized gains and losses are reported in the shareholders' equity section. Sales cost of securities is determined by the moving-average method.)
Stocks and other with no market price
Cost method based on the moving-average method

2. Valuation standards and method for inventories
Merchandise is stated at cost determined by the moving average method. Costs of uncompleted construction contracts, real estate for sale, and real estate for sale in process are stated at cost determined by the specific cost method. Balance sheet values are calculated using the method of book value devaluation based on a decline in profitability.

3. Method of depreciation and amortization of non-current assets
(1) Property, plant and equipment (excluding leased assets)
The declining-balance method of depreciation is used. However, the straight-line method is used for buildings (excluding accessory equipment) acquired on or after April 1, 1998, and for accessory equipment and structures acquired on or after April 1, 2016.
(2) Intangible assets (excluding leased assets)
The straight-line method is used. Software for internal use is amortized using the straight-line method over the estimated useful life (5 years)
(3) Leased assets
Finance leases that do not transfer ownership of the leased assets are depreciated using the straight-line method, with the lease period being the useful life and the residual value being zero.

4. Standards for allowance
(1) Allowance for doubtful accounts
To prepare for possible losses from bad debts, the estimated recoverable amounts are recorded based on historical default ratios for general claims and based on individual recoverability for specific claims, including doubtful accounts.
(2) Provision for bonuses
To prepare for bonus payments to employees, the estimated amount of bonus payments to be borne by the Company in the current fiscal year is recorded.
(3) Provision for director bonuses
To prepare for bonus payments to directors, the estimated amount of bonus payments to be borne by the Company in the current fiscal year is recorded.
(4) Provision for warranties for completed construction
To prepare for repair costs that may be required on completed construction, a provision is recorded based on historical costs and future estimates.
(5) Provision for retirement benefits
To prepare for retirement benefits to employees, the Company records the amount to be paid based on projected benefit obligations and pensions assets at the end of the current fiscal year. If the estimated amount of pension assets exceeds the estimated amount of retirement benefit obligations at the end of the fiscal year, the excess amount is recorded as prepaid pension cost.
i. Attribution period method for projected retirement benefits
When calculating retirement benefit obligations, the method of attributing projected retirement benefits to the period up to the end of the consolidated fiscal year under review is used according to the benefit formula standard.
ii. Method of accounting for actuarial differences and past service liabilities
Actuarial differences and past service liabilities are accounted for collectively in the fiscal year in which they occur.

(6) Allowance for subsidiary and affiliate business losses

To prepare for possible losses related to the business of subsidiaries and affiliates, the Company records estimated losses considering the financial conditions of such companies.

5. Basis for recording revenues and expenses

The main performance obligations of our primary businesses related to revenue from contracts with the Company's customers and the usual time in which these performance obligations are satisfied (the usual time revenue is recognized) are as follows.

i. Sales of products

The Timber and Building Materials Business is involved in the sale of timber and building materials, and the Housing and Construction Business conducts mainly house sales. For these sales, revenue is recognized at the time of delivery to the customer when legal ownership, physical possession, significant risks associated with the ownership of the goods and economic value are transferred and the right to receive payment is confirmed.

In mainly the Timber and Building Materials Business, for transactions in which the Company provides goods to customers as a sales agent, the Group recognizes revenue as the net amount of the compensation received from the customer, minus the amount paid to the supplier of the goods and other items. Compensation for the transaction is received promptly after delivery. Because the time between the fulfillment of the performance obligation and receipt of the compensation is usually less than 1 year, it is not a significant financial factor.

ii. Construction contracts and other

The Housing and Construction Business is contracted for the construction of single-family homes and apartment buildings. For these construction and other contracts, revenue is recognized over a specific period of time as performance obligations are fulfilled, the asset is created and the customer gains control over said asset. Furthermore, the method for estimating the rate of progress as related to the fulfillment of performance obligations is primarily based on the input method based on costs incurred. However, for construction contracts with a very short period from the date the contract commences to the date performance obligations are due, revenue is not recognized for a certain period of time. Instead, revenue is recognized at the time of delivery when it is deemed that the performance obligation has been fulfilled.

Compensation for transactions is generally received in stages according to the progress of the performance obligation in accordance with the terms of the contract. Because the time between the fulfillment of the performance obligation and receipt of the compensation is usually less than 1 year, it is not a significant financial factor.

6. Hedge accounting methods

(1) Hedge accounting method

The deferral hedge accounting method is applied. The allocation method is applied to foreign hedging transactions, etc. The exceptional method is used for interest rate swaps if they satisfy the requirements for the exceptional method.

(2) Hedge 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.

(3) Hedge scope

In accordance with policies stipulated in the management regulations, some foreign exchange transactions, including planned transactions, and borrowings exposed to interest rate risks are hedged.

(4) Hedge effectiveness evaluation method

Foreign exchange forward contracts and foreign currency swaps are recognized to be highly effective hedging instruments, and hence, an evaluation of their effectiveness has been omitted. An evaluation of the effectiveness of the exceptional accounting method for interest rate swaps has been omitted.

Notes on Changes in Accounting Policies

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter, the Accounting Standard for Fair Value Measurement) and others are applied from the beginning of the current fiscal year, and in accordance with the transitional treatment as prescribed in section 19 of the Accounting Standard for Fair Value Measurement and section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policies prescribed by the Accounting Standard for Fair Value Measurement and others will be applied in the future. This has no impact on the non-consolidated financial statements.

Notes regarding Changes in Presentation Methods

(Non-consolidated Balance Sheet)
In the previous fiscal year, "Electronically recorded monetary claims", which were included in "Notes receivable-trade" under "Current assets," and "Electronically recorded payables," which were included in "Notes payable-trade" under "Current liabilities" became significant in terms of amount and are therefore separately presented in the current fiscal year.

(Non-consolidated Statements of Income)
In the previous fiscal year, the "Gain on sales of investment securities," which were included in "Other" under "Non-operating income" became significant in terms of amount and are therefore separately presented in the current fiscal year.

(Application of Accounting Standard for Revenue Recognition, etc.)
The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter, the Accounting Standard for Revenue Recognition) and others are applied from the beginning of the current fiscal year. For this reason, "Accounts receivable from completed construction contracts" under "Current assets" in the balance sheet of the previous fiscal year is now included as "Accounts receivable for completed construction and contract assets" and a portion of "Advances received on uncompleted construction contracts" and "Other" under "Current liabilities" as well as a portion of "Other" under "Long-term liabilities" are now included as "Contract liabilities."

Notes on Important Accounting Estimates

Impairment of fixed assets
(1) Amounts recorded in the current fiscal year financial statements
(Unit: Million Yen)

	Current fiscal year
Property, plant, equipment and intangible assets	49,863
Amount of impairment costs	4,949

(2) Other information that contributes to understanding of the details of estimates
The notes are omitted because "Notes to the Consolidated Financial Statements, Notes Regarding Significant Accounting Estimates" in the Consolidated Financial Statements contain the same information.

Recoverability of deferred tax assets
(1) Amounts recorded in the current fiscal year financial statements
(Unit: Million Yen)

	Current fiscal year
Deferred tax assets (after offsetting)	—
Deferred tax liabilities (after offsetting)	16,972

(2) Other information that contributes to understanding of the details of estimates
The notes are omitted because "Notes to the Consolidated Financial Statements, Notes Regarding Significant Accounting Estimates" in the Consolidated Financial Statements contain the same information.

Notes to the Non-consolidated Balance Sheet

1. Pledged assets and secured liabilities

Pledged assets

Investment securities	17,403	(Unit: million yen)
Stocks of subsidiaries and affiliates	3,377	
Long-term loans receivable from subsidiaries and affiliates	122	
Other	2,065	
Total	22,967	

There are no liabilities corresponding to the above assets.

2. Accumulated depreciation on property, plant and equipment — 28,936 (Unit: million yen)

3. Accumulated advanced depreciation on property, plant and equipment — 1,369 (Unit: million yen)

4. Guaranteed liabilities, etc.

(1) Guarantee on loans, etc. of subsidiaries and affiliates from financial institutions

Sumitomo Forestry America, Inc.	17,536	(Unit: million yen)
Kanda Biomass Energy K.K.	17,426	
Sumitomo Forestry Australia Pty Ltd.	2,826	
Hachinohe Biomass Electric Power Co., Ltd.	2,114	
PT. Kutai Timber Indonesia	1,991	
Vina Eco Board Co., Ltd.	1,472	
Grand Star Co., Ltd.	598	
Sumitomo Forestry (Singapore) Ltd.	540	
Morinomiyako Biomass Energy G.K.	345	
PT. AST Indonesia	199	
Michinoku Bio Energy Co., Ltd.	111	
Kawasaki Biomass Electric Power Co., Ltd.	74	
Sumikyo Co., Ltd.	36	
Sumikyo Wintec Co., Ltd.	6	
Total	45,275	

(2) Guarantee on other loans from financial institutions

Purchasers with housing loans applied	25,821	(Unit: million yen)

(3) Guarantee on lease transactions

Builder Solutions Group North Carolina, LLC	2,392	(Unit: million yen)

5. Monetary receivables from and monetary payables to subsidiaries and affiliates (excluding amounts disclosed under separate classifications)

Short-term monetary receivable	43,676	(Unit: million yen)
Short-term monetary payable	83,457	
Long-term monetary payable	1,429	

6. Matured notes, etc. at the end of the fiscal year

Matured notes, etc. that matured at the end of the fiscal year that are settled on the notes exchange date or at the date of note clearing. As the last day of the current fiscal year was a bank holiday, the following matured notes, etc. at the end of the fiscal year were included in the balance at the end of the current fiscal year.

Notes receivable	2,452	(Unit: million yen)
Electronically recorded monetary claims	4,188	
Electronically recorded payables	3,787	

Notes to the Non-consolidated Statements of Income

1. Transactions with subsidiaries and affiliates

Net sales	19,541	(Unit: million yen)
Purchase of goods	147,123	
Non-operating income		
Interest income	141	
Dividends income	11,513	
Other	211	
Non-operating expenses	46	

Notes to Non-consolidated Statements of Changes in Net Assets

The number of treasury stock as of the end of the reporting fiscal year

Ordinary shares	289,159

Notes on Tax Effect Accounting

1. Details of the main reason for occurrence of deferred tax assets and liabilities

Deferred tax assets		
Allowance for doubtful accounts	3,143	(Unit: million yen)
Provision for bonuses	2,469	
Loss on devaluation of developed land and housing for sale etc.	192	
Provision for retirement benefits	308	
Provision for loss on business of subsidiaries and affiliates	641	
Loss on devaluation of securities of subsidiaries and affiliates	6,636	
Loss on devaluation of investment securities and golf club memberships	1,307	
Provision for warranties for completed construction	541	
Other	9,846	
Subtotal deferred tax assets	25,083	
Valuation reserve	△19,563	
Total deferred tax assets	5,519	
Deferred tax liabilities		
Reserve for advanced depreciation on noncurrent assets	757	(Unit: million yen)
Gain on establishment of a retirement benefit trust	1,168	
Valuation difference on available-for-sale securities	16,137	
Other	4,431	
Total deferred tax liabilities	22,492	
Deferred tax liabilities in net	△16,972	(Unit: million yen)

2. Breakdown of major items giving rise to material differences between the statutory effective tax rate and the effective tax rate after the application of tax effect accounting

Statutory effective tax rate	30.6%
(Adjustment)	
Non-deductible expenses such as entertainment expenses	2.7%
Non-taxable income such as dividends received	△30.0%
Inhabitants' tax-per capital levy	1.7%
Valuation allowance	62.2%
Other	4.6%
Effective rate of corporate and other income taxes after application of tax effect accounting	71.8%

Notes on Transactions with Related Parties

Subsidiaries and affiliates, etc. (Unit: million yen)

Type	Name of company	Share of voting rights owned by the Company	Relationship	Transaction description	Transaction amount	Accounting item	Year-end balance
Subsidiary	Sumitomo Forestry Home Engineering Co., Ltd.	Direct 100.0%	Supply of paid materials, Construction of ordered housing, Concurrent directors	Construction of housing ordered by the company (*1)	93,674	Accounts receivable-other Accounts payable for construction contracts	27,906 31,080
Subsidiary	Sumitomo Forestry Home Tech Co., Ltd.	Direct 100.0%	After maintenance of housing, Concurrent directors	Deposit of surplus funds (*2)	—	Deposits received	18,592

Subsidiary	Sumitomo Forestry America, Inc.	Direct 100.0%	Concurrent directors	Underwriting of capital increase Debt guarantees (*3)	35,951 17,536	—	—
Affiliate	Kanda Biomass Energy K.K.	Direct 41.5%	Concurrent directors	Debt guarantees (*3)	17,426	—	—

(*1) Transaction terms and the policies for determining transaction terms are the same as for general transaction terms.
(*2) Transaction amounts are not shown because the transactions are conducted repeatedly and the purpose of the transactions are to centrally manage funds within the Group.
(*3) The Company guarantees borrowings from financial institutions.

Notes on Per-Share Information

Net assets per share	¥1,447.94
Net income per share	¥16.38

Notes on Revenue Recognition

The same content is stated in "Notes to Consolidated Financial Statements, Notes Regarding Revenue Recognition" in the consolidated financial statements, and thus the notes are omitted.

Notes on Additional Information

(The effect of COVID-19 on accounting estimates)
Although it is extremely difficult to predict the future spread of COVID-19 and when it will become endemic, there has been no significant impact on the Company despite a limited effect on the financial results of the fiscal year under review.
Hence, to determine the recoverability of deferred tax assets and the recognition of impairment losses, the Company has made its best estimate as of the end of the current fiscal year based on information available at the time of preparation of the financial statements and with the assumption that the impact of future COVID infections will continue to be minor. However, if there is a change in the conditions or assumptions underlying these estimates are based change, there is a possibility that there will be an impact on the non-consolidated statements