Seeds for a Sustainable Society

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

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

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

Scope of reporting

Reporting period

Fiscal year ended December 2020
(April 1, 2020 to December 31, 2020)
* The report also includes some activities from outside the reporting period.

Scope of reporting

Sumitomo Forestry Co., Ltd. and Group companies

Framework and guidance referred to

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

Regarding change of fiscal term

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

Information disclosure

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

Corporate, IR and CSR Information https://sfc.jp/english/ir/csr/mini.html

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.


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

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

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

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

A look back at 2020

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

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

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

Thanks to these initiatives, we received more than twice the number of requests for information compared to the previous year, and the value of orders received exceeded the value for the same period last year.

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

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

The outlook for our business environment remains hard to predict. However, as part of our future medium- to long-term Management Plan (Medium-Term Plan for short), is not entirely optimistic due to factors such as the resurgence of natural disasters, and steep price jumps for construction resources, which are renewable natural capital with the potential to absorb CO2 and fix carbon: they also perform “social value.”

We intend to start our next Medium-Term Management Plan by formulating medium- to long-term management policies. The Japanese government has announced its goal to be carbon neutral by 2050, with a new medium-term goal of net zero CO2 emissions by 2050. These goals require a transformation in energy systems and industrial structures, and we will thoroughly examine the cost-effectiveness of projects that will help improve long-term corporate value, contribute to the realization of a sustainable and prosperous society. All our efforts are based on our basic policy to provide stable and ongoing returns.

The COVID-19 pandemic revealed the overall weakness of the business world and the importance of sustainability. The drive to administer the coronavirus vaccine, the presence of societies and economies will make large strides in coping with the coronavirus crisis revealed the overall weakness of the business world and the importance of sustainability. The drive to administer the coronavirus vaccine, the presence of societies and economies will make large strides in coping with the environmental crisis.

Corporate Social Responsibility

The Sumitomo Forestry Group utilizes wood as a primary resource, with more than 80% of the Group’s carbon emissions generated from the energy used when buildings are used. Progress is needed to achieve the goal of net zero emissions by 2050 with wood construction, we seek to contribute to the realization of a decarbonized society by taking part in sustainable forest management, which is a basic resource of the forest industry of Japan. This designation is given to enterprises that maximize the use of wood and forest resources, which are renewable natural capital with the potential to absorb CO2 and fix carbon: they also perform “social value.”

As part of our mission to contribute to a sustainable and prosperous society, we will improve the use of wood and forest resources, and will also contribute to the realization of a decarbonized society by taking part in sustainable forest management.

The outlook for the future may be uncertain, but we will employees acts with pride and confidence as they work to make these goals a reality.

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As part of our mission to contribute to a sustainable and prosperous society, we will improve the use of wood and forest resources, and will also contribute to the realization of a decarbonized society by taking part in sustainable forest management.
Message from the President

Results for the fiscal year ended December 2020

<table>
<thead>
<tr>
<th></th>
<th>Cumulative 3Q results for year ended March 2020</th>
<th>Results for year ended December 2020</th>
<th>YoY difference</th>
<th>YoY change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>802.7</td>
<td>839.3</td>
<td>+37.1</td>
<td>+4.6%</td>
</tr>
<tr>
<td>Operating income</td>
<td>47.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recurring income</td>
<td>45.1</td>
<td>51.3</td>
<td>+6.2</td>
<td>+19.1%</td>
</tr>
<tr>
<td>Profit attributable to owners of the parent/Net income</td>
<td>22.6</td>
<td>30.4</td>
<td>+7.8</td>
<td>+34.4%</td>
</tr>
</tbody>
</table>

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

Business strategies for 2021

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

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

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

Strengthening our business foundations for sustainable growth

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

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

As we expand our businesses, we are placing greater emphasis on compliance and risk management across the Group. One way we are doing this in the growing real-estate-for-sale business is to create a system that allows for stable business expansion with appropriate monitoring that keeps an eye on trends in the market economy. With the growing awareness of ESG thinking, companies that seek to merely increase short-term profits are not highly regarded by consumers and investors. With forward-looking sustainable growth as a prerequisite, we will continue to enhance our governance and keep our management highly transparent. In March 2021 we appointed one more female outside director, which resulted in a total of two female directors. As a result, outside directors now constitute one third of the company’s directors.

Financial strategy and shareholder returns

On the financial side, management continues its efforts to enhance shareholders’ equity, along with measures to improve cash flow and return on equity (ROE). Concerning cash flow improvements in particular, we are working to optimize the cash conversion cycle through measures such as maintaining inventory at suitable levels and collecting receivables at an early stage. We will endeavor to carefully select and implement effective investment and lending
projects that will help improve long-term corporate value, and we will thoroughly examine the cost-effectiveness of our general and administrative expenses. Furthermore, the coronavirus crisis revealed the overall weakness of the supply chain, and thus we are taking steps to guarantee fluidity flexibly and quickly in emergency situations like the suspension of business activities while identifying risks and capital requirements.

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

Towards a decarbonized society

The Japanese government has announced its goal to be carbon-neutral by 2050. This is but one of many actions that various national governments, corporations and investors are accelerating towards the year 2050 in keeping with the Paris Agreement. At the Leaders Summit on Climate 2021, all the participating countries set ambitious targets for reducing greenhouse gases by 2030, with Japan announcing a major increase in its target value from a 26% decrease to a 46% decrease in 2030 compared to 2013. Considering the year 2030 as the final year set for achieving the SDGs and a stepping stone towards 2050, we are positioning the year 2021 as the “the first year of decarbonization,” and are currently formulating medium- to long-term management policies. We intend to start our new Medium-Term Management Plan from 2022 based on those policies. We have already begun to implement climate change measures by announcing our support for the Task Force on Climate-related Financial Disclosures (TCFD), setting Science Based Targets (SBT) for long-term greenhouse gas emissions reduction and joining the RE100 initiative. However, as part of our future medium- to long-term strategy, we believe it will be important to develop businesses that maximize the use of wood and forest resources, which are renewable natural capital with the ability to absorb CO2 and fix carbon, in the construction industry and as biomass fuel.

The construction industry is said to account for 38% of all greenhouse gases emitted worldwide. Wood construction, including in the non-residential sector, is becoming the focus of attention in the hopes that it can help reduce the burden on the environment. Around 70% of the greenhouse gases emitted from construction is termed “operational carbon,” which refers to emissions from the energy used when buildings are used. Progress is being made on energy-saving measures to reduce operational carbon such as an increase in ZEH and technological developments in ZEB. The other roughly 30% of emissions is called “embodied carbon,” which is generated when raw materials are sourced, processed, transported, constructed or disposed of. Wood construction is expected to emit less embodied carbon than reinforced concrete construction and steel construction. In addition to reducing greenhouse gas emissions, wood construction is also capable of continuously fixing a large amount of carbon over a long period of time. Thus from the perspective of carbon fixing, converting cities into forests. The Group will pursue a business strategy that seeks to reduce greenhouse gases together with our partners and customers by popularizing wooden buildings for non-residential purposes while also providing wooden ZEH residences.

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

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

To our stakeholders

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

“We, the Sumitomo Forestry Group utilize wood as a healthy and environmentally friendly natural resource to provide a diverse range of lifestyle-related services that contribute to the realization of a sustainable and prosperous society. All our efforts are based on Sumitomo’s Business Spirit, which places prime importance on fairness and integrity for the good of society.” We have set this as our management philosophy. As a Group with the word “Forestry” in our name, realizing a sustainable society that co-exists with nature runs ceaselessly through our DNA, starting from the Large-Scale Reforestation Plan we formulated to revitalize a devastated forest in 1894.

Whether they are involved in forest management or wood construction, distributing timber and building materials, renewable energy or elderly care, each of our over 20,000 employees acts with pride and confidence as they work to solve various societal problems through our businesses.

The outlook for the future may be uncertain, but we will nevertheless strive to increase our resilience as a corporation in order to live up to the trust our stakeholders have placed in us. We will also continue to develop businesses for a post-COVID world that can contribute broadly upstream and downstream to the achievement of SDGs. It is my sincere hope that all our stakeholders will continue to understand and support us as we strive to make these goals a reality.

*1 ZEB: Zero Energy Building
*2 A circular economic system where resource efficiency is maximized by applying biotechnology and other technologies in order to use renewable biological resources for as long as possible within the ecological boundaries of the ecosystem.
## Financial highlights

<table>
<thead>
<tr>
<th></th>
<th>2022 (9M)</th>
<th>2021 (9M)</th>
<th>2020 (9M)</th>
<th>2019 (9M)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong> (¥ billion)</td>
<td>60</td>
<td>0</td>
<td>20</td>
<td>40</td>
</tr>
<tr>
<td><strong>Operating income</strong> (¥ billion)</td>
<td>39.4</td>
<td>8.8</td>
<td>10</td>
<td>23.62</td>
</tr>
<tr>
<td><strong>Recurring income</strong> (¥ billion)</td>
<td>30</td>
<td>4.9</td>
<td>10</td>
<td>23.1</td>
</tr>
<tr>
<td><strong>Net income attributable to shareholders of parent</strong> (¥ billion)</td>
<td>15</td>
<td>0</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td><strong>ROE (Return on equity)</strong> (%)</td>
<td>15</td>
<td>0</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td><strong>ROA (Return on assets)</strong> (%)</td>
<td>8.8</td>
<td>4.9</td>
<td>8.8</td>
<td>4.9</td>
</tr>
<tr>
<td><strong>Total assets / Equity ratio</strong> (%)</td>
<td>300.6</td>
<td>48</td>
<td>99.1</td>
<td>61.3</td>
</tr>
<tr>
<td><strong>Net income per share</strong> (¥)</td>
<td>1,091.2</td>
<td>167.5</td>
<td>34.0</td>
<td>51.3</td>
</tr>
<tr>
<td><strong>Dividend per share</strong> (¥)</td>
<td>167.5</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Dividend payout ratio</strong> (%)</td>
<td>100</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

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### Non-financial highlights

#### Sustainability procurement survey implementation rate of suppliers of imported timber

<table>
<thead>
<tr>
<th></th>
<th>2022 (9M)</th>
<th>2021 (9M)</th>
<th>2020 (9M)</th>
<th>2019 (9M)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Area of forest owned, managed, etc. (thousand ha)</strong></td>
<td>100</td>
<td>0</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td><strong>Carbon stock in company-owned forests in Japan and plantation forests overseas (million t-CO2)</strong></td>
<td>231</td>
<td>48</td>
<td>23.62</td>
<td>23.62</td>
</tr>
</tbody>
</table>

#### Recycling rate at manufacturing plants in Japan

<table>
<thead>
<tr>
<th></th>
<th>2022 (9M)</th>
<th>2021 (9M)</th>
<th>2020 (9M)</th>
<th>2019 (9M)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CO2 emissions</strong> t-CO2e</td>
<td>300,000</td>
<td>0</td>
<td>100,000</td>
<td>200,000</td>
</tr>
<tr>
<td><strong>Ratio of houses certified as Excellent Long-Term Housing among new custom-built detached houses (%)</strong></td>
<td>99.1</td>
<td>99.1</td>
<td>99.1</td>
<td>99.1</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2022 (9M)</th>
<th>2021 (9M)</th>
<th>2020 (9M)</th>
<th>2019 (9M)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rate of sustainable timber and timber products handled (%)</strong></td>
<td>100</td>
<td>0</td>
<td>51.3</td>
<td>94.6</td>
</tr>
<tr>
<td><strong>Customer satisfaction regarding custom-built detached houses according to surveys conducted when owners move in (%)</strong></td>
<td>100</td>
<td>0</td>
<td>96.5</td>
<td>96.5</td>
</tr>
</tbody>
</table>

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* Calculated using financial data from the fiscal year ended March 2020.
* Calculation period: April to December 2020
* Calculation period: January to December 2020

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

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

Sumitomo Forestry
value creation

Corporate Philosophy

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

Our Values

We provide high-quality products and services that bring joy to our customers.

We create new businesses that lead to happiness for generations to come with a fresh perspective.

We promote a free and open-minded corporate culture that respects diversity.

We set and strive to achieve ambitious goals through ongoing effort.

We do work that wins us the trust of society with fair and honest conduct.

Sumitomo Forestry Group Code of Conduct

Purpose and scope of application

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

Fair and transparent corporate activities

1. Strict adherence to laws and regulations
2. Prevention of corruption
3. Fair business transactions
4. Fair accounting procedures
5. Maintenance of stockholders
6. Maintaining confidentiality
7. Information security
8. Relationships with companies we do business with
9. Protection of intangible 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 whistleblower mechanism
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

Ethical conduct

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 resource development
28. Prohibition of harassment
29. Protection of privacy
30. Customer satisfaction and safety
31. Co-existence with the environment
32. Contribution to the local community

The history of Sumitomo Forestry

Our sustainable business model draws out the potential of trees

Founding of Sumitomo Forestry

Opening of the House of Sumitomo Besshi Copper Mine

Began management of the forest surrounding the copper mine

1691

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

The Monjuin Shiigaki left by Masatomo Sumitomo (1585-1662), founder of the House of Sumitomo. The preamble of this brief explanation of philosophical business rules states, “Do your best prudently and meticulously, not only in business, but in every aspect of your life.” He emphasizes that care should be exercised in all matters and everything should be done with consideration and respect.

Sumitomo also left behind writings such as “Value trust and make certainty a principle” advocating the importance of integrity, “Refain from the pursuit of easy gains” which warns against being blinded by thirst for quick profits, and the concept of Ji-ni, or “Benefits self and benefit others,” and Kouchi-kenyo, or “Private and public interests are one and the same” with which Sumitomo urges harmony with the public interest - between the individual, the nation and society.

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

1800s

1691

1882

Rules Governing the House of Sumitomo established

1894

Teigo Iba appointed manager of Besshi

Launched the Large-Scale Reforestation Plan

1899

Masaya Suzuki appointed manager of Besshi

Established the sustainable forestry approach

1900s

1909

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

1919

Forestry Section established at Sumitomo Shohonten

1948

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

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

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

Start of the large-scale reforestation plan and sustainable forestry

In the late 19th century, the forests surrounding the Besshi Copper Mine were in danger of being devastated after a long period of excessive logging and smoke pollution. The then manager of the mine, Teigo Iba, believed “Allowing this land to be degraded while moving forward with business made possible by its fruits runs counter to the proper course of our relationship with nature. We must return all the mountains of Besshi to their verdant state.” With this belief, he launched the Large-Scale Reforestation Plan in 1894 to restore the forests that had been lost. Through a process of trial and error, and by implementing large-scale planting efforts of a maximum of more than two million trees per year, the mountains were eventually returned to a state of rich greenery. This concept of sustainable forestry has been passed on to the present day.
The history of Sumitomo Forestry

**Evolution into a building materials distributor and manufacturer**

In the 1950s with Japan experiencing a high level of economic growth, demand for wood skyrocketed due to explosive growth in the number of new housing starts. However, forestry in Japan at the time was facing market shortages of wood. In order to meet these social needs, Sumitomo Forestry began importing wood produced overseas before other Japanese companies. Establishing a system for production, distribution, and sales of wood materials in Japan and overseas, Sumitomo Forestry became the highest-volume distributor of wood and building materials in Japan.

**Housing business expansion in Japan and overseas**

Once the 1970s began, housing policy changed emphasis from securing “quantity” to improving “quality” including living environments in accordance with changes in economic and social circumstances. In order to meet these social needs, Sumitomo Forestry entered the custom-built wooden housing business in 1975. Expanding alliances with local partners who share the same business outlook, we have expanded our business operations in these housing markets where the respective housing cultures are readily apparent.

**Entered the elderly care services business**

We fully entered the elderly care services business in 2007. As Japan becomes a super-aged society, our private-pay elderly care facilities as well as service-added homes for the elderly and day care business aim to help each tenant live independently while offering them high-quality services tailored to their individual needs.

**Promoting Renewable Energy Business**

In 2011 the Sumitomo Forestry Group refocused on the value of forestry resources, and entered the renewable energy business. We have established multiple wood biomass power plants that burn wood waste from construction and timber left unused in forests, and we aim to build the capacity to generate 300 MW in renewable energy.
The public benefits of the forests, which are sustainable natural capital

Forests are resources that can be used continuously by planting, raising, using and replanting them. Moreover, forests and trees provide more than wood building materials and fuel; they also serve many functions that benefit the public. For example, they preserve biodiversity, cultivate water sources, protect the soil, prevent damage from landslides, and absorb and fix CO2, the cause of global warming. The Sumitomo Forestry Group helps to maintain the public benefits provided by forests and trees through its forest management in Japan and overseas while also striving to deploy businesses that leverage the renewable natural capital offered by forests and trees globally and expand their presence.

Absorb CO2:
Through photosynthesis, trees absorb CO2 and fix it in the form of carbon. The carbon fixing continues even when they are used for buildings or other purposes. Moreover, the carbon released when a tree is burned originates from the CO2 the tree absorbed as it was growing, which means that the tree’s life cycle does not affect the density of CO2 in the atmosphere, making it carbon neutral.
At present, as the rise in energy demands and the global warming caused by the increase in CO2 have become problems for the whole world, much hope is being placed on the expansion of wood biomass power generation from construction waste and unused timber from forests.

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

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

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

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

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

Source: “Multiple functions of forests” Forestry Agency.
Planting trees, growing forests, utilizing wood
The Sumitomo Forestry Group’s value chain

Through its business that spans a wide range of fields, the Sumitomo Forestry Group manages forests in Japan and abroad, distributes and manufactures timber and building materials, and provides a range of services that affect people’s lifestyles, starting with home construction. To make this possible, the Group has constructed a unique value chain that uses forest resources, a renewable natural capital which absorbs CO2 and fixes carbon.

- Carbon cycle
- Absorb / Fix

Environment and Resources
- Domestic forestry business
- Overseas forestry business
- Renewable energy business

Lifestyle Services
- Elderly care business

Timber and Building Materials
- Timber and building materials distribution business
- Manufacturing business

Housing and Construction
- Custom-built detached housing business
- Apartment business
- Residential property development (spec homes) business
- Existing homes business
- MOCCA (timber solutions) business
- Landscaping business

Overseas Housing and Real Estate
- United States
- Australia
- Asia
Harnessing forest resources and contributing to sustained growth and a prosperous society

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

Value creation model 3: The value creation process

Value creation source: <Strengths>
- Technologies and expertise related to wood
- Customer trust
- Solid network within and outside Japan
- Cultivated brand strength

Value:
- Expansion of business opportunities and social contributions

Contribute to a prosperous society

Sustainable growth of Sumitomo Forestry

Promote further integration of business operations and ESG (Environment, Society and Governance) initiatives

Sumitomo Forestry Group’s corporate philosophy
Our Values / Code of Conduct

Value created with all of our stakeholders (results for the fiscal year ended December 2020)

Stakeholders
- Customers, Business partners, Shareholders and investors, Global environment, International and local communities, Governments and supervisory authorities, Industries, NPOs/NGOs, Employees and their families, etc.

- Net sales: 839.9 billion yen
- Recurring income: 51.3 billion yen
- ROE (Return on Equity): 8.8%
- Ratio of houses certified as Excellent Long-Term Housing among new custom-built detached houses: 94.7%
- Sustainability procurement survey implementation rate of suppliers of imported timber: 100%
- Recycling rate at manufacturing plants in Japan*: 99.1%
- Carbon stock in company-owned forests in Japan and plantation forests overseas**: 23.62 million t-CO2
- Customer satisfaction regarding custom-built detached houses according to surveys conducted when owners move in: 96.5%

*1 Calculation period: January to December 2020
*2 Carbon dioxide equivalent
Expanding company-owned forests with “sustainable forestry” as a philosophy

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

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

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

Increasing accumulation of carbon in Japan’s forests

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

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

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

Japanese government measures for use of domestic timber

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

Government measures for use of domestic timber

<table>
<thead>
<tr>
<th>Year</th>
<th>Effective Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2009</td>
<td>Forest and Forestry Revitalization Plan formulated</td>
</tr>
<tr>
<td>2010</td>
<td>2010</td>
<td>Act for Promotion of Use of Wood in Public Buildings, etc. takes effect</td>
</tr>
<tr>
<td>2011</td>
<td>2011</td>
<td>Act on Forest Environment Taxes and Transfer Taxes takes effect</td>
</tr>
<tr>
<td>2019</td>
<td>2019</td>
<td>Forest Management Act takes effect</td>
</tr>
<tr>
<td>2020</td>
<td>2020</td>
<td>Tree Harvesting Rights System (Revision of National Forestry Management and Administration Act) begins</td>
</tr>
</tbody>
</table>

Source: Forestry Agency, State of Forest Resources

Forest accumulation in Japan

<table>
<thead>
<tr>
<th>Year</th>
<th>Plantation forest</th>
<th>Natural forest</th>
<th>Total area (million cubic meters)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>1,887</td>
<td>1,329</td>
<td>3,216</td>
</tr>
<tr>
<td>2017</td>
<td>2,700</td>
<td>1,368</td>
<td>4,068</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Approx. 5.9 times more plantation forests</th>
<th>Approx. 2.7 times more forest overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>1967</td>
<td>1558</td>
<td>3,092</td>
</tr>
<tr>
<td>2017</td>
<td>3,380</td>
<td>5,424</td>
</tr>
</tbody>
</table>

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

MOCCA aims to increase use of domestic timber

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

In addition to public buildings such as administration buildings for local governments and community educational facilities, MOCCA has produced proposals in a broader range of sectors including commercial facilities, offices, care facilities, nursing homes, and nursery schools. For example, using wood as the materials for the floors of nursing homes can reduce physical strain on occupants and health care workers from walking about the building. Actively incorporating timber and wood building materials into office spaces and school classrooms has also been reported to raise people’s productivity according to the results of surveys. MOCCA’s business has been steadily establishing a track record by proposing new wood usages such as these to a variety of customers. In 2017, we also established a business and capital alliance with construction company Kumagai Gumi Co., Ltd., and we are forming an organizational structure to collaborate with them on business that leverages trees and greenery. Together with Kumagai Gumi, we have a shared recognition of issues pertaining to forest resources and a common vision for how to utilize them. Our aim is to drive the effective utilization of timber in civil works and construction sectors and energize the forestry industry, while also helping to conserve national land and the earth’s environment.

### Contributions to the SDGs through wooden buildings

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

Wood is a renewable natural resource. Using wood in various buildings where people spend time can create comfortable spaces that add calm to our lives. Through forest management balanced with environmental conservation, and by drawing out the maximum potential of wood through sustainable use of forest resource, the Sumitomo Forestry Group will continue contributing to the development of forestry in Japan and the creation of a bright future.

### MOCCA business and contributions to the SDGs

**Goals related to achieving the SDGs (excerpts)**
- **Increase carbon fixation by making wooden buildings more prevalent**
- **Increase recycling rates at building sites**

**Topics**

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

In January 2021 Sumitomo Forestry acquired 100% of the shares of “Kouei Kousan K.K.” which owns a 53.59% stake in COHNAN KENSETSU INC., making adding it to the Sumitomo Forestry group. COHNAN KENSETSU is a general construction company that was established in 1948, and is based in both Osaka Prefecture and in Tokyo. They have large numbers of highly experienced technicians on staff. Leveraging their strength in handing everything from planning and proposals to design, construction, and maintenance afterward in a streamlined manner, COHNAN KENSETSU has an extensive track record in construction. This includes multi-family housing, commercial and educational facilities, care facilities, facilities for research and production activities. Combining the steel frame and reinforced concrete building sales capabilities and construction management expertise of COHNAN KENSETSU with our wood building and interior/exterter wood materials technology, together we will push forward with projects in both mixed structures and wood construction while pioneering new markets for wooden building construction.
Areas of forests managed and held overseas (as at the end of December 2020)

<table>
<thead>
<tr>
<th>Country</th>
<th>Area (thousand ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia</td>
<td>Approx. 31</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>Approx. 36</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Approx. 231</td>
</tr>
</tbody>
</table>

Reductions in worldwide forest area and the primary causes

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

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

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

As deforestation continues worldwide, the Sumitomo Forestry Group has endeavored to expand its forestry management both in Japan and overseas in order to secure raw materials sustainably.

Currently we hold and manage forests in three countries, namely Indonesia, New Zealand and Papua New Guinea. We have obtained FSC® and other forest certifications* and established a sustainable system where harvesting and reforestation are carried out in a regular cycle. The Group holds and controls a forest area of approximately 231 thousand hectares in three countries, and the timber produced in those forests is used for furniture, as building material, as pulp raw material for paper-making and for a host of other applications in markets all over the world.

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

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

Goals related to achieving the SDGs (excerpts)

- Maintain and expand certified forest area
- Increase number of seedlings supplied
- Display carbon stock (forests)
Helping regional communities through “social forestry”

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

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

Establishing a management model for peatland

We have been carrying out large-scale industrial reforestation in the West Kalimantan province of Indonesia since 2010. The forest in the target area of this business was devastated by industrial logging between the sixties and early nineties as well as by repeated illegal logging and slash-and-burn farming. The objective of the project is to revile this land as a reforestation area while at the same time preventing the further deterioration of the forest by coexisting with the local residents.

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

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

Developing new uses for timber and building material

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

Timber is the key material for such products, making up a high percentage of the manufacturing cost. This makes securing a stable supply of raw material an extremely important undertaking. For these reasons, all Group companies in Indonesia endeavor to expand their reforestation activities, planting especially fast-growing tropical trees which can be used as raw material in a short period of four to seven years.

All the companies are also focusing their efforts on developing products and technologies aimed at increasing the number of uses for timber. One example is a species of tree called balsa. It produces the lightest timber and is used for building and modeling because it is easy to process. Due to these special qualities, as demand for renewable energy has increased in recent years, its range of uses has increased to include the cores of wind power turbine blades.
Part 2

Business activities & value creation

The Sumitomo Forestry Group builds unique value chains centered on utilizing renewable forest resources and timber resources, and engages in a variety of efforts in the five business segments of Timber and Building Materials, Housing and Construction, Overseas Housing and Real Estate, Environment and Resources, and Other. In each segment we strive to create and nurture new value by accelerating R&D and technological innovation utilizing trees, while at the same time deploying future-oriented strategies. We aim to build a strong business portfolio that is capable of flexibly adapting to changes in the environment while achieving even more growth for the Group as a whole.

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

<table>
<thead>
<tr>
<th>Segment</th>
<th>Revenue Breakdown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timber and Building Materials</td>
<td>17%</td>
</tr>
<tr>
<td>Housing and Construction</td>
<td>39%</td>
</tr>
<tr>
<td>Overseas Housing and Real Estate</td>
<td>41%</td>
</tr>
<tr>
<td>Others</td>
<td>4%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Segment</th>
<th>Revenue Breakdown</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timber and Building Materials</td>
<td>1%</td>
</tr>
<tr>
<td>Housing and Construction</td>
<td>3%</td>
</tr>
<tr>
<td>Overseas Housing and Real Estate</td>
<td>15%</td>
</tr>
<tr>
<td>Others</td>
<td>77%</td>
</tr>
</tbody>
</table>

*In the fiscal year ended December 2020, the Timber and Building Materials Business and Housing and Construction Business were sluggish due to the effects of the COVID-19 pandemic, but performance was strong in the Overseas Housing and Real Estate business. For details about performance trends and more, see reports on the results of each business segment (page 35-52) and Management’s discussion and analysis (page 88).
Initiatives towards growth

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

In the manufacturing business, we aim to increase profitability by further integrating manufacturing and sales through cooperation with the timber and building materials distribution business, and by developing high-value-added products that satisfy customer needs. We are also working on ways to generate new revenue sources through DX (digital transformation) efforts.

Progress in FY ended December 2020

In the timber and building materials distribution business, we worked to strengthen collaboration with our trading partners and developed a versatile business portfolio, continuing to focus on expanding our lineup of fuel wood for biomass power generation, increasing exports of domestic materials, and strengthening efforts in non-housing and construction markets. We also put more focus on expanding sales of plywood made with sustainable plantation timber in the aim of reducing environmental impact. However, performance was sluggish due to the decreased sales volume of plywood and other lumber products resulting from weakness in the domestic housing market caused by the COVID-19 pandemic.

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

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

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

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

* Data which serves as the basis of schematic drawings for precut timber.
** The level at which a building will not collapse or disintegrate when subjected to force 1.5 times greater than an earthquake that occurs only once every several hundred years.

Overview of structure express

[Diagram showing the process of Structure Express system]

Builder
- 3D modeling
- 3D model delivery
- 3D model data

Home Express structure design system
- 3D model data
- Design symbols & patterns

Builder HM-EX
- 3D model data

Precut factories
- 3D model data
- 3D model delivery

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

Overview of structure express

[Diagram showing the process of Structure Express system]
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, transportation, logging and distribution, and we also export logs from the forests we manage and own in New Zealand to markets across Asia. From our administrative base in Singapore, we mainly focus on selling timber and building materials to countries in Southeast Asia. In Vietnam, which has huge growth potential, we have a business alliance with An Cuong Wood-Working JSC, Vietnam’s leading manufacturing and distribution company for interior building materials. We have put into place an integrated structure from raw material procurement to home construction.

**Main commercial logistics flowchart**

- **Suppliers** → **Building materials manufacturers**
- **Plywood materials manufacturers** → **Building materials wholesalers**
- **Building materials wholesalers** → **Building materials retailers, raw materials handlers**
- **Biomass power plants** → **Building / engineering stores**
- **Sumitomo Forestry: Housing and Construction Business**
- **Sumitomo Forestry: Timber and Building Materials Business**

**KIKORIN-PLYWOOD**

KIKORIN-PLYWOOD is a JAS-compliant product made of at least 50% certified timber and sustainable plantation timber. Some of the sales proceeds are used for reforestation activities conducted by the Group in Indonesia. Starting in FY ending December 2021, the definition of KIKORIN-PLYWOOD was revised to “plywood made with 100% certified sustainable timber” for consistency with the procurement criteria for timber. KIKORIN-PLYWOOD won the EcoPro Award in 2018.

**Manufacturing business**

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

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

For this reason, the Group has integrated its overseas and domestic manufacturing operations and sales operations of timber and building materials, and organized and improved each company’s production technologies and factory management methods to ensure thorough cost reductions, and enhanced product development and marketing functions. We are also working to build a robust business base by developing personnel with high-level expertise in manufacturing technology. We will continue to build enterprise value and achieve sustainable growth over the medium and long terms.

**Domestic manufacturing group companies**

- **Japan**
- **New Zealand**
- **United States**
- **Vietnam**
- **India**

**Overseas manufacturing group companies**

- **Nelson Pine Industries Ltd.**
- **Sumitomo Forestry Crest Co., Ltd.**
- **Spacewood Furnishers Pvt. Ltd.**
- **PT. Kuda Timber Indonesia**
- **PT. Rimba Partikel Indonesia**
- **PT. Sinar Rimba Pasifik**
- **PT. AST Indonesia**

Manufacturing/wooden building materials, wooden furniture, etc.
Manufacturing/kitchen cabinets, manufacturing/medium density fiberboard (MDF), veneer and laminated veneer lumber (LVL)
Manufacturing/kitchen cabinets, manufacturing/medium density fiberboard (MDF), low pressure laminate (Laminate)
Manufacturing/wooden building materials, wooden furniture, etc.
Manufacturing/wooden building materials, wooden furniture, etc.
Manufacturing/wooden building materials, wooden furniture, etc.
Comfortable homes worth living in even longer, with the unique feeling and functionality of wood

The Sumitomo Forestry Group has been providing quality living environments by doing our part to increase the prevalence of high-quality homes that last a long time. “Sumitomo Forestry Home Houses,” made from advanced construction methods while fully expressing the attractiveness and qualities of wood, is a leading brand in custom-built wooden detached homes. They have received high accolades for being gentle on the environment, and as comfortable, safe and secure homes that can be lived in for a long time. Leverage our design and technological capabilities accumulated in the custom-built housing business, Sumitomo Forestry has expanded its range of business operations to offer the unique, comforting feel of wood in the apartment business, residential property development (spec homes) business, landscaping business, and existing homes business as well. In recent years we have also been engaged in wood construction and the use of wood materials in the non-residential building construction fields due to increasing new production and consumption of timber, which has also been attracting attention in government policies. The Sumitomo Forestry Group will continue to offer abundant lifestyles by providing high-value-added products and services while harnessing synergies in housing-related businesses.

Initiatives towards growth

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

With these changes in mind, Sumitomo Forestry builds highly satisfactory homes for customers in our custom-built detached housing business by proposing layouts with working spaces and interior wood materials that only Sumitomo Forestry can offer, in addition to providing living environments that are comfortable yet strong against natural disasters, while promoting net zero energy houses (ZEH). We are also making progressively more use of the data accumulated through our sales activities to ambitiously transform our sales model. To address worsening labor shortages at workites, we are accelerating initiatives to strengthen and streamline productivity by reducing the amount of labor involved with pre-cast foundations, as well as transitioning toward pre-cuts and panels of various materials.

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

Data

Number of employees

<table>
<thead>
<tr>
<th>Country</th>
<th>2019</th>
<th>2020</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>9,135</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Recruiting new employees, planning site management, and improving efficiency in site management.

Progress in FY ended December 2020

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

In the apartment business, we worked on expanding orders for apartments constructed via our original “Wall Frame (WF) method. In our residential property development (spec homes) business, we focused on online sales activities on top of the previous efforts of procuring excellent land and preparing a construction system, and as a result, the number of houses sold remained strong.

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

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

MyForest BF, our new custom-built detached housing product

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

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

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

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

Reducing environmental impact through business

ZEH (Net Zero Energy House)

We have long provided homes that are comfortable to live in throughout the year by using wood, which is a renewable natural resource that absorbs and stores CO2 during its growth and sunlight. Combining our expertise utilizing these properties of trees and blessings of nature with “technologies to reduce energy consumption” such as higher-performance insulation and energy-saving equipment, and “technologies to use energy wisely” such as devices that generate and store energy and HEMS*, we are reducing household CO2 emissions by enhancing energy efficiency in the home.

Sumirin Denki electricity service for post-FIT owners

Since November 2019 we have been offering a service called Sumirin Denki, in which Sumitomo Forestry serves as an agent for the purchase of surplus electricity from home solar power generation as well as for electricity supply for house owners, whose 10-year purchase period under the renewable energy feed-in-tariff (FIT) scheme has ended (“post-FIT”). Through this service we are working to increase customer satisfaction, and we will link to the achievement of our greenhouse gas reduction Science Based Targets (SBT) for 2030 by effectively utilizing renewable energy purchased from owners in our offices, showrooms and other business facilities.

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 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 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 our residential landscaping business, we offer a range of services from planning and design to the installation and maintenance of exterior and outdoor greenery in order to enhance the value of the residence. In environmental landscaping business, we provide total support for the design, construction and maintenance of natural environments in parks, office buildings and other urban spaces. We also offer landscaping consulting services for a variety of facilities, including factories and research centers.

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

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

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

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

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

Progress in FY ended December 2020

In the detached housing business in the United States, sales activities have been hampered by effects of the COVID-19 pandemic such as temporary entry restrictions to showrooms. However, the market has recovered and performance has been strong thanks to historically low housing loan interest rates as well as increasing demand for newly constructed detached housing in the suburbs caused by the spread of telecommuting. The Group entered the markets in the Metro Atlanta region in Georgia and the state of Alabama for the first time through the transfer acquisition of business from a local builder by Sumitomo Forestry Group company ORB Group in December 2020.

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

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

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

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

The Group started construction and sales of spec homes in 2003 in Seattle, Washington, the site of the distribution base with more than 50 years' experience in timber and building materials. This marked our entry into the United States, the world's largest housing market. We have built long-term partnerships and expanded our business by adding leading local builders to the group, accumulating know-how while valuing the United States' unique housing culture, customs, and construction methods. In January 2021, Gehan Homes Group entered the market in the Metro Denver region in Colorado. Together with new market entry in the Metro Atlanta region in Georgia and in Alabama by DRB Group, the previous year, this broadened our business presence in the Sun Belt region where economic growth has been significant. The Group now has business presence in 17 states and special districts, including Crescent Communities which operates in the real estate development business, and Mark III Properties which operates in residential land development.

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

Operating our detached housing business throughout Australia

In Australia, where the population is expected to grow in the medium to long term, we are offering housing that meets the needs of a wide range of demographics by developing multiple brands each with their own characteristics.

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

We are engaged in joint development of condominiums for sale and the detached spec homes business with local companies in Hong Kong, Vietnam, Indonesia, and Thailand. Business is being developed in all four of these markets based on actual demand alongside the regions’ medium- to long-term economic growth. As our next area for overseas business expansion after the United States and Australia for the Group, we aim to strengthen our earnings base. Through joint ventures with local companies in each country, we strive to provide high-quality living environments by harnessing the functions and resources of these companies while utilizing our accumulated design expertise in the effective use of spaces and improvement of functionality in order to create attractive interiors rich with the essence of wood. We are aiming to stabilize our business foundation while capturing housing demand that is strong during this time in which infrastructure is being rapidly established, population is increasing, and income levels are rising, as we also help to improve the living environments of people in local communities.
Environment and Resources Business

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

In our Renewable Energy Business to make effective use of wood and other resources, we are mainly active in wood biomass power generation in Japan.

(FSC® license code: FSC-C113957)

Progress in FY ended December 2020

In our domestic forestry business, we signed a comprehensive partnership with Nishiawakura Village, Aida-gun, Okayama and Sumitomo Mitsui Trust Bank, Limited for the promotion of a forest trust with a forestation asset as the trust property in August, 2020. As forestry experts, we will provide management support with respect to forestation asset management methods and increasing the efficiency of forestation, felling, and other activities carried out by a forest management company. Utilizing the know-how cultivated through this agreement, we will contribute to the promotion of regional revitalization based on forestry as we roll out our forest trust efforts. Business results were also strong, owing primarily to increased sales volume in Tasman Pine Forests Ltd., in Nelson, a city in the South Island of New Zealand. Additionally, we made an equity-method affiliate, which is engaged in reforestation and forest management in West Kalimantan, Indonesia, into a consolidated subsidiary, and also acquired a neighboring forest asset as we worked to reinforce the structure of our sustainable business operations.

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

Initiatives towards growth

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

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

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

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

Revitalizing domestic forestry and contributing to regional revitalization

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

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

Overseas forestry business

Reducing environmental burden and creating sustainable forests

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

In Indonesia we have been operating a large-scale reforestation in West Kalimantan since 2010. There, our initiative together with Mayangkara Tanaman Industri (MTI). Adding KMF has enabled us to further improve upon the peatland ecosystem management that we have been engaged in.

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

Renewable energy business

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

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

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

The Group is promoting renewable energy business suited to local characteristics and conditions by harnessing our know-how, networks, and other management resources as well as experience in the wood biomass power generation business.

Main flow of wood biomass power generation

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

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

<table>
<thead>
<tr>
<th>Service Areas</th>
<th>Kawasaki Biomass</th>
<th>Mombetsu Biomass</th>
<th>Tomakomai Biomass</th>
<th>Hachinohe Biomass</th>
<th>Kanda Biomass</th>
<th>Morioka Biomass</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Start of operation</strong></td>
<td>February 2011</td>
<td>December 2016</td>
<td>April 2017</td>
<td>April 2018</td>
<td>June 2021 (planned)</td>
<td>November 2022 (planned)</td>
</tr>
<tr>
<td><strong>Net company investment ratio</strong></td>
<td>34%</td>
<td>51%</td>
<td>20%</td>
<td>52%</td>
<td>41.5%</td>
<td>10.0%</td>
</tr>
<tr>
<td><strong>Power generation capacity</strong></td>
<td>33MW</td>
<td>50MW</td>
<td>6.2MW</td>
<td>12.4MW</td>
<td>75MW</td>
<td>75MW</td>
</tr>
<tr>
<td><strong>Fuel</strong></td>
<td>Construction waste and others</td>
<td>Unused timber from forests and others</td>
<td>Unused timber from forests and others</td>
<td>Unused timber from forests and others</td>
<td>Imported wood pellets and others</td>
<td>Imported wood pellets and others</td>
</tr>
</tbody>
</table>

* Refers to thinned wood and felled timber left in forests without being used due to curved shape or small diameter. This wood harms the environment in the forest when it is abandoned and interferes with proper forest management and forestation efforts.
In our elderly care services business, we provide spaces with the comforting effect of wood and nursing care geared toward each individual. We help to maintain and improve the health and lifestyle of the users of our services, and reduce the caretaking burden on their families. We are also continuously engaged in human resources development for our staff, and are constantly looking for ways to further improve our occupancy rates and achieve business stability. Working together with local communities to deliver advanced, high-quality services, we are helping to create a society in which people can enjoy vibrant, healthy lives.

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

Initiatives towards growth

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

Japan is currently confronted with a multitude of social issues. One particularly glaring issue is the country's rapidly accelerating birthrate decline and aging population. The Sumitomo Forestry Group operates services such as private-pay elderly care facilities and home care services, catering to a wide variety of needs. Our private-pay elderly care facilities leverage our expertise in creating spaces with the comforting effect of wood and lifestyles that incorporate the greenery of the seasons, in order to offer our residents comfortable places to live that are fulfilling for both mind and body.

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

### Data

#### Number of employees

- **Japan:** 1,159

#### Net sales (¥ billion)

1. 189
2. 199
3. 209
4. 219

#### Recurring income (¥ billion)

1. 4.9
2. 0
3. 1
4. 1.5

*Starting in the fiscal year ended March 31, 2020, Sumitomo Forestry adopted the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29). For transactions where the Company’s role in providing the product to the customer is fulfilled by an agent, revenue is now shown as the net amount instead of the total amount. We also separated the Environment and Resources Business as an independent category from the Other Segment in FY2020. Net sales and recurring income up to FY2018 correspond to the categories before this change. The Other Segment covers elderly care services business, insurance agency business related to homes, and various other service businesses. Recurring profit includes equipment-method investment income from Kamekura Gumi Co., Ltd.

### Sumirin Fill Care

#### Number of private-pay elderly care facilities operated: 16

#### Number of day care business facilities operated: 3

*(As of end of March 2021)*

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

### Sumirin Care Life

#### Number of private-pay elderly care facilities operated: 3

#### Number of private-pay elderly care facilities (residences that include living support services) operated: 1

*(As of end of March 2021)*

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

Promoting the W350 Plan, changing cities into forests

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

Research technology development concept: The W350 Plan

The W350 Plan is the research technology development concept to be completed by 2041, which will mark the 350th year since the Company’s founding. Characterized by the construction of wooden high-rise buildings, the plan is intended to create “Environmentally-Friendly and Timber-Utilizing Cities” that transform cities into forests. We strive to bring about innovation that encourages a sustainable cycle for timber-utilization and forestry management, and realize a vision for environmentally-friendly timber-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 well-being of every individual. The Tsukuba Research Institute has produced various research achievements. The Sumitomo Forestry Group, through its business activities, will return the benefits derived from these R&D achievements to individuals and society as a whole. By doing so, the Group will contribute to the realization of a sustainable and prosperous society.

Co-Creation Activities

Collaboration with Kumagai Gumi: Creating new markets through innovation

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

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

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

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

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

Specifically, this project seeks multiscaled co-creation of global commons through a three-pronged effort to boost the economic value of trees and plants, make the shared benefit of forest resources more evident, and quantify relationships between people, trees and plants. The project also includes collaborative efforts in human resources development and venture companies. Sumitomo Forestry remains dedicated to making the value of trees and forest resources evident and creating new value. Leveraging the University of Tokyo’s cutting-edge research findings alongside our 330 years of experience in forestry management and expertise in the timber and housing industries, we will build a cyclic symbiotic economy and generate new business.

* Earth’s systems such as climate and biodiversity which must be shared among humans and all life on the planet.
In the Sumitomo Forestry Group, we engage in business and ESG initiatives in a unified manner with the aim of improving our corporate value in ways that cannot be explained by economics alone, and as a natural outcome of fulfilling the expectations of society including the SDGs.

In the 2021 Medium-Term Management Plan of which fiscal 2021 is the final year, we defined the Mid-Term Sustainability Targets which incorporate our strategies and five material issues for sustainability. Based on these material issues, we have also established 15 qualitative targets, as well as evaluative metrics (quantitative goals) that we are targeting for FY ending December 2021. Each company and division within the Group is making steady progress toward achieving these numerical targets by incorporating them into their fiscal year budget plans, and repeating PDCA cycles. We also actively join and sponsor international initiatives geared toward achieving a sustainable society.

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

Sumitomo Forestry Group’s approach to sustainability management

Corporate philosophy and sustainability management

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

Formulation and management of Mid-Term Sustainability Targets

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

Affected by these changes to our business environment, we have determined that there is a need to work on promoting our targets for the fiscal year ending December 2021.

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

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

Sustainability Committee

In response to increased demand for medium- to long-term initiatives regarding Environment, Social, and Governance (ESG) and the disclosure of such information, and also in order to address SDGs, TCFD guidelines, and human rights issues, Sumitomo Forestry established a Sustainability Committee in the fiscal year ended March 2019. The Sustainability Committee is comprised of executive officers and directors, as well as general managers, with the President and Executive Officer acting as the committee chairman. At committee meetings held four times a year, committee members monitor the Company’s operational status and effectiveness within the context of Our Values and the Code of Conduct, along with the formulation and promotion of initiatives that address medium- to long-term ESG issues which concern the Sumitomo Forestry Group’s sustainability, starting with climate change. The meetings also analyze risks and opportunities, and manage progress on the Mid-Term Sustainability Targets, which incorporate business strategies that contribute to achieving SDGs.

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

Risk check for new business plans by the Executive Committee

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

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

Environment

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’ associations, 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.
Sustainability

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 ISO26000, the international standard on the social responsibility of organizations, and evaluation points linked to socially responsible investment (SRI). After incorporating management perspectives, the survey results were mapped out against axes of “management” and “stakeholders,” before determining the materiality of each issue. Twelve of these issues were identified as being highly material, and rearranged into five material issues. In conjunction with the formulation of the Mid-Term Sustainability Targets in 2018, we also revisited our material issues in light of new demands from society.

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

Ongoing timber and materials procurement that considers sustainability and biodiversity

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

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

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

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

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

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 SBTI* 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.

A vibrant work environment where a diverse workforce can unleash 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.

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.

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Material Issue

Material Issue

Material Issue

Material Issue

Material Issue

Material Issue

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

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

Material Issue

Material Issue

Material Issue

Material Issue

Material Issue

* World Business Council for Sustainable Development (WBCSD): A CEO-led organization of over 200 international companies. It aims to promote sustainability through effective business practices.

World Business Council for Sustainable Development (WBCSD)

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

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

Participation in the United Nations Global Compact

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

World Business Council for Sustainable Development (WBCSD)

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Material Issue

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

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

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

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

Material issue 5: Corporate ethics and governance structures
Supply chain management

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

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

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

Based on the Sumitomo Forestry Group Procurement Policy, the Group carries out due diligence to ensure the legality of our timber procurement and to ensure that sustainable timber procurement is being put into practice, including considerations for human rights, labor practices, biodiversity preservation and local communities.

Each division that procures timber reports to the Timber Procurement Committee, comprising managers from departments in charge of timber procurement, to promote Group-wide management of timber procurement through confirming legality of imported timber, setting procurement standards and risk assessments for illegal logging and such.

In the fiscal year ended December 2020, the committee met three times and confirmed legal compliance and conducted sustainability surveys at all 117 direct suppliers subject to inspections, as well as 19 suppliers for overseas Group companies (distributors). Sumitomo Forestry periodically checks legal compliance and sustainability at these suppliers, including new and existing suppliers, once a year no more than two years from the current year.

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.

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Sustainability

Supply chain management

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

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

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

**Step 1**
Access to information
We confirm that suppliers are using only legally harvested timber or that they are providing timber products using only timber that has been legally harvested.

**Step 2**
Risk assessment
We conduct an assessment based on the country or region and type of tree or timber to determine the risk of illegal harvesting.

**Step 3**
Risk reduction measures
We implement measures to reduce risk such as confirming and obtaining additional information, dispatching Sumitomo Forestry Group employees for detailed on-site surveys and switching to procuring timber from certified forests.

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

**Strengthening sustainability initiatives for timber and wood products**

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

**Policy on “Sustainable Timber and Wood Products”**

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

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Certified timber and pre-certified timber: FSC, PEFC, and SGEC (Regardless of CoC connection, we place emphasis on certification at time of production and promote a shift to certified timber)</td>
</tr>
<tr>
<td>2</td>
<td>Timber from plantation forests</td>
</tr>
<tr>
<td>3</td>
<td>Natural timber where forestry management and distribution can be assessed as sustainable (This does not include timber from conversion forests = timber harvested from natural forests that were converted to farmland such as palm oil plantations)</td>
</tr>
<tr>
<td>4</td>
<td>Recycled timber</td>
</tr>
</tbody>
</table>

**Engagement**

In December 2020, a year and a half into our action plan aiming to achieve “100% procurement of sustainable timber and wood products,” we organized the second stakeholder dialogue to meet with environmental NGOs and ESG experts and researchers. Experts from World Wide Fund (WWF) Japan, FoE Japan, Global Environment Forum, Institute for Global Environmental Strategies, Rainforest Action Network, and Takasaki City University of Economics came to participate. After reflecting on the previous session, discussions touched on the implementation status of the Sustainability Procurement Survey, and updates on the rate of sustainable timber and timber products handled.

**A smooth response to the Clean Wood Act**

In May 2017, Japan implemented the "Act on Promotion of Use and Distribution of Legally-Harvested Wood and Wood Products," commonly known as the “Clean Wood Act.” This law aims to encourage the use of timber made from trees harvested in conformity with the laws and ordinances of Japan and other countries of origin, and to form markets that exclude illegally logged wood that leads to environmental destruction. At Sumitomo Forestry, each business division has been registered as a business operator under this law, and the entire Group makes every effort to procure legal timber.
Diversity & inclusion

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

Activities for diverse talent acquisition

In the 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.

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.

Promoting health management

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

Initiatives to maintain and improve employee health

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

Sumitomo Forestry use an appointment system for regular physical examinations which are crucial for disease prevention, and we maintain a medical examination rate of 100%. Furthermore, we ensure that business sites with a small number of workers also have a system where they can consult occupational physicians and public health nurses for regular checkups, or consult them about overwork and follow-up measures for stress checks. For example, business sites with 50 or fewer employees have an assigned occupational physician.

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

Practicing mental healthcare

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

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

Using stress checks

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

In the fiscal year ended December 2020, to further encourage active healthy living, we added items that measure presenteeism and absenteeism to the stress check and analyzed them. Moreover, as a follow-up measure for stress checks, we distributed the organizational analysis results sheet for individual business sites and organized stress check results feedback training for general managers to help raise their awareness about creating livelier workplaces. Apart from that, we also conducted online self-care training and line care training to match the issues faced by different departments. We follow-up on training conducted by sharing the contents with the whole company through e-learning.

Results of mental disorder prevention measures

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stress check response rate (%)</td>
<td>88.2</td>
<td>92.1</td>
<td>91.6</td>
<td>93.3</td>
<td>96.4</td>
</tr>
</tbody>
</table>

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

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

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

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<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2016</th>
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<th>2018</th>
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</tbody>
</table>

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

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

2. For fiscal 2017 the calculation includes special subsidiary company, Sumitomo Wood Peace Co., Ltd.

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

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Employment and promotion of women (non-consolidated)

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<tbody>
<tr>
<td>Ratio of female employees*</td>
<td>20.0%</td>
<td>20.4%</td>
<td>21.0%</td>
<td>21.6%</td>
<td>22.0%</td>
</tr>
<tr>
<td>Ratio of female employees in management positions</td>
<td>2.8%</td>
<td>3.2%</td>
<td>3.7%</td>
<td>4.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Ratio of newly graduated female recruits</td>
<td>22.8%</td>
<td>18.0%</td>
<td>24.8%</td>
<td>26.9%</td>
<td>30.2%</td>
</tr>
</tbody>
</table>

Status of female recruitment / Employment (domestic subsidiaries)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Ratio of female employees*</td>
<td>30.7%</td>
<td>31.6%</td>
<td>32.0%</td>
<td>32.7%</td>
<td>32.4%</td>
</tr>
<tr>
<td>Ratio of female employees in management positions</td>
<td>4.2%</td>
<td>4.6%</td>
<td>6.0%</td>
<td>6.1%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Ratio of newly graduated female recruits</td>
<td>4.3%</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.7%</td>
<td>4.3%</td>
</tr>
</tbody>
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Employment of persons with disabilities (non-consolidated)**

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<tbody>
<tr>
<td>Employment ratio of persons with disabilities</td>
<td>2.12%</td>
<td>2.26% 1</td>
<td>2.32% 1</td>
<td>2.40% 1</td>
<td>2.25% 1</td>
</tr>
</tbody>
</table>

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1. For fiscal 2017 the calculation includes special subsidiary company, Sumitomo Wood Peace Co., Ltd.

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

**Identification and measures for environmental risk**

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

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

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

**Risks and strategies related to changes in climate and biodiversity**

**Risks related to natural disasters**

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

**Strategies**

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

**Risks related to changes in timber resources and procurement restrictions**

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

**Strategies**

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

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

**Risks related to mandatory emission reductions**

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

**Strategies**

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

**Risk related to energy supply shortages**

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

**Strategies**

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

**Risks related to reputational damage**

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

**Strategies**

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

**Addressing climate change**

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

**Energy conservation and reductions in greenhouse gas emissions in business activities**

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

**SBT (Science Based Targets)**

<table>
<thead>
<tr>
<th>Scope</th>
<th>Target</th>
<th>Base Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 and 2</td>
<td>Total 21% reduction (Target year 2030, Base year 2017)</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Total 16% reduction in categories 1 and 11 (Target year 2030, Base year 2017)</td>
<td></td>
</tr>
</tbody>
</table>

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

In October 2018, The Intergovernmental Panel on Climate Change (IPCC) which reports the latest in scientific knowledge on global warming published its Special Report on Global Warming of 1.5°C. This report showed just how large of a difference the impact on the global environment would be between keeping temperature increases below 2°C and below 1.5°C. Following the awareness amplified by the Special Report on Global Warming of 1.5°C, the SBT initiative updated its target validation criteria in April 2019 to only accept targets along two different pathways, those that are consistent with limiting warming to "well below" 2°C, and those that limit warming to 1.5°C above pre-industrial levels (applied starting in October 2019). The Sumitomo Forestry Group is currently coordinating internally to make further reductions to the greenhouse gas emissions from our business activities in line with this revision by the SBT initiative.

**State of progress of SBT**

<table>
<thead>
<tr>
<th>Scope</th>
<th>Target</th>
<th>Year 2017</th>
<th>Year 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 and 2</td>
<td>Total 21% reduction (Target year 2030, Base year 2017)</td>
<td>369.785 t-CO₂</td>
<td>370.528 t-CO₂</td>
</tr>
<tr>
<td>3</td>
<td>Total 16% reduction in categories 1 and 11 (Target year 2030, Base year 2017)</td>
<td>8,856 thousand</td>
<td>8,311 thousand</td>
</tr>
</tbody>
</table>

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

2. Revised Scope 3 Category 1 calculation method since the Accounting Standard for Revenue Recognition (ASB Statement No. 25) went into effect starting in fiscal 2019.
Participation in RE100, targeting 100% renewable energy

At the Sumitomo Forestry Group, we have positioned the "reduction of the environmental impact of our business activities" as a material issue, and endeavor to conserve energy and utilize renewable energy. As a part of these efforts, in March 2020, Sumitomo Forestry joined RE100*, an international initiative that aims for 100% renewable energy for electricity used, and accelerated its efforts to reduce greenhouse gases.

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.

Year-End of the Fiscal Years Ended March in the Past 10 Years

<table>
<thead>
<tr>
<th>Fiscal Year Ended March</th>
<th>Scope 1 (t-CO2e)</th>
<th>Scope 2 (t-CO2e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>166,709</td>
<td>48,952</td>
</tr>
<tr>
<td>2014</td>
<td>144,537</td>
<td>45,555</td>
</tr>
<tr>
<td>2015</td>
<td>123,650</td>
<td>42,071</td>
</tr>
<tr>
<td>2016</td>
<td>107,951</td>
<td>38,906</td>
</tr>
<tr>
<td>2017</td>
<td>107,951</td>
<td>38,906</td>
</tr>
<tr>
<td>2018</td>
<td>107,951</td>
<td>38,906</td>
</tr>
<tr>
<td>2019</td>
<td>107,951</td>
<td>38,906</td>
</tr>
<tr>
<td>2020</td>
<td>107,951</td>
<td>38,906</td>
</tr>
</tbody>
</table>

* RE100 is an international initiative that collaborates with international environmental NGOs The Climate Group and CDP. As of February 2021, it had 283 member companies from around the world, including 50 Japanese firms.

Greenhouse gas emissions by Scope, based on the GHG Protocol

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

For that reason, Scope 1 and Scope 2 emissions have increased significantly since the fiscal year ended March 2017 in which the Mombetsu Biomass Power Plant went into operation. Due mainly to revised methods for estimating emissions resulting in a decrease in emissions (8,879 t-CO2e) at overseas subsidiaries in the Overseas Housing and Real Estate Business, and decreased production at overseas manufacturing plants due to the COVID-19 pandemic, Scope 1 and Scope 2 emissions in January through December 2020 decreased 2.7% compared to the fiscal year ended March 2020. Of the total for Scope 1 and 2 greenhouse gas emissions recognized under the GHG Protocol, overseas plants emitted 27.7%, while domestic plants and the power generation business accounted for 60.1%. We started measuring Scope 3 emissions in the fiscal year ended March 2014 and significantly broadened the scope of our measurements in the fiscal years ended March 2016 and March 2018.

**Climate change initiatives**

- 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.

**Governance**

- 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**

- Scenario analysis
  - Risks, opportunities and strategies related to climate change and biodiversity (examples based on opportunities)
    - Expand sales of homes in tune with government's net zero-energy house promotion
    - Expand the need for renewable energy
  - Improve strategic resilience to be prepared for uncertain future conditions

**Risk management system**

- Based on experts' reports and analysis from business divisions, climate change-related risks are discussed by the Sustainability Committee. Medium- to long-term risks and opportunities and countermeasures are evaluated.
- Report and submit to the Board of Directors
- Reflect in business execution

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

**KPIs and targets**

- Please see page 70 for SBT initiatives targeting 2030.
The Sumitomo Forestry Group seeks to ensure management transparency as well as the appropriateness and legality of its business and strives to promote expeditious decision-making and business execution based on its corporate philosophy. Through these efforts, the Company aims to continuously increase its corporate value and conduct management that lives up to the expectations of the various stakeholders of the Sumitomo Forestry Group by enhancing and strengthening corporate governance.

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

Tatsumi Kawata
Director

Mitsue Kurihara
Outside Director

Akira Ichikawa
Representative Director, Chairman of the Board

Izumi Yamashita
Outside Director

Toshiro Mitsuyoshi
Representative Director, President/Director

Atsushi Kawamura
Director

Shigeru Sasabe
Representative Director

Junko Hirakawa
Outside Director

Tatsuru Satoh
Representative Director

Junko Hirakawa
Outside Director

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

The Board of Directors and Statutory Auditors of the Company is as follows:

**Representative Director, Chairman of the Board**
Akira Ichikawa
- Apr. 1977 - Joined the Company
- Apr. 2000 - Executive Officer
- Apr. 2010 - Managing Executive Officer
- Jun. 2010 - Representative Director
- Apr. 2011 - Managing Executive Officer
- Apr. 2017 - Managing Executive Officer (current position), General Manager of Corporate Administration, Personnel, and other departments. He has also held positions such as Divisional Manager of Overseas Business Division, President and Executive Officer of Tomio Tozaki.

**Executive Vice President**
Tatsuru Satoh
- Apr. 1987 - Joined the Company
- Jun. 1996 - Deputy Divisional Manager of Overseas Business Division
- Apr. 2010 - Divisional Manager of Overseas Business Division
- Apr. 2011 - Divisional Manager of Overseas Housing and Real Estate Division
- Apr. 2013 - Divisional Manager of Timber and Building Materials Division
- Apr. 2018 - Divisional Manager of Overseas Housing and Real Estate Division
- Apr. 2020 - Divisional Manager of Timber and Building Materials Division

**Representative Director**
Shigeru Sasabe
- Apr. 1977 - Joined the Company
- Jun. 1986 - Manager of Corporate Planning Department
- Apr. 2002 - Representative Director
- Apr. 2016 - Senior Managing Executive Officer, Divisional Manager of Overseas Business Division
- Apr. 2018 - Divisional Manager of Overseas Housing and Real Estate Division
- Apr. 2020 - Divisional Manager of Timber and Building Materials Division
- Apr. 2020 - Company shares held: 3,860

**Representative Director**
Tatsunori Atsushi
- Apr. 1987 - Joined the Company
- Jun. 1990 - Director
- Apr. 1994 - Divisional Manager of Housing and Construction Division
- Apr. 2002 - Divisional Manager of Lifestyle Service Division
- Apr. 2016 - President and Director of Sumitomo Forestry Home Tech Co., Ltd.
- Apr. 2017 - Divisional Manager of Overseas Housing and Real Estate Division
- Apr. 2020 - Divisional Manager of Overseas Housing and Real Estate Division
- Apr. 2020 - Company shares held: 2,490

**Representative Director**
Junko Hirakawa
- Apr. 2010 - Representative Director (current position), President/Director,
- Jun. 2008 - Director, Managing Executive Officer
- Apr. 2010 - Representative Director (current position), President/Director
- Apr. 2011 - Managing Executive Officer
- Apr. 2018 - Divisional Manager of Overseas Housing and Real Estate Division
- Apr. 2020 - Divisional Manager of Overseas Housing and Real Estate Division
- Apr. 2020 - Company shares held: 3,860

**Statutory Auditors**

**Junko Hirakawa**
- Outside Director (Born Oct. 9, 1947)
- Career history:
  - Apr. 1973 - Registered as Attorney at Law admitted in Japan
  - Feb. 1978 - Registered as Attorney at Law admitted in the State of New York, U.S.A.
  - Jul. 1987 - Joined the Company (current position), General Manager of Corporate Administration, President, Managing Executive Officer, Senior Managing Executive Officer
  - Jul. 2012 - Outside Director, Audit Committee (current position)
  - Jun. 2013 - Outside Director, Audit Committee (current position)
  - Jun. 2016 - Outside Director of the Company (current position)
  - Jun. 2016 - Director of Sumitomo Forestry Construction Co., Ltd.
  - Jun. 2018 - Outside Director of the Company (current position)

**Mitsue Kurihara**
- Outside Director (Born Apr. 7, 1946)
- Career history:
  - Apr. 1973 - Joined the Japan Development Bank (current Development Bank of Japan Inc.)
  - Mar. 1981 - Deputy Governor of Japan Post
  - Apr. 1988 - Divisional Manager of Overseas Housing and Real Estate Division
  - Apr. 1990 - Divisional Manager of Housing and Construction Division
  - Apr. 1996 - Divisional Manager of Lifestyle Service Division
  - Apr. 1999 - Divisional Manager of Overseas Housing and Real Estate Division
  - Apr. 2001 - Divisional Manager of International Housing and Real Estate Division
  - Apr. 2002 - Divisional Manager of Overseas Housing and Real Estate Division
  - Apr. 2004 - Divisional Manager of Overseas Housing and Real Estate Division
  - Apr. 2006 - Divisional Manager of Overseas Housing and Real Estate Division
  - Apr. 2008 - Divisional Manager of Overseas Housing and Real Estate Division
  - Apr. 2010 - Divisional Manager of Overseas Housing and Real Estate Division
  - Apr. 2015 - Divisional Manager of Overseas Housing and Real Estate Division
  - Apr. 2017 - Divisional Manager of Overseas Housing and Real Estate Division
  - Apr. 2020 - Divisional Manager of Overseas Housing and Real Estate Division

**Statutory Auditors**

**Akira Ichikawa**
- Outside Director (current position)
- Reason for appointment as a director
- As an independent director, Aiichi Ichikawa has abundant experience related to the Sumitomo Forestry Group’s business and achievements in the financial and accounting industry and deep insight as an expert in financial matters.

**Tatsuru Satoh**
- Outside Director (current position)
- Reason for appointment as a director
- As an independent director, Tatsuru Satoh has abundant experience related to the Sumitomo Forestry Group’s business, serving as an executive officer for over 30 years, as well as a chairman of the Board of Directors, director, and executive officer of Sumitomo Forestry Machinery, Ltd.

**Shigeru Sasabe**
- Outside Director (current position)
- Reason for appointment as a director
- As an independent director, Shigeru Sasabe has abundant experience related to the Sumitomo Forestry Group’s business and achievements, serving as a director and executive officer of Sumitomo Forestry Machinery, Ltd.

**Tatsunori Atsushi**
- Outside Director (current position)
- Reason for appointment as a director
- As an independent director, Tatsunori Atsushi has abundant experience related to the Sumitomo Forestry Group’s business and achievements, serving as a director and executive officer of Sumitomo Forestry Machinery, Ltd.

**Junko Hirakawa**
- Outside Director (current position)
- Reason for appointment as a director
- As an attorney, Junko Hirakawa has abundant experience related to the Sumitomo Forestry Group’s business and has been appointed to an appropriate role in strengthening the Company’s corporate governance by making recommendations to management from an expert’s perspective.

**Mitsue Kurihara**
- Outside Director (current position)
- Reason for appointment as a director
- Mitsue Kurihara has abundant knowledge and experience in the financial industry and deep insight as a financial expert, and is believed to be capable of playing an appropriate role in strengthening the Company’s corporate governance by making recommendations to management.

**Statutory Auditors**

**Akira Ichikawa**
- Outside Director (current position)
- Reason for appointment as a director
- As an independent director, Aiichi Ichikawa has abundant experience related to the Sumitomo Forestry Group’s business and achievements in the financial and accounting industry and deep insight as an expert in financial matters.

**Tatsuru Satoh**
- Outside Director (current position)
- Reason for appointment as a director
- As an independent director, Tatsuru Satoh has abundant experience related to the Sumitomo Forestry Group’s business, serving as an executive officer for over 30 years, as well as a chairman of the Board of Directors, director, and executive officer of Sumitomo Forestry Machinery, Ltd.

**Shigeru Sasabe**
- Outside Director (current position)
- Reason for appointment as a director
- As an independent director, Shigeru Sasabe has abundant experience related to the Sumitomo Forestry Group’s business and achievements, serving as a director and executive officer of Sumitomo Forestry Machinery, Ltd.

**Tatsunori Atsushi**
- Outside Director (current position)
- Reason for appointment as a director
- As an independent director, Tatsunori Atsushi has abundant experience related to the Sumitomo Forestry Group’s business and achievements, serving as a director and executive officer of Sumitomo Forestry Machinery, Ltd.

**Junko Hirakawa**
- Outside Director (current position)
- Reason for appointment as a director
- As an attorney, Junko Hirakawa has abundant experience related to the Sumitomo Forestry Group’s business and has been appointed to an appropriate role in strengthening the Company’s corporate governance by making recommendations to management from an expert’s perspective.
Corporate Governance

Reforms to Corporate Governance (from 2014)

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

The Company has adopted the structure of a company with a board of statutory auditors and has a Board of Directors comprising 9 directors (7 male and 2 female), including 3 Outside Directors (1 male and 2 female), and a Board of Statutory Auditors comprising 5 statutory auditors (5 male), including 1 Outside Statutory Auditor (3 male). Under this organizational structure, we have introduced an executive officer system to separate decision-making and supervisory functions from execution functions.

Board of Directors and Executive Committee

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

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

Statutory Audit System

Each statutory auditor audits the directors’ execution of duties utilizing the deep insights and diverse perspectives they have acquired from their various backgrounds.

As assistants to the statutory auditors, ten auditing inspectors, who qualify as senior managers of major departments, are assigned particularly to enhance the function of audits from a practical perspective. Under this system, the statutory auditors attend important meetings such as Board of Directors meetings and Executive Committee meetings, and are able to obtain accurate information regarding the managerial decision-making process at appropriate times. To enhance the effectiveness of audits, the statutory auditors strive to cooperate with the accounting auditor as well as the Internal Audit Department. They also receive reports regularly from the divisions responsible for risk management and compliance, accounting and labor, and monitor and verify that internal controls are functioning effectively. The statutory auditors are also provided with opportunities to express their opinions regarding the directors’ execution of operations whenever needed.

In addition, the Group Board of Statutory Auditors, attended by the Company’s full-time statutory auditors and the statutory auditors of major subsidiaries, meets regularly in an effort to strengthen the monitoring functions regarding the status of execution of Group management. Furthermore, in line with the monthly Board of Statutory Auditors meeting, opportunities are provided for the assigned executive officers to explain matters discussed at the Executive Committee meeting so that all statutory auditors and outside directors can understand important matters in detail. The statutory auditors and representative directors also exchange opinions regularly. This system ensures that the statutory auditors can provide adequate monitoring functions of the directors’ execution of operations from the perspective of shareholders.

The Board of Statutory Auditors met 10 times and the Group Board of Statutory Auditors met 4 times in the fiscal year ended December 2020.

Nomination and Remuneration Advisory Committee

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

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

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Nomination and Remuneration Committee Meeting</th>
<th>Number of Meetings attended</th>
<th>Attendance rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director, Chairman of the Board</td>
<td>Akira Kikuchi</td>
<td>2</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Director, President</td>
<td>Yoshio Mitsui</td>
<td>2</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Director (Outside)</td>
<td>Jun’ichi Hikawa</td>
<td>2</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Director (Outside)</td>
<td>Tatsuo Yamauchi</td>
<td>2</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Statutory Auditor (Outside)</td>
<td>Yoshitoaki Minagawa</td>
<td>2</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Statutory Auditor (Outside)</td>
<td>Yoshimasa Tetsu</td>
<td>2</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Statutory Auditor (Outside)</td>
<td>Makoto Matsumoto</td>
<td>2</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Position Name

<table>
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</tr>
</tbody>
</table>
Analysis / Evaluation and its results of effectiveness of the Board of Directors

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

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

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

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

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

Results of evaluation
• The Company’s Board of Directors was found to be functioning effectively.
• Efforts to address matters recognized as issues during the evaluation for the fiscal year ended March 2020
• Confirmed the status of initiatives concerning the training and appointment of management talent identified by the Nomination and Remuneration Advisory Committee.
• Confirmed whether officers had discussed future business strategies in light of the COVID-19 crisis and the next medium-term management plan at informal meetings in order to enhance deliberations at Board of Directors’ meetings.

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

Executive remuneration

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

Remuneration for Directors

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

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

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

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

Statutory Auditor remuneration

Statutory auditor remuneration consists solely of monetary 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 ¥18 million per month.

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

Remuneration (fiscal year ended December 2020)

* Excluding Outside Directors and Outside Statutory Auditors

<table>
<thead>
<tr>
<th>Remuneration for Directors (Excluding Outside Directors)</th>
<th>Outline</th>
</tr>
</thead>
</table>
| Basic Remuneration | At the 78th Ordinary General Meeting of Shareholders held on June 22, 2018, the Company introduced a remuneration system for allocating shares with restrictions on their transfer. In line with this system, restricted stock compensation stock options were abolished.
| Restricted Stock Remuneration | The maximum limit of monetary remuneration allocated to directors, excluding outside directors, is ¥10 million per month (and no more than ¥5 million for outside directors). The amount of restricted stocks paid out does not exceed ¥100 million per year, per a resolution passed by the General Meeting of Shareholders. |
| Performance-Linked Remuneration | A set amount is approved at the annual Ordinary General Meeting of Shareholders. |

Remuneration for Outside Directors

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

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

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

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Remuneration (fiscal year ended December 2020)

* Excluding Outside Directors and Outside Statutory Auditors

<table>
<thead>
<tr>
<th>Remuneration</th>
<th>Total remuneration</th>
<th>Total remuneration by type of remuneration</th>
<th>Number of eligible officers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>341</td>
<td>211</td>
<td>24</td>
</tr>
<tr>
<td>Statutory Auditors</td>
<td>36</td>
<td>36</td>
<td>—</td>
</tr>
<tr>
<td>Outside Officers</td>
<td>42</td>
<td>42</td>
<td>—</td>
</tr>
</tbody>
</table>

1 The above includes three directors and one auditor who resigned at the end of the 80th Ordinary General Meeting of Shareholders held on June 23, 2020.
2 The 81st Ordinary General Meeting of Shareholders held on March 30, 2021 approved a resolution that sets the amount of performance-linked remuneration for six directors, excluding outside directors, at ¥100 million.
3 The total amount of restricted stock paid as basic remuneration to nine directors excluding outside directors was ¥24 million.

Corporate Philosophy

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

Establishment of internal controls system

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

Risk Management System

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

The Company has established the Risk Management Committee, which is chaired by the President and Executive Officer and comprised of all other executive officers. Each executive officer identifies and analyzes manageable risks in their respective field and formulates action plans. The committee meets regularly once every quarter to share and discuss the state of plan execution. The committee discusses short-term risks, such as compliance pertaining to prevention of corruption and other matters, and responses to risks that have already materialized. These activities are reported to the Board of Directors, and reflected in business execution. Established under the umbrella of the Risk Management Committee, the Compliance Subcommittee and the BCM Subcommittee are comprised of the general manager of the General Administration Department, who serves as committee chairman, and the staff in charge of risk management, including those of the departments supervising subsidiaries. These subcommittees work to enhance the effectiveness of risk management pertaining to Group-wide risks, namely, compliance risks related to core business and business interruption.

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

Risk management structure of the Sumitomo Forestry Group

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.

Risk management structure of the Sumitomo Forestry Group

Two-hours rule and use of risk information

Compliance promotion system

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

The subcommittee was convened once in the fiscal year ended December 2020 and undertook ongoing improvement of the compliance system such as by studying important legal and regulatory requirements essential for the continuation of business. Moreover, at a compliance seminar to which external experts were invited as instructors, the subcommittee provides opportunities for individuals in charge of compliance, including individuals working for subsidiaries, to keep up with up-to-date knowledge, improve their skill levels, work on the same level as others, and develop a shared awareness of risk. These activities of the subcommittee are reported quarterly to the Board of Directors, putting a system in place to reflect the findings in business execution. The activities are also reported to the statutory auditors and the Internal Audit Department monthly. Critical Group-wide matters and risk information are shared with the statutory auditors of each Group company through the Group Board of Statutory Auditors. We maintain a compliance promotion framework through an approach on and off the business execution line.

Internal auditing

The Internal Audit Department conducts additional risk assessment for the approximately 200 business sites of the Sumitomo Forestry Group. It selects around 60 business sites every year and conducts an internal audit. These business sites are given priority and selected based on two perspectives: operational risks (performance, scales, business complexity) and risk control (management system for risks). In principle, the auditors travel to the site to check and evaluate the actual documents, but in the fiscal year ended December 2020, to prevent the spread of the COVID-19 pandemic, we included the method of auditing data and written documents without the auditors visiting the site. The audits are conducted to verify the status of each business site’s business execution, including compliance, and management of administrative actions. The results of these assessments are reported to the president, executive officer in charge of internal audits and statutory auditors as well as managers, executive officers and directors in charge of the offices being audited. In the case that audit findings are made, the Internal Audit Department verifies that improvements are being implemented at the business site by requesting written reports and carrying out quarterly follow-up audits. These actions are reported to the president, executive officer in charge of internal audits, and statutory auditors.
Managing business continuity

System for managing business continuity
Sumitomo Forestry has established the BCM Subcommittee to address risks presented by events or emergency situations which are extremely difficult for a company to prevent on its own, and which can have severe impacts on headquarters’ functions such as, for example, major natural disasters and outbreaks of new strains of influenza. The BCM Subcommittee is responsible for spreading awareness of and strengthening the business continuity management (BCM) structure, formulating, revising and improving business continuity plans (BCP), and conducting drills based on BCP.

In the fiscal year ended December 2020, the BCM Subcommittee met twice, providing an opportunity to organize the basic approach to BCM. In addition to encouraging each department and company to tackle BCM proactively and voluntarily, the committee also provided information about the changes the company has made to the organization of its fire brigade due to the COVID-19 crisis.

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

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

Initiatives towards supply chain business continuity initiatives
In preparation for the potential disruption of its Housing and Construction Business supply chain following a major disaster, Sumitomo Forestry shares the specifications and processes for property construction along with site progress statuses and other information with business partners, including component makers and building contractors. By enabling advanced procurement of materials and production, the Company is striving to reduce the risk of a disruption to operations. The COVID-19 outbreak that spread across the world in 2020, however, led to delays in construction projects and parts and materials procurement.

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

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

Ensuring management transparency

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

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

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

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

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

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

Separate meetings
After the quarterly announcement of accounts, the Company holds separate meetings for securities analysts and institutional investors. We spoke with a total of 117 companies in Japan and abroad in the fiscal year ended December 2020. In addition to this, we will also hold small meetings and on-site briefings as appropriate.

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

IR activities for overseas institutional investors and shareholders
We issue English versions of accounting-related material for the benefit of overseas institutional investors and shareholders.

Additionally, in the fiscal year ended December 2020, management held an online meeting with institutional investors and shareholders in Europe. There was an exchange of opinions in addition to explanations about business performance and strategy.

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

Visit our website for information about future IR activities and events organized.
### Financial Position:

- **Total assets**: ¥1,091,152, ¥1,004,768, ¥970,976, ¥899,120
- **Working capital** *(1)*: 257,669, 273,167, 236,047, 209,506
- **Interest-bearing debt**: 302,933, 268,491, 248,885, 200,630
- **Net assets**: 399,458, 357,064, 353,489, 345,639

### Cash Flows:

- **Cash flows from operating activities**: ¥46,840, ¥45,724, ¥40,689, ¥33,732
- **Cash flows from investment activities**: (-44,635), (-38,874), (-71,659), (-46,250)
- **Cash flows from financing activities**: -16,192, -1,142, 11,512, 25,158
- **Cash and cash equivalents at the end of the year**: 122,220, 112,565, 105,102, 125,557

### Capital Investment:

- **Property, plant, and equipment** *(2)*: 18,124, 32,414, 17,071, 17,685
- **Intangible fixed assets**: 2,987, 3,470, 3,173, 2,470
- **Others**: 2,834, 2,267, 2,088, 3,792
- **Total**: 23,946, 38,151, 22,331, 23,947
- **Depreciation and amortization**: 11,503, 14,388, 13,696, 13,727

### Per share data:

- **Net income**: ¥167,544, ¥153,544, ¥160,804, ¥168,449
- **Net assets**: 2,025,113, 1,777,571, 1,755,061, 1,719,065
- **Cash dividends**: 35.0, 40.0, 40.0, 40.0

### Financial ratios:

- **Gross profit margin**: 22.8, 22.0, 17.7, 17.8
- **Operating income margin**: 9.7, 4.7, 3.8, 4.3
- **Recruiting income margin**: 6.1, 5.3, 3.9, 4.7
- **Return on assets (ROA)** *(3)*: -4.9, -8.0, -5.5, 6.8
- **Return on equity (ROE)** *(3)*: -8.8, 8.8, 9.3, 10.3
- **Equity ratio**: 33.7, 32.1, 32.8, 34.7
- **Interest-bearing debt ratio** *(4)*: 45.2, 45.4, 43.9, 39.2
- **Current ratio**: 178.3, 175.3, 163.2, 158.8
- **Interest coverage ratio (times)** *(5)*: 24.9, 18.9, 20.1, 19.6

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*(1)* Working capital = Current assets - Current liabilities  
*(2)* From the fiscal year ended March 2009, leased assets have been included among property, plant and equipment in accordance with a change in the accounting standards for lease transactions.  
*(3)* Does not match amounts of capital expenditures in Management’s discussion and analysis (p.89-93) due to differences in exchange rates applied.  
*(4)* Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders’ equity)  
*(5)* Interest coverage ratio (times) = Cash flows from operating activities / Interest payments  
*(6)* In conjunction with the change in fiscal year-end, the fiscal year ended December 2020 is an irregular transition period covering the nine months from April to December 2020.
## Regarding change in fiscal year end

The fiscal year-end of the Company was changed from March 31 to December 31 starting from the fiscal year under review, and the Group’s fiscal year-ends have been consolidated on December 31.

As such, since the fiscal year from April 1 to December 31, 2020 resulting from the change of the end of the fiscal year will be an irregular nine-month fiscal year, the percentages of year-on-year changes represent comparisons with the first nine months of the previous fiscal year (from April 1 to December 31, 2019), which will be referred to hereinafter as the "same period of the previous fiscal year".

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

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

## Market overview

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

In the domestic housing market, the number of new housing units constructed fell temporarily due to the COVID-19 pandemic in the beginning of the fiscal year, but against a backdrop of economic recovery in the United States and China prompted by enactment of monetary and fiscal policies that brought about a resumption of economic activity, the market recovered and has been performing favorably overall.

## Consolidated operating results

Net sales were ¥39,881 million (up 4.6% compared to the same period of the previous fiscal year), operating income was ¥47,462 million (up 24.0%), recurring income was ¥51,293 million (up 19.1%), and net income for the period attributable to shareholders of parent was ¥90,398 million (up 34.4%). Actuarial differences for retirement benefit accounting came to ¥4,823 million, and recurring income excluding actuarial differences was ¥46,470 million.

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

## Segment Performance Highlights

### Operating results for the fiscal year

<table>
<thead>
<tr>
<th>Segment</th>
<th>Net sales (¥ million)</th>
<th>Percent of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing and Construction Business</td>
<td>¥352,371</td>
<td>18.4%</td>
</tr>
<tr>
<td>Overseas Housing and Real Estate Business</td>
<td>¥332,316</td>
<td>15.0%</td>
</tr>
<tr>
<td>Environment and Resources Business</td>
<td>¥18,402</td>
<td>0.9%</td>
</tr>
<tr>
<td>Other businesses</td>
<td>¥22,570</td>
<td>1.2%</td>
</tr>
<tr>
<td>Adjustments</td>
<td>¥1,484</td>
<td>(22.9)%</td>
</tr>
</tbody>
</table>

### Operating income

<table>
<thead>
<tr>
<th>Segment</th>
<th>Operating income (¥ million)</th>
<th>Percent of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing and Construction Business</td>
<td>¥144,652</td>
<td>24.0%</td>
</tr>
<tr>
<td>Overseas Housing and Real Estate Business</td>
<td>¥15,058</td>
<td>0.8%</td>
</tr>
<tr>
<td>Environment and Resources Business</td>
<td>¥5,095</td>
<td>0.3%</td>
</tr>
<tr>
<td>Other businesses</td>
<td>¥8,454</td>
<td>0.4%</td>
</tr>
<tr>
<td>Adjustments</td>
<td>¥4,159</td>
<td>(9.6)%</td>
</tr>
</tbody>
</table>

### Recurring income

<table>
<thead>
<tr>
<th>Segment</th>
<th>Recurring income (¥ million)</th>
<th>Percent of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing and Construction Business</td>
<td>¥23,425</td>
<td>5.5%</td>
</tr>
<tr>
<td>Overseas Housing and Real Estate Business</td>
<td>¥18,032</td>
<td>3.7%</td>
</tr>
<tr>
<td>Environment and Resources Business</td>
<td>¥4,452</td>
<td>0.9%</td>
</tr>
<tr>
<td>Other businesses</td>
<td>¥3,551</td>
<td>0.7%</td>
</tr>
<tr>
<td>Adjustments</td>
<td>¥3,019</td>
<td>(6.1)%</td>
</tr>
</tbody>
</table>

### Net income attributable to shareholders of parent

<table>
<thead>
<tr>
<th>Segment</th>
<th>Net income attributable to shareholders of parent (¥ million)</th>
<th>Percent of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing and Construction Business</td>
<td>¥2,734</td>
<td>5.0%</td>
</tr>
<tr>
<td>Overseas Housing and Real Estate Business</td>
<td>¥1,863</td>
<td>3.5%</td>
</tr>
<tr>
<td>Environment and Resources Business</td>
<td>¥757</td>
<td>1.4%</td>
</tr>
<tr>
<td>Other businesses</td>
<td>¥1,200</td>
<td>2.3%</td>
</tr>
<tr>
<td>Adjustments</td>
<td>¥908</td>
<td>(1.9)%</td>
</tr>
</tbody>
</table>

* From the fiscal year ended March 31, 2020, we adopted “Accounting Standard for Revenue Recognition” (ASB Statement No. 29). From the fiscal year ended March 31, 2020, the Environment and Resources Business was transferred from the “Other” segment.
Management’s discussion and analysis (FY ended December 2020)

Housing and construction business

<table>
<thead>
<tr>
<th>2018/3</th>
<th>2019/3</th>
<th>2020/3</th>
<th>2020/12(¥m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custom-Built Detached Housing (¥ million)</td>
<td>¥290,326</td>
<td>¥343,204</td>
<td>¥289,342</td>
</tr>
<tr>
<td>Apartments (¥ million)</td>
<td>¥ 7,196</td>
<td>¥ 8,913</td>
<td>¥ 7,276</td>
</tr>
<tr>
<td>Renovation (Sumitomo Forestry Home Tech Co., Ltd.) (¥ million)</td>
<td>¥ 948</td>
<td>¥ 1,071</td>
<td>¥ 966</td>
</tr>
<tr>
<td>Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custom-Built Detached Housing (¥ million)</td>
<td>¥288,382</td>
<td>¥291,921</td>
<td>¥219,940</td>
</tr>
<tr>
<td>Apartments (¥ million)</td>
<td>¥ 20,114</td>
<td>¥ 17,821</td>
<td>¥ 17,957</td>
</tr>
<tr>
<td>Spec. Homes (¥ million)</td>
<td>¥ 1,353</td>
<td>¥ 1,074</td>
<td>¥ 959</td>
</tr>
<tr>
<td>Renovation (Sumitomo Forestry Home Tech Co., Ltd.) (¥ million)</td>
<td>¥ 62,700</td>
<td>¥ 66,720</td>
<td>¥ 66,982</td>
</tr>
</tbody>
</table>

Financial position

Total assets totaled ¥1,091,152 million at the end of the current consolidated fiscal year, an increase of ¥86,385 million compared to the end of the previous consolidated fiscal year. This was due mainly to an increase in investment securities from the rise in market value of listed stocks held and an increase in inventories associated with expansion of the overseas housing and real estate business. Liabilities increased ¥43,993 million compared to the end of the previous consolidated fiscal year to ¥651,696 million due mainly to increases in commercial paper issued and debt. Net assets totaled ¥399,456 million, and the equity ratio was 33.7%.

Cash flows

There was a net increase of ¥9,656 million in cash and cash equivalents (hereafter: “Cash”) to ¥122,210 million. The increase includes an adjustment of ¥13,110 million in conjunction with the change in fiscal year-end.

A summary of cash flows is presented below.

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

Cash flows from operating activities

Net cash provided by operating activities increased ¥46,840 million. The increase was attributable mainly to an increase in cash resulting from posting ¥90,211 million in income before income taxes despite a decrease in cash resulting from an increase in inventories associated with expansion of the overseas housing and real estate business.

Cash flows from investment activities

Net cash decreased ¥44,635 million as a result of investment activities. This was due mainly to an increase in cash from issuance of commercial papers and an increase in debt as well as a decrease in cash from payment of dividends and purchase of additional equity interests in consolidated subsidiaries.

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

Capital expenditures (Capital investment)

The Sumitomo Forestry Group (Sumitomo Forestry and its consolidated subsidiaries) spent ¥21,590 million on capital expenditures. In the Timber and Building Materials Business, capital expenditures amounted to ¥3,027 million, including for the construction of a building materials manufacturing plant and the purchase of machinery and equipment. In the Housing and Construction Business, capital expenditures totaled ¥3,962 million, for investments in areas such as building new model homes. Capital expenditures came to ¥9,345 million in the Overseas Housing and Real Estate Business, mainly for the building of new model homes and the development of multi-family housing and commercial and mixed-use facilities. In the Environment and Resources Business, capital expenditures of ¥1,837 million were made for forestation activities. In Other Businesses, capital expenditures totaled ¥1,150 million, including investments in systems to improve business efficiency.

The amounts shown above include investments in tangible fixed assets, intangible fixed assets, and long-term prepaid expenses. The Company did not dispose or sell any critical equipment during the fiscal year under review.
Management's discussion and analysis (FY ended December 2020)

Interest-bearing debt (Left)
Capital expenditures Depreciation and amortization

[Graph showing total assets and net assets]

Total assets and net assets

Interest-bearing debt and interest-bearing debt ratio

[Graph showing interest-bearing debt]

Business risk

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

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

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

Financial Section

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

ASSETS

<table>
<thead>
<tr>
<th>Current assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and deposits (Notes 7, 11, 16)</td>
<td>¥ 81,850</td>
</tr>
<tr>
<td>Notes and accounts receivable - trade (Notes 7, 15, 16, 17)</td>
<td>119,687</td>
</tr>
<tr>
<td>Accounts receivable from completed construction contracts (Note 7)</td>
<td>45,305</td>
</tr>
<tr>
<td>Marketable securities (Notes 5, 11, 16)</td>
<td>3,204</td>
</tr>
<tr>
<td>Merchandise and finished goods</td>
<td>33,762</td>
</tr>
<tr>
<td>Work in process</td>
<td>1,312</td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>8,065</td>
</tr>
<tr>
<td>Cash on construction contracts in progress (Note 7)</td>
<td>14,983</td>
</tr>
<tr>
<td>Real estate for sale (Note 7)</td>
<td>54,010</td>
</tr>
<tr>
<td>Real estate for sale in process (Note 7)</td>
<td>225,298</td>
</tr>
<tr>
<td>Short-term loans receivable (Note 11)</td>
<td>35,200</td>
</tr>
<tr>
<td>Accounts receivable - other (Notes 7)</td>
<td>46,468</td>
</tr>
<tr>
<td>Other (Note 7)</td>
<td>25,208</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(106)</td>
</tr>
<tr>
<td>Total current assets</td>
<td>677,962</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-current assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>¥ 205,617</td>
</tr>
<tr>
<td>Buildings and structures (Notes 7, 19)</td>
<td>107,217</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(45,620)</td>
</tr>
<tr>
<td>Buildings and structures, net</td>
<td>61,597</td>
</tr>
<tr>
<td>Machinery, equipment and vehicles (Note 7)</td>
<td>76,794</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(53,123)</td>
</tr>
<tr>
<td>Machinery, equipment and vehicles, net</td>
<td>23,672</td>
</tr>
<tr>
<td>Land (Notes 7, 19)</td>
<td>40,725</td>
</tr>
<tr>
<td>Timber</td>
<td>35,753</td>
</tr>
<tr>
<td>Leased assets</td>
<td>11,610</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(3,174)</td>
</tr>
<tr>
<td>Leased assets, net</td>
<td>8,436</td>
</tr>
<tr>
<td>Construction in progress (Note 7)</td>
<td>10,667</td>
</tr>
<tr>
<td>Other</td>
<td>18,518</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>(12,913)</td>
</tr>
<tr>
<td>Other, net</td>
<td>5,426</td>
</tr>
<tr>
<td>Total property, plant and equipment</td>
<td>181,946</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Intangible assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Goodwill</td>
<td>6,356</td>
</tr>
<tr>
<td>Other</td>
<td>15,071</td>
</tr>
<tr>
<td>Total intangible assets</td>
<td>21,626</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investments and other assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment securities (Notes 5, 7, 16)</td>
<td>¥ 171,262</td>
</tr>
<tr>
<td>Long-term loans receivable</td>
<td>5,471</td>
</tr>
<tr>
<td>Retirement benefit asset (Note 18)</td>
<td>326</td>
</tr>
<tr>
<td>Deferred tax assets (Notes 7, 8)</td>
<td>6,835</td>
</tr>
<tr>
<td>Other (Note 7)</td>
<td>18,631</td>
</tr>
<tr>
<td>Allowance for doubtful accounts (Notes 7)</td>
<td>(60)</td>
</tr>
<tr>
<td>Total investments and other assets</td>
<td>205,617</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>413,191</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥ 1,091,152</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
### Consolidated Statement of Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Fiscal year ended December 31, 2020</th>
<th>Fiscal year ended March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>¥3,941,462</td>
<td>¥1,377,245</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>¥3,657,207</td>
<td>¥1,095,806</td>
</tr>
<tr>
<td>Gross profit</td>
<td>¥284,255</td>
<td>¥281,439</td>
</tr>
<tr>
<td>Operating income</td>
<td>¥47,462</td>
<td>¥51,377</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>¥39,301</td>
<td>¥34,992</td>
</tr>
<tr>
<td>Net income</td>
<td>¥8,161</td>
<td>¥16,385</td>
</tr>
<tr>
<td>Non-operating income</td>
<td>¥3,747</td>
<td>¥5,886</td>
</tr>
<tr>
<td>Non-operating expenses</td>
<td>¥2,966</td>
<td>¥2,515</td>
</tr>
<tr>
<td>Extraordinary gain</td>
<td>¥2,308</td>
<td>¥1,074</td>
</tr>
<tr>
<td>Extraordinary loss</td>
<td>¥2,082</td>
<td>¥2,390</td>
</tr>
<tr>
<td>Income tax</td>
<td>¥110</td>
<td>¥381</td>
</tr>
<tr>
<td>Income attributable to parent</td>
<td>¥8,161</td>
<td>¥16,385</td>
</tr>
<tr>
<td>Income attributable to non-controlling interests</td>
<td>¥2,308</td>
<td>¥1,074</td>
</tr>
<tr>
<td>Net income attributable to shareholders of parent</td>
<td>¥10,469</td>
<td>¥17,459</td>
</tr>
</tbody>
</table>

### Consolidated Statement of Comprehensive Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Fiscal year ended December 31, 2020</th>
<th>Fiscal year ended March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>¥10,469</td>
<td>¥17,459</td>
</tr>
<tr>
<td>Other comprehensive income (Note 23)</td>
<td>¥1,943</td>
<td>¥1,074</td>
</tr>
<tr>
<td>Net income attributable to shareholders of parent</td>
<td>¥12,412</td>
<td>¥18,533</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>¥2,308</td>
<td>¥1,074</td>
</tr>
<tr>
<td>Net income attributable to shareholders of parent</td>
<td>¥14,720</td>
<td>¥19,607</td>
</tr>
</tbody>
</table>

### Financial Section

- **Consolidated Statement of Income**: Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries For the fiscal years ended December 31, 2020 and March 31, 2020
- **Consolidated Statement of Comprehensive Income**: Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries For the fiscal years ended December 31, 2020 and March 31, 2020

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**Note**: See accompanying notes to consolidated financial statements.
See accompanying notes to consolidated financial statements.

For the fiscal years ended December 31, 2020 and March 31, 2020

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

<table>
<thead>
<tr>
<th>Balance at March 31, 2020</th>
<th>¥32,786</th>
<th>¥21,290</th>
<th>¥335,545</th>
<th>¥(2,337)</th>
<th>¥307,282</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes during the period:</td>
<td>Restated balance</td>
<td>¥32,752</td>
<td>¥22,247</td>
<td>¥234,990</td>
<td>¥(2,337)</td>
</tr>
<tr>
<td>Total changes during the period</td>
<td>¥17</td>
<td>¥(2,084)</td>
<td>¥777</td>
<td>¥(1,084)</td>
<td>¥2,257</td>
</tr>
<tr>
<td>Balance at April 1, 2019</td>
<td>¥32,752</td>
<td>¥22,247</td>
<td>¥241,427</td>
<td>¥(2,337)</td>
<td>¥294,088</td>
</tr>
</tbody>
</table>

Balance at December 31, 2020

Net income attributable to shareholders of parent:
- Dividends of surplus (¥40.00 per share) | ¥35,098 |
- Purchase of treasury shares (exercise of share acquisition rights) | 15 |
- Change in retained earnings due to change of fiscal year end | 2,947 |
- Change in ownership interest of parent due to transactions with non-controlling interests | 17 |
- Change in ownership interest of parent due to transactions with non-controlling interests (991) |
- Net changes in items other than shareholders' equity | (27,273) |
- Net changes in items other than shareholders' equity (8,354) |
- Total changes during the period | ¥31,875 |

Balance at December 31, 2020

<table>
<thead>
<tr>
<th>Balance at December 31, 2020</th>
<th>¥316,768</th>
<th>¥205,701</th>
<th>¥2,469,036</th>
<th>¥(22,600)</th>
<th>¥2,968,905</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes during the period:</td>
<td>Issuance of new shares</td>
<td>168</td>
<td>168</td>
<td>336</td>
<td></td>
</tr>
<tr>
<td>Total changes during the period</td>
<td>¥34</td>
<td>¥(957)</td>
<td>¥20,555</td>
<td>¥(2)</td>
<td>¥19,630</td>
</tr>
</tbody>
</table>

Balance at March 31, 2020

See accompanying notes to consolidated financial statements.

Financial Section

Consolidated Statement of Changes in Net Assets

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

<table>
<thead>
<tr>
<th>Balance at April 1, 2020</th>
<th>¥16,842</th>
<th>¥2,531</th>
<th>¥(4,240)</th>
<th>¥82</th>
<th>¥15,215</th>
<th>¥120</th>
<th>¥34,448</th>
<th>¥357,064</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes during the period:</td>
<td>Issuance of new shares</td>
<td>17</td>
<td>17</td>
<td>35</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total changes during the period</td>
<td>¥44,337</td>
<td>¥1,762</td>
<td>¥(11,098)</td>
<td>¥96</td>
<td>¥35,098</td>
<td>¥120</td>
<td>¥31,875</td>
<td></td>
</tr>
<tr>
<td>Balance at December 31, 2020</td>
<td>¥25,196</td>
<td>¥752</td>
<td>¥(1,733)</td>
<td>¥17</td>
<td>¥24,232</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Balance at April 1, 2020

<table>
<thead>
<tr>
<th>Balance at April 1, 2020</th>
<th>¥25,196</th>
<th>¥752</th>
<th>¥(1,733)</th>
<th>¥17</th>
<th>¥24,232</th>
<th>¥120</th>
<th>¥35,098</th>
<th>¥339,108</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes during the period:</td>
<td>Issuance of new shares (exercise of share acquisition rights) (7,297)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total changes during the period</td>
<td>(52,891)</td>
<td>(52,891)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Balance at December 31, 2020

See accompanying notes to consolidated financial statements.
### Consolidated Statement of Cash Flows

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

<table>
<thead>
<tr>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Flows from operating activities</strong></td>
<td></td>
</tr>
<tr>
<td>Fiscal year ended December 31, 2020</td>
<td>Fiscal year ended March 31, 2020</td>
</tr>
<tr>
<td>Revenue</td>
<td>9,35,241</td>
</tr>
<tr>
<td>Interest income</td>
<td>15,303</td>
</tr>
<tr>
<td>Amortization of goodwill</td>
<td>1,290</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable for Goods and services</td>
<td>1,689</td>
</tr>
<tr>
<td>Increase (decrease) in accounts payable for labor</td>
<td>1,108</td>
</tr>
<tr>
<td>Increase (decrease) in payables for services provided</td>
<td>1,108</td>
</tr>
<tr>
<td>Increase (decrease) in income tax payable</td>
<td>4,086</td>
</tr>
<tr>
<td>Other</td>
<td>9,657</td>
</tr>
<tr>
<td><strong>Net cash generated from operating activities</strong></td>
<td>5,221,902</td>
</tr>
</tbody>
</table>

| Fiscal year ended December 31, 2020 | Fiscal year ended March 31, 2020 | | |
| Net cash used in investing activities | (2,216,684) | (124,376) | | |
| Cash flows from investing activities | 2,974,716 | 346,124 | | |
| **Net cash provided by (used in) financing activities** | | | |
| Interest income from short-term loans and advances | 2,974 | 2,446 | | |
| Proceeds from sale of investments | 13,980 | 12,811 | | |
| Proceeds from sale of intangible assets | - | - | | |
| Proceeds from restructuring and extraordinary transactions | 848 | 874 | | |
| **Net cash provided by (used in) investing activities** | (2,213,708) | (121,932) | | |

| Fiscal year ended December 31, 2020 | Fiscal year ended March 31, 2020 | | |
| **Net increase (decrease) in cash and cash equivalents** | (4,129) | - | | |

#### 1. Nature of Operations

Sumitomo Forestry Co., Ltd. (the “Company”) and its affiliated companies (the “Group”) are engaged 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 homes and office space for development and construction work; real estate; overseas housing and real estate-related operations; insurance business, construction and engineering construction and 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 present 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 Statements and Auditors’ Report of Japan. The preparation of these financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclose 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 its consolidated 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 Company exercises significant influence are stated at cost plus equity in undistributed earnings (losses). Net consolidated interim profits and losses are adjusted for the equity accounted for by the method used were 267 and 104 and 100 as of March 31, 2020, respectively. On the other hand, Paragon Wood Product (Dalian) Co., Ltd and 7 other companies, which were included in the scope of consolidation from the fiscal year ended December 31, 2020. PT. Mayangkurara Tanamani Industri and 1 other company, which were included in the scope of consolidation in the previous fiscal year, have been excluded from the scope of consolidation due to the completion of liquidation.

(b) Translation of foreign currency transactions and accounts

Current and long-term borrowings and repayments 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 into Japanese yen at the average rates of exchange in effect during the reporting period. 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 change in value.

(d) Allowance for doubtful accounts

Allowance for doubtful accounts is stated on the basis of the default ratio method and represents the amount in accounts receivable which it is estimated will not be collected. This amount is considered sufficient to cover possible losses on collection.

(e) Provision for bonuses

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

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

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

(i) Retirement benefit liability or retirement benefit assets
Retirement benefit liability or retirement benefit assets for employees 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. Recognized actuarial gains (losses) and unrecognized prior service costs are charged to income, with minor exceptions, in the fiscal year in which they arise.

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

(k) Marketable securities and investment securities
 Marketable securities and investment securities are classified and accounted for, depending on management’s intent, as follows:

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

Non-marketable available-for-sale securities are carried at cost. The Company determines cost of securities sold by the moving average method.

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

(m) Inventories
Merchandise, finished goods, work in progress, raw materials and supplies are stated at moving average cost.

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

The amount on the balance sheet is calculated using a write-down method based on the estimated residual useful life and profitability.

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

(p) 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.

(q) 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 lives of 5 years.

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

(s) Revenue recognition

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 occurred.

(t) Accounting standards issued but not yet effective

(i) Accounting Standards for Financial Instruments (Accounting Standard and Implementation Guidance on Accounting for Financial Instruments)“ (ASBJ Statement No. 9) was issued on March 31, 2018.

(i) Overview
Principles for disclosures related to revenue recognition (presentation and note regulations)

(ii) Scheduled date of adoption
The Company expects to adopt the accounting standard from the end of the fiscal year ending December 31, 2022.

(u) 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.

(v) 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.

(w) Income taxes
The Companies recognize 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.

The Companies report on temporary differences between tax and financial reporting purposes as reflected as deferred income taxes in the consolidated financial statements using the asset and liability method.

(x) Consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(y) 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.

(z) 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.

(aa) Finalization of provisional accounting treatment of business combination
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 occurred.

(bb) Accounting Standards for Financial Instruments
The Companies believe 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. i) Overview
Principles for disclosures related to revenue recognition (presentation and note regulations)

(ii) Scheduled date of adoption
The Company expects to adopt the accounting standard from the end of the fiscal year ending December 31, 2021.

(cc) Change of Fiscal Year End
Effective from the fiscal year ended December 31, 2020, the Company and its domestic subsidiaries changed their fiscal year end from March 31 to December 31. The change is to align the closing date of the
4. U.S. Dollar Amounts

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

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

5. Securities

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

<table>
<thead>
<tr>
<th>Million of yen as of December 31, 2020</th>
<th>Millions of yen as of March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amount</td>
<td>Acquisition cost</td>
</tr>
<tr>
<td>Debt securities</td>
<td>¥964,948</td>
</tr>
<tr>
<td>Equity securities</td>
<td>¥483</td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥969,431</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Million of yen as of December 31, 2020</th>
<th>Millions of yen as of March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carrying amount</td>
<td>Acquisition cost</td>
</tr>
<tr>
<td>Debt securities</td>
<td>¥483</td>
</tr>
<tr>
<td>Equity securities</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥483</td>
</tr>
<tr>
<td>Total</td>
<td>¥483</td>
</tr>
</tbody>
</table>

6. Short-Term- and Long-Term Debt

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

<table>
<thead>
<tr>
<th>Financial Section</th>
<th>December 31, 2020</th>
<th>March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>¥67,274</td>
<td>¥50,579</td>
</tr>
<tr>
<td>Short-term</td>
<td>¥12,449</td>
<td>¥14,617</td>
</tr>
<tr>
<td>Long-term</td>
<td>¥54,825</td>
<td>¥35,962</td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥67,274</td>
<td>¥50,579</td>
</tr>
</tbody>
</table>

7. Pledged Assets and Secured Liabilities

(a) Pledged assets

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

<table>
<thead>
<tr>
<th>Financial Section</th>
<th>December 31, 2020</th>
<th>March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>¥29,364</td>
<td>¥12,449</td>
</tr>
<tr>
<td>Long-term obligations</td>
<td>¥23,861</td>
<td>¥11,235</td>
</tr>
<tr>
<td>Short-term obligations</td>
<td>¥5,503</td>
<td>¥1,214</td>
</tr>
<tr>
<td>Total</td>
<td>¥32,364</td>
<td>¥12,659</td>
</tr>
</tbody>
</table>

8. Long-term Borrowings

Long-term borrowings, principally from banks and insurance companies, due at least within 5 years as of December 31, 2020 were as follows:

<table>
<thead>
<tr>
<th>Financial Section</th>
<th>December 31, 2020</th>
<th>March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>¥1,382,823</td>
<td>¥1,238,557</td>
</tr>
<tr>
<td>Short-term</td>
<td>¥9,180</td>
<td>¥9,000</td>
</tr>
<tr>
<td>Long-term</td>
<td>¥1,373,643</td>
<td>¥1,229,557</td>
</tr>
</tbody>
</table>
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 fiscal years ended December 31, 2020 and March 31, 2020 was 30.6%.

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

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2020</th>
<th>March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effective statutory tax</td>
<td>30.6%</td>
<td>30.6%</td>
</tr>
<tr>
<td>Non-deductible expenses</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Per capita portion of</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>inhabitant tax</td>
<td>8.8%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Depreciation of goodwill</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax rate differences with</td>
<td>0.9%</td>
<td>0.9%</td>
</tr>
<tr>
<td>overseas subsidiaries</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per capita portion of</td>
<td>(5.6)%</td>
<td>(5.6)%</td>
</tr>
<tr>
<td>inhabitant tax</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


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

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousand U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realization of subsidiary</td>
<td>$(113,453)</td>
<td>$(1,549,330)</td>
</tr>
<tr>
<td>Sale of assets</td>
<td>$(18,226)</td>
<td>$(249,504)</td>
</tr>
<tr>
<td>Unrealized gain on non-</td>
<td>$(7,439)</td>
<td>$(96,539)</td>
</tr>
<tr>
<td>current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized loss on non-</td>
<td>$(2,969)</td>
<td>$(38,584)</td>
</tr>
<tr>
<td>current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain on sales</td>
<td>$(34,497)</td>
<td>$(449,879)</td>
</tr>
<tr>
<td>of non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized loss on sales</td>
<td>$(77,474)</td>
<td>$(1,039,800)</td>
</tr>
<tr>
<td>of non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain on sales</td>
<td>$(5,245)</td>
<td>$(67,369)</td>
</tr>
<tr>
<td>of current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized loss on sales</td>
<td>$(8,019)</td>
<td>$(107,162)</td>
</tr>
<tr>
<td>of current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain on sales</td>
<td>$(853)</td>
<td>$(11,071)</td>
</tr>
<tr>
<td>of non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized loss on sales</td>
<td>$(8,187)</td>
<td>$(112,992)</td>
</tr>
<tr>
<td>of non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain on sales</td>
<td>$(7,312)</td>
<td>$(96,582)</td>
</tr>
<tr>
<td>of current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized loss on sales</td>
<td>$(2,969)</td>
<td>$(38,584)</td>
</tr>
<tr>
<td>of current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain on sales</td>
<td>$(6,078)</td>
<td>$(77,373)</td>
</tr>
<tr>
<td>of non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized loss on sales</td>
<td>$(8,187)</td>
<td>$(112,992)</td>
</tr>
<tr>
<td>of non-current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized gain on sales</td>
<td>$(7,312)</td>
<td>$(96,582)</td>
</tr>
<tr>
<td>of current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealized loss on sales</td>
<td>$(2,969)</td>
<td>$(38,584)</td>
</tr>
<tr>
<td>of current assets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. Selling, General, and Administrative Expenses

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousand U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and allowances</td>
<td>67,958</td>
<td>833,627</td>
</tr>
<tr>
<td>Provision for bonuses</td>
<td>951</td>
<td>11,911</td>
</tr>
<tr>
<td>Provision for doubtful</td>
<td>$(2,414)</td>
<td>$(29,956)</td>
</tr>
<tr>
<td>accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for bonuses</td>
<td>361</td>
<td>4,573</td>
</tr>
<tr>
<td>Provision for doubtful</td>
<td>213</td>
<td>2,708</td>
</tr>
<tr>
<td>accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for retirement</td>
<td>184</td>
<td>2,300</td>
</tr>
<tr>
<td>benefits for directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and other officers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for retirement</td>
<td>22,411</td>
<td>281,877</td>
</tr>
<tr>
<td>benefits for directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and other officers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for retirement</td>
<td>13</td>
<td>167</td>
</tr>
<tr>
<td>benefits for non-executive</td>
<td></td>
<td></td>
</tr>
<tr>
<td>employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions for retirement</td>
<td>106</td>
<td>1,334</td>
</tr>
<tr>
<td>benefits for non-executive</td>
<td></td>
<td></td>
</tr>
<tr>
<td>employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions of allowance</td>
<td>32</td>
<td>416</td>
</tr>
<tr>
<td>for doubtful accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions of allowance</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>for doubtful accounts</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Research and development expenses charged to selling, general and administrative expenses for the fiscal years ended December 31, 2020 and March 31, 2020 were $1,383 million (¥181,000 thousand) and $1,335 million, respectively.

11. Cash and Cash Equivalents

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousand U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and deposits</td>
<td>85,850</td>
<td>1,072,137</td>
</tr>
<tr>
<td>Cash equivalents included</td>
<td>77,584</td>
<td>998,315</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>3,000</td>
<td>38,196</td>
</tr>
<tr>
<td>Cash equivalents in</td>
<td>42,400</td>
<td>538,310</td>
</tr>
<tr>
<td>short-term loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>127,224</td>
<td>1,610,421</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>110,101</td>
<td>1,386,551</td>
</tr>
</tbody>
</table>

12. Shareholders’ Equity

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

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

The balances of the legal reserve of the Company at December 31, 2020 and March 31, 2020, which were included in retained earnings in the accompanying consolidated balance sheets, were $2,857 million ($37,605 thousand) and $2,857 million, respectively.
Year-end dividends are approved by shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Law.

13. Finance Leases

Leased 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 period.

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

14. Contingent Liabilities

Contingent liabilities as of December 31, 2020 and March 31, 2020 were been omitted, due to insignificance of disclosure of such information in the consolidated financial statements.

(c) Risk management for financial instruments

Risk management (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 in the Companies, 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 payment obligations:

The Finance Department of the Companies 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.

16. Financial Instruments

(a) Details of financial instruments and related risk

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

(b) 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.

17. Fair values of derivative financial instruments

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

18. Financial Section

(a) Details of financial instruments and related risk

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

(b) 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.

(b) Details of financial instruments and related risk

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

(c) Risk management for financial instruments

Risk management (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 in the Companies, 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 payment obligations:

The Finance Department of the Companies 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.

Notes:

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

(1) Assets

(a) Cash and deposits, Notes and accounts receivable, and trade payables

Because these are settled in the short term, fair values and book values are nearly equal. Therefore, relevant book values are used.

(b) 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

(a) Derivative financial instruments

Because these aresettled in the short term, fair values and book values are nearly equal. Therefore, relevant book values are used.

(b) Bank loans

The fair values of bank loans are based on market prices.

(c) Bonds payable

The fair values of long-term borrowings with fixed interest rates are principally estimated by discounting based on estimated interest rates if similar new borrowings were implemented.
17. Derivatives and Hedging Activities

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

### Table: Derivative Transactions (Millions of yen)

<table>
<thead>
<tr>
<th>Contract amount</th>
<th>Unrealized gain (loss)</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**December 31, 2020**

<table>
<thead>
<tr>
<th>Hedged item</th>
<th>Contract amount</th>
<th>Unrealized gain (loss)</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term borrowings</td>
<td>¥1,810</td>
<td>¥996</td>
<td>¥996</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**March 31, 2020**

<table>
<thead>
<tr>
<th>Hedged item</th>
<th>Contract amount</th>
<th>Unrealized gain (loss)</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term borrowings</td>
<td>¥1,810</td>
<td>¥996</td>
<td>¥996</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table: Derivative Transactions (Millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Contract amount</th>
<th>Unrealized gain (loss)</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**December 31, 2020**

<table>
<thead>
<tr>
<th>Hedged item</th>
<th>Contract amount</th>
<th>Unrealized gain (loss)</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term borrowings</td>
<td>¥1,810</td>
<td>¥996</td>
<td>¥996</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**March 31, 2020**

<table>
<thead>
<tr>
<th>Hedged item</th>
<th>Contract amount</th>
<th>Unrealized gain (loss)</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term borrowings</td>
<td>¥1,810</td>
<td>¥996</td>
<td>¥996</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Notes

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

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

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

**Financial Section**

18. Employees' Retirement Benefits and Pension Plans

The Company and most of its consolidated subsidiaries have either funded or unfunded defined benefit plans and/or defined contribution plans. Certain domestic consolidated subsidiaries have a Smaller Enterprise Retirement Allowance Mutual Aid Plan. The Company and its consolidated subsidiaries have defined benefit plans, i.e., lump-sum payment plans, annuity payment plans, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefit expenses and liabilities. In certain cases, special retirement benefits may be paid to employees.
The changes in the retirement benefit liabilities for the fiscal years ended December 31, 2020 and March 31, 2020 were as follows (except for the plans under the simplified method):

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
<th>Fiscal year ended March 31, 2020</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>$57,932</td>
<td>$3,445</td>
<td>6,890</td>
</tr>
<tr>
<td>Service cost</td>
<td>2,053</td>
<td>1,031</td>
<td>1,031</td>
</tr>
<tr>
<td>Interest cost</td>
<td>260</td>
<td>135</td>
<td>135</td>
</tr>
<tr>
<td>Actuarial gain and loss</td>
<td>1,780</td>
<td>905</td>
<td>905</td>
</tr>
<tr>
<td>Retirement benefit paid</td>
<td>(1,854)</td>
<td>(927)</td>
<td>(927)</td>
</tr>
<tr>
<td>Post-service cost</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>$78,073</td>
<td>$3,727</td>
<td>$7,438</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
<th>Fiscal year ended March 31, 2020</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>$74,748</td>
<td>$1,312</td>
<td>2,572</td>
</tr>
<tr>
<td>Service cost</td>
<td>870</td>
<td>436</td>
<td>436</td>
</tr>
<tr>
<td>Interest cost</td>
<td>11,140</td>
<td>5,975</td>
<td>5,975</td>
</tr>
<tr>
<td>Actuarial gain and loss</td>
<td>7,227</td>
<td>4,686</td>
<td>4,686</td>
</tr>
<tr>
<td>Retirement benefit liability in the balance sheet</td>
<td>18,174</td>
<td>22,492</td>
<td>37,725</td>
</tr>
<tr>
<td>Other</td>
<td>6,298</td>
<td>9,197</td>
<td>16,337</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>$79,127</td>
<td>$12,288</td>
<td>$21,729</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
<th>Fiscal year ended March 31, 2020</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense from pension plans</td>
<td>$334 million ($6,639 thousand)</td>
<td>$69,830</td>
<td>1,140</td>
</tr>
<tr>
<td>Expected return on plan assets</td>
<td>22,482</td>
<td>388</td>
<td></td>
</tr>
<tr>
<td>Interest cost</td>
<td>1,292</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>Retirement benefit assets</td>
<td>-26,683</td>
<td>-4,615</td>
<td></td>
</tr>
<tr>
<td>Retirement benefit liability</td>
<td>$22,482</td>
<td>$4,615</td>
<td>7,737</td>
</tr>
<tr>
<td>Other expenses</td>
<td>10,068</td>
<td>1,077</td>
<td>1,077</td>
</tr>
<tr>
<td>Retirement benefit expense</td>
<td>$136 million ($2,572 thousand)</td>
<td>$25,335</td>
<td>431</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
<th>Fiscal year ended March 31, 2020</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>$1,287</td>
<td>$1,287</td>
<td>2,464</td>
</tr>
<tr>
<td>Retirement benefit expense</td>
<td>145</td>
<td>145</td>
<td>253</td>
</tr>
<tr>
<td>Retirement benefit paid</td>
<td>145</td>
<td>145</td>
<td>253</td>
</tr>
<tr>
<td>Contributions</td>
<td>771</td>
<td>771</td>
<td>1,312</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>$1,288</td>
<td>$1,288</td>
<td>2,464</td>
</tr>
</tbody>
</table>

The components of the fund’s status of the plans and the amounts recognized in the consolidated balance sheets as of December 31, 2020 and March 31, 2020 for the Company’s and the consolidated subsidiaries’ defined benefit plans:

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
<th>Fiscal year ended March 31, 2020</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>$74,748</td>
<td>$1,312</td>
<td>2,572</td>
</tr>
<tr>
<td>Funded retirement benefit obligation</td>
<td>$74,748</td>
<td>$1,312</td>
<td>2,572</td>
</tr>
<tr>
<td>Retirement benefit assets</td>
<td>22,482</td>
<td>388</td>
<td></td>
</tr>
<tr>
<td>Retirement benefit liabilities</td>
<td>-26,683</td>
<td>-4,615</td>
<td></td>
</tr>
<tr>
<td>Net retirement benefit liability</td>
<td>$136 million ($2,572 thousand)</td>
<td>$25,335</td>
<td>431</td>
</tr>
</tbody>
</table>

19. Investment Property

The Company and some of its consolidated subsidiaries held some rental properties such as rental condominiums in Tokyo and other areas and overseas (mainly in the United States). The net income from the investment properties for the fiscal years ended December 31, 2020 and March 31, 2020 was $334 million ($5,223 thousand) and $714 million, respectively. The income is recognized in net sales and the expense is primarily charged to cost of sales. The amounts recognized in the consolidated balance sheet and fair values related to investment properties were as follows:

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
<th>Fiscal year ended March 31, 2020</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>$334 million ($5,223 thousand)</td>
<td>$714 million</td>
<td>11,416</td>
</tr>
<tr>
<td>Disposals and other transactions</td>
<td>(50)</td>
<td>(7)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>$333 million ($5,216 thousand)</td>
<td>$713 million</td>
<td>11,409</td>
</tr>
</tbody>
</table>

21. Segment Information

The table below shows the Company’s returns on assets held in each category.

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
<th>Fiscal year ended March 31, 2020</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>$74,695</td>
<td>$1,287</td>
<td>2,464</td>
</tr>
<tr>
<td>Sales of goods and services</td>
<td>12,958</td>
<td>2,572</td>
<td>4,336</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>143</td>
<td>250</td>
<td>431</td>
</tr>
<tr>
<td>Other</td>
<td>771</td>
<td>1,312</td>
<td>2,211</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>$89,427</td>
<td>$17,178</td>
<td>$30,361</td>
</tr>
</tbody>
</table>
### Notes:

1. Adjustments for sales and contract revenues on unaffiliated customers include ¥625 million of administration department profit.

2. Adjustments for segment profit and loss include ¥482 million of elimination of inter-segment profit and loss, ¥2,572 million of retirement benefits liability adjustments (gain), ¥6,422 million ($62,046 thousand) of adjustment (loss) to provision for bonuses associated with the change of fiscal year end, and ¥3,938 million ($38,050 thousand) of corporate general administration expense, which are not allocable to the reportable segments.

3. Adjustments for segment assets include ¥8,986 million ($86,818 thousand) of inter-segment eliminations, ¥171,528 million ($1,657,276 thousand) of corporate assets, which are not allocable to the reportable assets.

### Sales and contract revenues

<table>
<thead>
<tr>
<th>Segment</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and contract revenues</td>
<td>¥134,135</td>
<td>¥839,881</td>
<td>¥1,104,094</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Segment profit (loss)

<table>
<thead>
<tr>
<th>Segment</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment profit (loss)</td>
<td>¥124,135</td>
<td>¥839,881</td>
<td>¥1,104,094</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Segment assets

<table>
<thead>
<tr>
<th>Segment</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment assets</td>
<td>¥187,331</td>
<td>¥839,881</td>
<td>¥1,104,094</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Other items

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other items</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
</tr>
</tbody>
</table>

### Inter-segment transfers

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-segment transfers</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
</tr>
</tbody>
</table>

### Other items

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other items</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
</tr>
</tbody>
</table>

### Interest income

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
</tr>
</tbody>
</table>

### Equity in earnings (losses) of affiliates

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity in earnings (losses) of affiliates</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
</tr>
</tbody>
</table>

### Amortization of goodwill

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortization of goodwill</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
</tr>
</tbody>
</table>

### Inter-segment eliminations

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-segment eliminations</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
</tr>
</tbody>
</table>

### Other items

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other items</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
</tr>
</tbody>
</table>

### Other items

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other items</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
</tr>
</tbody>
</table>

### Increase in property, plant and equipment and intangible assets

<table>
<thead>
<tr>
<th>Category</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in property, plant and equipment and intangible assets</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
<td>¥0.0</td>
</tr>
</tbody>
</table>

### Segment assets

<table>
<thead>
<tr>
<th>Segment</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment assets</td>
<td>¥205,287</td>
<td>¥871,932</td>
<td>¥26,875</td>
<td>¥1,104,094</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Sales and contract revenues to unaffiliated customers

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
<th>Japan</th>
<th>New Zealand</th>
<th>United States</th>
<th>Other</th>
<th>Area</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥205,287</td>
<td>¥205,287</td>
<td>¥871,932</td>
<td>¥26,875</td>
<td>¥1,104,094</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Sales information by geographic area

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
<th>Japan</th>
<th>New Zealand</th>
<th>United States</th>
<th>Other</th>
<th>Area</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥4,462,419</td>
<td>¥2,823,060</td>
<td>¥819,329</td>
<td></td>
<td></td>
<td>¥6,114,094</td>
<td></td>
</tr>
</tbody>
</table>

### Information on property, plant and equipment by geographical area

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
<th>Japan</th>
<th>New Zealand</th>
<th>United States</th>
<th>Other</th>
<th>Area</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥1,019,611</td>
<td>¥322,518</td>
<td>¥233,948</td>
<td></td>
<td></td>
<td>¥2,200,918</td>
<td></td>
</tr>
</tbody>
</table>

### Customer information

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

### Information on loss on impairment of non-current assets

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
<th>Japan</th>
<th>New Zealand</th>
<th>United States</th>
<th>Other</th>
<th>Area</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥1,019,611</td>
<td>¥322,518</td>
<td>¥233,948</td>
<td></td>
<td></td>
<td>¥2,200,918</td>
<td></td>
</tr>
</tbody>
</table>

### Fiscal year ended December 31, 2020

<table>
<thead>
<tr>
<th>Japan</th>
<th>New Zealand</th>
<th>United States</th>
<th>Other</th>
<th>Area</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥154,135</td>
<td>¥683,869</td>
<td>¥21,896</td>
<td>¥839,881</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Fiscal year ended March 31, 2020

<table>
<thead>
<tr>
<th>Japan</th>
<th>New Zealand</th>
<th>United States</th>
<th>Other</th>
<th>Area</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥10,607</td>
<td>¥971,202</td>
<td>¥32,675</td>
<td>¥1,104,094</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Fiscal year ended December 31, 2020

<table>
<thead>
<tr>
<th>Japan</th>
<th>New Zealand</th>
<th>United States</th>
<th>Other</th>
<th>Area</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥1,019,611</td>
<td>¥322,518</td>
<td>¥233,948</td>
<td></td>
<td></td>
<td>¥2,200,918</td>
</tr>
</tbody>
</table>
Details on the computation of net assets per share as of December 31, as follows:

(a)  Basic and diluted net income attributable to shareholders of parent

<table>
<thead>
<tr>
<th>Amortization and balance of goodwill</th>
<th>March 31, 2020</th>
<th>March 31, 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>¥ 8,614</td>
<td>¥ 11,340</td>
</tr>
<tr>
<td>Share of income from common stock</td>
<td>¥ 8,614</td>
<td>¥ 11,340</td>
</tr>
</tbody>
</table>

Balance of goodwill:

Computation of net assets per share:

<table>
<thead>
<tr>
<th>Amortization and balance of goodwill</th>
<th>March 31, 2020</th>
<th>March 31, 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>¥ 8,614</td>
<td>¥ 11,340</td>
</tr>
<tr>
<td>Share of income from common stock</td>
<td>¥ 8,614</td>
<td>¥ 11,340</td>
</tr>
</tbody>
</table>

22. Amounts per Share

(a) Basic and diluted net income attributable to shareholders of parent per share

Details on the computation of net income per share and net income per share fully diluted as of December 31, 2020 and March 31, 2020 were as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2020</td>
<td>¥357,064</td>
<td>$293,705</td>
</tr>
<tr>
<td>March 31, 2020</td>
<td>¥213,077</td>
<td>$163,363</td>
</tr>
</tbody>
</table>

Allocations:

<table>
<thead>
<tr>
<th>Date</th>
<th>Total</th>
<th>Allocations and/or Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2020</td>
<td>¥357,064</td>
<td>¥31,995</td>
</tr>
<tr>
<td>March 31, 2020</td>
<td>¥213,077</td>
<td>¥30,398</td>
</tr>
</tbody>
</table>

23. Other Comprehensive Income

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 2020</td>
<td>¥16,908</td>
<td>$13,476</td>
</tr>
<tr>
<td>March 31, 2020</td>
<td>¥92,730</td>
<td>$72,296</td>
</tr>
</tbody>
</table>

24. Asset Retirement Obligations

In accordance with exhibition contracts at housing exhibition sites and tenancy contracts for offices, the Company and certain subsidiaries are obligated to remove household improvements attached to these housing exhibitions and offices and return the property to its original state after vacating the premises.

The asset retirement obligations are determined and discounted to their present value using the discount rates ranging from 0.00% to 2.15% and the expected usage term ranging from 5 years to 49 years.

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

<table>
<thead>
<tr>
<th>Fiscal year ended December 31,</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>¥2,275</td>
<td>$1,819</td>
</tr>
<tr>
<td>2021</td>
<td>¥2,010</td>
<td>$1,588</td>
</tr>
</tbody>
</table>

25. Related Party Transactions

Principal transactions between the Company, its consolidated subsidiaries and their related parties for the fiscal years ended December 31, 2020 and March 31, 2020 were summarized as follows:

<table>
<thead>
<tr>
<th>Fiscal year ended December 31,</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>¥12,298</td>
<td>$9,755</td>
</tr>
<tr>
<td>2021</td>
<td>¥374,316</td>
<td>$293,705</td>
</tr>
</tbody>
</table>

Notes: The Company provided guarantees of indebtedness as the requests of lending banks.

<table>
<thead>
<tr>
<th>Fiscal year ended December 31,</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>¥2,275</td>
<td>$1,819</td>
</tr>
<tr>
<td>2021</td>
<td>¥11,340</td>
<td>$8,443</td>
</tr>
</tbody>
</table>
26. Business Combination (Business Transfer by Consolidated Subsidiary)
1. Summary of the business combination
(1) Name of the acquiree and business description
Name of the acquiree: Builders Professional Group, LLC
Description of business: Construction and sales of spec homes
(2) Main reason for implementing the business combination
The Company is taking over the business from Builders Professional Group, LLC, which is engaged in the spec homes business under the brand Knight Homes in the Atlanta, Georgia area, the third largest housing market in the United States, in order to enter that market.
(3) Date of the business combination
December 1, 2020 (U.S. date)
(4) Legal form of the business combination
Cash-based business transfer
(5) Name of company after business combination
DRB Group (DRB Group Georgia, LLC and DRB Group Alabama, LLC)
(6) Main reasons for determining the acquiree
Our consolidated subsidiary, DRB Group, is the acquiring company because it is paying cash for the business transfer.

2. Period for which the results of the acquiree are included in the consolidated financial statements of the Company
From December 1, 2020 to December 31, 2020.

3. Breakdown of consideration for acquisition and type of consideration

<table>
<thead>
<tr>
<th>Consideration for acquisitions:</th>
<th>¥14,583 million ($140,899 thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition consideration:</td>
<td>¥14,983 million ($146,459 thousand)</td>
</tr>
</tbody>
</table>

Note: The above amount includes the account payable of the contingent consideration.

4. Description and amount of primary acquisition-related costs
Advisory fee: ¥245 million ($2,371 thousand)

5. Amount of goodwill, reason for recognition, and amortization method and period
(1) Amount of goodwill
¥1,470 million ($14,204 thousand)

(2) Reason for recognition
The acquisition cost exceeded the fair value of net assets acquired at the date of business combination.
(3) Amortization method and period
Straight-line amortization over 2 years

6. Assets acquired and liabilities assumed at the acquisition date

<table>
<thead>
<tr>
<th>Current assets</th>
<th>¥19,598 million</th>
<th>$188,157 thousand</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td>720 million</td>
<td>6,900 thousand</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>60 million</td>
<td>577 thousand</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥20,318 million</td>
<td>$195,064 thousand</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>¥20,318 million</td>
<td>$195,064 thousand</td>
</tr>
</tbody>
</table>

7. Contents of the contingent consideration and their future accounting treatment
Based on the contract, additional payments will be made according to the degree of achievement of future performance of the acquired business. The variable portion of the contingent consideration is recognized based on U.S. GAAP.

8. Estimated impact on the consolidated statement of income in the fiscal year ended December 31, 2020, assuming that the business combination was concluded at the beginning of the fiscal year, and the method of calculation.
Sales ¥15,353 million ($148,338 thousand)
Accrued income ¥2,197 million ($21,224 thousand)
Net income attributable to shareholders of parent ¥1,383 million ($13,951 thousand)

9. (Method by which estimated amounts were calculated)
The estimated amounts were calculated based on the difference between financial information on sales and income calculated on the assumption that the business combination was concluded at the beginning of the fiscal year ended December 31, 2020 and financial information on sales and income contained in the consolidated statement of income of the acquiring company. The estimated amounts of the impact have not been audited.

27. Stock Option Plan
(a) Stock option expenses per accounts for the fiscal years ended December 31, 2020 and March 31, 2020
None.
(b) Description of stock options
(1) Description of stock options

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of stock options granted by class of share ( Restricted shares)</td>
<td>Restricted shares: 32,800 shares</td>
<td>Restricted shares: 31,800 shares</td>
<td>Restricted shares: 34,200 shares</td>
</tr>
<tr>
<td>Stock award date</td>
<td>August 19, 2015</td>
<td>August 20, 2015</td>
<td>August 20, 2015</td>
</tr>
<tr>
<td>Vesting conditions</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Expiration date</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Exercisable shares</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

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.

1) Number of stock options
Fiscal Year ended December 31, 2020

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Vested stock options as of March 31, 2020</td>
<td>29,800</td>
<td>36,000</td>
<td>34,200</td>
</tr>
<tr>
<td>Forfeited</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unexercised as of December 31, 2020</td>
<td>29,800</td>
<td>36,000</td>
<td>34,200</td>
</tr>
</tbody>
</table>

2) Unit price information

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exercise price</td>
<td>¥1,017</td>
<td>¥1,017</td>
<td>¥1,017</td>
</tr>
<tr>
<td>Exercisable stock price when exercised</td>
<td>¥1,418</td>
<td>¥1,094</td>
<td>¥1,256</td>
</tr>
<tr>
<td>Average stock price when exercised</td>
<td>¥1,311</td>
<td>¥1,055</td>
<td>¥1,124</td>
</tr>
<tr>
<td>Fair value on the grant date</td>
<td>¥1,217</td>
<td>¥1,084</td>
<td>¥1,246</td>
</tr>
</tbody>
</table>

(c) Method for estimating a fair unit price for stock options
No stock options were granted in the fiscal year ended December 31, 2020.

(d) Method for estimating the number of vested stock options
Because it is difficult to reasonably estimate the number of options that will vest in the future, the number of options that have been forfeited is reflected.

29. Subsequent Events

28. Additional Information

(Effect of COVID-19 on Accounting Estimates)
It is extremely difficult to predict the future spread of COVID-19 and when it will end. Although the transaction volume of the Timber and Building Materials business has decreased, the financial performance of the Overseas Housing and Real Estate business has been favorable mainly in the United States because of the increasing demand for domestic detached houses, which led to a recovery trend in orders received in the Housing and Construction Business that has continued from the middle of the fiscal year ended December 31, 2020.

To determine the recoverability of deferred tax assets and the recognition of impairment loss, the Company made best estimates assuming that a minor impact would continue based on the information available at the time of preparation of the consolidated financial statements.
However, in the event it is determined that there are major changes in circumstances upon which the estimates were formed, a reversal of deferred tax assets may occur and estimates may be revised considering the degree of achievement of future performance of the acquired business. The variable portion of the contingent consideration is recognized based on U.S. GAAP.

3. Description and amount of primary acquisition-related costs
Advisory fee: ¥245 million ($2,371 thousand)

4. Amount of goodwill, reason for recognition, and amortization method and period
(1) Name of the acquiree and business description

Name of the acquiree: Kouei Kousan K.K., Cohnan Kensetsu Inc. and 3 other companies.
Description of business: Construction and related business.

(2) Main reason for implementing the business combination
Kouei Kousan K.K. is the holding company that holds 53.59% of the shares of Cohnan Kensetsu Inc. Cohnan Kensetsu Inc. is a construction company based in Osaka and Tokyo. Leveraging of its consistent support from project proposal to design, construction and after-maintenance.
Cohnan Kensetsu Inc. has extensive construction experience involving condominiums, commercial facilities, schools, welfare facilities and research and production facilities. The purpose of this acquisition is to strengthen medium- and large-scale wooden construction business, which promotes the use of wood in non-residential building construction.

(3) Date of the business combination
January 18, 2021

(4) Legal form of the business combination
Acquisition of the shares for a cash consideration

(5) Ratio of voting rights acquired
Kouei Kousan K.K.: 100% Cohnan Kensetsu Inc. and 3 other companies: 52.59%.

(6) Main reasons for determining the acquiree
The Company acquired the shares for a cash consideration.

2. Breakdown of consideration for acquisition and type of consideration
Consideration for acquisition: Cash ¥5,200 million ($50,242 thousand)

3. Description and amount of primary acquisition-related costs
Advisory fee: ¥141 million ($1,362 thousand)

4. Amount of goodwill, reason for recognition, and amortization method and period
Not yet determined.

5. Assets acquired and liabilities assumed at the acquisition date
Not yet determined.
Independent Auditor's Report

The Board of Directors
Sumitomo Forestry Co., Ltd.

Opinion
We have audited the accompanying consolidated financial statements of Sumitomo Forestry Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the nine-month period then ended, and notes to the consolidated financial statements.

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

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

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

• Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

• Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.

• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

• Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

• Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the nine-month period ended December 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan
March 30, 2021

/S/ Tatsuya Chiba
Tatsuya Chiba
Designated Engagement Partner
Certified Public Accountant

/S/ Yoshikatsu Nakahara
Yoshikatsu Nakahara
Designated Engagement Partner
Certified Public Accountant

/S/ Natsuki Saiki
Natsuki Saiki
Designated Engagement Partner
Certified Public Accountant

Sumitomo Forestry Group overview (As of end of March 2021)
## Overseas Group overview

### United States
- **Sumitomo Forestry America, Inc.**
  - Oversight and participation in management of affiliated companies in the U.S.A.
- **Canyon Creek Cabinet Company**
  - Manufacture and sale of kitchen cabinets, etc.
- **Bloomfield Homes Group**
  - Construction and sale of spec homes
- **Gehan Homes Group**
  - Construction and sale of spec homes
- **MainVue Homes Group**
  - Construction and sale of spec homes
- **Dan Ryan Builders Group**
  - Construction and sale of spec homes
- **Edge Homes Group**
  - Construction and sale of spec homes
- **Crescent Communities Group**
  - Construction and sale of multi-family housing, commercial complex developments, etc.
- **Mark III Properties, LLC**
  - Land development and sale

### Australia
- **Sumitomo Forestry Australia Pty Ltd.**
  - Oversight and participation in management of affiliated companies in Australia; import/export and wholesale of timber and building materials
- **Henley Properties Group**
  - Construction and sale of custom-built homes and spec homes
- **Wisdom Properties Group**
  - Construction and sale of custom-built homes and spec homes
- **Scott Park Group**
  - Construction and sale of custom-built homes

### New Zealand
- **Sumitomo Forestry NZ Ltd.**
  - Management of affiliated companies in New Zealand
- **Nelson Pine Industries Ltd.**
  - Manufacture and sale of medium-density fiberboard (MDF), veneer and laminated veneer lumber (LVL)
- **Tasman Pine Forests Ltd.**
  - Large-scale forestation

### Papua New Guinea
- **Open Bay Timber Ltd.**
  - Large-scale forestation

### Singapore
- **Sumitomo Forestry (Singapore) Ltd.**
  - Import/export and wholesale of timber and building materials, oversight and participation in management of affiliates in Asia
- **SFKG Property Asia Pte. Ltd.**
  - Real estate development business in Asia region

### 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. Kubi Mula Forestry**
  - Large-scale forestation
- **PT. Kutai Timber Indonesia**
  - Manufacture and sale of plywood, secondary processed plywood, processed timber products and particle board
- **PT. Rimba Partikel Indonesia**
  - Manufacture and sale of particle board and melamine faced chipboard
- **PT. Sinar Rimba Pasifik**
  - Manufacture and sale of wooden interior products
- **PT. AST Indonesia**
  - Manufacture and sale of materials for musical instruments and wooden building materials
- **PT. Summa Sinar Fajar**
  - Development, construction and sale of detached houses

### Myanmar
- **Sumitomo Forestry (Singapore) Ltd. Yangon Branch**
  - Wholesale of timber and building materials, collect information on overseas locations

### Thailand
- **SF Holdings (Thailand) Co., Ltd.**
  - Management of affiliated companies in Thailand
- **PAN ASIA PACKING LTD.**
  - Procurement and sale of wooden packaging materials and wood products
- **Grand Star Co., Ltd.**
  - Development, construction and sale of condominiums
- **Grand River Forest Co., Ltd.**
  - Development, construction and sale of condominiums
- **PF Forestry Co., Ltd.**
  - Development, construction and sale of detached houses

### Vietnam
- **Sumitomo Forestry Vietnam Co., Ltd.**
  - Import/export and wholesale of timber and building materials
- **Vina Eco Board Co., Ltd.**
  - Manufacture and sale of particle board
- **An Cuong Wood-Working Joint Stock Company**
  - Manufacture, sale and construction of fabricated decorative board and wooden interior building materials

### India
- **Sumitomo Forestry India Pvt. Ltd.**
  - Import/export and wholesale of timber and building materials
- **Spacewood Furnishers Pvt. Ltd.**
  - Manufacture and sale of wooden interior products

### Overseas offices
- **Vancouver Office (Canada)**
- **Amsterdam Office (Netherlands)**