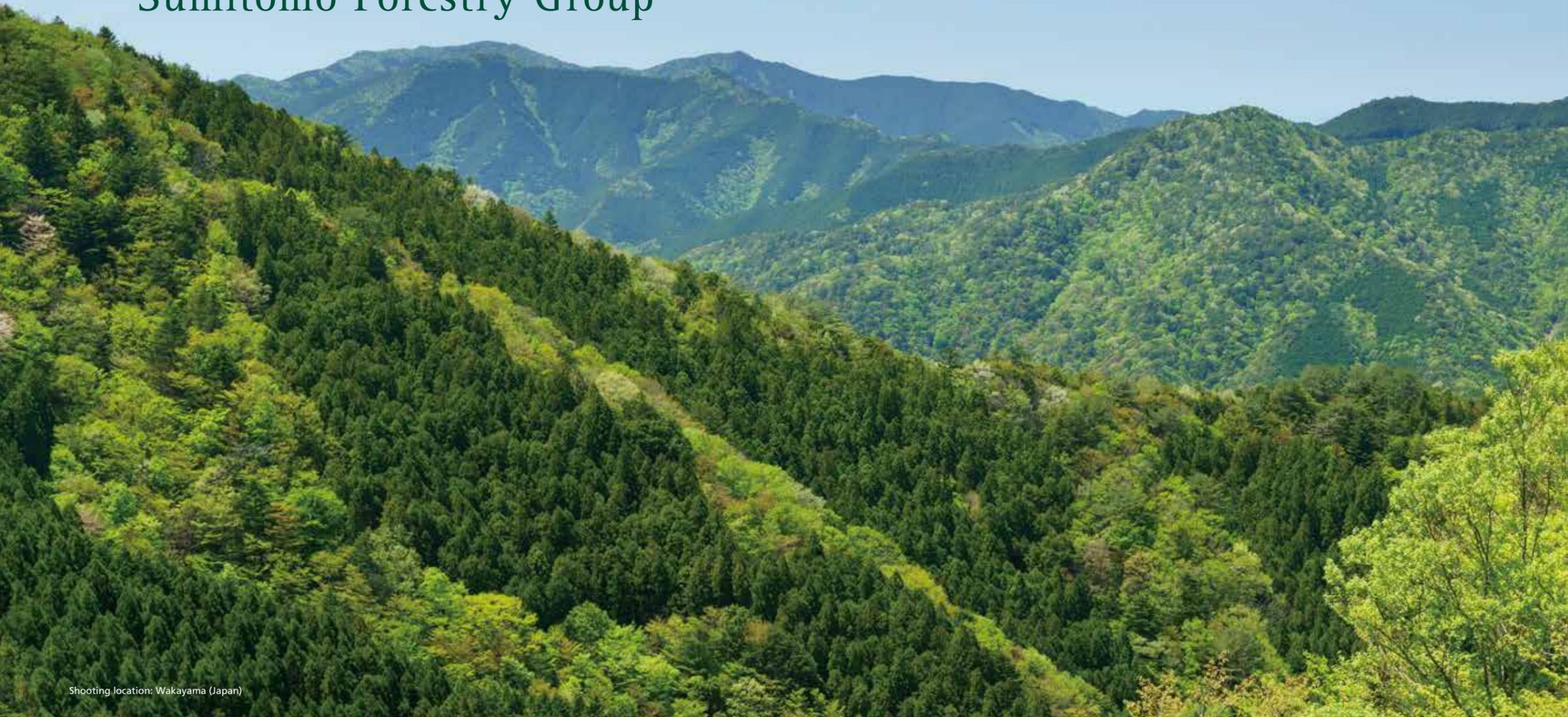


Seeds for a Sustainable Society



Happiness Grows from Trees

Sumitomo Forestry Group



Shooting location: Wakayama (Japan)

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

Ethical conduct

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

A respectful, healthy workplace

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

Business activities that respect society and the environment

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

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

Integrated Report 2020

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Editorial Policy

Sumitomo Forestry's Integrated Report conveys to shareholders and investors and all stakeholders information about yearly performance and medium- to long-term initiatives for corporate value enhancement. It is issued with the aim of sparking opportunities for further dialogue.

The International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC) and the "Guidance for Collaborative Value Creation" formulated in May 2017 by Japan's Ministry of Economy, Trade and Industry were used as references in the editing of this report.



Reporting Period

April 1, 2019 to March 31, 2020 (Fiscal 2019)

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

Scope of Reporting

Sumitomo Forestry Co., Ltd. and Group companies

Regarding Change of Fiscal Term

The Sumitomo Forestry Group is changing the end of its fiscal year from March 31 to December 31, beginning after the fiscal year ending 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.



Utilizing wood to build a future in harmony with trees

I would like to take this opportunity to express our sincere condolences to those who have passed away and express our sympathies to those who have fallen ill due to COVID-19. At the same time, I extend heartfelt gratitude to the people working on the front lines in medical sites and those who are doing their utmost to maintain the foundations of society.

The global COVID-19 pandemic has not only taken many lives, but also had a considerable impact on the world economy. In recent years, massive natural disasters have struck around the world, exacerbated by climate change. It is important to ensure the sustainability of society as a whole while properly addressing such global-scale risks. Instead of only pursuing profits, companies are strongly expected to responsibly engage with all stakeholders.

The Sumitomo Forestry Group's origins can be traced back to the opening of the Besshi Copper Mine in 1691. In those days, we managed the forests surrounding the copper mine, procuring timber for charcoal essential for copper smelting and wood used for tunnel support posts. All our efforts for nearly 330 years since then have been based on Sumitomo's Business Spirit, which places prime importance on fairness and integrity for the good of society. Back in 1894, before ESG was a concept, the Sumitomo Forestry Group came up with the Large-Scale Reforestation Plan to restore forests that had been damaged by smoke pollution from the copper smelting. In this way, harmony with the public benefit has been in our DNA for generations.

As a renewable resource, trees absorb and stabilize carbon dioxide. Forests serve a function for the public benefit by preserving biodiversity, cultivating water sources, protecting the soil and preventing damage from landslides. Trees and forests will play an even more important role in our futures, which are threatened by ever-larger natural disasters.

Since its founding, while keeping abreast of the changes of the times and fulfilling social needs, the Sumitomo Forestry Group has engaged in a broad range of businesses centered on trees, including forestry management, the distribution and production of timber and building materials, the construction of wooden homes, and wood biomass power generation. Amid growing uncertainties in the business environment, such as the COVID-19 pandemic and large-scale natural disasters, the Sumitomo Forestry Group will continue to strongly promote businesses that utilize wood. In a post-pandemic world, we will continue to contribute to the realization of a prosperous, sustainable society.

Akira Ichikawa
Chairman and Representative Director

A handwritten signature in white ink, appearing to be 'Akira Ichikawa', written over a dark background.

Drawing out the potential of trees, looking to the future with our sustainable business model

For nearly 330 years since the Sumitomo Forestry Group's establishment, the business area has been expanded to meet the needs of the times, and we have built the current global business structure. While keeping the corporate philosophy at the root and bringing out the possibilities of trees, we will respond to diversifying values and social changes with an aim for sustainable growth.



- 1956 Started the timber import business
- 1964 Established plywood production company in Japan
- 1970 Established plywood production company in Indonesia

1894 The Large-Scale Reforestation Plan created*

1948 Sumitomo Forestry established

1975 Started the custom-built detached housing business in Japan

1977 Entry into Landscaping Business



1955 Toho Norin Co., Ltd. and Shikoku Ringyo Co., Ltd. merged to form Sumitomo Forestry Co., Ltd. and established a nationwide network to procure and sell domestic timber

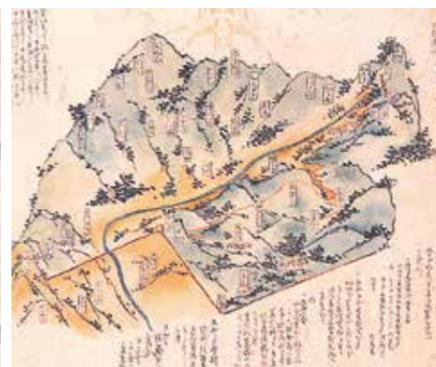
1691 Company founded

1800

1900

Origin of Sumitomo Forestry

The Sumitomo family opened the Besshi Copper Mine in present-day Niihama, Ehime Prefecture in 1691. The Sumitomo Forestry Group's origins 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.



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

1986 Medium-density fiberboard (MDF) production plant ramps up operations in New Zealand

1991 Tsukuba Research Institute established



2007 Started elderly care business



2018 Started full-fledged real estate development business in the United States

2000

2003 Started housing business in the United States

2008 Started housing business in Australia



2011 Started MOCCA (Timber Solutions) business



2011 Started environmental energy business



2018 Unveiling of W350 Plan aimed at realizing "Environmentally friendly and timber-utilizing cities"

Image courtesy of Sumitomo Forestry, Nikken Sekkei

*The Large-Scale Reforestation Plan and the Beginnings of Sustainable Forestry



Teigo Iba (Sumitomo Historical Archives Collection)



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

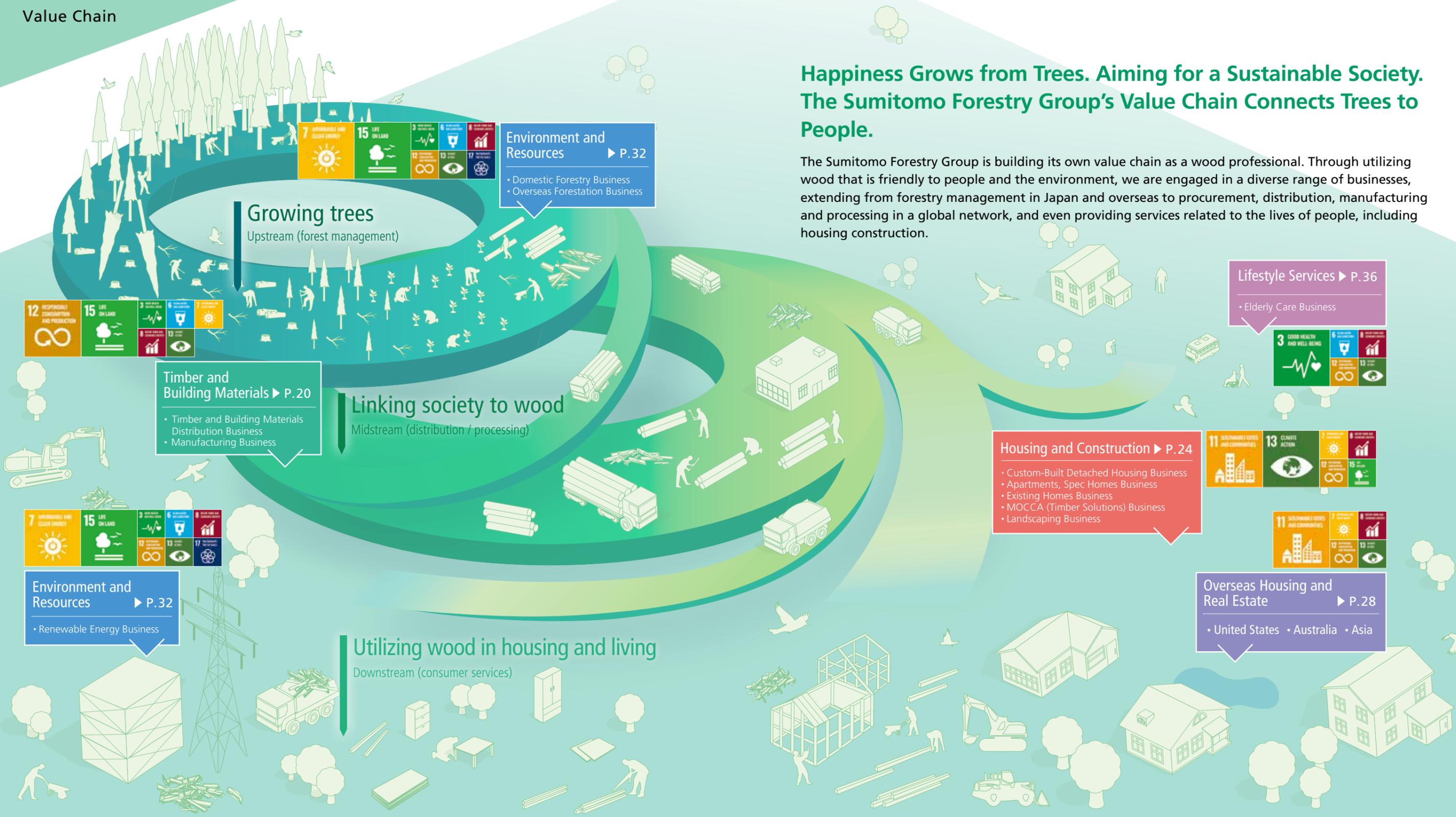


Mount Besshi today

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 that "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.

Happiness Grows from Trees. Aiming for a Sustainable Society. The Sumitomo Forestry Group's Value Chain Connects Trees to People.

The Sumitomo Forestry Group is building its own value chain as a wood professional. Through utilizing wood that is friendly to people and the environment, we are engaged in a diverse range of businesses, extending from forestry management in Japan and overseas to procurement, distribution, manufacturing and processing in a global network, and even providing services related to the lives of people, including housing construction.



Environment and Resources Business

Area of Company-owned forests (Domestic) (As of March 31, 2020)	Approx. 48 thousand ha
Area of Company-owned or managed forests overseas (As of March 31, 2020)	Approx. 231 thousand ha
Power generation capacity (Confirmed project basis) (As of March 31, 2020)	Approx. 180 MW

Timber and Building Materials Distribution Business

Volume of sustainable timber used as primary building material (Fiscal 2019)	1,478 thousand m ³
--	--------------------------------------

Manufacturing Business

Total production volume at overseas manufacturing subsidiaries (Total of board or construction materials products) (Fiscal 2019)	1,095 thousand m ³
--	--------------------------------------

Custom-Built Detached Housing Business

The number of houses completed (Domestic) (Fiscal 2019)	7,427 units
---	--------------------

Overseas Housing and Real Estate Business

The number of units sold (U.S. and Australia) (Fiscal 2019)	10,390 units
---	---------------------

Elderly Care Business

The number of rooms at private-pay elderly care facilities (As of March 31, 2020)	1,455 rooms
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Financial



Sustainability



Socially Responsible Investment (SRI) Indices / ESG Indices (As of July 31, 2020)



External Recognitions



Participation in Initiatives



Application of Accounting Standard for Revenue Recognition

From the fiscal year ended March 31, 2020, we will apply "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29). 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.



Increasing Corporate Value while Keeping Pace with the Changing Times

At the beginning of 2020, COVID-19 spread on an unimaginable scale, leading to restrictions on social and economic activity around the world. It is being said that both advanced and developing nations have entered a recession that will overshadow the financial crisis of 2008.

In addition, natural disasters such as large-scale forest fires, droughts, typhoons and floods have caused tremendous devastation around the world in the past few years. Awareness of climate change, which is thought to be the cause of those disasters, is rising. Meanwhile, concrete efforts are moving forward on both a national level and in the private sector.

Amidst such an environment, I took over the reins of management and became President in April 2020. We are facing a major turning point in the business environment, as corporate and social activities are required to adapt to a “new normal.” While that is going on, we are working to strengthen our business foundation while flexibly adapting to changing times based on cool-headed analysis of the situation and new concepts that go beyond conventional wisdom.

As a cornerstone of the Sumitomo Forestry Group, Sumitomo's Business Spirit, which places prime importance on fairness and integrity for the good of society, has continued to guide our activities since our foundation. Management believes it is the Group's mission to further increase corporate value based on this spirit, while clearly identifying areas to protect and areas to significantly change from a long-term perspective within a challenging business environment.

Our Response to COVID-19

The impact of COVID-19 has spread like wildfire to all corners of the globe and an end is not yet in sight, but the Sumitomo Forestry Group places the utmost priority on preventing the spread of COVID-19 among stakeholders, including customers, suppliers, as well as employees and their families, while conducting business operations.

Regarding our work systems for employees, we have expanded the scope of eligibility for working remotely, which we had already been promoting as a part of workstyle reforms, and greatly accelerated the upgrading of IT systems and work environments ahead of the initial schedule. In addition, we aim to continue operations while at the same time preventing the spread of COVID-19 by encouraging the use of systems such as staggering working hours and flextime.

Turning to the topic of materials procurement, Sumitomo Forestry is enhancing the monitoring of inventory levels and operations at manufacturing bases, including overseas suppliers. At the same time, we are improving our ability to address risks in the supply chain, such as by commencing negotiations with suppliers to decentralize their production sites.

In capital procurement, we maintain good relationships with financial institutions, diversify procurement sources, and have taken out commitment lines with multiple financial institutions as part of various measures to mitigate financing risks. And we ensure there is adequate liquidity in cash and cash equivalents, and are making preparations for strategic investments in the future.



Sustaining Growth with a Solid Management Base

Although the business environment is drastically changing, the Sumitomo Forestry Group is still determined to build an even stronger management foundation to sustain growth over the long term.

Management continues efforts to enhance shareholders' equity, along with measures to improve cash flow and return on equity (ROE). In light of deteriorating business conditions due to the COVID-19 pandemic, improving cash flow in particular has become a higher priority. While working to reduce current assets beginning with improvements to the inventory turnover ratio, we are more carefully scrutinizing investments targeting sustained growth.

Turning to corporate governance, in a bid to increase opportunities to gain the confidence of shareholders, Sumitomo Forestry shortened the term of directors from two years to one year and also shifted to segments that

matched the reality of the business situation. We aim to further improve the transparency of management by unifying the fiscal years of Group companies and facilitating the timely and accurate disclosure of business information.

We view returns to all shareholders as one of our most important management tasks at Sumitomo Forestry, and our basic policy is to provide stable and ongoing returns. In spite of challenging business conditions, the Company is keen to return an appropriate level of profits to shareholders based on recent profit levels and a comprehensive evaluation of the balance between the business foundation, financial conditions and cash flow. For the nine-month fiscal period ending December 31, 2020, the Company plans to distribute a dividend of ¥30 per share in total (interim and year-end dividends), which is on a par with the ¥40 per share dividend it has paid for a full 12-month year.

Progress on the Medium-Term Management Plan

The aims of the 2021 Medium-Term Management Plan, which launched last fiscal year, are to strengthen the management foundation and promote future-oriented business strategies for further growth in order to create and nurture new businesses.

In the first year of the medium-term management plan, Sumitomo Forestry early adopted the "Accounting Standard for Revenue Recognition" in fiscal 2019, causing a sharp decline in net sales. However, when adjusted for the ¥240 billion impact from adopting this accounting standard, net sales increased. Recurring income totaled ¥58.8 billion, reaching a record high that was much higher than the previous year, thanks to a solid performance in the U.S. housing and real estate development business. Furthermore, recurring income (excluding the effect of actuarial gains and losses) was ¥61.4 billion.

Due to a change in fiscal year-ends from March to December, fiscal 2020 will be an odd nine-month fiscal period. Compared with the same period in the cumulative third quarter of the previous year (April to December

2019), Sumitomo Forestry expects profits to decline in domestic and overseas business owing to the impact from the spread of COVID-19 in Japan and around the world. We have proactively enacted sales strategies to respond to this "new normal," such as enhancing our website for product promotion, proposing floor plans suitable for working remotely and interacting with customers without in-person meetings. Impacts from a drop in domestic orders for custom-built detached housing at the start of the year and delays in finishing construction are expected to affect earnings from the second half of the current fiscal year and extend into the first half of the next fiscal year.

Regarding the plan for the year ending December 2021, which is the final year of the medium-term management plan, the initial business environment in Japan and overseas has changed significantly, and there is concern about the re-expansion of COVID-19 infections. Therefore, we will scrutinize the plan and announce it early in the next term.

Four Basic Policies of the 2021 Medium-Term Management Plan

- ① Promote future-oriented business strategies for further growth
- ② Strengthen management base for sustainable growth
- ③ Accelerate R&D and technological innovation utilizing timber
- ④ Promote further integration of business operations and ESG (Environment, Society, Governance) initiatives



Consolidated Performance	Results in fiscal 2019 (ended March 31, 2020)		Forecasts for fiscal 2020 (ending December 31, 2020) ^{*1}		Plan for fiscal 2021 ^{*1 *2}
		YoY change		YoY change	
Net sales	1,104.1	- 15.6 %	777.0	- 3.2 %	1,260.0
Recurring income	58.8	+ 14.4 %	24.0	- 44.3 %	85.0
Profit attributable to owners of the parent	27.9	- 4.5 %	11.0	- 51.4 %	48.0
Recurring income excluding the effect of actuarial differences ^{*3}	61.4	+ 11.9 %	—	—	—

^{*1} Due to a change in the fiscal year-end, estimates for fiscal 2020 are for the nine-month period from April to December 2020, and YoY comparisons refer to the same period in the previous fiscal year (the total for 1Q through 3Q).
Furthermore, the end of the medium-term management plan has been changed from March 2022 to December 2021. (Forecasts as of August 12, 2020)

^{*2} Plan is as of the time of deciding the medium-term management plan. The plan is to closely examine the business environment within and outside of Japan and disclose figures as soon as possible in the next fiscal year.

^{*3} Actuarial differences arise due to the accounting standard that applies to employee severance payments and company pensions. Companies adopting the standard are required to recognize in each year's accounts any difference between estimates and actual results in terms of the amounts of retirement expense liabilities and pension fund investment returns, or else to amortize amounts over several years. The Group policy is to recognize such differences as an SG&A expense in the year they arise. As the impact of actuarial differences is hard to estimate, we do not factor it into our performance plans, including our medium-term management plan.

ESG Initiatives

ESG is an essential aspect of evaluating corporations. The Sumitomo Forestry Group is promoting further integration of its ESG initiatives with its businesses, by incorporating specific non-financial targets in its medium-term management plans to strengthen the link between business and sustainability strategies.

In our response to climate change, we aim to achieve numerical targets set for each business segment with an eye on our long-term greenhouse gas emission reduction

target, which is certified as a Science Based Target (SBT). Sumitomo Forestry has declared its support for the Task Force on Climate-related Financial Disclosures (TCFD) and is advancing efforts to enhance climate-related financial disclosure to investors by conducting scenario analysis and such. In March 2020, the Company joined and endorsed RE100, which commits to sourcing 100% of the electricity used across its operations from renewable energy by 2040, and is striving to accelerate initiatives on greenhouse gas emission reduction.

Toward Further Development of the Sumitomo Forestry Group

One of the Sumitomo Forestry Group's strengths is its broad involvement in upstream to downstream operations centered on trees, from forest management through to the production and distribution of wooden building materials, as well as the housing and construction business and renewable energy business. With the expertise which the Group has accumulated throughout our value chain, we will maximize the abilities of trees to absorb, store and reduce carbon dioxide. This will allow us to provide customers with products and services that help curb carbon dioxide emissions and benefit all of society by reducing the burden on the environment.

In recent years, global warming has increased awareness of the risks from climate change, as well as the importance of reducing greenhouse gases as a societal challenge. In the construction sector, attention has turned to curbing "embodied carbon*" emissions in addition to the measures to improve the efficiency of energy consumed when using buildings, which has been the focus until now. As trees grow, they absorb and store carbon dioxide. Furthermore, compared to steel or concrete, wooden materials curb carbon dioxide emissions during the

manufacturing and construction process. In this context, in addition to wooden housing, attention is being drawn to the advantages of medium- and high-rise wooden structures for non-residential applications.

After its long use as a building construction material, wood waste can be recycled into wooden boards or used as fuel in biomass power generation. In this way, timber can be easily reused in a cascading fashion. Amid concerns about the depletion of natural resources around the world, products and resources must be utilized as much as possible, and continuously recycled and reused without degrading their inherent value. As the market expands for such a circular economy, we expect demand for timber to increase.

The Sumitomo Forestry Group will continue to evolve its circular business model centered on trees with the aim of not only generating operating profit, but also creating such public benefit as conserving ecosystems and creating jobs. We aim to play a leading role in the transition to a circular economy for the whole of society.

* Carbon emissions associated with material extraction, manufacturing, transport, construction, and deconstruction of a building.



To Our Stakeholders

The Sumitomo Forestry Group has boldly pursued the social responsibilities expected of it as a corporation, always keeping an eye on changes in society, carefully listening to the opinions of stakeholders, improving corporate governance, co-existing with the environment, enhancing customer satisfaction and respecting human rights and diversity.

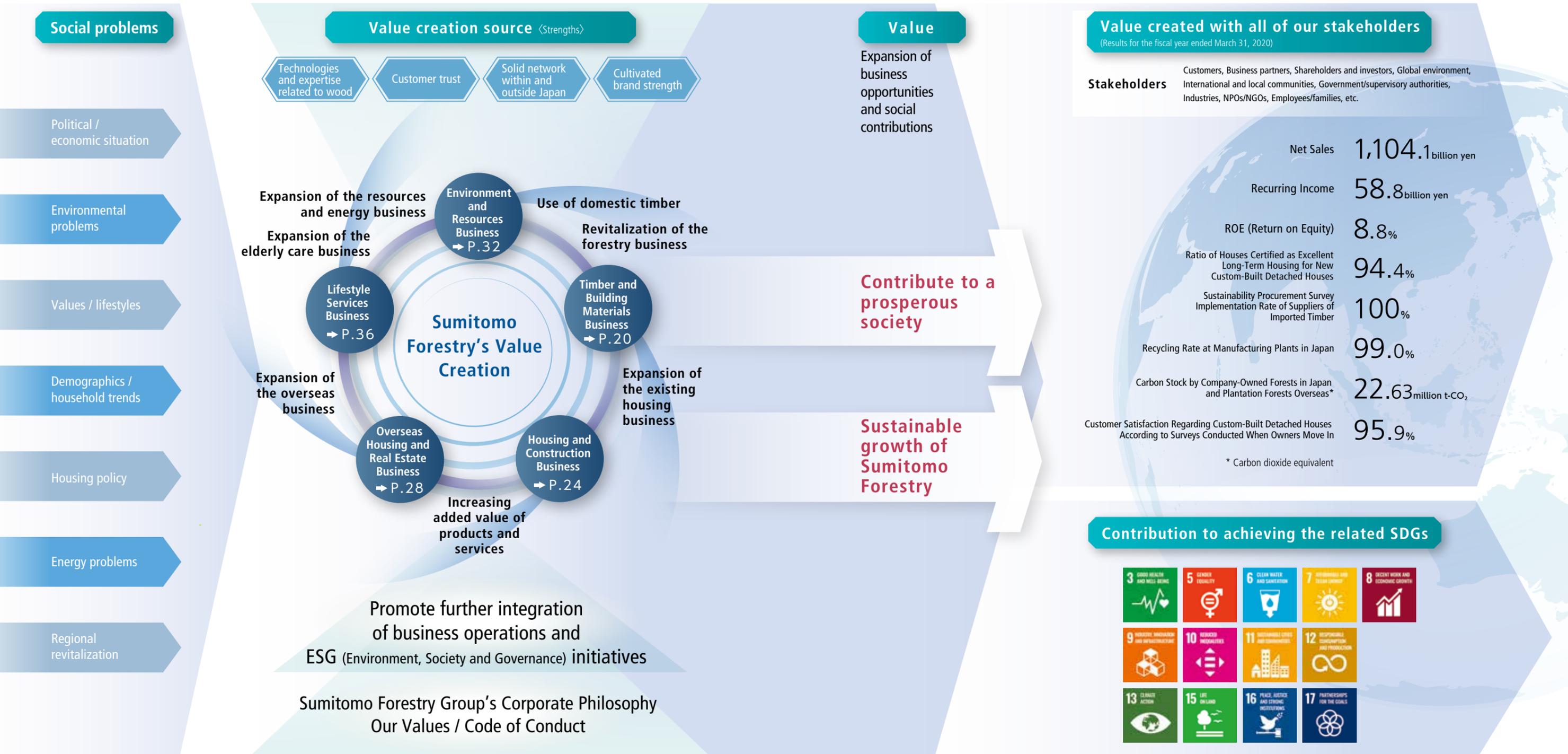
COVID-19 outbreaks have increased uncertainties about the future to unprecedented levels. We must develop business in line with a new society and new value systems after the pandemic ends. Because this is such a challenging time for the world, we will uphold Sumitomo's Business Spirit. We will contribute to solving social issues through our sustainable business models centered on trees, a renewable natural resource.

Under a new management structure, we will strive to contribute significantly to the global environment in the future as each and every employee works with pride and confidence in the Group's ability to solve social issues. We ask for your understanding and continued support for our endeavors.

Toshio Mitsuyoshi
President and Representative Director

Contributing to Realization of Sustained Growth and a Prosperous Society through Business Activities Pivoting on Trees

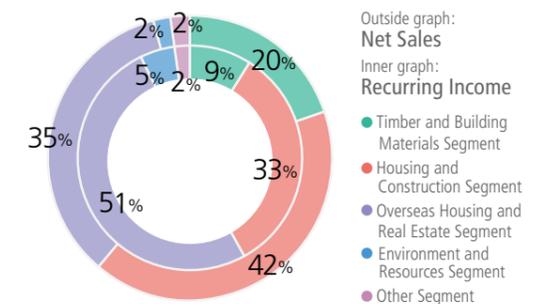
We at the Sumitomo Forestry Group are engaged in various business activities pivoting on trees. The Sumitomo Forestry Group has accumulated technologies and expertise related to wood almost 330 years since our foundation. We use these and demonstrate our unique strengths of customer trust, a network within and outside of Japan and cultivated brand strength, and we will continue to contribute to the realization of a sustainable and prosperous society through all services related to people's lifestyles.



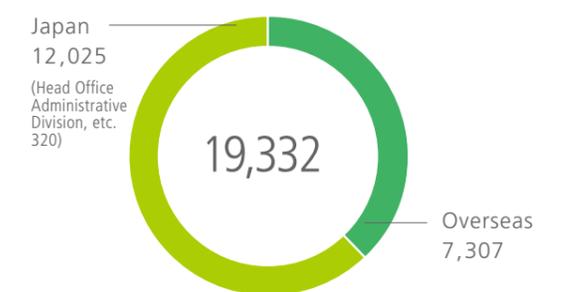


Timber and Building Materials Segment	
Timber and Building Materials Business	▶ P.20
Housing and Construction Segment	
Housing and Construction Business	▶ P.24
Overseas Housing and Real Estate Segment	
Overseas Housing and Real Estate Business	▶ P.28
Environment and Resources Segment	
Environment and Resources Business	▶ P.32
Other Segment	
Lifestyle Services Business	▶ P.36

Composition by Segment (Year ended March 31, 2020)



Number of Employees (As of March 31, 2020)



Business Outline

The Sumitomo Forestry Group engages in a variety of business activities pivoting on wood. Based on its customer relationships and network within and outside of Japan, and backed by its wood-related technologies and know-how, we contributes to the realization of a sustainable and prosperous society through various lifestyle-related services.

Timber and Building Materials Business



Representative Director
Executive Vice President and Executive Officer
Divisional Manager of Timber and
Building Materials Division
Shigeru Sasabe

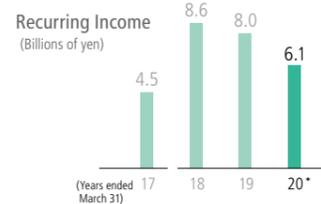
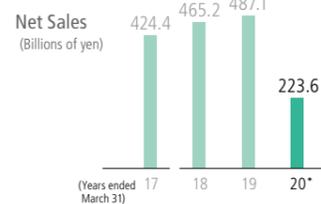
As the No. 1 share company in the domestic timber and building materials distribution markets, we provide total solutions, from distribution to the manufacture and sale of timber and building materials.

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 Initiatives towards Sustainable Procurement on page 57 for details.

DATA



* 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

Strengthening the Sustainable Growth Foundation by Building a Business Structure in Tune with Market Changes

In the Timber and Building Materials Distribution Business, while leveraging its supply chain in sustainable timber procurement, the Company continues to concentrate efforts on increasing sales of environmentally friendly products, such as certified timber, expanding transactions in wood fuel for power generation, growing exports of domestic timber, and bolstering initiatives in the non-residential building construction market. We are also increasing the range of variations for KIKORIN-PLYWOOD, a high-quality,

environmentally friendly plywood that the Company developed, giving customers a broader selection of products.

In the Manufacturing Business, we aim to increase profitability through the development of high-value-added products that satisfy customer needs, by enhancing marketing in conjunction with the Timber and Building Materials Distribution Business and integrating manufacturing and sales further.

Progress in Fiscal 2019

The Timber and Building Materials Distribution Business made progress strengthening collaboration with its partners by reorganizing its operational structure to more closely match that of the business models of its partners. Our aim is to secure diverse sources of earnings by building a business portfolio that does not depend on the housing market. We are concentrating efforts on expanding exports of domestic timber, increasing the handling of wood fuel for power generation, and bolstering initiatives in the non-residential

building construction market. At the same time, we are working to grow sales of environmentally friendly products that use certified timber and sustainably produced plantation timber.

In the Manufacturing Business, domestic sales were solid for building materials, including wood for stairs and floors. In New Zealand, manufacturing costs rose, and sales of MDF to Japan were weak.

Launch of Structure Express as Service to Assist in Structural Design for Builders and Pre-Cut Factories

—Promoting the Spread of Reliable and Safe Housing and Endeavoring to Solve Problems of Labor Shortages and Long Working Hours—

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 its know-how accumulated in the Housing and Construction Business and networks in the Timber and Building Materials Business. By automatically calculating the optimal parts and materials required to ensure performance for grade three earthquake resistance while providing structural calculation sheets, we aim to increase the number of reliable and safe housing that are resilient to earthquakes and comply with revisions to the Licensed Architect Act related to mandates to preserve architectural blueprints. Based on the architectural drawing data for a home, the system automatically generates the structural calculations, structural framing plan, and data that links pre-cut and CAD, thereby streamlining the design work in builders and saving time in CAD work at pre-cut factories. It is also a beneficial service for all, including builders, pre-cut factories and building owners.

We will roll out promotions nationwide in a bid to turn this service into a new standard, and target 300 builders and 3,000 buildings by fiscal 2023.

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 own and manage 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.



Manufacturing Business

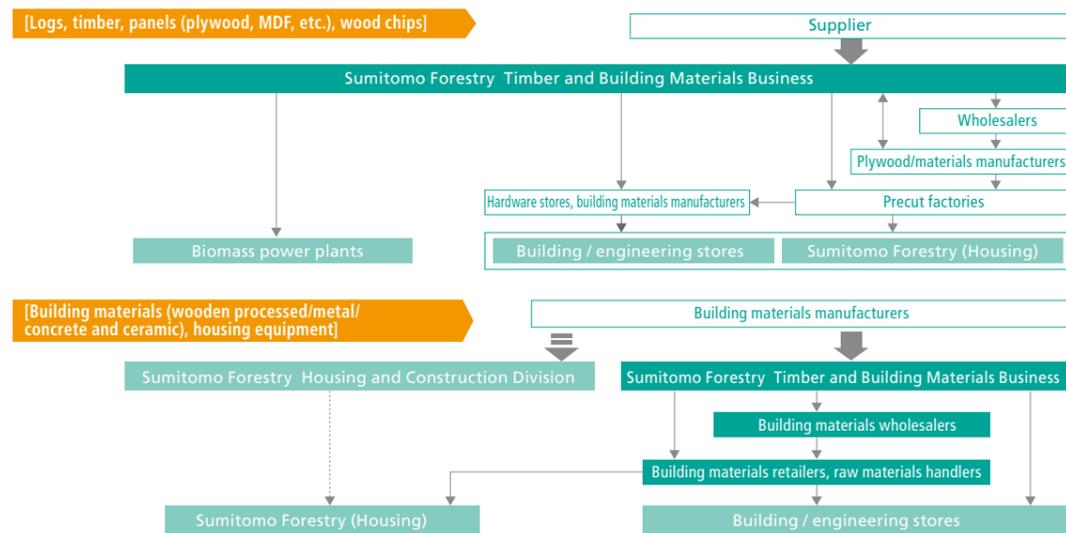


Developing and Selling High-Value-Added Products Through Integrated Manufacturing and Sales Structure

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 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.

Main Commercial Logistics Flowchart



KIKORIN-PLYWOOD

KIKORIN-PLYWOOD is a JAS-compliant product made of at least 50% certified timber and sustainable plantation timber. A portion of sales are steered toward forestation programs the Group undertakes in Indonesia. KIKORIN-PLYWOOD won the EcoPro Award in 2018.



[Domestic Manufacturing Group Companies]

Japan



Sumitomo Forestry Crest Co., Ltd.

Manufacturing / wooden housing-related materials, housing equipment, engineering wood, stair materials, 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 melamine faced chipboard



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 Business



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

Comfortable homes worth living in forever, with unique feeling and functionality of wood

Since it entered the Custom-Built Detached Housing Business in 1975, the Sumitomo Forestry Group has provided quality living environments by proliferating 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.

Today, leveraging the designing and technological capabilities it accumulated in the custom-built housing business, Sumitomo Forestry has diversified its operations into the apartment business & residential property development (spec homes business), landscaping business, and existing homes business.

Over the past few years, Sumitomo Forestry has been promoting the use of wood materials in non-residential building construction fields, with the aim of expanding the new production and use of wood materials as a part of national policy.

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.

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. In addition, the business environment has become more challenging due to the COVID-19 pandemic. However, new demand is emerging amid the "new normal" and values unique to mature markets. In the Housing and Construction Business, we are keen to diversify the contract work business and expand the existing homes business while keeping an eye on changes in the future.

In the Custom-Built Detached Housing Business, Sumitomo Forestry builds highly satisfactory homes for customers by proposing layouts with home office 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). Furthermore, to address serious labor shortages, we are accelerating initiatives to strengthen and streamline productivity and cut costs by reducing the number of processes with pre-cast foundations, pre-cut parts and materials, and panels.

In the existing homes business, we are building and strengthening a framework for leveraging Group-wide management resources in each business to their fullest, including renovation, real estate distribution and real estate management, in order to meet the various requests and needs of customers for selling existing housing, rebuilding housing and renovation.

Sumitomo Forestry will establish a diverse earnings base through initiatives to expand the Apartment Business and spec homes business, while promoting the use of wood in non-residential building construction fields.

Progress in Fiscal 2019

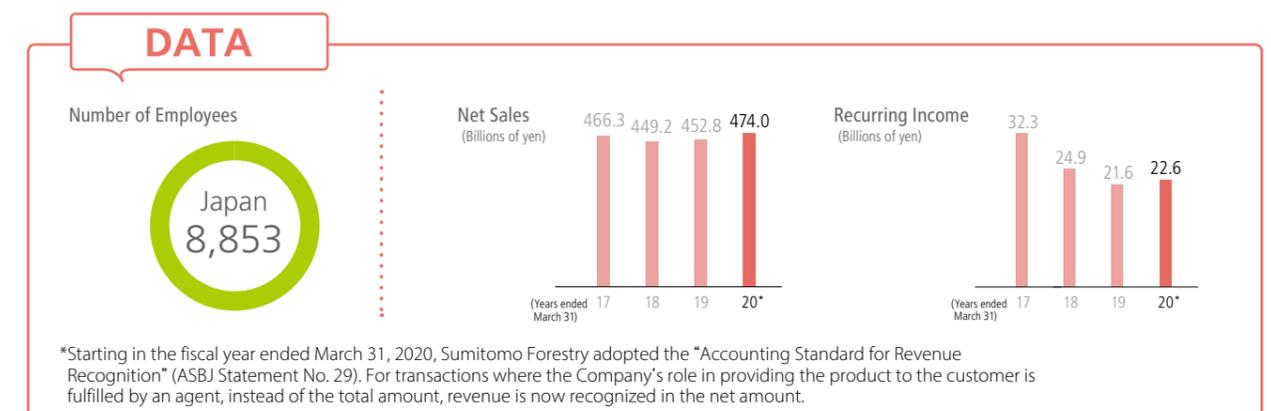
In the custom-built detached housing business, we continued to bolster efforts to offer highly customized proposals to first-time buyers looking for land. We also focused on expanding orders for ZEH (net zero-energy house) specification housing. In our apartment business, we launched the Forest Maison CARRÉ apartment series featuring buildings with enhanced design and highly durable exterior materials such as roofs and outer walls.

In the renovation business, we worked to promote earthquake resistance renovations leveraging our advanced technical expertise rooted in the Group's original seismic-resistance and seismic-vibration damper construction methods. In the spec homes business, we concentrated on expanding business in the three major metropolitan areas of Tokyo, Osaka, and Nagoya. As a result, both procurement

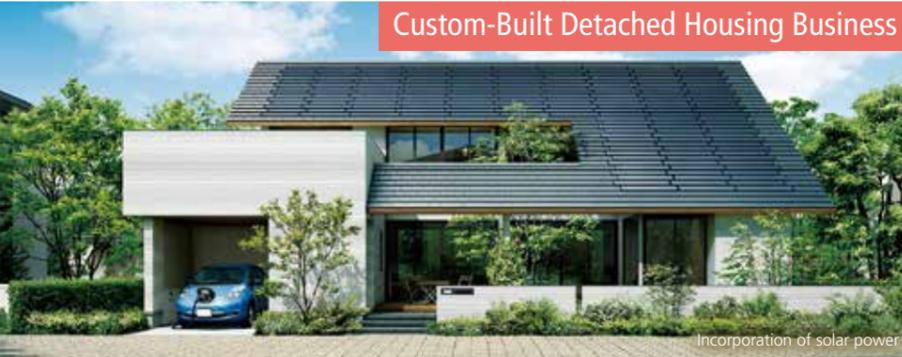
and sales trends were robust.

In our MOCCA (Timber Solutions) business, we continued to encourage the use of wood in non-residential buildings, including by completing construction of a day care center as well as a mixed-use building with office and retail space.

In May 2019, we forged a business agreement with Marui Group Co., Ltd. to comprehensively collaborate in the housing and construction business fields and invest in its subsidiary AIM CREATE Co., Ltd. By utilizing AIM CREATE Co., Ltd.'s know-how in the planning, interior design and construction of commercial facilities to enhance our ability to propose ideas for the interior renovation of non-residential properties, we aim to further bolster our business performance.



Custom-Built Detached Housing Business



Incorporation of solar power

harnessing the wealth of ideas and know-how that we have built up to date to make our customers' dream homes a reality. In doing so, we focus on providing housing meeting the requests of an array of customers, from first-time home buyers looking to acquire the first place of their own 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 secure space for work. Using the Internet of Things (IoT), we are developing a new service that seeks to provide rapid support to customers who have been caught up in natural disasters. In the future, this service could be applied to areas such as the smart city concept. 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 Burden of Housing on Global Environment

We construct most of our houses using either the Big-Frame (BF) construction method that uses a wooden-beam Rahmen structure or the Multi-Balance (MB) construction method, an evolved iteration of the wooden post-and-beam construction. Both approaches enable us to satisfy a variety of customer needs by allowing flexible floor plan 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,

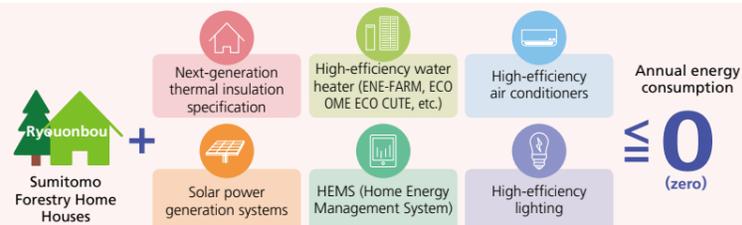
and environmental impact. In this environment, we have been promoting the widespread adoption of homes specified as ZEH (net zero-energy house) that reduce the annual energy consumption of each household. We supply living environments that are resilient to natural disasters and comfortable year-round.

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

●ZEH (net zero-energy house)

ZEH denotes housing that combines high thermal insulation performance and energy-saving equipment with energy-generating equipment such as solar power systems to achieve annual primary net energy consumption of zero or less. 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 takes advantage of natural blessings like wind and sunlight. Along with our expertise in utilizing those unique properties of trees and nature's bounties, we are employing techniques to reduce energy consumption such as enhancing insulating performance and introducing energy-saving equipment as well as technology that facilitates smart energy use such as equipment that creates and stores energy and HEMS* to enhance energy efficiency in the home. In doing so, we aim to reduce household CO₂ emissions.

* HEMS stands for Home Energy Management System. It is a system that manages energy in the home, and visualizes the amount of electricity generated and consumed.



Beautiful townscapes 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 Detached 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 townscapes in harmony with nature. In addition to the design codes of buildings that consider all aspects of housing, from location selection through to space designs, our aim is to create townscapes with a sense of unity between the homes and nature.



Support for charming environments surrounded by nature

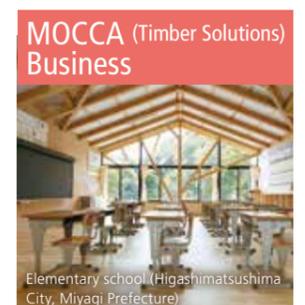
The landscaping business encompasses all aspects of "greenery," from general housing to urban spaces and the creation of communities with an emphasis on biodiversity. In residential exterior landscaping, we offer a range of services from planning and design to the installation and maintenance of exterior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



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 conduct businesses including, resales of renovated properties, real estate brokerage, and real estate rental and management with the aim of contributing to society as an eco-friendly business toward facilitating the effective utilization of housing stock as properly evaluated, high-quality assets.

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



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 low-rise, non-residential wooden buildings, such as children's facilities, welfare facilities and lodging facilities. Going forward, with this business, we will continue to hand down the culture of wood 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.

Topics Start of Sumirin Denki Electricity Service for Post-FIT Owners

In November 2019, the Group began offering services as an agent for the purchase of surplus electricity from home solar power generation as well as for electricity supply for Sumitomo Forestry Home House owners whose 10-year purchase period under the renewable energy feed-in-tariff (FIT) scheme has ended ("post-FIT"). Dubbed Sumirin Denki, this service is increasing customer satisfaction while helping us to achieve our Science Based Targets (SBT) for 2030 by effectively utilizing our offices, model homes, and other locations.

➔ Please see page 51 for more details about SBT.



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



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

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

Since the launch of the 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 long term against the backdrop of their stably growing populations. We mainly sell detached housing to the actual-demand group as the primary market. We have been conducting the real estate development business in the United States since 2018 and stabilizing and diversifying revenue streams by developing not only the detached housing business, but also other businesses over a wide region.

Housing is a business with strong local characteristics due to changing local customs and lifestyle habits. Therefore, we manage this business by utilizing to the greatest possible extent the knowledge and know-how of local partners and the product value that is tailored to the needs of each region. We also aim to create synergies and to strengthen the competitiveness of each business by utilizing the comprehensive strength of the Group, including through joint purchases of materials and by sharing information. Further, to accommodate the diversification of housing needs in recent years, we have been enhancing our product lineup, such as to townhouses and condominiums.

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 each region. In the real estate development business in the United States as well, we continue to build a structure toward stabilizing revenue. Based on the organic growth of each company, the aim is to achieve stable growth by diversifying revenue streams and entering into new areas. Further, in order to grow the Asia region to be the third overseas revenue pillar after the United States and Australia, we are promoting new businesses,

including real estate development projects.

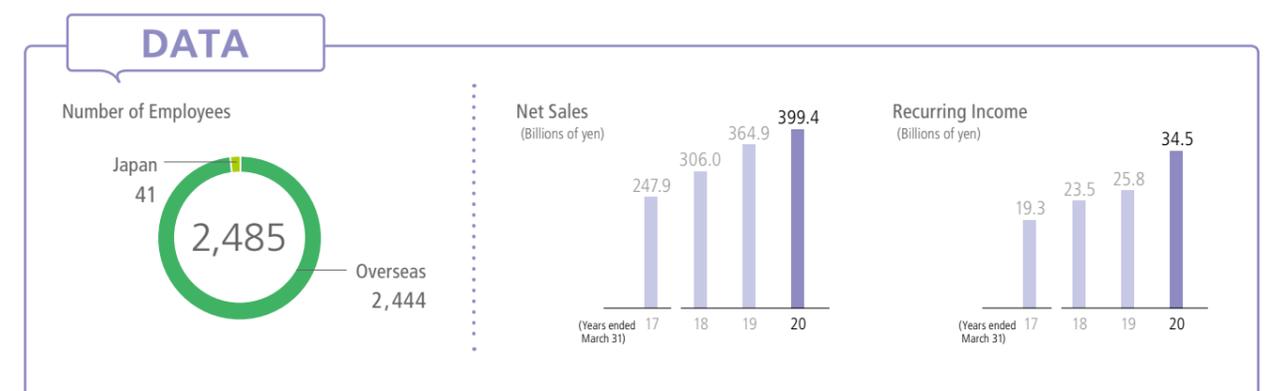
Also, to mitigate real estate investment risk, we appropriately conduct monitoring based on internal regulations, including confirming the inventory conditions of real estate for sale and the latest price trends, while we are further working to facilitate flexible responses in accordance with market conditions. 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 Fiscal 2019

In the detached housing business in the United States, the housing market is trending solidly in the regions that the Group has entered into, and as a result, the number of homes sold increased compared to the previous fiscal period. In the detached housing business in Australia, the housing market has been sluggish and the number of homes sold declined compared to the previous fiscal period. In the real estate development business in the United States, we made steady progress in sales of multi-family housing and commercial and mixed-use facilities. In Southeast Asia as well, we made steady progress in Vietnam, Indonesia,

and Thailand for the detached housing and condominium projects that we are currently working on.

In February 2019, the Group acquired the equity of the Scott Park Group, which conducts a detached housing business in the state of Western Australia, and thereby we newly entered into the Western Australia area. Also, in January 2020 we established a joint venture with our strategic partner, Kumagai Gumi Co., Ltd., to embark on a real estate development business in Jakarta, Indonesia.



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 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. While valuing the United States' unique housing culture, customs, and construction methods, we have built long-term partnerships and accumulated know-how in the housing business, including through acquiring equity in leading local builders. By conducting in-depth

market research, we identified the areas in which the housing market can be expected to steadily grow based on actual demand, and we have currently expanded the areas in which we conduct the detached housing business to 11 states nationwide, including Texas and Utah and Virginia and South Carolina on the East Coast. In addition to the detached housing business, the Group is developing other businesses over a wide region, including Crescent Communities, which conducts a real estate development business, and Mark

Ill Properties, which conducts a land development business. 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 each area in the United States, we are further progressing business expansion and development.

Detached Housing Business Group Companies



MainVue Homes Group (WA/TX)



Edge Homes Group (UT)



Gehan Homes Group (TX/AZ)

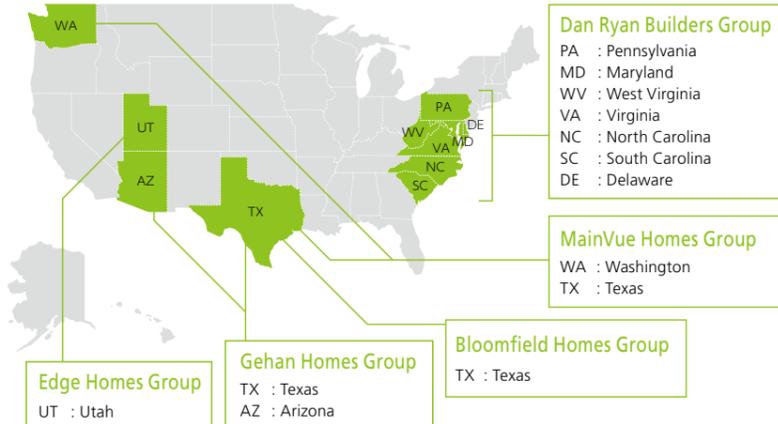


Bloomfield Homes Group (TX)

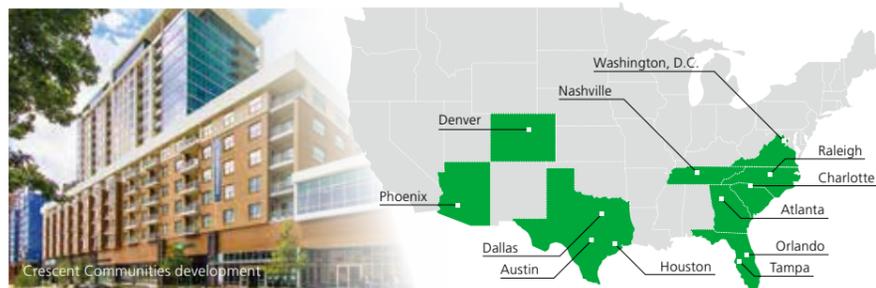


DRB Group (MD/VA/WV/NC/SC/PA/DE)

U.S. detached housing business areas



Crescent Communities business areas



Real Estate Development Business



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

Australia In addition to newly entering into the state of Western Australia, is conducting a detached housing business across all of Australia 

The Group started a housing business in Australia in 2008, and we currently conduct a custom-built housing business and a spec homes business in the states of Victoria, Queensland, New South Wales, South Australia, and Western Australia. Henley Properties Group, which is a member of our Group, has acquired an excellent reputation. This

includes it being bestowed with the Professional Major Builder Award, which is presented to the building company with the greatest comprehensive capabilities in each state. It has won three times in Victoria, been selected in eight consecutive years since 2012 in Queensland and was selected as Australia's No. 1 in 2020, the second

time after also winning in 2015. In Australia, in which the population is expected to grow in the long term, the Group is offering housing that meets the needs of a wide range of groups by developing multiple brands depending on the region.

Detached Housing Business Group Companies



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



Scott Park Group (WA)



Wisdom Properties Group (NSW)

Henley Properties Group

- VIC : Victoria
- QLD : Queensland
- NSW : New South Wales
- SA : South Australia



Asia Is developing real estate including multi-family housing, commercial and mixed-use facilities, and detached housing 

The Group is 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. Continuing on from the United States and Australia, the Group is expanding its business fields into Southeast Asia, with a view to strengthening the earnings base of the Overseas Housing and Real Estate Business.

our strengths by utilizing our design expertise and knowledge of creating attractive interiors that are rich with the essence of wood. We are aiming to stabilize the business foundation while capturing housing demand that is strong against the backdrop of factors including the rapidly progressing establishment of infrastructure, population increases, and rising income levels, while we are also contributing to improving the

living environment of people in local communities.



<p>Thailand</p> <p>Condominium development business</p> <p>Detached spec homes development business</p>	<p>Vietnam</p> <p>Condominium development business</p>	<p>Indonesia</p> <p>Detached spec homes development business</p> <p>Comprehensive development business</p>	<p>China, Hong Kong</p> <p>Condominium development business</p>
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Environment and Resources Business



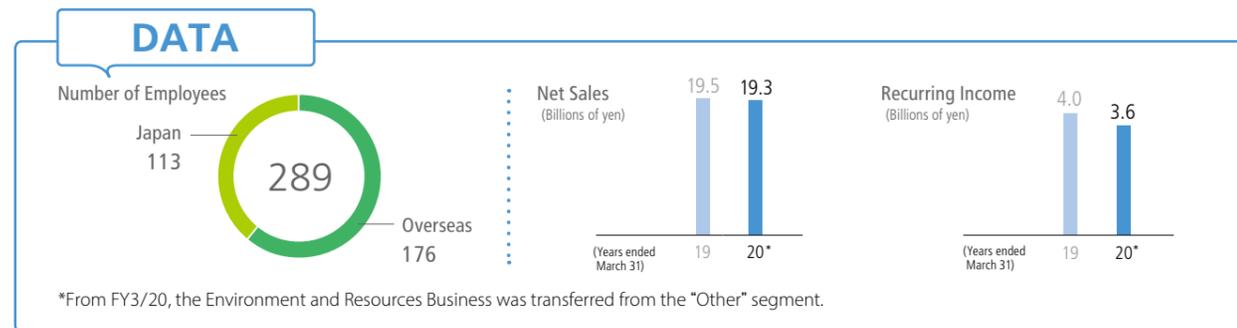
Sumitomo Forestry Group plantation forest (Indonesia)



Managing Executive Officer
Divisional Manager of Environment and Resources Division
Akira Sekimoto

Planting trees, growing forests, and utilizing them as resources. Realizing the effective use of resources and local production-consumption for energy.

Based on a "sustainable forestry" approach of planting, growing, logging, and utilizing trees, and then replanting trees, Sumitomo Forestry owns a total of approximately 48 thousand ha of forest in Japan (approximately 1/800th of the country's land area), for which we are conducting planned forestry management, including acquiring forestry certification from the Sustainable Green Ecosystem Council (SGEC). Overseas, we own and manage approximately 231 thousand ha in Indonesia, Papua New Guinea, and New Zealand, including forests that have acquired third-party certification such as FSC®, while we are also contributing to preserving biodiversity and developing local communities. In addition, in the Renewable Energy Business, which effectively utilizes wood and other resources, we are mainly conducting a wood biomass power generation business in Japan. (FSC® license code: FSC-C113957)



Initiatives towards Growth

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. Securing reliable supplies of the seedlings needed for reforestation is becoming an integral issue due to the expectation that the use of domestic timber is promoted in tandem with advancing clear-cut logging. In the Group's domestic forestry business, we are aiming to improve productivity by introducing advanced forestry machinery, while at the same time, we are establishing and strengthening the seedling production system and working to realize sustainable forestry

management that is competitive internationally.

In the overseas forestation business, it is anticipated that the amount of natural wood supplied will be further reduced by global deforestation and the strengthening 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 the forest area.

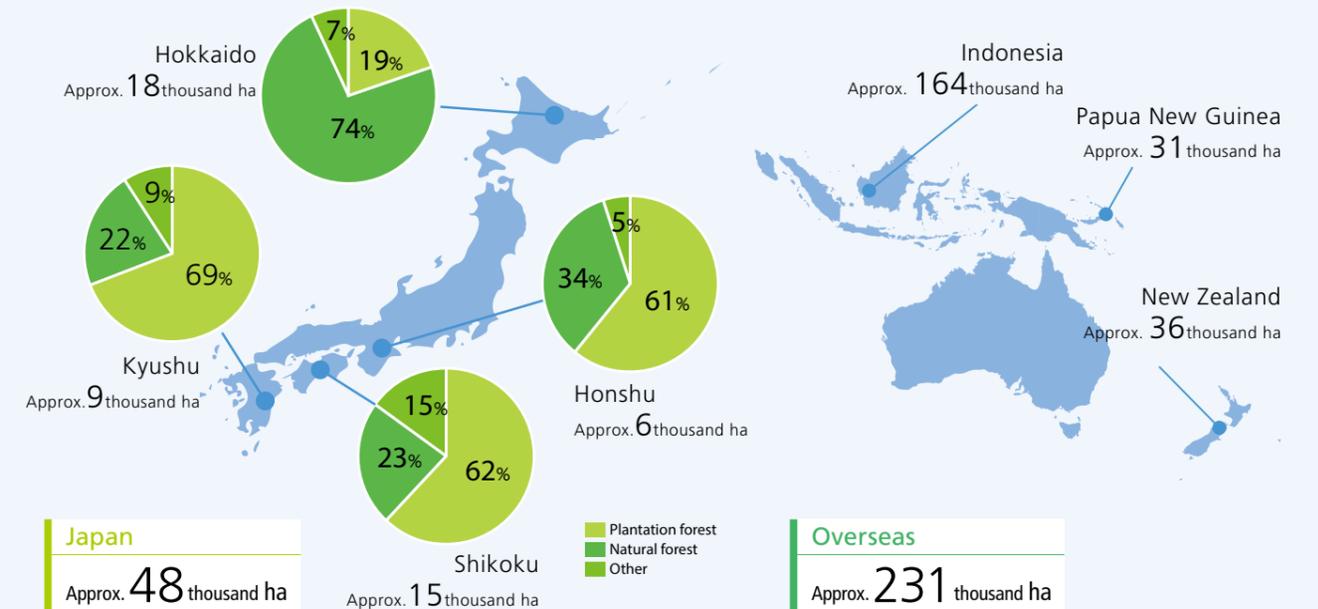
We are also focusing even more on the Renewable Energy Business, which is attracting attention as a way to solve environmental problems, and we are accelerating the effective use of sustainable resources.

Progress in Fiscal 2019

In the domestic forestry business, we are working to improve the efficiency of forestry management, while in January 2020, we established a seeding center in Minamiaizu, Fukushima Prefecture, our sixth such center nationwide. We also concluded partnership agreements in the forestry and wood industry fields with Nagato, Yamaguchi Prefecture in September 2019 and Nagano Prefecture in December of the same year. In such ways, we are working to progress the forest asset management business for municipalities. In the

overseas forestation business, in our New Zealand forest we are advancing operations to keep down to the greatest possible extent the loss due to the forest fire that occurred in February 2019 and its impact on the future, while we also continue to cooperate with the government and local residents to enhance fire-prevention and fire-fighting structures. In the Renewable Energy Business, we have worked to secure the stable operations of the wood biomass power generation business.

Company-Managed and Owned Forests (As of March 31, 2020)



Domestic Forestry Business



Larch seedlings

Commitment to “sustainable forestry” connecting trees and forests to people

The Group steadily promotes greater efficiency in forest management by deploying high-performance forestry machinery, such as the lumber-gathering tower yarder that facilitates safer and more efficient operations in steep forests and harvester that combines the functions of felling, collecting, and lumbering trees in a single machine. It also pursues development of the latest technologies as seen in developments of a forestry assistance suit that reduces work burden and seedling transport drones and test forestation with fast-growing tree species. The Group has seedling cultivation centers in six locations nationwide as a production infrastructure for cedar, larch, and other seedlings. The centers seek optimization of cultivating conditions and facilitate production throughout the year with production technology that uses a

greenhouse.

The Domestic Forestry Business is a foundation of our business that constitutes the roots of the Sumitomo Forestry Group. Using the expertise and experience we have developed from managing the forests we own, we are working to help revitalize local economies and the domestic forestry sector along with promoting sustainable business in the future. Initiatives include efforts to develop forest-based asset management businesses for the public and private sector.



Forestry assistance suit that reduces muscle load

Development of drones to improve the efficiency of seedling transport

Overseas Forestation Business



Timberland in New Zealand

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, the Group has operated a large-scale forestation business in West Kalimantan since 2010 and gained recognition for its initiative to manage peatland in a way that maintains the business while curtailing

greenhouse gas emissions as “innovative high-quality peatland management.” It has also obtained favorable assessment each year for COP presentations for three consecutive years since COP23 in 2017 at the request of the Indonesian government.

In Papua New Guinea, the Group manages forests 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.



Forestation activities to preserve forests

Renewable Energy Business



Wood Chips for Fuel

Utilizing construction waste and forestland unused timber as an energy resource

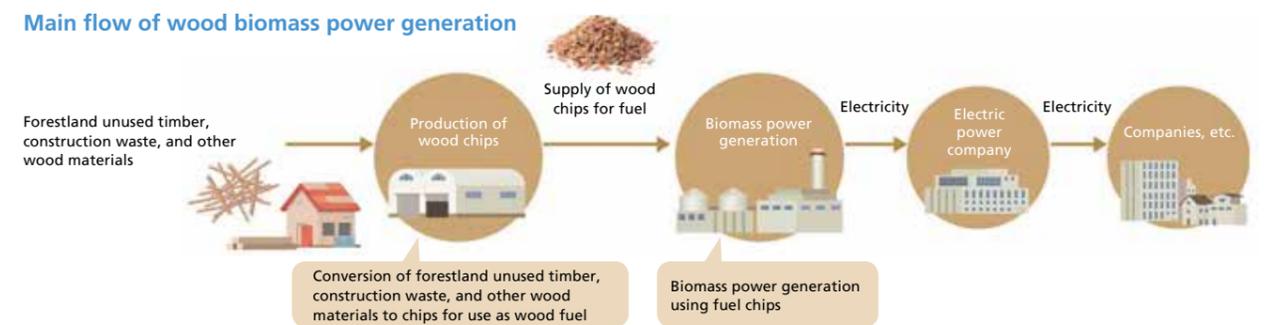
The wood biomass power generation business, which uses chips made from construction waste, forestland unused timber*, and other materials as fuel, possesses an operational advantage of stable access to fuel leveraging the Group’s procurement sources cultivated in the timber and building materials business and has important social significance through effective utilization of timber, curtailment of CO₂ emissions, and contributions to advances in forestry

such as fostering forest environments in regional areas. The Group is promoting renewable energy business suited to local characteristics and conditions by harnessing know-how, networks, and other management resources as well as experience in the wood biomass power generation business and aims to build operations with 300 MW of power generation (confirmed project basis), mainly in wood biomass power generation.

* Refers to thinned wood and felled timber left in forests without being used because of curving or small diameter. This wood harms the forest environment when it is abandoned and causes disruptions to forest management and forestation efforts.

Carbon neutral mechanism Wood biomass power generation is premised on a “carbon neutral” concept of not resulting 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, the power generation does not increase CO₂ in the atmosphere during the tree’s lifecycle. This concept of a carbon cycle is known as carbon neutral and curtails increase in CO₂ concentration in the atmosphere.

Main flow of wood biomass power generation



List of Wood Biomass Power Generation Plants

	Kawasaki Biomass	Mombetsu Biomass	Tomakomai Biomass	Hachinohe Biomass	Kanda Biomass
Service Areas	Kawasaki City, Kanagawa Prefecture	Mombetsu City, Hokkaido	Tomakomai City, Hokkaido	Hachinohe City, Aomori Prefecture	Kyoto, Fukuoka Prefecture
Start of operation	February 2011	December 2016	April 2017	April 2018	June 2021 (planned)
The Company's investment ratio	34%	51%	20%	52%	41.5%
Power generation capacity	33 MW	50 MW	6.2 MW	12.4 MW	75 MW
Fuel	Construction waste and others (discarded pallets, pruned branches)	Forestand unused timber and others (palm kernel shells, coal)	Forestand unused timber	Forestand unused timber and others (palm kernel shells)	Imported wood pallets and others (palm kernel shells, forestland unused timber)

Lifestyle Services Business



Initiatives towards Growth

In elderly care business, the Group continuously pursues "good people, good facilities, and good services" with the aim of maintaining and improving the sociability and health capabilities of customers and lightening care burden on families and strives to raise the occupancy rate and stabilize business operations. It intends to contribute to realization of a society in which people are able to enjoy vibrant healthy lives by supporting the lives of service users and their families and delivering advanced, high-quality service through collaboration with local society.

Besides elderly care business, the Group is participating in the VISON lodging business being developed in Taki (Mie Prefecture) as a new business. This is a project jointly promoted by industry, government, and academia with goals of industrial promotion and job creation utilizing local resources and key words of food, nature, and health. The Group intends to expand business opportunities and contribute to local revitalization by strengthening collaboration with other participant companies and government.

Sumirin Fill Care

Number of private-pay elderly care facilities operated 16 facilities
(As of end of July 2020)

Sumirin Fill Care Co., Ltd. operates 16 private-pay elderly care facilities, mainly in the Greater Tokyo area, under the themes of "the warmth of people and wood" and "elderly care services adopted 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 launching the original service "Forest Life" which maintains and improves the living environment and health status of facility users.



Gran Forest Gakugeidaigaku

Sumirin Care Life

Number of private-pay elderly care facilities operated 3 facilities
Number of elderly residents that combines living support services 1 facility
(As of end of July 2020)



Elegano Nishinomiya

The Group provides living assistance services that address changes in life stages from people capable of living autonomous healthy lives to those who require high-level medical assistance and operates three large-scale paid nursing homes that offer robust support capabilities through collaboration with medical entities and extensive staffing as well as seven stations that provide home care services. In May 2020, it opened Elegano Nishinomiya (Hyogo Prefecture), the largest serviced senior housing facility in Japan with 309 rooms.

Supporting an even more fulfilling life for seniors with rich experience through the warmth of people and wood



Managing Executive Officer
Divisional Manager of Lifestyle Service Division
Kunihiko Takagiri

In lifestyle services business, the Group handles business in downstream areas that support people's lives and offers a wide range of living-related services, particularly elderly care business.

The aging rate in Japan has continued moving upward, even after it became an ultra-aged society in 2010, and reached 28.1%* in October 2018. Forecasts indicate that it will be above 30% in 2025. Response to the super-aged society, which is rapidly advancing, is one of the most important social issues for Japan.

To address these issues, the Group delivers a variety of services that utilize our know-how in creation of comfortable living spaces cultivated over many years in our housing business, mainly in provision of a reliable and safe living environment for seniors, with the aim of enabling seniors to live vibrant lives without fear, and strives to enhance the quality and quantity of such services.

The Group focuses on creation of new services that contribute to rich lives by operating elderly care facilities and day services that are rooted in local communities.

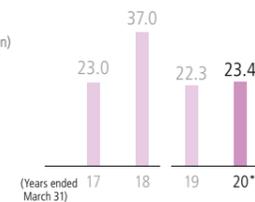
*2019 Annual Report on the Aging Society

DATA (Other Segment)

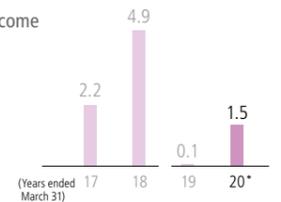
Number of Employees



Net Sales
(Billions of yen)



Recurring Income
(Billions of yen)



* 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. We also separated the Environment and Resources Business as an independent category from the Other segment in FY3/20. Net sales and recurring profit for FY3/18 and prior years are results based on the category prior to this change.

The Other segment covers elderly care business, insurance agency business related to homes, and various other service businesses. Recurring profit includes equipment-method investment income from Kumagai Gumi Co., Ltd.



Exterior view of the new laboratory wing of the Tsukuba Research Institute

Research and Development (R&D)

Promoting the W350 Plan to 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. At present, it conducts two main types of R&D activities: (1) Corporate R&D, which seeks to create future technologies over the long term, and (2) Business-related R&D, which aims to boost earnings over the short and medium terms. The Tsukuba Research Institute is pushing ahead with these R&D activities through the seven groups listed to the right.

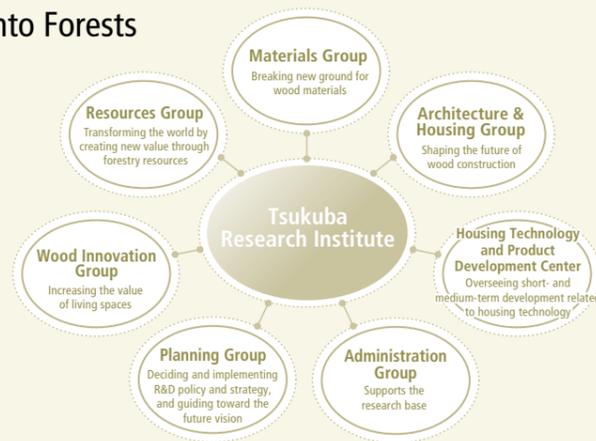


Image provided by Sumitomo Forestry / Nikken Sekkei Ltd.

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. The plan includes construction of a "wooden high-rise building and is intended to realize an "Environmentally friendly and timber utilizing cities". We strive to bring about innovation that encourages a sustainable cycle for timber-utilization and forestry management, and realize a vision for Environmentally friendly and timber utilizing 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 wellbeing of every individual. The Tsukuba Research Institute has produced various research achievements. The 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.

Using the new research building at the Tsukuba Research Institute for W350 Plan research

The Group completed construction of a new research building that utilizes many advanced technologies that enhance the value of wood in October 2019 with the aim of strengthening and accelerating R&D. The beams, pillars, and walls use arawashi*¹ exposed timber that has received Ministry of Land, Infrastructure, Transport and Tourism (MLIT) certification based on the full building evacuation safety verification method*² and designed using the semi-fireproofing technique. It also deploys various energy-saving technologies and renewable energy facilities to realize a zero-energy building (ZEB). Key points are significant reduction in CO₂ emissions by utilizing roof solar panels and absorption water chiller-heaters fired using wood

pellets, validation tests for greenery technology in the roof, balconies, and exterior walls of medium- and large- scale wooden architectural structures, and assessment of a design that contributes to enhancement of intellectual productivity within office spaces.

The building accommodates up to 140 people as an office building and has been highly rated as a research center with a qualities of wood, including receipt of the 33rd Nikkei New Office Award.

*1 This method certifies safety performance for safe evacuation of all people in a building to the ground level in a pre-determined fire scenario.
 *2 This design method decides the cross-section measurements of materials by factoring in the portion of wood burned in a pre-determined fire scenario.
 *3 This method exposes pillars, beams, and other structural materials in a wood building.

Structural characteristics

Wall pillars use a post-tension structure*⁴ that arranges thick laminated veneer lumber (LVL) in the vertical direction with a checkered pattern and has steel rods in the center. This achieves a space with the warmth of lumber.

*4 This technology enhances fixation among materials by applying tensile force to high-strength steel rods and wire ropes integrated with materials.



Fireproof verification

This is the first wood building in Japan to obtain Ministry of Land, Infrastructure, Transport and Tourism (MLIT) certification based on the full building evacuation safety verification method. It relaxed interior restrictions to show the wood structure of pillars and beams.



Environmental features

The building's lower brings sunlight into the first floor's inner courtyard in all four seasons, and natural draft provides effective ventilation using updraft in the stairwell.



Landscaping plan

The roof, balconies, and exterior walls have greenery layouts that fit the wood building. This site should contribute to R&D on greenery technologies for medium- and large-scale wooden architectural structures.



Collaboration with Kumagai Gumi

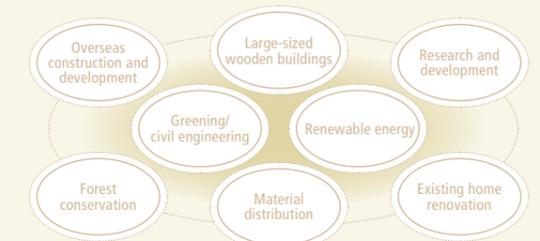
Aiming to create new markets with innovation

The Group has been promoting collaboration with Kumagai Gumi through eight working groups in five areas since the business and capital alliance started in November 2017. We are undertaking full-fledged initiatives. For instance, K&E (Kumagai Gumi Group) and Sumitomo Forestry Home Tech are engaged in joint pursuit of non-residential renewal and reform business, and we have launched a joint team for design and construction of mid- to large-sized wooden buildings. In greenery and civil projects, the alliance is steadily accumulating results in environmental real estate that utilize Kumagai Gumi's construction technology and Sumitomo Forestry Landscaping's environmental landscaping know-how.

In overseas business, the two Groups established a joint venture in Singapore in January 2020 to jointly 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.





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Five Material Issues ▶ P.44



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Sustainability

The Sumitomo Forestry Group takes an integrated approach to business and ESG initiatives. We believe our corporate value will improve as a natural outcome of fulfilling the expectations of society, as expressed in SDGs, and in ways that cannot be explained by economics alone.

Sumitomo Forestry Group's Approach to Sustainability Management

Corporate Philosophy and Sustainability Management

The Sumitomo Forestry Group operates under its Corporate Philosophy to utilize timber 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 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. At the same time, we distribute guidebooks translated into English and other foreign languages in an effort 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 Medium-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 fiscal 2020 set as the target year, each company and division within the Group has been engaged toward achieving those goals.

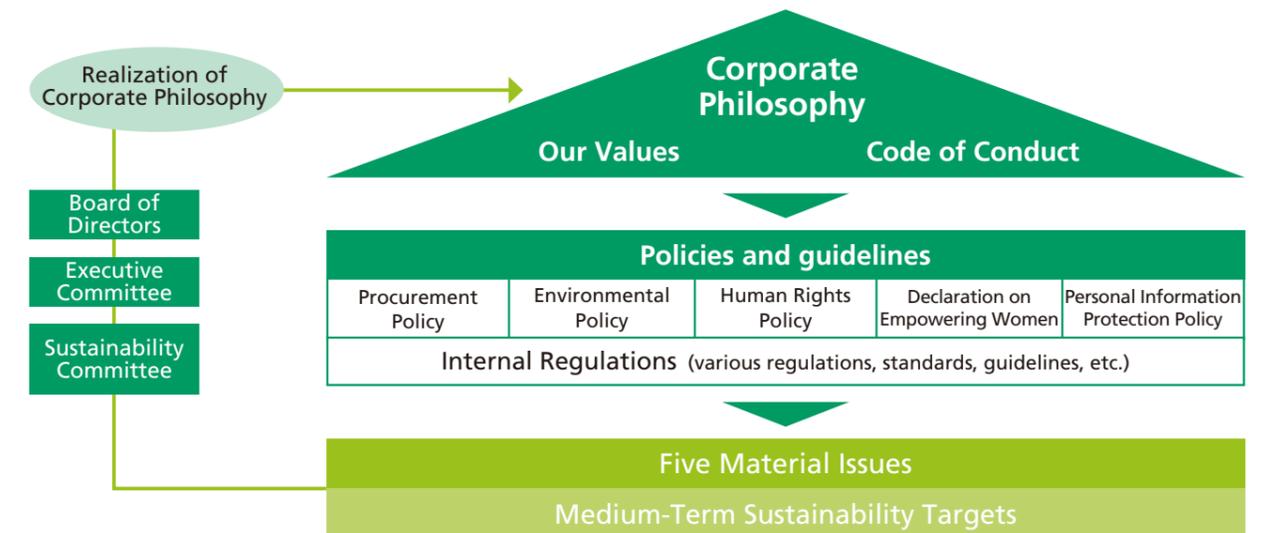
Interest in ESG has been higher than ever before, including moves to strengthen governance structures and to address risks related to climate change and human rights, amid technological innovation with advances in ICT and rapid changes in industry structures caused by accelerating globalization. Companies 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, the Medium-Term Sustainability Targets as part of the Sumitomo Forestry Group's 2021 Medium-Term Management Plan, which incorporates sustainability strategies and material issues, was newly formulated, and some of the five material issues were also revised.

In the Medium-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 fiscal 2021.

Each Group company and department has set a "Sustainability Budget" with numerical targets set for the fiscal year and commenced 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.



Material Issue	Target	Related SDGs
Ongoing timber and materials procurement that considers sustainability and biodiversity	<ul style="list-style-type: none"> ① Management forests while mitigating climate change and protecting biodiversity ② Expanding the utilization of sustainable forest resources ③ Building sustainable supply chains 	
The development and sale of reliable and safe products and services that consider the environment and society	<ul style="list-style-type: none"> ④ Increasing environmentally conscious products and services *Including reducing greenhouse gas emissions towards creating a decarbonized society (SBT: Scope 3) ⑤ Creating an environment that considers biodiversity ⑥ Expanding businesses that contribute to resolving social issues ⑦ Promoting sustainable and innovative technological development 	
The reduction of the environmental impact of our business activities	<ul style="list-style-type: none"> ⑧ Reducing greenhouse gas emissions toward creating a decarbonized society (SBT: Scope 1 & 2) ⑨ Protecting resources, reducing the generation of waste and achieving zero emissions ⑩ Conserving and effectively utilizing water resources 	
A vibrant work environment where a diverse workforce can unharness their skills and individuality	<ul style="list-style-type: none"> ⑪ Creating a work environment that generates diverse ideas, job satisfaction and vibrancy ⑫ Securing human resources by training younger workers and utilizing older ones ⑬ Reducing long work hours through work style reforms ⑭ Eliminating occupational injuries 	
Corporate ethics and governance structures	<ul style="list-style-type: none"> ⑮ Reinforcing risk crisis and compliance structures 	

Dissemination of SDGs

At the Sumitomo Forestry Group, we believe that it is crucial to disseminate and foster an understanding of SDGs by each and every employee as we contribute to the SDGs through our business activities. We undertake various initiatives to improve employee awareness, such as workshops and seminars that help them connect SDGs with business. In July 2019, the Sumitomo Forestry Group held the Midori and SDGs Seminar, a collaborative event at the head office of Kumagai Gumi Co., Ltd., with which it has a business and capital relationship. Around 250 employees from both companies participated in the seminar.

As an outside activity, the Sumitomo Forestry Group is cosponsoring the Nikkei SDGs Forum, a project run by the Nikkei Group to support companies in their efforts to achieve the SDGs from fiscal 2018.



A workshop to learn about linking SDGs and business

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 Medium-Term Sustainability Targets in 2018, we also revised our material issues in light of new demands from society.

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 fiscal 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 provides a full complement of products and services related to our customers' lifestyles, beginning with 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

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.

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

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

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. In December 2008, we formally signed the United Nations Global Compact to declare our support for its principles.



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 that aim to achieve sustainable development, and help with the transition to a sustainable society.

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

The Sumitomo Forestry Group is changing the end of its fiscal year from March 31 to December 31, beginning after the fiscal year ended December 31, 2020. As a result of this change, fiscal 2020 refers to the irregular nine-month fiscal period that starts on April 1, 2020 and ends on December 31, 2020, and fiscal 2021 refers to the period from January 1 to December 31, 2021.

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)	FY2019 target	FY2019 results	FY2020 target	FY2021 target
Management forests while mitigating climate change and protecting biodiversity	Maintain and expand certified forest area	Domestic and overseas certified forest area (ha)	220,417	221,101	222,144	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)	6,553	7,770	7,456	7,920
		Number of seedlings supplied (ten thousand trees)	511	414	509	726
	Increase volume of fuel wood chips and pellets handled	Volume of fuel wood chips and pellets handled (t) ¹	1,188,010	1,112,224	1,217,541	1,363,930
Building sustainable supply chains	Increase the amount of sustainable timber and wood products handled and used	Rate of sustainable timber and timber products handled (%)	89.0	89.8	93.0	100
		Rate of sustainable timber used as primary building material	80.0	80.6	100	100
	Update Sustainability procurement survey form and formulate survey plan	Sustainability procurement survey implementation rate in the supply chain of the domestic housing department (%) ²	65.0	86.0	88.0	80.0
		Sustainability procurement survey implementation rate of suppliers of imported timber (%) ³	100	100	100	100

*1 Refers to Japan Bio Energy, Okhotsk Bio Energy, Michinoku Bio Energy, and Sumitomo Forestry's Timber and Building Materials Business *2 Percentage of annual purchase amount *3 Percentage of suppliers which implemented the Sustainability procurement survey as part of the Timber Procurement Committee's commitment to due diligence in the current fiscal year.

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)	FY2019 target	FY2019 results	FY2020 target	FY2021 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	60.0	48.2	80.0	80.0	
		Rate of orders for eco-friendly renovation (%)	50.0	52.4	55.0	60.0	
		Sales of sashes, glass wool, and solar power generation systems in the building material business (millions of yen)	23,119	23,227	22,980	24,040	
	Increase added value by carbon stock from use of timber	Carbon stock in wooden architecture in Japan (t-CO ₂)	190,676	193,072	199,417	199,509	
Creating an environment that considers biodiversity	Propose products utilizing local saplings and natural cycles	Rate of orders for eco-friendly products ¹	58.0	56.8	59.0	63.0	
		Expand sales of local species	Number of local species sold (trees)	450,000	424,000	450,000	500,000
Expanding businesses that contribute to resolving social issues	Expand the Renewable Energy Business	Increase the number of rooms through new facilities construction	Number of rooms for private-pay elderly care facilities (rooms)	1,457	1,455	1,764	2,014
		Amount of electricity supplied in the Renewable Energy Business (converted to number of households) ²	217,768	219,628	220,486	373,826	
Promoting sustainable and innovative technological development	Solve technical issues toward achieving the W350 Plan	Status of progress on the W350 Plan	Establish basic concepts towards realization of W30 Plan	Establish basic concepts towards realization of W30 Plan (study base design completed)	Establish basic concepts towards realization of W30 Plan (plan to design using actual properties)	Develop materials and implement basic designs towards realization of the W70 Plan	

*1 Eco-friendly products are (1) Local saplings (2) Permeable pavement materials (3) Wall greening (4) Rooftop greening (5) Biotopes (6) Use of recycled materials *2 The amount of electricity supplied by renewable energy business annually converted to the number of households as 3,120 kWh a year per household

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)	FY2019 target	FY2019 results	FY2020 target	FY2021 target
Reducing greenhouse gas emissions toward creating a decarbonized society (SBT: Scope 1 and 2)	Reduce greenhouse gas emissions	Greenhouse gas emissions volume (t-CO ₂ e) compared to fiscal 2017	380,356 +2.9%	380,641 +2.9%	371,855 +0.6%	402,768 +8.9%
		Carbon efficiency (t-CO ₂ e / net sales (millions of yen))	0.341 (0.275) ¹	0.345 (0.283)	0.311 (0.279)	0.318 (0.264)
Protecting resources, reducing the generation of waste and achieving zero emissions	Promote industrial waste separation	New housing construction sites ²	96.1	94.3	97.7	98.0
		Housing demolition work sites ³ (Main section construction base)	98.0	99.9	98.0	98.0
		Renovation Business ⁴	80.0	74.2	82.0	84.0
		Power generation business	52.5	81.6	79.3	56.5
		Overseas manufacturing plants	97.9	97.5	98.2	98.0
		Domestic manufacturing plants	99.5	99.0	99.2	99.5
	Lifestyle Service Business ⁵	95.2	90.8	93.1	98.0	
Waste reduction Promote zero emissions	Final disposal volume of industrial waste (t) compared to fiscal 2017	58,860 -7.5%	55,515 -12.8%	56,632 -11.0%	54,087 -15.0%	
		Total industrial waste emissions (amount of waste per detached home) (kg/building) compared to fiscal 2017	3,020 -9%	3,002 -10%	2,950 -11%	2,730 -18%
Conserving and effectively utilizing water resources	Properly manage water resources	Water consumption (1,000 m ³)	Lower than 2,981	2,936	Lower than 2,824	Lower than 3,011

*1 Figures in parentheses are calculated based on sales before applying the "Accounting Standard for Revenue Recognition" *2 For new housing construction sites of the Housing & Construction Division, Sumitomo Forestry Landscaping, and Sumitomo Forestry Home Engineering *3 Applicable to specified construction materials (concrete, ascon, wood waste) under the Construction Recycling Law added with metal *4 Applies to Sumitomo Forestry Home Tech renovation sites and excludes debris difficult to recycle and asbestos *5 Applies to emissions generated in the Lifestyle Services Business, housing-related materials sales, etc.

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)	FY2019 target	FY2019 results	FY2020 target	FY2021 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 4.2 Consolidated in Japan 6.2	4.2 6.1	5.0 6.7	5.5 7.3
		Employee satisfaction level (%)	Sumitomo Forestry 83.0 Consolidated in Japan - ¹	78.8 58.6	81.0 61.5	85.0 Compared to FY2019 110
Developing human resources from a long-term perspective according to the revision of the evaluation system (April 2019) and evaluator training	Improve employee satisfaction	Change in employee satisfaction compared to base year(%)	Sumitomo Forestry 17.0 Consolidated in Japan 15.3	15.6 13.1	15.6 10.2	15.0 12.9
		Three-year turnover rate among newly hired graduates (%)	Sumitomo Forestry 120 Consolidated in Japan 65	102 46	132 66	132 66
Securing human resources by training younger workers and utilizing older ones	Enhance training programs	Total number of training participants (People)	Sumitomo Forestry 13,000 Consolidated in Japan 15,224	11,390 15,036	13,000 15,700	13,000 16,176
		Training time per employee (hours)	Sumitomo Forestry 13.7 Consolidated in Japan -	18.0 -	14.4 -	15.5 -
		Employment rate over 60 (including rehires)(%)	Sumitomo Forestry 82.0 Consolidated in Japan 64.0	79.6 69.4	82.0 67.7	87.0 78.0
Reducing long work hours through workstyle reforms	Implementing interviews for retirees prior to full-term retirement at the beginning of the fiscal year	Average paid leave taken by employees (days)	Sumitomo Forestry 12.3 Consolidated in Japan 10.0	11.5 10.6	13.5 10.6	14.0 11.3
		Average reduction rate of overtime hours compared to fiscal 2013 (%)	Sumitomo Forestry -27.6 Consolidated in Japan -3.3	-30.2 -12.9	-30.0 -9.9	-32.0 -11.3
Eliminating occupational injuries	Expand departments using flexitime and internal inspections	Manufacturing sites (contractors and subcontractors)	0	9	0	0
		Plantation sites (Contractors)	0	3	0	0
		New Construction sites ² in Japan	0	20	0	0
		New Construction sites outside Japan	0	9	0	0
Share case studies and implement risk assessments	Number of occupational injuries (One to three days of work leave)	New Construction sites in Japan	0	19	0	0

*1 No figures are available until fiscal 2018 because employee satisfaction surveys were administered biennially until then. They have been implemented annually since fiscal 2019. *2 The number includes sole proprietorships

Material Issue 5 Corporate Ethics and Governance Structures

Target	Specific steps based on issues and strategies	Indicators for evaluation (numerical targets)	FY2019 target	FY2019 results	FY2020 target	FY2021 target
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	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		Sumitomo Forestry	Sumitomo Forestry	Major Group companies in Japan	All Group companies in Japan and some overseas
Obtain external certification for Business Continuity Management (BCM)	Obtaining Resilience Certification		Sumitomo Forestry	Not conducted	Sumitomo Forestry and all Group companies in Japan	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	Implement for two sectors, domestic Housing Business and Timber and Building Materials Business	Re-examination of analysis results and expansion of scope of application for two sectors: domestic Housing Business and Timber and Building Materials Business	Completion of re-examination of analysis results for all business departments, and incorporation into the subsequent medium-term plan

Environment

Environmental Management

The Group has established the Sumitomo Forestry Group Environmental Policy. The environmental policy applies to all manner of business processes and product lifecycles, including product and service development, design, production, materials procurement, distribution, waste management, supplier and partner selection, new business launches as well as mergers and acquisitions. Furthermore, "Co-existence with the environment" is an article of the Sumitomo Forestry Group Code of Conduct, which incorporates not only Group businesses, but supply chains as well. In this way, we promote business operations that contribute to a sustainable society.

Sumitomo Forestry Group Environmental Policy

Through our experience nurturing forests since our founding, the Sumitomo Forestry Group has learned to appreciate the wonders of wood and the importance of nature. As a corporate entity with a close affinity to nature, we will pursue business activities that balance both environmental and economic interests and contribute to a sustainable society.

1. Develop business operations centered on wood and forests

We will cultivate forests and their ability to preserve and enhance the rich ecosystem to protect biodiversity, actively utilize timber resources and create new corporate value.

2. Develop and offer environmentally conscious products and services

We will develop and sell products and services that are environmentally conscious throughout the entire product lifecycle.

3. Minimize and improve environmental impact

To minimize and improve environmental impact, we will employ procurement practices that prevent environmental pollution and climate change and promote the effective utilization of natural resources.

4. Ensure strict legal compliance

We will adhere to all environmental laws, rules and regulations, global standards, voluntary standards and accords with stakeholders.

5. Make continual improvements to our environmental management system

We will accurately assess environment-related risks associated with our business activities and, with a medium- to long-term outlook, set and work to fulfill yearly environment goals. In addition, we will regularly evaluate our environmental management system and make continual improvements.

6. Promote environmental education

We will provide environmental education for all parties involved in the Sumitomo Forestry Group's business operations and encourage voluntary environmental efforts.

7. Pursue active communication

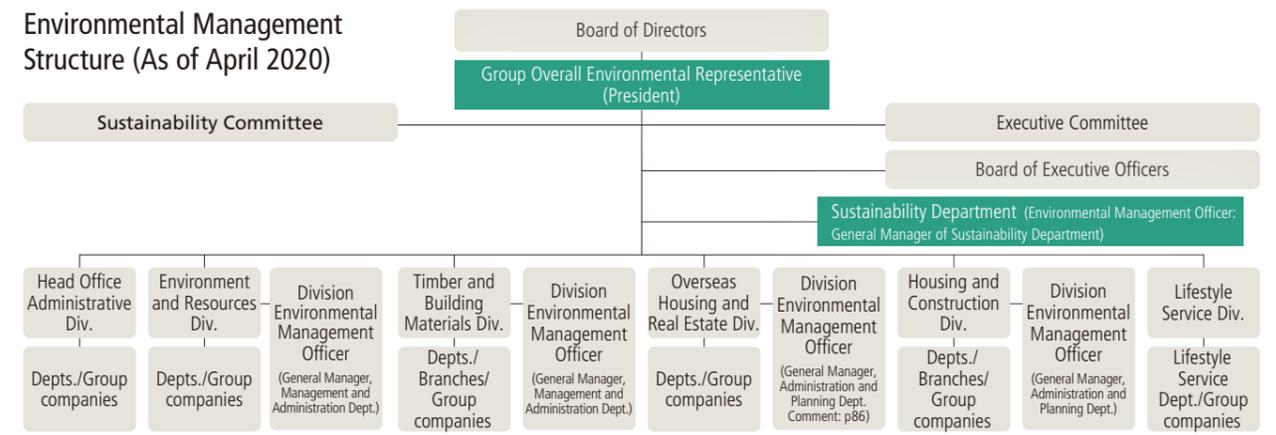
We will actively disclose information about our environmental policies and initiatives and pursue activities that convey the wonders of trees and forests and the importance of nature.

Environmental Management Structure

To put its environmental policy into practice in business, the Sumitomo Forestry Group has put in place an environmental management structure with the top management in charge of environmental management. General Manager of the Sustainability Department, as the Environmental

Management Officer, compiles a sustainability budget with numerical targets on a fiscal year basis in each Group division. The Sustainability Committee periodically checks up on progress to enhance the effectiveness of environmental activities.

Environmental Management Structure (As of April 2020)



ISO 14001 Certification Status

Sumitomo Forestry introduced an environmental management system in fiscal 1995 and acquired ISO 14001 certification for a part of its custom-built detached housing business in fiscal 1997 ahead of other players in the housing industry. Certification was subsequently acquired for other operations, with all domestic departments and divisions in the Company achieving integrated ISO 14001 certification in fiscal 2002. The scope of certified Group companies has been extended to businesses with a substantial impact on the environment, and four Group companies are integrated in Japan. In addition, overseas manufacturing Group companies are proceeding with certification and six companies have already done so.

Domestic companies within the registration scope of ISO 14001 certifications are audited annually by external certification bodies. In fiscal 2019, 84 departments and divisions at five companies underwent renewal audit and changed assessment for ISO 14001:2015 (JISQ 14001:2015), and were approved to register for transition to the standard. In addition to reviews conducted by external certification bodies, internal environmental audits are periodically carried out by employees (i.e., internal environmental auditors) who have passed an exam upon completion of an in-house training course officially recognized by Japan Auditors Training Association (JATA) to become internal environmental auditors.

Sumitomo Forestry Group ISO 14001 Certification Status (As of March 2020)

Company Name		Date of Certification
Expanded Domestic Group Certification	Sumitomo Forestry (excluding overseas)	August 2002 ^{*1}
	Sumitomo Forestry Landscaping Co., Ltd.	November 2002 ^{*2}
	Sumitomo Forestry Crest Co., Ltd.	September 2003 ^{*2}
	Sumitomo Forestry Home Tech Co., Ltd.	March 2013 ^{*2}
	Japan Bio Energy Co., Ltd.	August 2014 ^{*2}
Company Name		Date of Certification
PT. Kutai Timber Indonesia (KTI)		July 2001
Nelson Pine Industries Ltd. (NPIL)		July 2003
PT. Rimba Partikel Indonesia (RPI)		October 2005
PT. AST Indonesia (ASTI)		January 2007
Vina Eco Board Co., Ltd. (VECO)		March 2014
PAN ASIA PACKING LTD.		April 2017

*1 Certification was acquired by departments and divisions from 1997 before integrated certification was acquired for the entire Company
 *2 Acquired by inclusion in Sumitomo Forestry's scope of registration

■ 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 fiscal 2019, the Sustainability Committee invited an outside instructor to lead a study group titled ESG Investment and Corporate Strategy: Risks and Opportunities. Discussions were held about specific issues related to climate change, such as changes in SBT certification standards and trends in RE100.

Risks and Strategies Related to Changes in Climates 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 products, 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.

< Strategy >

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.

< Strategy >

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.

< Strategy >

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. In addition to these actions, we have promoted reduction of energy consumption.

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.

< Strategy >

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.

< Strategy >

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.

Based on SBT, the Sumitomo Forestry Group will further strengthen its energy-saving activities, promote use of renewable energy, and take other measures to reduce greenhouse gas emissions and mitigate climate change.

< State of progress of SBT >

	Fiscal 2017 (reference year)	Fiscal 2019	Change (t-CO ₂ e)
Scope 1 and 2 : Total 21% reduction (Target year 2030; Base year 2017)	369,785	380,641*1	2.9%
Scope 3 : Total 16% reduction in categories 1 and 11 (Target year 2030; Base year 2017)	8,895,066	9,324,602*2	4.8%

*1 In fiscal 2019, factors that increased greenhouse gas emissions included the Hachinohe Biomass Power Plant starting operations in April 2018.

*2 In fiscal 2019, factors that increased greenhouse gas emissions included the increase in sales completed in the U.S. in the Overseas Housing and Real Estate Business.

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 March 25, 2020, it had 229 member companies from around the world, including 32 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.

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 fiscal 2019, renewable energy accounted for about 16% of our total group electricity usage. 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. In Japan, for electric power used in our business activities, 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 on 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

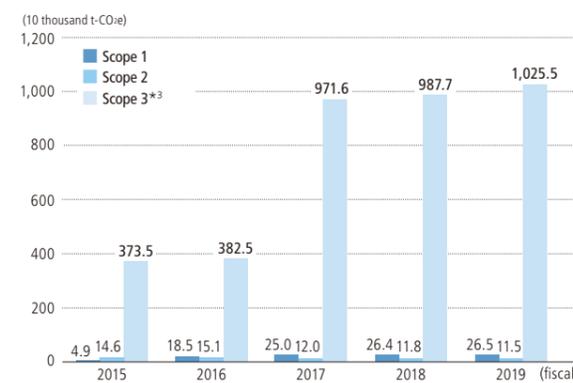
Since fiscal 2012, we have obtained quantitative data for each scope that conforms to the GHG Protocol, the widely used global greenhouse gas measurement standard. In light of increasing demand for renewable energy in recent years, the Group made entry into the biomass power generation business in 2011 and commenced operations at the Mombetsu Biomass Power Plant (consolidated subsidiary) in December 2016. While the plant’s main fuel source is unused timber from forests, coal is used as a supplementary fuel to ensure smooth operation and maintenance.

Accordingly, total CO₂ emissions for Scopes 1 and 2 for the Sumitomo Forestry Group in fiscal 2019 was 380,641 t-CO₂e, 2.9% higher than in fiscal 2017 and much higher than in fiscal 2016. Of the total for Scope 1 and 2, overseas plants emitted 28.5%, while domestic plants and the power generation business accounted for 57.0%. We started measuring Scope 3 emissions in fiscal 2013 and broadened the scope of our measurements in fiscal 2015 and fiscal 2017. In fiscal 2019, the amount came to 10.255 million t-CO₂e.

CO₂ emissions for Scopes 1 and 2



CO₂ emissions for Scopes 1, 2, and 3



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

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

*3 The scope for calculating Scope 3 was expanded from 3 categories to 15 categories in fiscal 2015.

The scope for calculating Scope 3 was expanded from domestic operations to the entire Sumitomo Forestry Group in fiscal 2017.

Response to TCFD

The Sumitomo Forestry Group understands that climate change poses great risks. In July 2018, the Company announced its support for the TCFD*, and began to analyze scenarios the same year. 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.



*TCFD stands for Task Force on Climate-related Financial Disclosures. The Financial Stability Board directed the creation of a task force for disclosing financial information related to climate in April 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.

- Business divisions collaborate to identify risks and opportunities, and assess their financial impact
- Countermeasures are discussed for important items and reported to the Sustainability Committee

Strategies



Risk management framework



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

KPIs and targets

When it comes evaluation or management of climate change-related risk or opportunities, Group companies and divisions set annual numerical targets based on the Medium-Term Sustainability Targets, Science Based Targets (SBT) and RE100.



➔ Please see page 51 for SBT initiatives targeting 2030.

Social

Stakeholder Relations

The Sumitomo Forestry Group takes advantage of various opportunities to communicate with stakeholders from a clear understanding of its role and purpose as a member of society. Through its business activities, the Sumitomo Forestry Group strives to meet the expectations and demands of a variety of stakeholders to build positive relationships.

Customers

Our customers are surrounded by widespread social and environmental change. Amidst the diversification of people's needs, perspectives, and lifestyles, the Sumitomo Forestry Group remains committed to providing high-quality products and services that bring joy to our customers, in line with Our Values. In addition, the Group is enforcing initiatives related to safety and quality issues and formulating risk mitigation. The Group is also linking further progress to the creation of new business opportunities and customer satisfaction by promptly addressing social and environmental change through sustainable improvements.



Proposals to customers using apps

Main responsibilities

- Provide safe and high-quality products and services
- Disclose information in a timely and proper fashion, report responsibility
- Understand stakeholder requests and needs through communication and improve satisfaction

Communication methods

- Sumitomo Forestry Call Centers
- Customer satisfaction surveys
- Website, mass media, etc.
- Exhibitions and other events

Customer satisfaction regarding custom-built detached houses according to surveys conducted when owners move in: **95.9%**

Ratio of houses certified as Excellent Long-Term Housing for custom-built detached houses: **94.4%**

Shareholders and Investors

With the aim of maintaining and strengthening the trust of capital markets, the Sumitomo Forestry Group makes every effort to fulfill its reporting responsibility to shareholders and investors so its share price reflects an accurate assessment of its corporate value. Through the timely and transparent disclosure of a wide range of information, including non-financial aspects, we aim for further understanding of our management policies, strategies and business plans. At the same time, we feed back the opinions and requests of investors and other stakeholders to management, facilitating the creation of measures to improve corporate value and sustain growth.



Guiding domestic investors (Tsukuba Research Institute)

Return on equity (ROE): **8.8%**

Individual meetings with institutional investors and analysts in Japan and overseas: **144 companies**

Number of hours each employee took part in in-house training on average per year (non-consolidated basis): **18.0 hours**

Hours of overtime work (compared with fiscal 2013) (non-consolidated basis): **30.2% reduction**

Employees and Their Families

The Sumitomo Forestry Group is engaged in measures that enhance respect for diversity and human rights, promote the creation of open work environments free of discrimination, ensure safety in the workplace, consider work-life balance, and reduce long work hours with the aim of providing workplaces where employees are motivated and lead fulfilling lifestyles. Along with removing risks to employees by undertaking initiatives to resolve related issues, we intend to carry out one of Our Values, "We promote a free and open-minded corporate culture that respects diversity," and foster a group of employees who are always willing to take on new challenges.



Family Open Day

Main responsibilities

- Provide and maintain a work environment where human rights are respected and employees can work under safe and healthy conditions without discrimination
- Promote measures and systems that enhance work-life balance

Communication methods

- Conduct employee awareness surveys
- Family Open Day
- Informal Management Committee comprised of both labor and management members
- Publication of internal newsletter and operation of the intranet

Business Partners

As stipulated by the Sumitomo Forestry Group Procurement Policy, we proactively work toward the sustainable procurement of timber globally. While working and communicating with business partners and suppliers, we make every effort to engage in fair and open procurement activities focused on the preservation, growing, and planting of forest resources and the promotion of effective application of limited natural resources, including positive utilization of timber from certified forests. We aim to reinforce our business foundation by building and maintaining healthy relationships based on mutual development.



Traceability confirmation in timber procurement

Volume of fuel wood chips and pellets handled: **1,112,224t**

Rate of sustainable timber and timber products handled: **89.8%**

Main responsibilities

- Build fair and open business relationships
- Improve occupational health and safety
- Strict compliance with laws and regulations

Communication methods

- Purchasing and procurement activities
- Hold safety conferences, safety patrols, and building contractor meetings
- Hold research conferences and information exchange events
- Evaluate suppliers (surveys and on-site visits)

International Community/Local Community

The Sumitomo Forestry Group proactively promotes business activities in harmony with local communities, thereby aiming to revitalize local economies and promote employment. We aim to advance business development in each country and region by providing more insight into the Group through regional community engagement, cooperation and information disclosure. At the same time, we will continue to create both economic and social value for regional communities through business activities.



Okumatsushima nature regrowth volunteers

Amount of donations related to social contributions: **Approx. ¥727 million**

Cost of social contribution activities: **Approx. ¥98 million**

Main responsibilities

- Help solve social problems
- Reduce environmental impact in business
- Preserve the natural environment and biodiversity

Communication methods

- Help form communities through social contributions
- Contribute to the environment and society through collaboration with NPOs/NGOs
- Volunteers for planting and forest development
- Supporting employee volunteer activities

Topics Donated 8,000 dust-proof masks to support medical facilities

Due to the COVID-19 pandemic, medical facilities are experiencing a shortage of masks for medical use that can prevent the spread of infection through airborne droplets containing the virus. In light of this situation, We donated 8,000 dust-proof masks which possess the same properties as medical masks that had been stockpiled in an emergency. The donation was made in response to a request by the KEIDANREN (Japan Business Federation) and was sent to the Ministry of Health, Labour and Welfare.

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 Labor 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).

The Sumitomo Forestry Group Code of Conduct contains language for respecting human rights and creating 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 website → <http://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.

Sustainability Fact-Finding Surveys

Regarding the initiatives of each Group company, in fiscal 2019, a survey was conducted involving 59 Group companies around the world, confirming that 42 companies provided human rights training, 42 companies have systems to handle grievances, and 39 companies have risk mitigation plans in place. Based on this survey, we did not find any human rights violations.

Respect for Human Rights in the Supply Chain

We engage in fair and responsible procurement activities based on the Sumitomo Forestry Group Procurement Policy. For importing and procuring timber, we conduct surveys of our suppliers and on-site interviews to ensure our procurement activities take into account human rights, labor, biodiversity conservation and local communities.

Identifying and Addressing Significant Human Rights Risks

The Company identified significant human rights risks in 2019 by mapping out risks at stakeholders in the value chains of each business division. The Company has already taken steps to address these identified significant risks, and is drawing up plans and advancing countermeasures to prevent, avoid, mitigate and rectify the risks for each stakeholder.

Respect for Human Rights at Overseas Plantations

At our plantation forest operations in West Kalimantan of Indonesia (PT. Wana Subur Lestari / PT. Mayangkara Tanaman Industri), operations are carried out with respect for human rights and the environment. We conduct

joint surveys with the International Finance Corporation (IFC), a member of the World Bank Group, and interview 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 University of Indonesia, Sumitomo Forestry launched a three-year social survey covering its business sites and surrounding areas.

Initiatives towards Sustainable Procurement

The Sumitomo Forestry Group strives to contribute to realization of a sustainable and prosperous society through business activities that utilize wood as a renewable natural resource. To undertake practical implementation of procurement activities that are considerate of economic, social, and environmental issues, we have established the Sumitomo Forestry Group Procurement Policy.

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 fiscal 2019, the committee met four times and confirmed legal compliance and conducted sustainability surveys at all 162 direct suppliers subject to inspections, as well as 48 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. 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.

Initiatives for Enabling Sustainable Timber Procurement

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 fiscal 2019, based on a social and environmental perspective, we added more fundamental content to the questions in the survey which we had conducted up until now and revised it as the "Sustainability Procurement Survey." We strengthened the management system by scoring survey outcomes to improve the visualization of suppliers' sustainability initiatives.



Topics Sustainability Procurement Survey Conducted

Beginning in fiscal 2019, the Housing and Construction Division launched a new Sustainability Procurement Survey aimed at existing building and housing equipment customers to be conducting annually in addition to the Green Procurement Survey which was aimed at new customers. The survey, which targeted building and housing equipment manufacturers, was conducted among 30 direct customers and 12 indirect customers to assess a total of 53 items pertaining to governance, human rights and work safety committees, and the environment as well as the sustainability of timber procurement.

Before conducting the survey, Sumitomo Forestry held a briefing about the sustainability procurement survey in October 2019 for target customers. The meeting was attended by approximately 50 people, and was intended to share views about responsible procurement as exemplified by the Sumitomo Forestry Group Code of Conduct and Sumitomo Forestry Group Procurement Policy and to promote mutual understanding. With a response rate of 100%, we were able to confirm that many customers understand our views on responsible procurement. On the other hand, we held discussions and provided feedback to customers whose assessments did not meet expectations. Moving forward, we will conduct continuous follow-up.



Briefing about the sustainability procurement survey

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 suppliers.

Policy on "Sustainable Timber and Wood Products"

In the Medium-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 fiscal 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 <small>(Regardless of CoC connection, we place emphasis on certification at time of production and promote a shift to certified timber)</small>	2 Timber from plantation forests
3 Natural timber where forestry management and distribution can be assessed as sustainable <small>(This does not include timber from conversion forests = timber harvested from natural forests that were converted to farmland such as palm oil plantations)</small>	4 Recycled timber

Engagement

As part of timber procurement initiatives, we organized a stakeholder dialogue in July 2019 to meet with environmental NGOs and ESG experts and researchers. Experts from the certified NPO Sustainable Management Forum of Japan, World Wildlife Fund (WWF) Japan, FoE Japan, Global Environment Forum, Institute for Global

Environmental Strategies, Takasaki City University of Economics and Waseda University participated to discuss various themes, such as the implementation of the Sustainability Procurement Survey, the process and time frame for improvements, timber from conversion forests and recycled timber.

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 (Fair Employment and Benefits that Respect Diversity)

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 and the Sumitomo Forestry Group Human Rights Policy.

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 year)	2015	2016	2017	2018	2019
Ratio of female employees ^{*1}	19.4 %	20.0 %	20.4 %	21.0 %	21.6 %
Ratio of female employees in management positions ^{*1}	2.6 %	2.8 %	3.2 %	3.7 %	4.2 %
Ratio of newly graduated female recruits ^{*2}	26.8 %	22.8 %	18.0 %	24.8 %	26.9 %

Status of Female Recruitment / Employment (Domestic Subsidiaries)

(fiscal year)	2015	2016	2017	2018	2019
Ratio of female employees ^{*1}	30.4 %	30.7 %	31.6 %	32.0 %	32.7 %
Ratio of female employees in management positions ^{*1}	4.0 %	4.2 %	4.6 %	6.0 %	6.1 %
Ratio of newly graduated female recruits ^{*2}	48.0 %	40.3 %	40.2 %	43.5 %	45.7 %

*1 The ratio of female employees and the ratio of female employees in management positions are calculated based on the number of employees as of March 31 each year.

*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)

(fiscal year)	2015	2016	2017	2018	2019
Ratio of employees with disabilities	2.12 %	2.12 %	2.26 %	2.32 %	2.40 %

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

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

Topics Introduction of Selectable Retirement Age System

Aiming to further active careers of senior employees, in fiscal 2020, Sumitomo Forestry raised the mandatory retirement age from 60 to 65 years and introduced the Flexible Retirement Age System, which allows employees to choose a retirement age based on their life plans. Also, the Senior Human Resource Bank allows employees to work past the age of 65 if they desire. We eliminated the age limit for this program.

Work-Life Balance

We aim to improve employee motivation and productivity through various initiatives to create a workplace where employees can lead a mentally and physically fulfilling private life.

Initiatives to Reduce Long Working Hours

In fiscal 2017, we overhauled our personnel system and have since been placing greater importance on preventing long working hours and encouraging productivity improvements. Some initiatives include a switch to a system where overtime hours worked are actually counted (as opposed to our previous deemed working hours system), the launch of flex-time and work interval systems, and the rollout of an hourly productivity assessment system.

We recognize that long working hours pose a significant business risk; if such a situation is left ignored,

it will likely lead to occupational accidents and damage the reputation of our brand, and ultimately lead to future labor shortages. Workstyle Enhancement Committees have been set up at branches of the Housing & Construction Division to implement initiatives to reduce long working hours. Additionally, for work system and operational flow reforms at the head office, the Long Working Hours Mitigation Committee was set up within the division to lead the campaign to reduce long working hours by making system improvement proposals.

Supporting Diverse Workstyles

The 6th Next Generation Law Action Plan (Fiscal 2015 to 2019)

Sumitomo Forestry has formulated and implemented action plans for supporting employees who are raising families, in accordance with the Act on Advancement of Measures to Support Raising Next-Generation Children (Next Generation Law).

1. Host seminars themed on workstyle reforms in order to foster a work environment that actively involves female employees who are raising children.
2. Hold "Family Open Days" to create a pleasant work environment for all employees to execute their talent.
3. Establish a system in which male employees and their seniors can discuss using childcare support programs as a means of promoting paternal involvement in childcare. Also, disclose the participation status of childcare-related programs on the Company's intranet.

Supporting Workstyles for Employees Caring for Family Members

As a part of measures to help employees continue working while caring for family members, we have set up systems such as reduced work hours, in addition to revising the care leave system. Employees may take time off for the equivalent of ten days a year in 30-minute increments under our family care leave and medical leave.

Telecommuting System

We offer a telecommuting system to all employees (excluding new graduates who have been at the Company less than three years and newly hired employees yet to pass six months at the Company). There are no limitations on how long an employee may telecommute and most users utilize the system for childcare or nursing care reasons, or to avoid long commuting times.

Topics Response to the COVID-19 Pandemic

In response to the COVID-19 pandemic, Sumitomo Forestry greatly accelerated plans to expand the scope of employees eligible to work remotely, which had already been a part of plans for workstyle reforms. For now, we are promoting active use of telework for all employees as a special measure to reduce the risk of infection. As employees continue to work from home, we intend to enhance support measures for employees who are working at home, such as sending information about how to avoid insufficient exercise.

Encouraging Different Systems for Paid Leave

We encourage employees to take planned paid leave of more than 14 days every year, including so-called “refresh” leave and summer holiday leave. The average number of paid leave days used in fiscal 2019 was 11.5 (60.2%), up from 10.1 (53.2%) the previous year.

Also, for employees at our housing and construction

business branches which are opened on Saturdays and Sundays to meet with customers, we strive to improve our workplace environment by offering “Family-Friendly Day Leave.” It allows employees to take one Saturday or Sunday off every month to spend time with their family or engage in their favorite pastime.

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 care for mental health through self-care, care provided by line managers, care provided by occupational health staff within the workplace, and care using resources from outside the business.

The Company has established the Workstyle Diversification Department within the Personnel Department. In order to further enhance mental healthcare, the Company has assigned an employee who is a qualified clinical psychologist to the Workstyle Diversification Department, and has closely 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

Human Resource Development

Based on the concepts of autonomy and support in human resource development, we are developing employees who are highly motivated and proud to work at Sumitomo Forestry. And Sumitomo Forestry also endeavors to train personnel who contribute to the realization of its corporate philosophy by nurturing a corporate culture that is open and inclusive.

The Company promotes independent efforts for capacity building and career development, and has regulations for assisting employees who seek to obtain qualifications or take classes at external educational institutions.

Moreover, we believe it is our mission to pass along to the next generation the carpentry techniques that can be applied in a majority of situations, such as wooden houses, renovation work, and large-scale wooden structures. We are concentrating on the development of human resources with these valuable skills.

Development of the Sumitomo Forestry Business Institute

The Sumitomo Forestry Business Institute, which was created in fiscal 2011, is based on the concept of “Supporting Motivated People,” and focuses on skill development with

an emphasis on self-initiative. We also provide an e-learning curriculum that domestic Group employees can use to learn on their own.

Number of Employees Attending Main Training Programs (FY2019)

Training program	Number of people attending (non-consolidated)	Number of people attending (Group companies)
Training for specific levels (15 courses)	1,512	221
Selective training (22 courses)	150	27
Self-development training (79 courses)	182	0
e-learning (6 mandatory courses)	4,890	6,418

Hours of Training Courses Taken and Training-Related Costs per Employee (Non-Consolidated)

(fiscal year)	2015	2016	2017	2018	2019
Hours of training courses taken	9.3	9.4	13.1*	13.6	18.0
Spending on training (¥ thousand)	91	100	100	97	102

* The calculation method was changed in fiscal 2017.

Preserving Traditional Building Techniques for Wooden Houses

The Sumitomo Forestry School of Professional Building Techniques is an educational institution certified by the Governor of Chiba Prefecture, and was founded by the Company in 1988 as an in-house training center. Through a one-year training curriculum, the school provides training for new employees at Sumitomo Forestry Home Engineering Co., Ltd. who aspire to work in carpentry. In terms of construction-related subjects, students study classroom-based subjects such as an introduction to building, structures, drawing, methods of construction, materials and supervision, as well as practical subjects, including tool operation and maintenance, the traditional technique of marking timber with sumi ink and a carpenter’s square,

as well as processing, safety work, model-based practical training, demonstration-based practical training and computing. By the end of their training, the students aim to obtain Grade 2 Carpenter Skills Certification.



Students receive individualized instruction in small class settings (The Sumitomo Forestry School of Professional Building Techniques)

New Students and Performance at the Sumitomo Forestry School of Professional Building Techniques

(fiscal year)	2016	2017	2018	2019	2020
Number of new students	63	67	69	57	61
Number of graduates	61	66	68	55	-
Students who acquired Grade 2 Carpenter Skills Certification	57	49	62	55	-

Winners of WorldSkills Competitions

(fiscal year)	Participants in WorldSkills competitions		
	Regional competition (Chiba Prefecture event)	National competition (Chiba Prefecture representative)	International competition
2010	28 people (all 28 received a skills certificate)	5 people (one gold, one silver, one bronze, two medallions for excellence)	
2011	27 people (all 27 received a skills certificate)	5 people (one silver, one medallion for excellence)	1 person (silver medal at the London competition)
2012	40 people (all 40 received a skills certificate)	5 people (one silver, two bronze, two medallions for excellence)	
2013	35 people (28 received a skills certificate)	5 people (one silver, two medallions for excellence)	1 person (medallion for excellence at the Leipzig competition)
2014	56 people (46 received a skills certificate)	4 people (three medallions for excellence)	
2015	57 people (54 received a skills certificate)	2 people (two silver)	
2016	61 people (57 received a skills certificate)	5 people (one bronze, two medallions for excellence)	
2017	65 people (49 received a skills certificate)	7 people (three bronze, three medallions for excellence)	
2018	68 people (62 received a skills certificate)	7 people (one gold, two silver, one bronze, three medallions for excellence)	
2019	55 people (all 55 received a skills certificate)	8 people (one silver, two medallions for excellence)	1 person (Kazan competition)



National competition of WorldSkills in fiscal 2019



Director
Tatsumi Kawata

Representative Director
Executive Vice President
Shigeru Sasabe

Outside Director
Junko Hirakawa

Representative Director
Chairman of the Board
Akira Ichikawa

Representative Director
President
Toshiro Mitsuyoshi

Outside Director
Izumi Yamashita

Representative Director
Executive Vice President
Tatsuru Satoh

Director
Atsushi Kawamura

Governance

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.

Through these efforts, the Company aims to continuously increase its corporate value and conduct management that lives up to the expectations of various stakeholders.

Introducing the Board of Directors and Statutory Auditors

(As of June 23, 2020)

Directors



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

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)



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

Apr. 1985 Joined the Company
Jun. 2010 Executive Officer
Apr. 2011 Managing Executive Officer
Jun. 2014 Director
Apr. 2015 President and Representative Director of Sumitomo Forestry Home Tech Co., Ltd.
Apr. 2017 Divisional Manager of Housing Division
Apr. 2018 Senior Managing Executive Officer
Divisional Manager of Housing and Construction Division
Apr. 2020 Representative Director (current position)
President / Director (current position)
President and Executive Officer (current position)



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

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 (current position)



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

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)

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



Director
Tatsumi Kawata (Born Oct. 4, 1962)

Apr. 1986 Joined the Company
Apr. 2014 General Manager of Corporate Planning Department
Jun. 2016 Executive Officer
Apr. 2017 General Manager of Corporate Planning Department
Managing Executive Officer
Apr. 2018 General Manager of Corporate Planning Department
Jun. 2018 Managing Executive Officer (current position)
Director (current position)



Director
Atsushi Kawamura (Born Feb. 24, 1965)

Apr. 1987 Joined the Company
Apr. 2014 General Manager of Overseas Housing and Real Estate Department
Apr. 2016 Deputy Divisional Manager of Overseas Business Division
Jun. 2016 Executive Officer
Apr. 2017 Deputy Divisional Manager of Overseas Business Division
Apr. 2018 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)

Outside Directors



Independent Officer
Junko Hirakawa (Born Oct. 9, 1947)

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

[Important concurrent jobs] Lawyer / Outside Director of Tokyo Financial Exchange Inc. / Outside Director of Hitachi Construction Machinery Co., Ltd.



Independent Officer
Izumi Yamashita (Born Feb. 1, 1948)

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.

Organizational Structure / Company with a Board of Directors and a Board of Statutory Auditors
(Fiscal 2019) / 15 Adoption of the Executive Officer System / Yes Nomination and Remuneration Advisory Committee / Yes
Sumitomo Forestry Basic Policy on Corporate Governance / <http://sfc.jp/english/ir/management/pdf/CorporateGovernance.pdf>

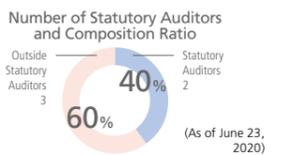
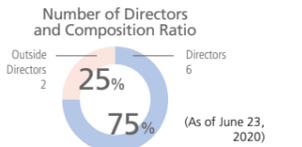
Position	Name	Reason for appointment as a director	Attendance (Fiscal Year 2019: 15 times)	Company shares held (As of March 31, 2020)
Representative Director / Chairman of the Board	Akira Ichikawa	Akira Ichikawa has abundant experience and achievements related to the Sumitomo Forestry Group's business, serving in the Group's management since April 2010 as President and Director, and since April 2020 as Chairman of the Board.	15 times	70 thousand shares
Representative Director / President	Toshiro Mitsuyoshi	Toshiro Mitsuyoshi has abundant knowledge and management experience related to the Sumitomo Forestry Group's business. After serving as Divisional Manager of the Overseas Business Division and other roles, he was appointed President and Representative Director in April 2020.	15 times	13 thousand shares
Representative Director	Shigeru Sasabe	Shigeru Sasabe has abundant experience and achievements related to the Sumitomo Forestry Group's business and management. He was appointed as Director in 2010, and has successively held positions such as Divisional Manager of the Lifestyle Service Division. He currently serves as Executive Vice President and Executive Officer and Divisional Manager of the Timber and Building Materials Division.	15 times	37 thousand shares
Representative Director	Tatsuru Satoh	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.	15 times	31 thousand shares
Director	Tatsumi Kawata	Tatsumi Kawata has abundant experience related to the Sumitomo Forestry Group's business. After successively serving as the General Manager of the Personnel Department, General Manager of the Corporate Planning Department and other roles, he was appointed as Director in June 2018. He currently serves as Managing Executive Officer.	15 times	8 thousand shares
Director	Atsushi Kawamura	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 Executive Officer in 2016. He currently serves as Managing Executive Officer and Divisional Manager of the Overseas Housing and Real Estate Division.	—	13 thousand shares
Outside Director	Junko Hirakawa	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.	15 times	—shares
Outside Director	Izumi Yamashita	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.	15 times	—shares

Statutory Auditors * Independent Officer

Senior Statutory Auditor (full-time)	Akihisa Fukuda	Statutory Auditor (full-time)	Noriaki Toi	Outside Statutory Auditors	Yoshitsugu Minagawa*, Yoshimasa Tetsu*, Makoto Matsuo*
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Executive Officers * Doubles as Director and Executive Officer

President	Toshiro Mitsuyoshi*	Executive Officers	Ryoji Machino	President and Director of Sumitomo Forestry Crest Co., Ltd.
Executive Vice Presidents	Shigeru Sasabe*	Administering Environment and Resources Division, Divisional Manager of Timber and Building Materials Division	// Akio Numazaki	Deputy Divisional Manager of Housing and Construction Division (Overseas Construction Materials Development, Construction Management, Quality Assurance)
//	Tatsuru Satoh*	Administering Lifestyle Services Division, in charge of General Administration, Secretary, External Relations, Personnel, IT Solutions, Intellectual Property, Internal Audit, and the Tsukuba Research Institute	// Junko Saishu	In charge of Workstyle Reform and Women's Empowerment and General Manager of Workstyle Diversification Department, Personnel Department
Managing Executive Officers	Tatsumi Kawata*	Administering Housing and Construction Division, in charge of Corporate Planning, Finance, Corporate Communications and Sustainability	// Koichi Shimizu	General Manager of IT Solutions Department
//	Atsushi Kawamura*	Divisional Manager of Overseas Housing and Real Estate Division	// Kazutaka Horita	Deputy Divisional Manager of Timber and Building Materials Division and General Manager of Manufacturing Department
//	Akira Sekimoto	Divisional Manager of Environment and Resources Division	// Yoichiro Hosoya	Deputy Divisional Manager of Timber and Building Materials Division and General Manager of International Marketing Department
//	Kanpei Tokunaga	President and Director of Sumitomo Forestry Home Tech Co., Ltd.	// Yutaka Kamiya	President and Director of Sumitomo Forestry Landscaping Co., Ltd.
//	Takahisa Higaki	President and Director of Sumitomo Forestry Residential Co., Ltd.	// Koji Tanaka	Deputy Divisional Manager of Timber and Building Materials Division and General Manager of Tokyo Branch of Timber and Building Materials Division
//	Kunihiro Takagiri	Divisional Manager of Lifestyle Service Division	// 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.
//	Ikuro Takahashi	Divisional Manager of Housing and Construction Division		



Outside Directors' Board of Directors Meeting Attendance Rate (Fiscal Year 2019)

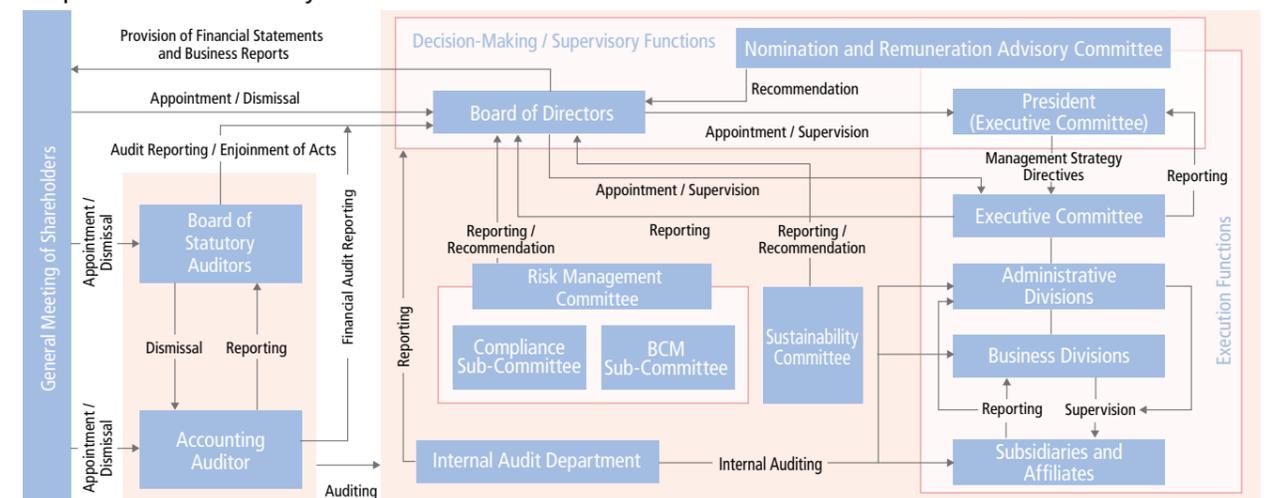


Corporate Governance System

The Company has adopted the structure of a company with a board of statutory auditors and has a Board of Directors comprising 8 directors (7 male and 1 female), including 2 Outside Directors (1 male and 1 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



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 15 times and the Executive Committee met 31 times in fiscal 2019. Directors and statutory auditors strive to maintain a Board of Directors meeting attendance rate of at least 75%.

At the Company's Ordinary General Meeting of Shareholders held on June 23, 2020, a resolution was passed to partially amend the Articles of Incorporation that shortens the terms of directors from two years to one year, in order to increase the confidence extended by shareholders while also building a management structure able to more quickly adapt to changes in the business environment.

<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.

<Analysis/Evaluation and Its Results of Effectiveness of the Board of Directors>

1. Evaluation Method

In fiscal 2019, all directors and auditors filled out a questionnaire (their names were not used and answers were sent directly to an external party to protect anonymity) about their self-evaluation and analysis of effectiveness, while enlisting the help of an external party. The Board of Directors also evaluated its effectiveness by confirming the implementation status (below,

status confirmation) of the role of the Board of Directors as designated by the Sumitomo Forestry Basic Policy on Corporate Governance, and by exchanging opinions with Outside Directors and Outside Statutory Auditors.

2. Results of Evaluation

- The Company's Board of Directors was found to be functioning effectively overall, based on the results of the questionnaire, the status confirmation and an exchange of opinions with Outside Officers.
- As initiatives to address issues identified in the fiscal 2018 evaluation, the Company revised the procedures for debate at the Board of Directors as a step toward more defensive corporate governance, and clarified procedures for the impairment of fixed assets, with the aim of strengthening the monitoring functions of the Board of Directors. In meetings for interacting with Outside Officers, discussions were held about the Company's human resources strategy and reforms to its corporate culture.

As for future issues, the Company will steadily address issues identified in the questionnaire, such as improving the way Nomination and Remuneration Advisory Committee meetings are run, and better utilizing preliminary meetings among officers in a bid to enhance deliberations by the Board of Directors. In light of the COVID-19 pandemic, it was suggested that more in-depth discussions be held about the state of future business strategies.

The Company will continue to work on improving these topics to further enhance the effectiveness of the Board of Directors.

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, 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, arly 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 15 times and the Group Board of Statutory Auditors met 6 times in fiscal 2019.

Attendance of Outside Officers at Board Meetings (fiscal 2019)

Position and Name	Board of Directors Meetings (convened 15 times)		Board of Statutory Auditors Meetings (convened 15 times)	
	Number of meetings attended	Attendance rate	Number of meetings attended	Attendance rate
Director: Junko Hirakawa	15	100 %	—	—
Director: Izumi Yamashita	15	100 %	—	—
Statutory Auditor: Yoshitsugu Minagawa	14	93 %	15	100 %
Statutory Auditor: Yoshimasa Tetsu	15	100 %	15	100 %
Statutory Auditor: Makoto Matsuo	15	100 %	15	100 %

Reasons for Appointment as Outside Director and Statutory Auditor

Name	Reason for appointment
Junko Hirakawa Assumed office in June 2014 (Reappointed in June 2016, June 2018 and June 2020)	As an attorney, she has practical knowledge of corporate law in Japan and abroad, and has been judged to have been playing an appropriate role in strengthening the Company's corporate governance by, among other things, making recommendations to management from an expert's perspective.
Izumi Yamashita Assumed office in June 2016 (Reappointed in June 2018 and June 2020)	Since he has abundant experience in the financial industry and deep insight as a business manager, the Company believes that he is playing an appropriate role in strengthening the Company's corporate governance by, among other things, making recommendations to management.
Yoshitsugu Minagawa Assumed office in June 2016 (Reappointed in June 2020)	Since he 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 Assumed office in June 2018	As a certified public accountant, he 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 Assumed office in June 2018	As a lawyer with extensive experience in corporate legal affairs both in Japan and abroad, he is expected to appropriately execute the Company's audit operations with his specialized perspective.

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 (2 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 2019)

Position*	Name	Nomination and Remuneration Advisory Committee	
		Number of meetings attended	Attendance rate (%)
Director, Chairman of the Board	Ryu Yano	3	100
Director, President	Akira Ichikawa	3	100
Director (Outside)	Junko Hirakawa	3	100
Director (Outside)	Izumi Yamashita	3	100
Statutory Auditor (Outside)	Yoshitsugu Minagawa	3	100
Statutory Auditor (Outside)	Yoshimasa Tetsu	3	100
Statutory Auditor (Outside)	Makoto Matsuo	3	100

* Positions as of March 31, 2020.

Cooperation between Statutory Auditors, the Accounting Auditor and the Internal Audit Department

Statutory auditors monitor the independence of the accounting auditor and comprehensively verify the appropriateness of financial reports, accounting policies, accounting methods and other matters with reference to fair accounting standards, referring to opinions from the accounting auditor. Statutory auditors and the accounting auditor hold meetings, and information is exchanged in a timely fashion to facilitate smooth and effective audits. The Internal Audit Department is in charge of conducting internal audits and periodically performs implementation audits and documentation audits of Sumitomo Forestry and Group companies. After audits are concluded, the results of the audits are reported to related parties with guidance for corrective actions and other initiatives to ensure the appropriateness of business operations. The Internal Audit Department collaborates with statutory auditors to conduct audits of the appropriateness and legality of daily business activities across the entire Group.

Upon completion of an audit, the Internal Audit Department submits audit reports to the president, assigned executive officers and statutory auditors and shares information with them.

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 its Corporate Philosophy.

(Remuneration for Directors (Excluding Outside Directors))

Remuneration for directors, excluding Outside Directors, is comprised of three different types: monthly remuneration and restricted stocks as basic remuneration and a bonus as performance-linked remuneration.

The Company sets the amount of remuneration commensurate with the duties and responsibilities of each director's position. Basic remuneration is paid in a fixed amount of cash according to position, with a certain percentage paid in the form of restricted stocks. The amount of cash payments complies with a remuneration framework approved by resolution of the General Meeting of Shareholders. 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 amounts approved by the General Meeting of Shareholders that are commensurate with profit attributable to owners of the parent as well as consolidated recurring income, excluding actuarial differences in retirement benefit accounting.

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.

Basic Remuneration: 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 for Directors (excluding Outside Directors) allocated 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

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.

A resolution was approved by the 76th Ordinary General Meeting of Shareholders on June 24, 2016, that limits this monthly remuneration to no more than ¥5 million per month.

(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. We reference the results of a third-party assessment of executive remuneration at Japanese companies to ensure the objectivity and fairness of executive remuneration and set an appropriate level of remuneration.

Remuneration (fiscal 2019) (Millions of yen)

	Total Remuneration	Total Remuneration by Type			Number of Eligible Officers
		Monthly Remuneration	Stock Compensation	Bonuses	
Directors (Excluding Outside Directors)	516	335	38	143*	8
Statutory Auditors (Excluding Outside Statutory Auditors)	48	48	—	—	2
Outside Officers	55	55	—	—	5

* The 80th Ordinary General Meeting of Shareholders held on June 23, 2020 approved a resolution that sets the amount of performance-linked remuneration for eight directors, excluding Outside Directors.

System to Ensure 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 and avoids dates when many companies hold their meetings so that a greater number of shareholders can participate. A resolution to partially amend the Articles of Incorporation, changing the start and end of the fiscal year to January 1 and December 31, was approved at the Ordinary General Meeting of Shareholders held on June 23, 2020. As a consequence, the Ordinary General Meeting of Shareholders will be held every March starting in 2021.

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)

On the Company's website, we release a wide range of information related to our investor relations (IR) activities, including securities reports (Japanese only), notices of shareholder meetings and subsequent resolutions, financial results, earnings presentation materials, and monthly order information.

(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. As a means to directly communicate with shareholders and investors, the Company holds earnings presentations and telephone conferences for securities analysts and institutional investors in Japan. For overseas investors, the Company visits locations in Europe and the United States and holds individual meetings continuously. For individual investors, the Company regularly participates in joint company presentations and IR forums.

Sustainability Committee

Sumitomo Forestry established a Sustainability Committee in fiscal 2018 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. 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 Medium-Term Sustainability Targets, which incorporate business strategies that contribute to achieving SDGs.

For example, regarding climate change, the Company evaluates risks and opportunities that could have a serious financial impact at the Companywide and division level, based on the latest information and data gathered from each department. Since fiscal 2018, the Company has been analyzing scenarios based on TCFD while coordinating with each business division.

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 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 and head office 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.

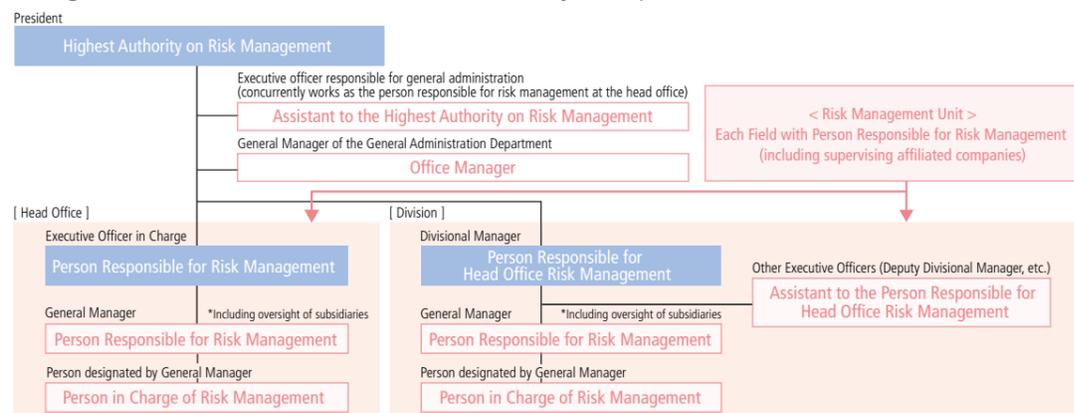
Established under the umbrella of the Risk Management Committee, the Compliance Subcommittee and the BCM Subcommittee are comprised of the general manager of the General Administration Department, who serves as committee chairman, and the staff in charge of risk management, including those of the departments 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 fiscal 2019, the Risk Management Committee convened four times, the Compliance Subcommittee twice, and the BCM Subcommittee four times, and the Board of Directors received reports from them four times.

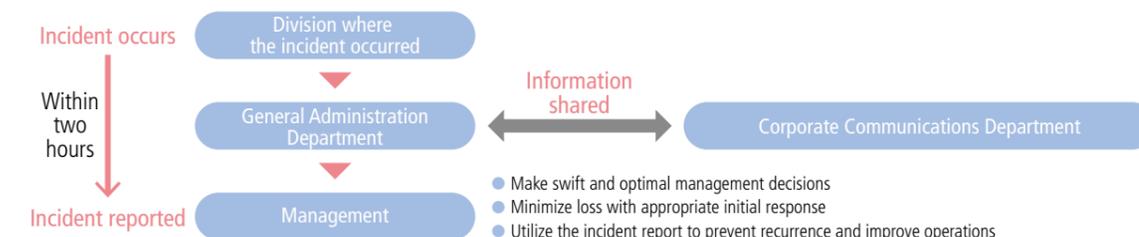
At the outset of fiscal 2020, to properly address changing risks in the environment surrounding the Sumitomo Forestry Group, the seriousness of each risk was analyzed in terms of the degree of impact and probability it will materialize, and added to the scope for risk management. In this way, the Company strengthens its risk management structure by seeking continuous improvements through a PDCA cycle for risks it initially identified as critical.

* The previous BCP Subcommittee's name was changed to the BCM Subcommittee in April 2019 in order to facilitate the reinforcement of the Business Continuity Management (BCM) structure of the entire Group inside and outside Japan. The BCM Subcommittee aims to improve business continuity against various risks, expand alternative bases, and strengthen functions at the Emergency Headquarters.

Risk Management Structure of the Sumitomo Forestry Group



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.

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 twice in fiscal 2019 and undertook ongoing improvement of the compliance system. Specific steps included continuing Group-wide initiatives from the previous fiscal year of conducting simultaneous inspections of risks regarding legal and regulatory requirements, such as permits and licenses business. Moreover, at a compliance seminar to which external experts were invited as instructors, the Group provided opportunities for individuals in charge of compliance at each company, including 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, 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 Audits)

Sumitomo Forestry's Internal Audit Department operations encompass a scope of around 200 business sites including subsidiaries, and the department selects around 60 business sites to undergo internal auditing each year. 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). 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 business sites 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 implementing quarterly follow-up audits in line with laws and internal regulations. These actions are reported to the president and executive officer in charge of internal audits.

Managing Business Continuity

System for Managing Business Continuity

Sumitomo Forestry has established the BCM Subcommittee to address risks such as major natural disasters and outbreaks of new strains of influenza, which could interrupt operations, that are extremely difficult for a company to prevent on its own, and can have serious impacts on headquarters functions. 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 fiscal 2019, the BCM Subcommittee met four times to address issues related to improving business continuity and enhancing the resilience of the entire Group, including ascertaining important initial actions to be taken in the event of a major earthquake, such as one underneath the Tokyo metropolitan area, and planning and operating various emergency drills.

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 fiscal 2019, a total of 14,669 people participated in these drills.

In response to COVID-19, Sumitomo Forestry introduced a flexible work schedule system Companywide, and put employees on staggered shifts to reduce the number of people at work 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 spreading across the world in 2020, however, led to delays in parts and materials procurement and construction projects. 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.

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 a second wave of coronavirus infections. For medium- to long-term preparations, Sumitomo Forestry plans to work with its suppliers on reducing risk by geographically dispersing their production bases. 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, developing a mechanism whereby either call center can back up the functions of the other call center in the event of a disaster. By managing information for each base through a unified emergency system, the Company can share disaster information pertaining to owners nationwide, enabling a quick response to requests for repairs.



BCP simulation training sessions

Financial Section

Eleven-Year Consolidated Financial Summary

¥ Million

(Years ended March 31)	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Operating Results:											
Net sales	¥1,104,094	¥1,308,893	¥1,221,998	¥1,113,364	¥1,040,524	¥997,256	¥972,968	¥845,184	¥831,870	¥797,493	¥723,923
Gross profit	242,689	232,146	219,315	204,138	183,134	169,492	160,162	141,436	136,873	132,568	124,269
Selling, general and administrative expenses	191,312	182,899	166,294	150,149	153,041	135,498	126,747	116,105	117,682	118,330	114,522
Operating income	51,377	49,247	53,021	53,989	30,093	33,994	33,415	25,330	19,191	14,238	9,747
Recurring income	58,824	51,436	57,865	57,841	30,507	36,424	33,567	26,981	20,714	14,206	9,465
Profit attributable to owners of the parent / Net income	27,853	29,160	30,135	34,532	9,727	18,572	22,531	15,923	9,271	5,175	2,377
Recurring income (excluding actuarial differences)	61,396	54,846	55,574	52,860	42,038	36,681	34,586	26,630	25,631	16,998	7,101
Financial Position:											
Total assets	¥1,004,768	¥ 970,976	¥ 899,120	¥ 794,360	¥ 710,318	¥665,538	¥645,197	¥547,973	¥503,496	¥489,417	¥469,738
Working capital*1	273,167	236,047	209,506	190,386	178,215	158,110	120,725	91,335	94,509	89,665	88,338
Interest-bearing debt	268,491	248,885	200,630	163,817	119,069	103,369	92,975	69,229	67,923	69,229	66,786
Total net assets	357,064	353,489	345,639	295,857	265,257	260,782	226,078	193,250	169,335	163,110	162,930
Cash Flows:											
Cash flows from operating activities	¥ 45,724	¥ 40,689	¥ 13,732	¥ 40,337	¥ 45,705	¥ 14,709	¥ 54,057	¥ 45,910	¥ 26,873	¥ 17,515	¥ 37,239
Cash flows from investment activities	(38,874)	(71,659)	(46,250)	(62,350)	(9,972)	(23,575)	(10,476)	(28,662)	(32,903)	(13,247)	(19,117)
Cash flows from financing activities	1,142	11,523	25,156	14,267	1,813	(17,286)	8,511	(5,305)	(5,622)	372	11,546
Cash and cash equivalents at the end of the year	112,565	105,102	125,555	132,707	141,265	103,296	128,343	75,658	63,839	75,582	71,662
Capital Investment:											
Tangible fixed assets	¥ 32,473	¥ 16,925	¥ 17,079	¥ 50,940	¥ 18,042	¥ 12,617	¥ 14,735	¥ 7,058	¥ 10,970	¥ 11,923	¥ 10,636
Intangible fixed assets	4,028	3,439	2,171	2,839	2,006	2,488	2,417	2,890	2,786	2,434	1,561
Others	1,402	850	1,302	349	400	282	252	343	194	215	395
Total	37,903	21,214	20,552	54,128	20,448	15,388	17,404	10,291	13,950	14,572	12,592
Depreciation and amortization	14,388	13,696	13,727	12,887	11,753	11,453	9,810	8,978	8,469	8,437	8,502
											Yen
Per Share Data:											
Profit attributable to owners of the parent / Net income	¥ 153.54	¥ 160.80	¥ 168.49	¥ 194.95	¥ 54.92	¥ 104.85	¥ 127.20	¥ 89.89	¥ 52.34	¥ 29.21	¥ 13.42
Net assets	1,777.57	1,755.06	1,719.05	1,552.04	1,374.47	1,387.39	1,234.53	1,086.68	954.81	919.54	917.82
Cash dividends	40.0	40.0	40.0	35.0	24.0	21.5	19.0	17.0	15.0	15.0	15.0
											%
Financial Ratios:											
Gross profit margin	22.0	17.7	17.9	18.3	17.6	17.0	16.5	16.7	16.5	16.6	17.2
Operating income margin	4.7	3.8	4.3	4.8	2.9	3.4	3.4	3.0	2.3	1.8	1.3
Recurring income margin	5.3	3.9	4.7	5.2	2.9	3.7	3.4	3.2	2.5	1.8	1.3
Return on assets (ROA)*2	6.0	5.5	6.8	7.7	4.4	5.6	5.6	5.1	4.2	3.0	2.1
Return on equity (ROE)*2	8.8	9.3	10.3	13.3	4.0	8.0	11.0	8.8	5.6	3.2	1.5
Equity ratio	32.1	32.8	34.7	34.6	34.3	36.9	33.9	35.1	33.6	33.3	34.6
Interest-bearing debt ratio*3	45.4	43.9	39.2	37.3	32.8	29.6	29.8	26.5	28.7	29.8	29.1
Current ratio	175.3	163.2	158.8	158.8	156.9	154.1	137.0	133.1	137.1	136.8	140.3
Interest coverage ratio (times)*4	16.9	20.1	9.6	27.1	43.1	12.6	44.2	34.9	20.0	13.7	31.8

*1. Working capital = Current assets – Current liabilities

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

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

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

Management’s Discussion and Analysis (FY Ended March 2020)

Market Overview

During the fiscal year under review, the world economy moderately improved overall, thanks to a stronger economy in the United States amid robust employment conditions, despite a minor deceleration in the Chinese economy due to trade friction with the United States. The Japanese economy gently recovered on improvement in employment and wage conditions, despite signs of weakness in exports and manufacturing. However, the COVID-19 outbreak at the beginning of the year has depressed economic activities both inside and outside Japan, increasing uncertainty about future business conditions.

In the domestic housing market where the Sumitomo Forestry Group has deep ties, the number of new housing starts decreased from the previous fiscal year, owing to a sharp drop in construction of rental housing due to financial institutions taking a stricter stance on lending, in addition to a snapback from the consumption tax hike. In the United States, where the Sumitomo Forestry Group develops business, the housing market was brisk thanks to favorable employment conditions and lower interest rates for home mortgages. In Australia, the housing market slumped due to the ongoing correction in home prices and stricter lending standards for home loans.

In this business environment, the Sumitomo Forestry Group kicked off the 2021 Medium-Term Management Plan, a three-year plan that targets net sales of ¥1,260 billion, recurring income of ¥85 billion (excluding actuarial differences under retirement benefit accounting) and ROE of at least 10% by its final year which will be the Company’s 82nd fiscal year.

The four basic policies of the medium-term management plan are to promote future-oriented business strategies for further growth, strengthen the management base for sustainable growth, accelerate R&D and technological innovation utilizing timber, and promote further integration of business operations and ESG initiatives. Based on this plan, Sumitomo Forestry will strengthen its business foundation and advance its operations into the future.

During the fiscal year under review, the Sumitomo Forestry Group concentrated on advancing operations towards further growth by participating in real estate development projects in Southeast Asia and expanding its business area in Australia, in addition to further developing the real estate development in the United States, which is involved in the detached housing business, and the development of multi-family housing and commercial and mixed-use facilities. In September 2019, the Tsukuba Research Institute, the Sumitomo Forestry Group’s R&D base, constructed a new research building out of wood. As a research base for the W350 Plan*, this new research building utilizes many new technologies that increase the value of trees.

Consolidated Operating Results

Net sales fell 15.6% year on year to ¥1,104,094 million, operating income increased 4.3% to ¥51,377 million, recurring income grew 14.4% to ¥58,824 million and profit attributable to owners of the parent declined 4.5% to ¥27,853 million.

Actuarial differences arising from accounting for retirement benefits had a negative impact of ¥3,410 million in the previous fiscal year and a negative impact of ¥2,572 million in the fiscal year under review. Excluding these actuarial differences, recurring income was ¥54,846 million in the previous fiscal year and ¥61,396 million in the fiscal year under review, an increase of 11.9% year on year.

As a result of the adoption of accounting standards for revenue recognition from the fiscal year under review, net sales decreased by ¥240,302 million, while operating income and recurring income each increased by ¥5,599 million.

Return on equity (ROE) was 8.8%, a decline from 9.3% in the previous fiscal year. The Company still targets ROE of at least 10%.

Impact from COVID-19

The COVID-19 outbreak did not have a significant impact on earnings for the fiscal year under review, despite delays procuring some housing materials in the domestic housing business as a result of restrictions on exports in China.

Change in Accounting Policy

On March 30, 2018, the ASBJ issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30). From the fiscal year beginning on April 1, 2018, this accounting standard can be adopted, and Sumitomo Forestry decided to apply this accounting standard for revenue recognition from the beginning of the fiscal year under review. Revenue is now recognized in amounts expected to be received for the exchange of deliverables or services at the time when control over promised deliverables or services are transferred to the customer. Below are the main changes that resulted from the adoption of accounting standards for revenue recognition.

- ① Revenue recognition related to agent transactions
- ② Revenue recognition related to construction contracts
- ③ Revenue recognition related to warranty services

In accordance with the transitional treatment set forth

* Research and technology development concept that aims to realize a timberized eco-city centered on 350-meter ultra-high-rise wooden building structures.

in the proviso of Section 84 of the “Accounting Standard for Revenue Recognition,” the cumulative impact of retroactively applying the new accounting policy to fiscal years prior to the fiscal year under review is reflected in retained earnings at the beginning of the fiscal year under review, and the new accounting policy is applied starting with the balance at the start of the fiscal year.

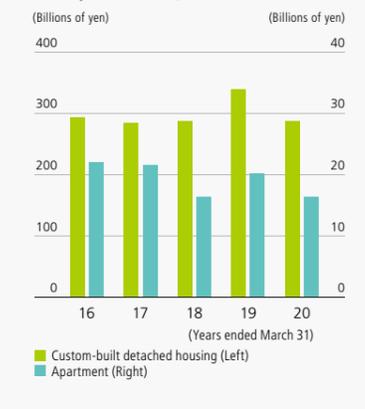
- ① Separate out fulfilled and unfulfilled performance obligations
- ② Calculate transaction prices
- ③ Allocate transaction prices to fulfilled and unfulfilled performance obligations

The result of these changes was to decrease net sales by ¥240,302 million and the cost of sales by ¥245,901 million in the fiscal year under review, and to increase operating income, recurring income and income before income taxes and minority interests by ¥5,599 million each. Additionally, the balance of retained earnings at the beginning of the fiscal year was reduced by ¥6,437 million.

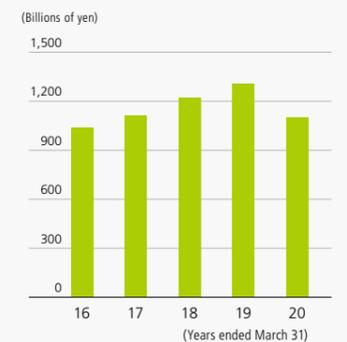
Number of New Housing Starts in Japan



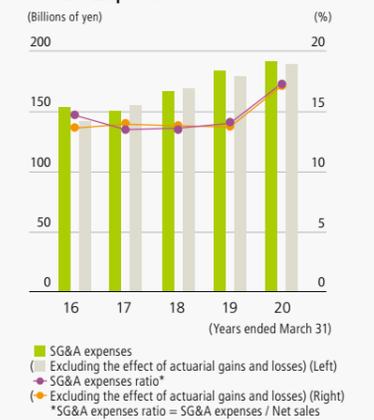
Amount of Orders Received in Japan (Housing and Construction Business)



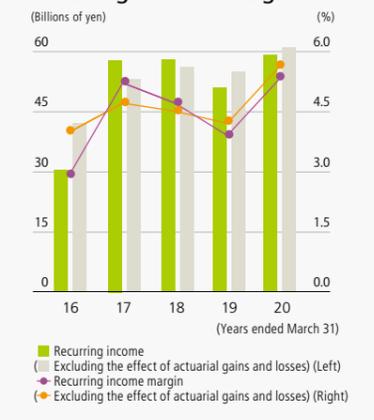
Net Sales



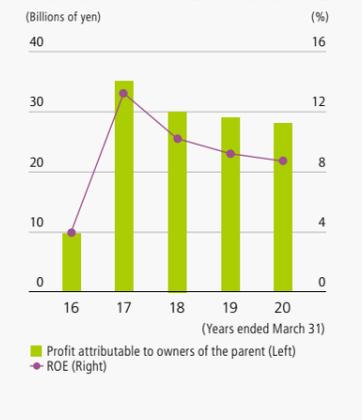
SG&A Expenses and SG&A Expenses Ratio



Recurring Income and Recurring Income Margin



Profit Attributable to Owners of the Parent and ROE



Housing and Construction Business

(Years ended March 31)		2017	2018	2019	2020
Orders					
Custom-Built Detached Housing	(¥ million)	¥288,458	¥290,326	¥343,204	¥289,342
	(Units)	7,427	7,608	8,513	7,726
Apartment	(¥ million)	¥ 22,540	¥ 17,195	¥ 20,872	¥ 18,294
	(Units)	1,519	948	1,071	966
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 63,202	¥ 63,315	¥ 73,661	¥ 60,701
Sales					
Custom-Built Detached Housing	(¥ million)	¥306,307	¥288,582	¥291,921	¥310,999
	(Units)	8,098	7,556	7,628	7,427
Apartment	(¥ million)	¥ 22,125	¥ 20,114	¥ 17,821	¥ 17,957
	(Units)	1,551	1,353	1,074	959
Spec Homes	(¥ million)	¥ 11,206	¥ 12,360	¥ 11,929	¥ 13,979
	(Units)	292	308	272	311
Renovation (Sumitomo Forestry Home Tech Co., Ltd.)	(¥ million)	¥ 61,245	¥ 62,700	¥ 66,720	¥ 66,982

Segment Performance Highlights

(Years ended March 31)		2019	2020	Change	Percent of change
(Millions of yen)					
Net Sales		¥1,308,893	¥1,104,094	- 204,799	- 15.6%
Timber and Building Materials Business		487,091	223,627	- 263,463	- 54.1%
Housing and Construction Business		452,839	474,003	+ 21,165	+ 4.7%
Overseas Housing and Real Estate Business		364,878	399,360	+ 34,481	+ 9.5%
Environment and Resources Business		19,526	19,263	- 263	- 1.3%
Other Businesses		22,272	23,425	+ 1,153	+ 5.2%
Adjustments		(37,712)	(35,584)	+ 2,127	-
Recurring Income		¥ 51,436	¥ 58,824	+ 7,387	+ 14.4%
Timber and Building Materials Business		7,980	6,095	- 1,885	- 23.6%
Housing and Construction Business		21,598	22,570	+ 972	+ 4.5%
Overseas Housing and Real Estate Business		25,812	34,541	+ 8,729	+ 33.8%
Environment and Resources Business		4,012	3,551	- 461	- 11.5%
Other Businesses		85	1,484	+ 1,400	-
Adjustments		(8,052)	(9,419)	- 1,368	-

*Net sales include intersegment sales and transfers.

Adjustments under net sales and recurring income include net sales and some selling, general and administrative expenses at the General Administration Department that cannot be allocated to specific businesses.

Net Sales and Recurring Income of Main Subsidiaries

Timber and Building Materials Business	(Millions of yen)			
	Net Sales		Recurring Income	
(Years ended March 31)	2019	2020	2019	2020
Sumitomo Forestry Crest Co., Ltd.	¥ 33,752	¥ 33,119	¥ 387	¥ 503
(Years ended December 31)	2018	2019	2018	2019
Overseas Subsidiaries*				
PT. Kutai Timber Indonesia (Indonesia)	¥ 13,470	¥ 12,472	¥ 72	¥ 193
Nelson Pine Industries Ltd. (New Zealand)	17,327	14,841	2,039	740

Housing and Construction Business

Housing and Construction Business	(Millions of yen)			
	Net Sales		Recurring Income	
(Years ended March 31)	2019	2020	2019	2020
Sumitomo Forestry Residential Co., Ltd.	¥ 27,748	¥ 29,357	¥ 1,465	¥ 1,702
Sumitomo Forestry Home Service Co., Ltd.	7,579	8,107	536	698
Sumitomo Forestry Landscaping Co., Ltd.	25,565	27,599	1,317	1,168
Sumitomo Forestry Home Tech Co., Ltd.	70,317	70,226	3,229	2,297

Overseas Housing and Real Estate Business

Overseas Housing and Real Estate Business	(Millions of yen)			
	Net Sales		Recurring Income	
(Years ended December 31)	2018	2019	2018	2019
Overseas Subsidiaries*				
Housing Business in the U.S.	¥262,195	¥303,968	¥31,040	¥35,876
Housing Business in Australia	80,377	72,271	4,560	2,944

* Figures for overseas subsidiaries have been translated into Japanese yen at the following rates:

	US\$	AU\$	NZ\$
2018.12:	110.44	82.53	76.43
2019.12:	109.01	75.80	71.86

Financial Position and Cash Flow

1 Financial Position

Total assets were ¥1,004,768 million at the end of fiscal 2020, an increase of ¥33,792 million year on year. The increase in total assets was attributable mainly to an increase in receivables for completed construction work, reflecting a change in accounting methods for revenue recognition for construction contracts, as well as an increase in buildings and structures in conjunction with the building of new serviced homes for the elderly. Liabilities increased ¥30,217 million compared to the end of the previous fiscal year to ¥647,704 million due mainly to the new issuance of corporate bonds and an increase in long-term debt. Net assets totaled ¥357,064 million, and the equity ratio was 32.1%.

2 Cash Flow

Cash and cash equivalents as of March 31, 2020 stood at ¥112,565 million, an increase of ¥7,463 million from the end of the previous fiscal year.

A summary of cash flows in fiscal 2019 is presented below.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥45,724 million (compared with ¥40,689 million in the previous fiscal year). This increase reflected the posting of ¥55,118 million in income before income taxes and minority interests, despite a decline in capital resulting from an increase in inventories

associated with expansion of the domestic and overseas house and land package business.

Cash flows from investment activities

Net cash used in investment activities totaled ¥38,874 million (compared with ¥71,659 million in the previous fiscal year). This was due mainly to the use of funds to develop multi-family housing and commercial and mixed-use facilities in the United States, and to acquire stakes in equity-method affiliates.

Cash flows from financing activities

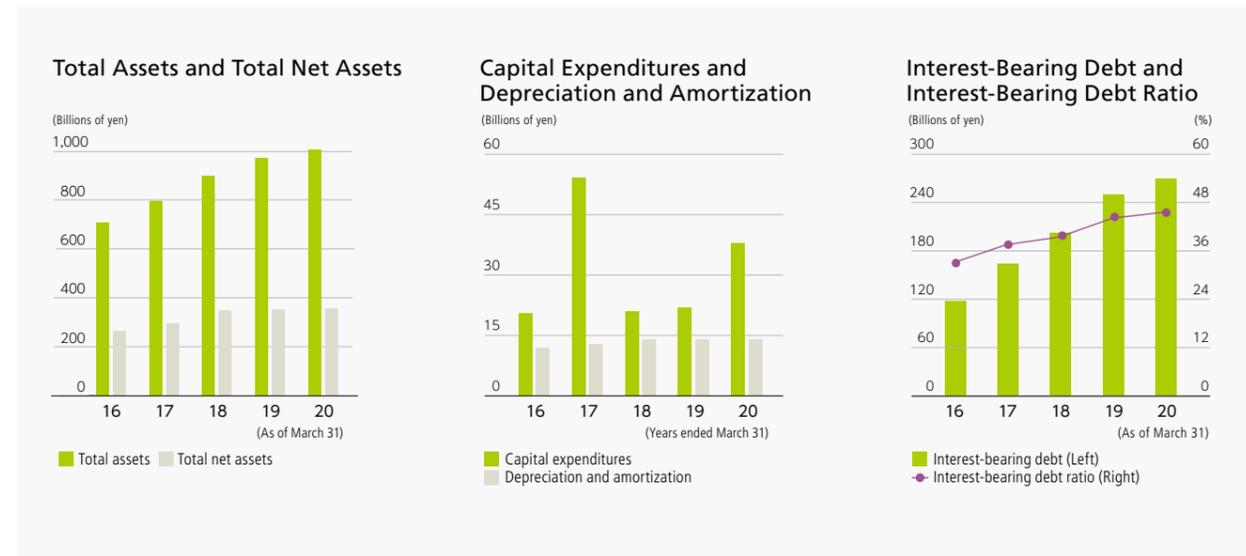
Net cash provided by financing activities totaled ¥1,142 million (compared with ¥11,523 million in the previous fiscal year). This was due to an inflow of funds provided by the issuance of straight corporate bonds, despite outflows for the payment of dividends.

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 timelines and reducing procurement costs. In response to the COVID-19 pandemic, Sumitomo Forestry has taken a variety of measures to lessen risks in fund procurement, such as by maintaining business relationships with financial institutions, dispersing 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 ¥268,491 million, including loans and lease obligations.

3 Capital Expenditures (Capital Investment)

The Sumitomo Forestry Group (Sumitomo Forestry and its consolidated subsidiaries) spent ¥37,903 million on capital expenditures. In the Timber and Building Materials Business, capital expenditures amounted to ¥4,061 million, including for the construction of a construction material manufacturing plant and the purchase of machinery and equipment. In the Housing and Construction Business, capital expenditures totaled ¥3,399 million, for investments to build new model homes and in systems to improve business efficiency. Capital expenditures came to ¥13,962 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 ¥1,677 million were made for afforestation activities. In Other Business, the Company spent ¥10,705 million on capital expenditures to construct serviced homes for the elderly and for investments in systems to increase 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.



Business Risk

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

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

- 1 Risks related to trends on domestic and overseas housing markets
- 2 Risks related to laws and regulations

- 3 Risks related to foreign exchange rates
- 4 Risks related to product assurance
- 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
- 12 Risks related to business impact from COVID-19 outbreaks

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2019	2020
Current assets:			
Cash and time deposit (Notes 7, 11, 15)	¥ 92,774	¥ 82,421	\$ 852,464
Notes and accounts receivable, trade (Notes 7, 15, 16)	123,030	135,636	1,130,477
Accounts receivable from completed construction contracts (Note 7)	34,766	9,601	319,451
Marketable securities (Notes 5, 11, 15, 16)	3,658	5,304	33,612
Finished goods, logs, lumber, boards and others	18,949	20,588	174,115
Work in process	1,254	1,443	11,521
Raw materials and supplies	8,188	8,039	75,240
Costs on uncompleted construction contracts (Note 7)	14,164	26,945	130,146
Real estate for sale (Note 7)	66,734	63,736	613,195
Real estate for sale in process (Note 7)	185,405	173,472	1,703,625
Short-term loans receivable (Note 11)	20,461	20,267	188,004
Accounts receivable, other (Notes 7, 15)	46,377	45,967	426,140
Other (Note 7)	20,845	16,756	191,537
Allowance for doubtful accounts	(545)	(355)	(5,006)
Total current assets	636,059	609,820	5,844,520
Noncurrent assets:			
Property, plant and equipment:			
Buildings and structures (Notes 7, 18):	100,932	87,084	927,427
Accumulated depreciation	(42,496)	(39,850)	(390,484)
Buildings and structures, net	58,436	47,234	536,944
Machinery, equipment and vehicles (Note 7):	76,946	76,357	707,025
Accumulated depreciation	(51,583)	(49,245)	(473,979)
Machinery, equipment and vehicles, net	25,362	27,113	233,046
Land (Notes 7, 18)	39,603	39,513	363,899
Timber	34,243	35,439	314,645
Leased assets:	11,211	8,535	103,017
Accumulated depreciation	(4,138)	(4,115)	(38,025)
Leased assets, net	7,073	4,419	64,992
Construction in progress (Note 7)	9,399	11,770	86,367
Other:	17,537	15,328	161,137
Accumulated depreciation	(12,207)	(10,815)	(112,162)
Other, net	5,330	4,513	48,975
Total property, plant and equipment	179,446	170,000	1,648,867
Intangible assets:			
Goodwill	7,588	12,651	69,724
Other	14,886	13,900	136,780
Total intangible assets	22,474	26,551	206,504
Investments and other assets:			
Investment securities (Notes 5, 7, 15)	137,845	140,968	1,266,608
Long-term loans receivable	4,165	2,501	38,268
Asset for retirement benefits (Note 17)	92	238	846
Deferred tax assets (Notes 7, 8)	5,983	4,945	54,974
Other (Note 7)	19,564	16,991	179,767
Allowance for doubtful accounts	(860)	(1,039)	(7,900)
Total investments and other assets	166,789	164,605	1,532,562
Total noncurrent assets	368,709	361,156	3,387,932
Total assets	¥1,004,768	¥970,976	\$9,232,452

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Financial Section

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2019	2020
Current liabilities:			
Notes and accounts payable, trade (Notes 5, 15, 16)	¥ 109,179	¥118,547	\$1,003,210
Accounts payable for construction contracts (Note 15)	83,281	75,595	765,242
Short-term loans payable (Notes 6, 7)	39,403	61,506	362,059
Lease obligations (Note 6)	495	584	4,551
Income taxes payable	4,862	4,902	44,679
Advances received on uncompleted construction contracts	35,224	52,198	323,662
Allowance for employees' bonuses	15,337	14,353	140,931
Allowance for directors' bonuses	143	143	1,314
Allowance for warranties for completed construction	5,388	3,733	49,510
Asset retirement obligation (Note 23)	857	853	7,876
Other	68,721	41,359	631,452
Total current liabilities	362,892	373,772	3,334,487
Long-term liabilities:			
Bonds issued (Notes 6, 15)	90,000	70,000	826,978
Bonds with subscription rights to shares (Note 6)	10,070	10,090	92,528
Long-term loans payable (Notes 6, 7, 15, 16)	120,537	102,269	1,107,570
Lease obligation (Note 6)	7,986	4,436	73,383
Deferred tax liabilities (Note 8)	6,262	11,474	57,539
Allowance for directors' retirement benefits	125	127	1,149
Liabilities for retirement benefits (Note 17)	22,574	19,822	207,424
Asset retirement obligation (Note 23)	1,378	1,157	12,662
Other	25,880	24,339	237,798
Total long-term liabilities	284,811	243,714	2,617,031
Total liabilities	647,704	617,486	5,951,518
Net assets:			
Shareholders' equity (Note 12):			
Common stock—			
Authorized: 400,000,000 shares			
Issued and outstanding: 182,752,036 shares in 2020 and 182,698,636 shares in 2019	32,786	32,752	301,254
Capital surplus	21,290	22,247	195,626
Retained earnings	255,545	241,427	2,348,114
Treasury stock: 1,326,898 shares in 2020 and 1,325,804 shares in 2019	(2,339)	(2,337)	(21,493)
Total shareholders' equity	307,282	294,088	2,823,502
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	16,842	25,196	154,758
Deferred gains (losses) on hedges	2,531	752	23,253
Translation adjustments	(4,240)	(1,733)	(38,964)
Remeasurements of defined benefit plans	82	17	754
Total accumulated other comprehensive income	15,215	24,232	139,801
Subscription rights to shares	120	135	1,099
Non-controlling interests	34,448	35,034	316,532
Total net assets	357,064	353,489	3,280,934
Total liabilities and net assets	¥1,004,768	¥970,976	\$9,232,452
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net assets (Note 21)	¥1,777.57	¥1,755.06	\$16.33

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2019	2020
Net sales (Note 19)	¥1,104,094	¥1,308,893	\$10,145,126
Cost of sales (Note 19)	861,405	1,076,747	7,915,144
Gross profit	242,689	232,146	2,229,982
Selling, general and administrative expenses (Note 10)	191,312	182,899	1,757,898
Operating income	51,377	49,247	472,083
Non-operating income:			
Interest income	451	437	4,141
Purchase discounts	365	363	3,353
Dividends income	1,552	1,677	14,265
Equity in earnings of affiliates	8,097	1,715	74,399
Other	3,020	2,382	27,747
Total non-operating income	13,485	6,573	123,905
Non-operating expenses:			
Interest expense	2,706	2,015	24,860
Sales discount	693	710	6,369
Foreign exchange losses	101	190	927
Other	2,538	1,469	23,325
Total non-operating expenses	6,038	4,384	55,480
Recurring income	58,824	51,436	540,508
Extraordinary gains:			
Gain on sales of noncurrent assets (Note 9)	102	86	939
Gain on sales of investment securities (Note 5)	3	4,740	29
Gain on step acquisitions	—	629	—
Gain on change in equity interest	—	16	—
Total extraordinary gains	105	5,471	968
Extraordinary loss:			
Loss on sales of noncurrent assets (Note 9)	35	—	320
Loss on retirement of noncurrent assets (Note 9)	227	162	2,088
Loss on devaluation of investment securities (Note 5)	1,943	—	17,850
Loss on liquidation of subsidiaries and affiliates	265	—	2,439
Loss on change in equity interest	111	—	1,019
Impairment loss	389	126	3,577
Loss on disaster	840	—	7,722
Total extraordinary loss	3,811	289	35,014
Income before income taxes and minority interests	55,118	56,618	506,462
Income taxes, current (Note 8)	16,730	15,468	153,725
Income taxes, deferred (Note 8)	(477)	724	(4,382)
Total income taxes	16,253	16,192	149,343
Net income	38,865	40,426	357,119
Net income attributable to non-controlling interests	11,013	11,266	101,192
Net income attributable to shareholders of parent	¥ 27,853	¥ 29,160	\$ 255,928
	Yen		U.S. dollars (Note 4)
Per share of common stock:			
Net income attributable to shareholders of parent (Note 21):			
Basic	¥153.54	¥160.80	\$1.41
Diluted	149.68	155.32	1.38
Cash dividends	40.00	40.00	0.37

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2019	2020
Net income	¥38,865	¥ 40,426	\$357,119
Other comprehensive income (Note 22):			
Valuation difference on available-for-sale securities	(8,128)	(8,144)	(74,684)
Deferred gains (losses) on hedges	1,778	974	16,338
Translation adjustments	(2,990)	(8,075)	(27,477)
Share in equity method affiliates	(286)	(282)	(2,625)
Total other comprehensive income	(9,626)	(15,527)	(88,449)
Comprehensive income	¥29,239	¥ 24,899	\$268,671
Comprehensive income attributable to:			
Shareholders of parent	¥18,835	¥ 15,293	\$173,070
Non-controlling interests	10,404	9,606	95,601

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

	Millions of yen				
	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
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 subscription rights to shares)	8	8			15
Cash dividends (¥40.00 per share)			(7,297)		(7,297)
Net income attributable to shareholders of parent			27,853		27,853
Purchases of treasury stock				(2)	(2)
Disposal of treasury stock					—
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				Total shareholders' equity	Total net assets		
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Translation adjustments	Re-measurements of defined benefit plans	Subscription rights to shares	Non-controlling interests		
Balance at April 1, 2019	¥25,196	¥ 752	¥(1,733)	¥17	¥135	¥35,034		¥353,489
Cumulative effects of changes in accounting policies								(6,437)
Restated balance	25,196	752	(1,733)	17	135	35,034		347,052
Changes during the period:								
Issuance of new shares								52
Issuance of new shares (exercise of subscription rights to shares)								15
Cash dividends (¥40.00 per share)								(7,297)
Net income attributable to shareholders of parent								27,853
Purchases of treasury stock								(2)
Disposal of treasury stock								—
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	(15)	(586)		(9,619)
Total changes during the period	(8,354)	1,778	(2,507)	65	(15)	(586)		10,012
Balance at March 31, 2020	¥16,842	¥2,531	¥(4,240)	¥82	¥120	¥34,448		¥357,064

See accompanying notes to consolidated financial statements.

	Millions of yen				
	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	
Balance at April 1, 2018	¥32,672	¥23,637	¥219,562	¥(2,333)	¥273,538
Changes during the period:					
Issuance of new shares	26	26			53
Issuance of new shares (exercise of subscription rights to shares)	53	53			106
Cash dividends (¥40.00 per share)			(7,295)		(7,295)
Net income attributable to shareholders of parent			29,160		29,160
Purchases of treasury stock				(5)	(5)
Disposal of treasury stock		0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests		(1,470)			(1,470)
Net changes in items other than shareholders' equity					
Total changes during the period	80	(1,390)	21,865	(5)	20,550
Balance at March 31, 2019	¥32,752	¥22,247	¥241,427	¥(2,337)	¥294,088

	Millions of yen							
	Accumulated other comprehensive income				Total shareholders' equity	Total net assets		
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Translation adjustments	Re-measurements of defined benefit plans	Subscription rights to shares	Non-controlling interests		
Balance at April 1, 2018	¥33,258	¥(221)	¥ 5,053	¥ 9	¥ 38,099	¥129	¥33,873	¥345,639
Changes during the period:								
Issuance of new shares								53
Issuance of new shares (exercise of subscription rights to shares)								106
Cash dividends (¥40.00 per share)								(7,295)
Net income attributable to shareholders of parent								29,160
Purchases of treasury stock								(5)
Disposal of treasury stock								0
Change in ownership interest of parent due to transactions with non-controlling interests								(1,470)
Net changes in items other than shareholders' equity	(8,062)	974	(6,786)	8	(13,867)	6	1,161	(12,700)
Total changes during the period	(8,062)	974	(6,786)	8	(13,867)	6	1,161	7,850
Balance at March 31, 2019	¥25,196	¥ 752	¥(1,733)	¥17	¥ 24,232	¥135	¥35,034	¥353,489

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 4)				
	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	
Balance at April 1, 2019	\$300,943	\$204,422	\$2,218,386	\$(21,478)	\$2,702,273
Cumulative effects of changes in accounting policies			(59,147)		(59,147)
Restated balance	300,943	204,422	2,159,239	(21,478)	2,643,126
Changes during the period:					
Issuance of new shares	240	240			481
Issuance of new shares (exercise of subscription rights to shares)	71	71			141
Cash dividends (\$0.37 per share)			(67,053)		(67,053)
Net income attributable to shareholders of parent			255,928		255,928
Purchases of treasury stock				(15)	(15)
Disposal of treasury stock					—
Change in ownership interest of parent due to transactions with non-controlling interests		(9,106)			(9,106)
Net changes in items other than shareholders' equity					
Total changes during the period	311	(8,795)	188,875	(15)	180,376
Balance at March 31, 2020	\$301,254	\$195,626	\$2,348,114	\$(21,493)	\$2,823,502

	Thousands of U.S. dollars (Note 4)							
	Accumulated other comprehensive income				Total shareholders' equity	Total net assets		
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Translation adjustments	Re-measurements of defined benefit plans	Subscription rights to shares	Non-controlling interests		
Balance at April 1, 2019	\$231,518	\$ 6,914	\$(15,927)	\$154	\$222,659	\$1,240	\$321,916	\$3,248,088
Cumulative effects of changes in accounting policies								(59,147)
Restated balance	231,518	6,914	(15,927)	154	222,659	1,240	321,916	3,188,941
Changes during the period:								
Issuance of new shares								481
Issuance of new shares (exercise of subscription rights to shares)								141
Cash dividends (\$0.37 per share)								(67,053)
Net income attributable to shareholders of parent								255,928
Purchases of treasury stock								(15)
Disposal of treasury stock								—
Change in ownership interest of parent due to transactions with non-controlling interests								(9,106)
Net changes in items other than shareholders' equity	(76,759)	16,338	(23,037)	600	(82,858)	(141)	(5,383)	(88,382)
Total changes during the period	(76,759)	16,338	(23,037)	600	(82,858)	(141)	(5,383)	91,994
Balance at March 31, 2020	\$154,758	\$23,253	\$(38,964)	\$754	\$139,801	\$1,099	\$316,532	\$3,280,934

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2020	2019	2020
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 55,118	¥ 56,618	\$ 506,462
Depreciation and amortization	14,388	13,696	132,208
Impairment loss	389	126	3,577
Amortization of goodwill	6,143	6,418	56,447
Allowance for (reversal of) doubtful accounts	35	(1,341)	318
Allowance for (reversal of) employee's bonuses	1,021	1,457	9,385
Allowance for (reversal of) directors' bonuses	—	(3)	—
Allowance for (reversal of) warranties for completed construction	1,681	137	15,448
Allowance for (reversal of) directors' retirement benefits	(2)	15	(19)
Net defined benefit liability	2,814	3,154	25,859
Interest and dividends income	(2,003)	(2,114)	(18,406)
Interest expense	2,706	2,015	24,860
Equity in losses (earnings) of affiliates	(8,097)	(1,715)	(74,399)
Loss (gain) on sales of marketable securities and investment securities	(3)	(4,740)	(29)
Loss on devaluation of marketable securities and investment securities	1,943	—	17,850
Loss on disaster	840	—	7,722
Loss (gain) on liquidation of subsidiaries and affiliates	265	—	2,439
Loss (gain) on step acquisitions	—	(629)	—
Loss (gain) on change in equity interest	111	—	1,019
Loss (gain) on sales/disposal of fixed assets	160	76	1,469
Decrease (increase) in notes and accounts receivable, trade	(1,152)	(8,694)	(10,589)
Inventories	(7,415)	(21,173)	(68,138)
Other current assets	(1,986)	(3,959)	(18,247)
Notes and accounts payable, trade	(10,506)	6,118	(96,537)
Advances received	1,041	1,122	9,567
Advances received on completed construction contracts	(2,789)	2,234	(25,623)
Accrued consumption taxes	(1,142)	212	(10,496)
Other current liabilities	2,274	993	20,892
Other	(847)	1,457	(7,782)
Subtotal	54,987	51,482	505,254
Interest and dividends income received	10,991	6,337	100,991
Interest paid	(2,697)	(2,027)	(24,784)
Income taxes paid	(17,557)	(15,103)	(161,323)
Net cash provided by operating activities	45,724	40,689	420,138
Cash flows from investment activities:			
Payments into time deposits	(7,273)	(5,236)	(66,830)
Proceeds from withdrawal of time deposits	5,298	5,294	48,684
Decrease (increase) in short-term loans receivable	304	138	2,793
Proceeds from sales and redemption of marketable securities	305	10	2,803
Payments for purchases of fixed assets	(21,998)	(20,204)	(202,132)
Proceeds from sales of fixed assets	2,816	1,584	25,873
Payments for purchases of intangible assets	(3,156)	(2,839)	(29,003)
Payments for purchases of investment securities	(15,810)	(13,556)	(145,275)
Proceeds from sales and redemption of investment securities	6	8,901	59
Payments for purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,158)	(46,771)	(10,644)
Payments for long-term loans payable	(1,771)	(1,342)	(16,277)
Repayments of long-term loans receivable	262	1,741	2,407
Other payments	(3,762)	(2,186)	(34,570)
Other proceeds	7,065	2,807	64,915
Net cash used in investment activities	(38,874)	(71,659)	(357,198)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(17,153)	8,817	(157,611)
Repayments of finance lease obligations	(1,565)	(1,632)	(14,381)
Proceeds from long-term loans payable	39,782	25,789	365,542
Repayments of long-term loans payable	(22,682)	(10,648)	(208,418)
Proceeds from issuance of bonds	20,000	20,000	183,773
Proceeds from issuance of bonds with subscription rights to shares	—	10,100	—
Payment for redemption of bonds with subscription rights to shares	—	(19,900)	—
Proceeds from share issuance to non-controlling interests	3,576	32	32,859
Cash dividends paid	(7,297)	(7,295)	(67,053)
Cash dividends paid to non-controlling interests	(11,108)	(6,652)	(102,069)
Payment for purchase of shares of subsidiaries not resulting in change in scope of consolidation	(3,449)	(6,715)	(31,693)
Net decrease (increase) in deposits with withdrawal and usage restrictions	1,040	(371)	9,555
Other proceeds	0	0	0
Other payments	(2)	(3)	(15)
Net cash provided by financing activities	1,142	11,523	10,490
Effect of exchange rate changes on cash and cash equivalents	(528)	(1,007)	(4,854)
Net increase (decrease) in cash and cash equivalents	7,463	(20,453)	68,576
Cash and cash equivalents at the beginning of the year	105,102	125,555	965,742
Cash and cash equivalents at the end of the year (Note 12)	¥112,565	¥105,102	\$1,034,317

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2020 and 2019

Financial Section

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 business and civil engineering/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 March 31, 2020, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 244 and 100 (195 and 79 in 2019), respectively. SFKG Property Asia Pte. Ltd. and 48 other companies, whose shares were newly acquired, have been included in the scope of consolidation from the fiscal year ended March 31, 2020. PT. Kusumasentral Kencana and 21 other companies, whose shares were newly acquired, have been included as equity-method affiliates from the fiscal year ended March 31, 2020. On the other hand, MOS Lumber Products Co., Ltd., which was included in the scope of consolidation in the previous fiscal year, has been excluded from the scope of consolidation due to the transfer of equity in the fiscal year ended March 31, 2020. The account closing date of the Company's domestic consolidated subsidiaries is mainly March 31, and the account closing date of the Company's consolidated foreign subsidiaries is mainly December 31. Additionally, necessary adjustments are made to the consolidated financial statements to reflect any significant transactions from the next day of the closing date to March 31 in each subsidiary.

(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) Allowance for employees' bonuses

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

(f) Allowance for directors' bonuses

Allowance for directors' bonuses is stated based on an estimated amount, which is to be charged to income in the current year.

(g) Allowance for warranties for completed construction

Allowance 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) Liability for retirement benefits

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

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

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

(i) Allowance for directors' retirement benefits

Allowance for directors' retirement benefits of certain subsidiaries are provided based on the amount required for at year-end in accordance with established internal policies.

(j) 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.

(k) 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.

(l) Inventories

Finished goods, logs, lumber and boards are stated at moving average cost.

Real estate for sale, construction projects in progress 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 ¥601 million (\$5,523 thousand) in valuation loss on inventories in cost of sales for the year ended March 31, 2020.

(m) 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.

(n) 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.

(o) Impairment of fixed assets

Fixed 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 fixed assets are less than the carrying amounts, the 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 fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets.

(p) 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 in case 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.

(q) 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.

(r) 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.

(s) 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.

(t) Consumption taxes

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

(u) 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.

(v) 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.

(w) 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.

(x) 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 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 and implementation guidance 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 and implementation guidance from the end of the fiscal year ending December 31, 2021.

(y) Changes in accounting policy

(Application of Accounting Standard for 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.

The main changes resulting from application of the Accounting Standard for Revenue Recognition are as follows:

(1) Revenue Recognition in Agency Transactions

Previously, in regard to revenue related to the domestic distribution business, primarily in the Timber and Building Materials Business, the total amount of consideration received from the customer was recognized as revenue on a gross basis. However, for transactions where the Company is acting as an agent in providing products to customers, the method has been modified to recognize the net amount as revenue after deducting the amount paid to the supplier.

(2) Revenue Recognition in Construction Contracts

Previously, in regard to construction contracts in the Housing and Construction Business and Overseas Housing and Real Estate Businesses, the Company applied the percentage-of-completion method for the construction contracts of which the outcome could be estimated reliably and the completed contract method for short-term construction contracts. However, revenue for all construction contracts over a specific period is now recognized as the performance obligations are satisfied. In addition, the method of estimating progress on the performance obligations satisfied over time is mainly the input method based on costs incurred. An alternative treatment is applied for the construction contracts for which the period from the commencement date to the date when it is expected that the performance obligations will be fully satisfied is very short. In these cases, revenue is recognized at the time of completion, not as the performance obligation is satisfied.

(3) Revenue Recognition in Warranty Service Contracts

In the Housing and Building Business, the Company provides customers with free-of-charge inspection services after delivery based on construction contracts or sales contracts for detached houses or other products. Previously, revenues from these services were not recognized separately. However the performance obligations related to these services have been identified separately from delivery of the detached houses or other products, and respective revenue is recognized when these performance obligations are satisfied.

The Company applied the Accounting Standard for Revenue Recognition in accordance with transitional measures of the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of retroactively applying new accounting policies was reflected in the beginning balance of retained earnings. However, the Company applied the method prescribed in provision (1) of Paragraph 86 of the Accounting Standard for Revenue Recognition. For the contract changes made before the beginning of the fiscal year ended March 31, 2020, the treatment set forth in 1 to 3 below was applied based on the contract conditions after all changes was reflected, and the cumulative effect was reflected in the beginning balance of retained earnings for the fiscal year ended March 31, 2020.

1. Classification of satisfied or unsatisfied performance obligations
2. Determination of the transaction price
3. Allocation of transaction price to satisfied and unsatisfied performance obligations

As a result, net sales and cost of sales for the fiscal year ended March 31, 2020 decreased by ¥240,302 million (\$2,208,046 thousand) and ¥245,901 million (\$2,259,497 thousand), respectively. Operating income, recurring income, and income before income taxes increased by ¥5,599 million (\$51,451 thousand). The balance of retained earnings at the beginning of the year decreased by ¥6,437 million (\$59,147 thousand). The impact on per-share information is provided in the relevant section.

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 ¥108.83 =US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of March 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 March 31, 2020 and 2019 were as follows:

	Millions of yen		
	2020		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities:			
Debt securities	¥1,458	¥1,481	¥23

	Millions of yen		
	2019		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities:			
Debt securities	¥1,762	¥1,803	¥42

	Thousands of U.S. dollars		
	2020		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities:			
Debt securities	\$13,396	\$13,606	\$210

(b) The carrying amounts and estimated fair values of the securities classified as available-for-sale at March 31, 2020 and 2019 were as follows:

	Millions of yen		
	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

	Millions of yen		
	2019		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	¥58,090	¥21,152	¥36,938
Debt securities	—	—	—
Other	—	—	—
Subtotal	58,090	21,152	36,938
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	2,957	3,598	(642)
Debt securities	—	—	—
Other	5,000	5,000	—
Subtotal	7,957	8,598	(642)
Total	¥66,047	¥29,750	¥36,296

	Thousands of U.S. dollars		
	2020		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	\$430,805	\$194,033	\$236,771
Debt securities	—	—	—
Other	—	—	—
Subtotal	430,805	194,033	236,771
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	21,373	32,012	(10,638)
Debt securities	—	—	—
Other	27,566	27,566	—
Subtotal	48,939	59,577	(10,638)
Total	\$479,744	\$253,610	\$226,133

(c) Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses, which are included in extraordinary gains (losses) on sales and retirement of noncurrent assets in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	¥	¥	\$
Proceeds	¥ 6	¥8,371	\$59
Gross gains	3	4,740	29
Gross losses	—	—	—

(d) Impairment of securities

Impairment losses on available-for-sale securities were ¥1,943 million (\$17,850 thousand) for the year ended March 31, 2020.

(e) Investments in affiliates included in "Investment securities" as of March 31, 2020 and 2019 were ¥84,906 million (\$780,170 thousand) and ¥73,845 million, respectively.

6. Short-Term and Long-Term Debt

Short-term and long-term debt at March 31, 2020 and 2019 are represented by short-term loans payable bearing interest of 2.41% and 3.13% per annum, current portion of long-term loans payable of 2.35% and 2.95%, and long-term loans payable of 2.67% and 3.45%, respectively. Long-term debt at March 31, 2020 and 2019 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Long-term loans payable, principally from banks and insurance companies, due 2021 to 2035:			
Secured:			
Long-term loans payable	¥ 22,662	¥ 40,601	\$ 208,237
Unsecured:			
Bonds issued	90,000	70,000	826,978
Bonds with subscription rights to shares	10,070	10,090	92,528
Long-term loans payable	97,874	61,668	899,334
Lease obligations	7,986	4,436	73,383
	228,593	186,795	2,100,459
Portion due within one year:			
Long-term loans payable	11,953	16,255	109,835
Lease obligations	495	584	4,551
	¥ 12,449	¥ 16,839	\$ 114,386

The aggregate annual maturities of bonds issued (including bonds with subscription rights to shares), long-term loans payable and lease obligations, due within 5 years (with exception of portion due within 1 year) from fiscal year end are as follows:

	Millions of yen			Thousands of U.S. dollars		
	Bonds issued	Long-term loans payable	Lease obligations	Bonds issued	Long-term loans payable	Lease obligations
2022	¥ —	¥ 32,478	¥1,120	\$ —	\$298,429	\$10,289
2023	—	49,309	878	—	453,086	8,071
2024	20,000	11,118	667	183,773	102,164	6,128
2025	10,000	8,222	520	91,886	75,548	4,779
	¥30,000	¥101,128	¥3,185	\$275,659	\$929,226	\$29,266

7. Pledged Assets and Secured Liabilities

(a) Pledged assets

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	¥	¥	\$
Cash and time deposits	¥ 314	¥ 1,605	\$ 2,889
Notes and accounts receivable, trade	36	31	332
Accounts receivable from completed construction on contracts	766	1,800	7,041
Costs on uncompleted construction contracts	258	1,124	2,367
Real estate for sale	3,237	25,123	29,745
Real estate for sale in process	8,048	54,685	73,946
Accounts receivable, other	134	308	1,231
Buildings and structures	8,399	10,784	77,177
Machinery, equipment and vehicles	10,444	11,224	95,966
Land	2,485	6,054	22,832
Construction in progress	2,359	5,676	21,672
Investment securities	12,728	17,835	116,957
Other	1,923	4,673	17,667
	¥51,131	¥140,922	\$469,823

(b) Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Short-term loans payable	¥ 2,813	¥16,602	\$ 25,848
Long-term loans payable	22,662	40,601	208,237
	¥25,475	¥57,203	\$234,085

8. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise corporation tax, enterprise tax, and prefectural and municipal in-habitants taxes. The effective statutory tax rate for the years ended March 31, 2020 and 2019 was 30.6%.

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

	2020	2019
Effective statutory tax rate	—	30.6%
Non-deductible expenses for tax purposes	—	0.4
Non-taxable dividend income	—	(0.9)
Per capita portion of inhabitant tax	—	0.5
Amortization of goodwill	—	3.5
Equity in earnings of affiliates	—	(0.9)
Tax rate differences with oversea subsidiaries	—	(6.5)
Other	—	1.8
Effective income tax rate	—	28.6%

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

The significant components of deferred tax assets and liabilities at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Allowance for doubtful accounts	¥ 445	¥ 435	\$ 4,085
Allowance for employees' bonuses	3,616	3,503	33,230
Accrued legal welfare expense on employees' bonuses	539	529	4,957
Enterprise taxes	443	503	4,069
Devaluation of real estate for sale	358	273	3,292
Liability for retirement benefits	6,650	5,813	61,102
Devaluation of fixed assets	740	751	6,797
Devaluation of financial instruments	2,000	1,576	18,375
Tax loss carryforwards	4,936	5,080	45,359
Impairment loss	1,776	1,034	16,317
Allowance for warranties for completed construction	1,201	585	11,034
Unrealized gain on fixed assets	636	579	5,848
Other	5,155	4,651	47,370
Gross deferred tax assets	28,496	25,312	261,836
Valuation allowance for tax loss carryforwards	(4,596)	(4,911)	(42,232)
Valuation allowance for others	(5,747)	(5,345)	(52,804)
Valuation allowance	(10,343)	(10,255)	(95,036)
Total deferred tax assets	18,153	15,057	166,800
Deferred tax liabilities:			
Deferred gains on sales of fixed assets	(757)	(757)	(6,954)
Gain on securities contributed to employee retirement benefit trusts	(1,168)	(1,217)	(10,729)
Valuation difference on available-for-sale securities	(7,439)	(11,000)	(68,359)
Land revaluation differences	(853)	(853)	(7,842)
Taxes on undistributed earnings of subsidiaries	(2,969)	(2,201)	(27,282)
Other	(5,245)	(5,557)	(48,199)
Gross deferred tax liabilities	(18,432)	(21,586)	(169,364)
Net deferred tax assets (liabilities)	¥ (279)	¥ (6,528)	\$ (2,565)

The breakdowns of amount of tax loss carryforwards and deferred tax assets by expiration period as of March 31, 2020 and 2019 were as follows:

	Millions of yen						
	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
	Millions of yen						
	2019						
	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*	¥ 520	¥ 994	¥ 164	¥ 382	¥ 146	¥ 2,874	¥ 5,080
Valuation allowance	(520)	(994)	(164)	(382)	(146)	(2,704)	(4,911)
Deferred tax assets	—	—	—	—	—	170	170

	Thousands of U.S. dollars						
	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*	\$ 9,014	\$ 1,479	\$ 3,492	\$ 1,323	\$ 4,705	\$ 25,342	\$ 45,355
Valuation allowance	(9,014)	(1,479)	(3,492)	(1,323)	(4,705)	(22,218)	(42,231)
Deferred tax assets	—	—	—	—	—	3,124	3,124

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

9. Extraordinary Gains (Losses) on Sales and Retirement of Noncurrent Assets

Extraordinary gains (losses) on sales and retirement of noncurrent assets for the years ended March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Gain on sales of noncurrent assets:			
Machinery, equipment and vehicles	¥ 18	¥ 13	\$ 164
Land	57	40	520
Others	28	34	255
Total gain on sales of noncurrent assets	¥102	¥ 86	\$ 939
Loss on sales of noncurrent assets:			
Buildings and structures	¥ 25	¥ —	\$ 232
Other	10	—	88
Total loss on sales of noncurrent assets	¥ 35	¥ —	\$ 320
Loss on retirement of noncurrent assets:			
Buildings and structures	¥131	¥ 79	\$1,200
Other	97	83	888
Total loss on retirement of noncurrent assets	¥227	¥162	\$2,088

10. Selling, General and Administrative Expenses

The components of "Selling, General and Administrative Expenses" for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Salaries and allowances	¥61,887	¥60,513	\$568,657
Allowance for employees' bonuses	9,613	9,500	88,335
Allowance for directors' bonuses	143	143	1,314
Allowance for benefit expenses	5,853	6,092	53,778
Allowance for directors' retirement benefits	26	20	237
Allowance for doubtful accounts	106	(47)	973
Allowance for warranties for completed construction	3,104	1,328	28,525

Research and development expenses charged to selling, general and administrative expenses for the years ended March 31, 2020 and 2019 were ¥2,271 million (\$20,865 thousand) and ¥2,112 million, respectively.

11. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and time deposits	¥ 92,774	¥ 82,421	\$ 852,464
Less: Cash deposits and short-term investments which mature or become due over three months after the date of acquisition	(2,190)	(228)	(20,127)
Short-term investments	3,000	5,000	27,566
Restricted cash	(1,018)	(2,091)	(9,356)
Cash equivalents included in short-term loans receivable	20,000	20,000	183,771
Cash and cash equivalents	¥112,565	¥105,102	\$1,034,317

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 March 31, 2020 and 2019, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$26,253 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 transaction as lessor has been omitted, due to insignificance of disclosure of such information in the consolidated financial statements.

14. Contingent Liabilities

Contingent liabilities as at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Guarantee on loans from financial institutions:			
Guarantees of housing loans to customers	¥29,559	¥30,978	\$271,603
Affiliated companies of Crescent Communities group	27,322	9,835	251,050
Kanda Biomass Energy K.K.	10,578	7,657	97,201
Kawasaki Biomass Electric Power Co., Ltd.	285	436	2,621
MOS Lumber Products Co., Ltd.	—	67	—
Total	¥67,744	¥48,973	\$622,474

15. 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 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 loans receivable 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. Loans payable and bonds are mainly used for operating capital expenses and capital investment. Although 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 loans.

(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 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		
	2020		
	Carrying amount	Fair value	Difference
Cash and time 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 issued	(90,000)	(89,555)	(445)
Long-term loans payable**	(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	¥ —

	Millions of yen		
	2019		
	Carrying amount	Fair value	Difference
Cash and time deposits	¥ 82,421	¥ 82,421	¥ —
Notes and accounts receivable, trade	135,636	135,636	—
Marketable securities and investment securities:			
Held-to-maturity	1,762	1,803	42
Shares in affiliates	33,231	32,390	(841)
Available-for-sale	66,047	66,047	—
Total	¥ 319,096	¥ 318,297	¥(800)
Notes and accounts payable, trade	¥(118,547)	¥(118,547)	¥ —
Accounts payable for construction contracts	(75,595)	(75,595)	—
Bonds issued	(70,000)	(70,638)	638
Long-term loans payable**	(118,524)	(117,900)	(624)
Total	¥(382,666)	¥(382,680)	¥ 15
Derivatives***:			
Hedge accounting not applied	¥ (30)	¥ (30)	¥ —
Hedge accounting applied	1,081	1,081	—
Total	¥ 1,052	¥ 1,052	¥ —

	Thousands of U.S. dollars		
	2020		
	Carrying amount	Fair value	Difference
Cash and time deposits	\$ 852,464	\$ 852,464	\$ —
Notes and accounts receivable, trade	1,130,477	1,130,477	—
Marketable securities and investment securities:			
Held-to-maturity	13,396	13,606	210
Shares in affiliates	310,718	215,128	(95,590)
Available-for-sale	479,744	479,744	—
Total	\$ 2,786,798	\$ 2,691,418	\$(95,381)
Notes and accounts payable, trade	\$(1,003,210)	\$(1,003,210)	\$ —
Accounts payable for construction contracts	(765,242)	(765,242)	—
Bonds issued	(826,978)	(822,893)	(4,084)
Long-term loans payable**	(1,217,406)	(1,211,947)	(5,459)
Total	\$(3,812,836)	\$(3,803,293)	\$ (9,543)
Derivatives***:			
Hedge accounting not applied	\$ 270	\$ 270	\$ —
Hedge accounting applied	32,443	32,443	—
Total	\$ 32,713	\$ 32,713	\$ —

* Liabilities are shown in brackets

** Long-term loans payable 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 time 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 issued)

The fair values of bonds issued are based on market prices.

(Long-term loans payable)

The fair values of long-term loans payable with floating interest rates approximate book values because the interest rate of long-term loans payable 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 loans payable with fixed interest rates are principally estimated by discounting based on estimated interest rates if similar new loans were implemented.

(3) Derivative transactions

See Note 16.

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

	Carrying amount		
	Millions of yen	2019	Thousands of U.S. dollars
	2020		2020
Unlisted equity securities	¥ 2,929	¥ 4,618	\$ 26,910
Investment in affiliates	51,090	40,614	469,452

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

	Millions of yen			
	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 time 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	¥—

	Millions of yen			
	2019			
	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 time deposits	¥ 81,999	¥ —	¥ —	¥ —
Notes and accounts receivable, trade	135,636	—	—	—
Marketable securities and investment securities:				
Government bonds	305	1,239	218	—
Other	5,000	—	—	—
Total	¥222,940	¥1,239	¥218	¥—

	Thousands of U.S. dollars			
	2020			
	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Cash and time deposits	\$ 846,213	\$ —	\$ —	\$ —
Notes and accounts receivable, trade	1,130,477	—	—	—
Marketable securities and investment securities:				
Government bonds	6,046	6,772	570	—
Other	27,566	—	—	—
Total	\$2,010,302	\$6,772	\$570	\$—

16. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at March 31, 2020 and 2019 were as follows:

	Millions of yen			
	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	¥—	¥—	¥—

	Millions of yen			
	2019			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥1,679	¥—	¥(20)	¥(20)
Sell (U.S. dollar)	128	—	(3)	(3)
Sell (Thai baht)	917	917	(15)	(15)
Buy (U.S. dollar)	3	—	(0)	(0)
Total	¥2,727	¥917	¥(37)	¥(37)
Interest rate swap contracts:				
Pay fixed / receive variable	¥1,598	¥200	¥ 8	¥ 8
Total	¥1,598	¥200	¥ 8	¥ 8

	Thousands of U.S. dollars			
	2020			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	\$16,416	\$—	\$334	\$334
Sell (U.S. dollar)	2,510	—	(65)	(65)
Total	\$18,926	\$—	\$270	\$270
Interest rate swap contracts:				
Pay fixed / receive variable	\$14,497	\$—	\$ —	\$ —
Total	\$14,497	\$—	\$ —	\$ —

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 March 31, 2020 and 2019 were as follows:

	Millions of yen			
	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 loans payable	¥ 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 loans payable	¥ 2,859	¥ 2,859	*
Total		¥ 2,859	¥ 2,859	¥ —

	Millions of yen			
	2019			
	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	¥ 5,721	¥ —	¥ 6
Sell (Euro)		1,861	—	16
Sell (Thai baht)		346	346	6
Buy (U.S. dollar)	Accounts payable, trade	29,294	19,290	1,105
Buy (Euro)		5,196	—	(51)
Accounted for by the allocation method:				
Buy (U.S. dollar)	Accounts payable, trade	262	—	*
Buy (Euro)		146	—	*
Total		¥42,824	¥19,636	¥1,081
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	¥ 1,810	¥ 1,117	*
Total		¥ 1,810	¥ 1,117	¥ —
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 loans payable	¥ 2,859	¥ 2,859	*
Total		¥ 2,859	¥ 2,859	¥ —

	Thousands of U.S. dollars			
	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	\$ 36,724	\$ —	\$ (486)
Sell (Euro)		14,462	—	(31)
Sell (Thai baht)		27,182	27,182	(822)
Buy (U.S. dollar)	Accounts payable, trade	245,736	170,788	34,026
Buy (Euro)		39,702	—	(244)
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable, trade	250	—	*
Total		\$364,056	\$197,970	\$32,443
Interest rate swap contracts:				
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term loans payable	\$ 16,631	\$ 9,618	*
Total		\$ 16,631	\$ 9,618	\$ —
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 loans payable	\$ 26,273	\$ 26,273	*
Total		\$ 26,273	\$ 26,273	\$ —

* 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 loans payable, 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.

17. 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 obligation for the years ended March 31, 2020 and 2019 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	Balance at the beginning of the year	¥76,685	¥72,224
Service cost	3,415	3,216	31,381
Interest cost	388	524	3,564
Actuarial gain and loss	862	2,845	7,922
Retirement benefits paid	(2,257)	(2,075)	(20,734)
Prior service cost	—	8	—
Other	33	(56)	300
Balance at the end of the year	¥79,127	¥76,685	\$727,067

The changes in plan assets for the years ended March 31, 2020 and 2019 were as follows (except the plans under the simplified method):

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	Balance at the beginning of the year	¥58,461	¥56,953
Expected return on plan assets	1,228	1,595	11,281
Actuarial gain and loss	(1,710)	(566)	(15,712)
Contributions	1,779	2,201	16,350
Retirement benefits paid	(1,826)	(1,723)	(16,778)
Balance at the end of the year	¥57,932	¥58,461	\$532,317

The changes in the liability for retirement benefits, which were calculated by the simplified method for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	Balance at the beginning of the year	¥1,359	¥1,315
Retirement benefit expense	263	263	2,421
Retirement benefits paid	(104)	(91)	(960)
Contributions	(72)	(93)	(660)
Other	(159)	(35)	(1,463)
Balance at the end of the year	¥1,287	¥1,359	\$11,829

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2020 and 2019 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
	Funded retirement benefit obligation	¥ 74,695	¥ 72,718
Plan assets at fair value	(58,701)	(59,192)	(539,385)
	15,994	13,526	146,962
Unfunded retirement benefit obligation	6,488	6,058	59,616
Net liability for retirement benefits in the balance sheet	¥ 22,482	¥ 19,584	\$ 206,578
Liability for retirement benefits	¥ 22,574	¥ 19,822	\$ 207,424
Asset for retirement benefits	(92)	(238)	(846)
Net liability for retirement benefits in the balance sheet	¥ 22,482	¥ 19,584	\$ 206,578

The components of retirement benefit expense for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥ 3,415	¥ 3,216	\$ 31,381
Interest cost	388	524	3,564
Expected return on plan assets	(1,228)	(1,595)	(11,281)
Amortization of actuarial gain and loss	2,572	3,410	23,634
Amortization of prior service cost	—	8	—
Retirement benefit expense under the simplified method	263	263	2,421
Other	0	11	0
Retirement benefit expense	¥ 5,411	¥ 5,837	\$ 49,720

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2020 and 2019 were as follows:

	2020	2019
Bonds	47%	46%
Stocks	23%	25%
General account	13%	13%
Other	17%	16%
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:

	2020	2019
Discount rates	0.000%–0.451%	0.000%–0.622%
Expected rates of return plan assets	2.1%	2.8%
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 ¥1,343 million (\$12,338 thousand) and ¥1,214 million for the years ended March 31, 2020 and 2019, respectively.

18. 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 years ended March 31, 2020 and 2019 was ¥714 million (\$6,563 thousand) and ¥373 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	
2020		2019		2020	
Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
¥26,683	¥25,610	¥29,576	¥28,374	\$245,185	\$235,320

The main components of net change in carrying amount above included an increase of ¥4,974 million (\$45,706 thousand) due to acquisitions of real estate and a decrease of ¥7,601 million (\$69,840 thousand) due to change in the holding purpose of properties to real estate for sale, a decrease of ¥40 million (\$368 thousand) due to change in the use of property from rental use to in-house use, a decrease of ¥50 million (\$462 thousand) due to exchange rate fluctuations and a decrease of ¥176 million (\$1,615 thousand) due to depreciation for the year ended March 31, 2020.

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

19. 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

20. 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 Company 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 business, insurance agency business, and contracted civil engineering/construction work, etc.

(Changes in reportable segments)

In conjunction with the reorganization in April 2019, effective from the fiscal year ended March 31, 2020, the reporting segments have been changed from "Timber and Building Materials," "Housing and Construction," and "Overseas Housing and Real Estate" to "Timber and Building Materials," "Housing and Construction," "Overseas Housing and Real Estate," and "Environment and Resources."

The main change is that the biomass power generation business and overseas reforestation business, which had been included in "Other," are included in the "Environment and Resources" business.

Segment information from the fiscal year ended March 31, 2019 has been prepared based on the new reporting segments.

As of/Year Ended March 31, 2020	Millions of yen								
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥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 income (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 tangible 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 (\$5,739 thousand) of administration department profit.

2. Adjustments for segment income and loss include ¥482 million (\$4,431 thousand) of elimination of inter-segment income and loss, ¥2,572 million (\$23,634 thousand) of retirement benefits liability adjustments (loss), and ¥6,365 million (\$58,486 thousand) of corporate general administration expense, which are not allocable to the reportable segments.

3. Adjustments for segment assets include ¥8,314 million (\$76,391 thousand) of inter-segment eliminations, ¥146,075 million (\$1,342,230 thousand) of corporate assets, which are not allocable to the reportable assets.

Millions of yen									
As of/Year Ended March 31, 2019	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	¥464,091	¥452,234	¥364,365	¥15,138	¥1,295,829	¥12,466	¥1,308,295	¥ 598	¥1,308,893
Inter-segment transfers	22,999	604	513	4,388	28,505	9,805	38,310	(38,310)	—
Total	487,091	452,839	364,878	19,526	1,324,333	22,272	1,346,605	(37,712)	1,308,893
Segment income (loss)	7,980	21,598	25,812	4,012	59,403	85	59,488	(8,052)	51,436
Segment assets	207,408	155,773	321,486	75,873	760,540	66,968	827,508	143,467	970,976
Other items:									
Depreciation and amortization	3,073	4,699	1,760	1,679	11,210	1,688	12,898	798	13,696
Amortization of goodwill	—	—	6,250	—	6,250	168	6,418	—	6,418
Interest income	101	39	127	137	405	0	405	32	437
Interest expense	706	520	2,257	96	3,579	199	3,777	(1,762)	2,015
Equity in earnings (losses) of affiliates	(49)	(1)	923	315	1,188	526	1,714	0	1,715
Investments in affiliates	8,937	—	28,205	1,396	38,538	33,556	72,094	(8)	72,086
Increase in tangible and intangible assets	2,178	6,865	7,984	3,914	20,941	1,287	22,228	(1,014)	21,214

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥598 million of administration department profit.
2. Adjustments for segment income and loss include ¥382 million of elimination of inter-segment income and loss, ¥3,410 million of retirement benefits liability adjustments (loss), and ¥4,260 million of corporate general administration expense, which are not allocable to the reportable segments.
3. Adjustments for segment assets include ¥7,683 million of inter-segment eliminations, ¥151,151 million of corporate assets, which are not allocable to the reportable assets.

Thousands of U.S. dollars									
As of/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	\$1,860,931	\$4,347,614	\$3,664,251	\$149,300	\$10,022,097	\$117,290	\$10,139,387	\$ 5,739	\$10,145,126
Inter-segment transfers	193,899	7,830	5,321	27,702	234,753	97,957	332,709	(332,709)	—
Total	2,054,830	4,355,444	3,669,572	177,003	10,256,849	215,247	10,472,097	(326,971)	10,145,126
Segment income (loss)	56,007	207,390	317,390	32,633	613,420	13,639	627,059	(86,551)	540,508
Segment assets	1,797,216	1,670,390	3,092,715	697,421	7,257,744	708,871	7,966,614	1,265,838	9,232,452
Other items:									
Depreciation and amortization	27,449	42,564	22,500	18,579	111,092	15,148	126,240	5,968	132,208
Amortization of goodwill	—	—	54,899	—	54,899	1,548	56,447	—	56,447
Interest income	667	417	1,722	1,126	3,933	0	3,933	208	4,141
Interest expense	7,142	5,145	28,470	4,737	45,494	1,904	47,398	(22,538)	24,860
Equity in earnings (losses) of affiliates	(5,138)	64	60,051	3,595	58,573	15,823	74,395	4	74,399
Investments in affiliates	71,920	12,282	348,505	17,755	450,462	313,629	764,091	72	764,163
Increase in tangible and intangible assets	37,319	31,229	128,290	15,405	212,243	98,368	310,610	37,666	348,276

(Related information)

(1) Products and services information

Millions of yen				
Year Ended March 31, 2020	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥205,287	¥871,932	¥26,875	¥1,104,094

Millions of yen				
Year Ended March 31, 2019	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥464,874	¥816,749	¥27,270	¥1,308,893

Thousands of U.S. dollars				
Year Ended March 31, 2020	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$1,886,304	\$8,011,873	\$246,948	\$10,145,126

(2) Geographic area information

Sales information by geographic area was as follows:

Millions of yen				
Year Ended March 31, 2020	Japan	United States	Other Area	Total
	¥675,686	¥331,894	¥96,514	¥1,104,094

Millions of yen				
Year Ended March 31, 2019	Japan	United States	Other Area	Total
	¥894,910	¥292,151	¥121,832	¥1,308,893

Thousands of U.S. dollars				
Year Ended March 31, 2020	Japan	United States	Other Area	Total
	\$6,208,638	\$3,049,651	\$886,837	\$10,145,126

Information of property, plant and equipment by geographical areas was as follows:

Millions of yen					
Year Ended March 31, 2020	Japan	New Zealand	United States	Other Area	Total
	¥104,932	¥33,753	¥20,286	¥20,475	¥179,446

Millions of yen					
Year Ended March 31, 2019	Japan	New Zealand	United States	Other Area	Total
	¥95,676	¥35,668	¥23,906	¥14,750	¥170,000

Thousands of U.S. dollars					
Year Ended March 31, 2020	Japan	New Zealand	United States	Other Area	Total
	\$964,180	\$310,144	\$186,400	\$188,141	\$1,648,867

(3) Customer information

Customer information has been omitted since sales and contract revenues from no single customer exceeded 10% of consolidated net sales.

(Information of loss on impairment of fixed assets)

Millions of yen							
Year Ended March 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥—	¥249	¥—	¥—	¥140	¥—	¥389

Millions of yen							
Year Ended March 31, 2019	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	¥89	¥—	¥—	¥—	¥38	¥—	¥126

Thousands of U.S. dollars							
Year Ended March 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	Total
Loss on impairment of fixed assets	\$—	\$2,288	\$—	\$—	\$1,288	\$—	\$3,577

(Amortization and balance of goodwill)

Millions of yen							
As of/Year Ended March 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥—	¥—	¥5,975	¥—	¥ 168	¥—	¥6,143
Balance of goodwill	—	—	5,061	—	2,527	—	7,588

As of/Year Ended March 31, 2019	Millions of yen						Total
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	
Amortization of goodwill	¥—	¥—	¥6,250	¥—	¥ 168	¥—	¥ 6,418
Balance of goodwill	—	—	9,956	—	2,695	—	12,651

As of/Year Ended March 31, 2020	Thousands of U.S. dollars						Total
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resource	Other	Elimination and/or Corporate	
Amortization of goodwill	\$—	\$—	\$54,899	\$—	\$ 1,548	\$—	\$56,447
Balance of goodwill	—	—	46,505	—	23,219	—	69,724

21. 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 March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net income attributable to shareholders of parent per share—Basic:			
Net income attributable to shareholders of parent	¥ 27,853	¥ 29,160	\$255,928
Net income not attributable to shares of common stock	—	—	—
Net income attributable to shares of common stock	27,853	29,160	255,928
Weighted average number of shares issued	181,406,905	181,345,520	—
Net income attributable to shareholders of parent per share fully diluted—Diluted:			
Adjusted net income attributable to shareholders of parent	—	—	—
Common shares increase	4,671,111	6,396,884	—
(Bonds with subscription rights to shares)	(4,562,044)	(6,281,036)	—
(Subscription rights to shares)	(109,067)	(115,848)	—

(b) Net assets per share

Details on the computation of net assets per share as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net assets per share:			
Total net assets	¥ 357,064	¥ 353,489	\$3,280,934
Amounts deducted from total net assets:	34,568	35,169	317,631
(Subscription rights to shares)	(120)	(135)	(1,099)
(Non-controlling interests)	(34,448)	(35,034)	(316,532)
Net assets attributable to shares of common stock	322,496	318,320	2,963,303
The number of shares of common stock used for the calculation of net assets per share	181,425,138	181,372,832	—

22. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Valuation difference on available-for-sale securities:			
Amount incurred during the year	¥(11,898)	¥ (6,610)	\$(109,325)
Reclassification adjustments for gains and losses included in net income	209	(4,740)	1,925
Amount before tax effect	(11,688)	(11,349)	(107,401)
Tax effect	3,560	3,206	32,716
Valuation difference on available-for-sale securities	(8,128)	(8,144)	(74,684)
Deferred gains (losses) on hedges:			
Amount incurred during the year	2,701	1,386	24,817
Reclassification adjustments for gains and losses included in net income	(108)	15	(994)
Amount before tax effect	2,593	1,400	23,823
Tax effect	(815)	(427)	(7,485)
Deferred gains (losses) on hedges	1,778	974	16,338
Translation adjustments:			
Amount incurred during the year	(2,876)	(8,075)	(26,427)
Reclassification adjustments for gains and losses included in net income	(165)	—	(1,513)
Amount before tax effect	(3,041)	(8,075)	(27,941)
Tax effect	50	—	463
Translation adjustments	(2,990)	(8,075)	(27,477)
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	(249)	(215)	(2,289)
Reclassification adjustments for gains and losses included in net income	(37)	(67)	(337)
Share of other comprehensive income of affiliates accounted for by the equity method	(286)	(282)	(2,625)
Total other comprehensive income	¥ (9,626)	¥(15,527)	\$(88,449)

23. 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 anticipated future useful lives ranging from 5 years to 49 years.

The changes in the asset retirement obligations for the years ended March 31, 2020 and 2019 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of the year	¥2,010	¥1,507	\$18,466
Liability incurred for assets acquired	217	157	1,991
Change in estimates	80	417	731
Accretion expense	10	12	95
Liabilities settled	(81)	(84)	(744)
Balance at end of the year	¥2,235	¥2,010	\$20,539

During the fiscal year ended March 31, 2020, estimates of asset retirement obligations that were recorded as part of an obligation to restore a site to its original condition associated with the real estate rental agreement for the head office have changed due to obtaining new information regarding site restoration expenses. The related asset obligations have increased by ¥80 million (\$731 thousand) as a result of this change.

25. Stock Option Plan

(a) Stock option expenses per accounts for the years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Selling, general and administrative expenses	¥—	¥12	\$—

(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
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.

24. Related Party Transactions

Principal transactions between the Company, the Company's consolidated subsidiaries and their related parties for the year ended March 31, 2020 and 2019 were summarized as follows:

Name	Title	Transactions	Millions of yen		Thousands of U.S. dollars	
			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	¥18	¥—	\$165	\$—

Notes: 1. The terms and conditions of the transactions were determined using the same methods as third party transactions.
2. The transaction amounts do not include consumption tax.

Name	Title	Transactions	Millions of yen	
			Amounts	Balance at the end of the year
Hitoshi Hayano	Senior statutory auditor	Sales of housing	¥67	¥—
Noriaki Toi	Statutory auditor	Sales of housing	¥31	¥—

Notes: 1. The terms and conditions of the transactions were determined using the same methods as third party transactions.
2. The transaction amounts do not include consumption tax.



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1) Number of stock options

Year Ended March 31, 2020	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Unvested stock options			
As of March 31, 2019	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested	—	—	—
Vested stock options			
As of March 31, 2019	35,300	40,500	37,600
Vested	—	—	—
Exercised	5,700	3,700	3,400
Forfeited	—	—	—
Unexercised	29,600	36,800	34,200

2) Unit price information

Year Ended March 31, 2020	Yen		
	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price when exercised	¥1,502	¥1,625	¥1,625
Fair unit value on the grant date	¥1,233	¥1,092	¥1,256

Year Ended March 31, 2020	U.S. dollars		
	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01
Average stock price when exercised	\$13.80	\$14.93	\$14.93
Fair unit value on the grant date	\$11.33	\$10.03	\$11.54

(c) Method for estimating a fair unit price for stock options

No stock options were granted in the fiscal year ended March 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.

26. Additional Information**(Effect of COVID-19 on accounting estimates)**

The COVID-19 pandemic has affected the business activities of the Company and its subsidiaries, however, it is extremely difficult to predict the future spread of the disease and when it will end.

To determine the recoverability of deferred tax assets and the recognition of impairment loss, etc., the Company made best estimates assuming that the impact would continue over the following fiscal year based on the information available at the time of preparation of the consolidated financial statements.

In the event that there are major changes in the assumptions in the next fiscal year upon which the estimates were formed, it is probable the estimates will be revised taking account of such changes.

27. Subsequent Events**(Issuance of commercial paper)**

In order to secure sufficient liquidity, the Company has issued the following commercial paper.

- (1) Total face value: ¥40,000 million (\$367,546 thousand)
- (2) Issue price (total): ¥39,958 million (\$367,160 thousand)
- (3) Date of issue: April 1, 2020 – April 8, 2020
- (4) Maturity date: June 30, 2020 – March 31, 2021
- (5) Interest rate: determined by taking into account the short-term financial market interest rate
- (6) Collateral, etc.: unsecured, unguaranteed

(Significant borrowings)

In order to raise long-term working capital, the Company has entered into the following long-term borrowing arrangement.

- (1) Lenders: Sumitomo Mitsui Banking Corporation and 13 other financial institutions
- (2) Borrowing amount (total): ¥20,000 million (\$183,773 thousand)
- (3) Borrowing date: May 29, 2020
- (4) Repayment dates: May 29, 2026; May 31, 2027; and May 31, 2030
- (5) Interest rate: determined by taking into account the long-term interest rate in the financial market
- (6) Collateral, etc.: unsecured, unguaranteed

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 March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 3(y) to the consolidated financial statements, which describes 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.

Our opinion is not qualified in respect of this matter.

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 year ended March 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

June 23, 2020



Tatsuya Chiba
Designated Engagement Partner
Certified Public Accountant



Yoshikatsu Nakahara
Designated Engagement Partner
Certified Public Accountant



Masaya Kiyomoto
Designated Engagement Partner
Certified Public Accountant

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, Inc.	Fiduciary business of design assistance of custom-built wooden detached homes, sale of software
■ Nichiha Fuji Tech Co., Ltd.	Manufacture and sale of ceramics and building 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
■ Sumitomo Forestry Landscaping Co., Ltd.	Urban greening, landscaping for private residences, plant management, procurement and sale of trees and landscape materials, plant rental, production and sale of nursery compost, culture soil for gardening, 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 Honchoshya PFI Co., Ltd.	Redevelopment of headquarters, etc. of Nagoya Port Authority
■ AIM CREATE Co., Ltd.	Spatial production, management of commercial facilities, advertising business
■ Japan Bio Energy Co., Ltd.	Intermediate processing of industrial waste products, 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-chip 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
■ Aquagnis Taki Hotel Asset Co., Ltd.	Ownership, management and rental business of accommodation facilities



Overseas Group Overview

< U.S.A. >

■ 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 developments, commercial complex developments, etc.
■ Mark III Properties, LLC	Land development

< 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
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< 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 >

■ 住友林業(大連)商貿有限公司 Sumitomo Forestry (Dalian) Ltd.	Import/export and wholesale of timber and building materials
■ 派爾剛木製品(上海)有限公司 Paragon Wood Product (Shanghai) Co., Ltd.	Interior design and construction of housing and offices, manufacturing, processing and sale of trusses
■ 大連住林信息技術服務有限公司 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. 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 of detached houses in Indonesia

< Myanmar >

■ Sumitomo Forestry (Singapore) Ltd. Yangon Branch	Wholesale of timber and building materials, collect information on overseas locations
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< 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 and sale of secondary processed board Manufacture, sale and construction of wooden interior building materials

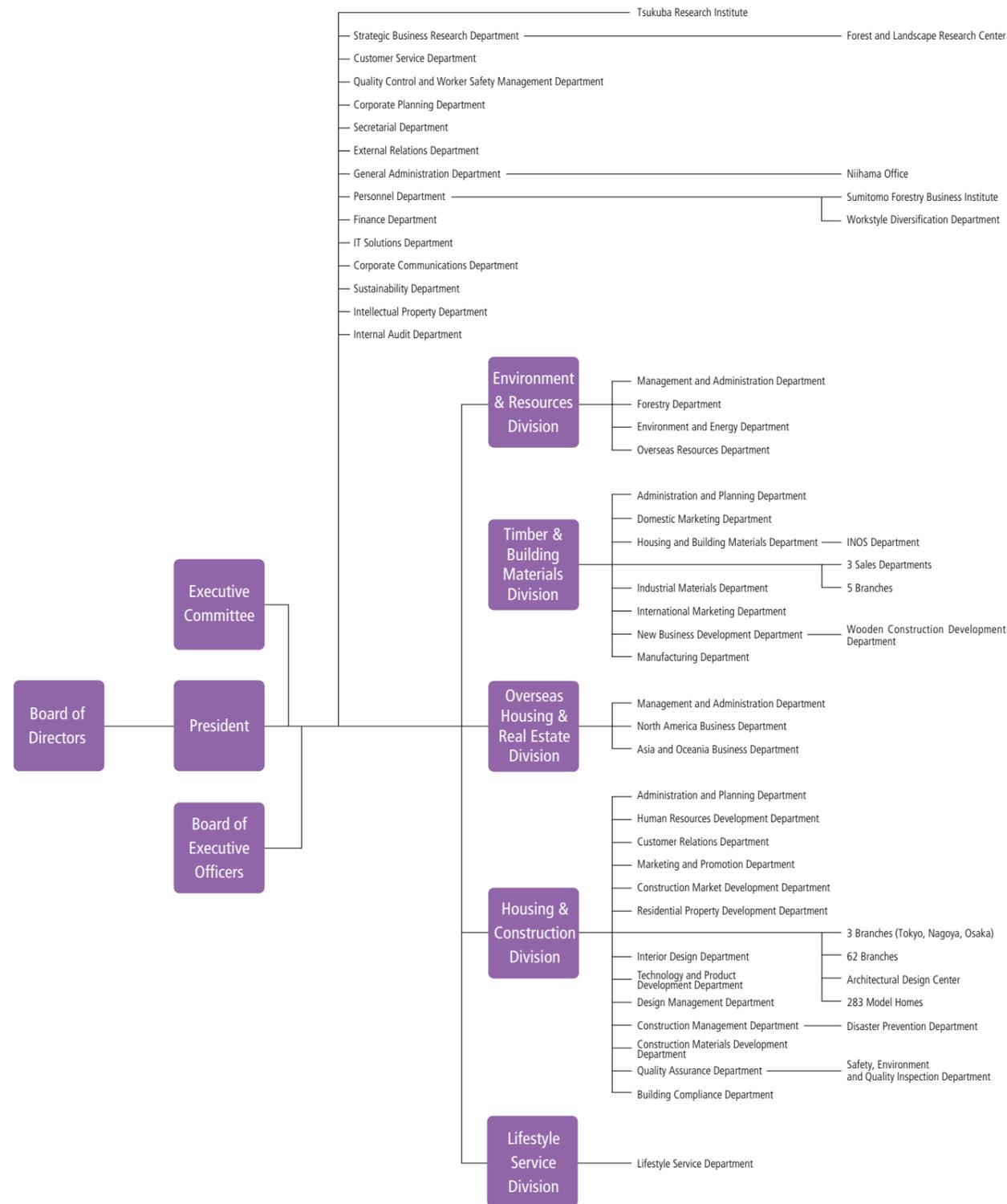
< India >

■ Sumitomo Forestry India Pvt. Ltd.	Import/export and wholesale of timber and building materials, etc.
■ Spacewood Furnishers Pvt. Ltd.	Manufacture and sale of wooden interior products

Overseas Offices

■ Vancouver Office (Canada)	■ Amsterdam Office (Netherlands)
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■ Timber and Building Materials Business ■ Overseas Housing and Real Estate Business ■ Environment and Resources Business



Company Outline (As of March 31, 2020)

Company Name	Sumitomo Forestry Co., Ltd.
Founded	1691
Incorporated	1948
Paid-In Capital	¥32,786 million
Stock Exchange Listing	Tokyo
Total Number of Authorized Shares	400,000,000
Total Number of Shares Issued	182,752,036
Ordinary General Meeting of Shareholders	June*
Number of Shareholders	10,780
Head Office	Keidanren Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan
Consolidated Subsidiaries	244 (Overseas 212)
Affiliated Companies	100 (Overseas 92)
Number of Employees (Consolidated)	19,332
Homepage	http://sfc.jp/english/
Independent Auditors	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

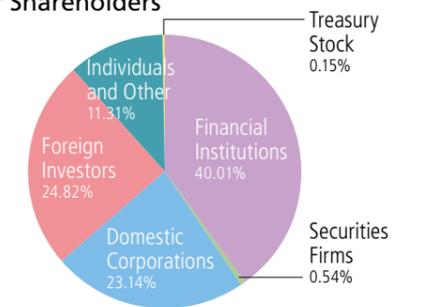
*A resolution to partially amend the Articles of Incorporation, changing the start and end of the fiscal year to January 1 and December 31, was approved at the Ordinary General Meeting of Shareholders held on June 23, 2020. As a consequence, the Ordinary General Meeting of Shareholders will be held every March starting in 2021.

Major Shareholders (As of March 31, 2020)

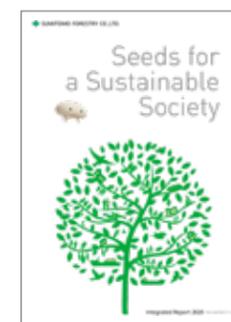
Shareholders	Number of shares held (Thousand shares)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	12,861	7.0
Sumitomo Metal Mining Co., Ltd. (trust account)	10,110	5.5
Japan Trustee Services Bank, Ltd. (trust account)	9,803	5.3
The Iyo Bank, Ltd.	5,849	3.2
Kumagai Gumi 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
Japan Trustee Services Bank, Ltd. (trust account No. 9)	3,535	1.9

* Rounded down to the nearest thousand.
* The shareholding ratio is calculated by subtracting treasury stock from the total number of outstanding shares.

Breakdown of Shareholders (As of March 31, 2020)



Information Disclosure



Integrated Report 2020



Sustainability Report 2020

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

Corporate, IR and CSR Information ▶

<http://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.

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