Integrated Report
2022
The Sumitomo Forestry Group publishes an Integrated Report every year to inform shareholders, investors and all other 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.

The Integrated Report for 2022, a report on performance for the fiscal year ended December 2021, was compiled with the primary focus of explaining the long-term vision and medium-term management plan that were newly formulated in February 2022. Based on this long-term vision, the Group will endeavor to achieve sustainable growth by maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy. This report will explain the concepts behind the vision and the efforts each business is making to achieve it. It will also report systematically on last year’s performance and the ESG initiatives that formed the basis of those results.

We hope this report will serve as a basis for deeper discussions with all of our stakeholders.

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**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. Our ESG initiatives are available in both Japanese and English on the Company’s website. Sumitomo Forestry also publishes on its website Japanese and English translations of its business activity reports and Notice of Convocation of the Ordinary General Meeting of Shareholders, among other documents.

**Corporate, IR, Sustainability information** [https://sfc.jp/english/sustainability](https://sfc.jp/english/sustainability)

**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.

Purpose and scope of application

Fair and transparent corporate activities

The Sumitomo Forestry Group shall manage its operations, including the supply chain, in accordance with this Code of Conduct.

1. Strict adherence to laws and regulations
2. Prevention of corruption
3. Fair business transactions
4. Fair accounting procedures
5. Communication with stakeholders
6. Maintaining confidentiality
7. Information security
8. Avoidance of a conflict of interest
9. Prohibition of misappropriation of company assets
10. Prohibition of insider trading
11. Ethical conduct

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.

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.

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While it is unclear when the COVID-19 pandemic that began in 2020 will end, we are finally beginning to see a return to normal daily life thanks to vaccinations, restrictions on activities and other measures. Nonetheless, the fragmentation to the supply chain that the pandemic caused continues to disrupt the balance of supply and demand, causing chaos in the distribution network, soaring wood prices and other issues. In addition, countries worldwide are experiencing a shortage of supplies and inflation with worsening geopolitical risks.

At COP26 held last year in Glasgow, the world made its first real step toward realizing a decarbonized society with member countries agreeing to limit global warming to 1.5°C compared to pre-industrial levels. In these turbulent times, companies are being tasked to play an increasingly important role in the sustainable development of society.

Sumitomo Forestry Group’s origins go back to 1691 with the opening of the Besshi Copper Mine where we managed forests to procure wood for fuel and mining wood. In the more than 330 years since, we have operated our businesses based on Sumitomo’s Business Spirit, which places prime importance on fairness and integrity for the good of society. In 1894, we formulated the Great Afforestation Plan to begin rejuvenating the surrounding forests that were damaged from smoke and other factors from copper smelting. In a time when there was no awareness of ESG or SDGs, our predecessors strove to conduct business that was in harmony with public interest. Their DNA continues to be passed down to this day as reflected in our Group’s Corporate Philosophy and Our Values.

Sumitomo Forestry Group has long contributed to the global environment and people’s lifestyles through a wide range of business activities centered on wood, such as forest management, wood building materials manufacturing, distribution, wood building construction and biomass power generation. In a world grappling with climate change and energy problems, now more than ever before, we must adhere to the values handed down from our predecessors and create businesses that resolve societal issues in a way that only Sumitomo Forestry Group can. With the aim to be an integral element of people’s lives, we are committed to contributing to a sustainable and prosperous society through our business activities.

Akira Ichikawa
Representative Director, Chairman of the Board
The history of Sumitomo Forestry

Our sustainable business model draws out the potential of trees

1691

Founding of Sumitomo Forestry

Opening of the House of Sumitomo Besshi Copper Mine
Beginning of copper mine forestry business

1600s

1865

Saiki Hirose appointed manager of Besshi

1899

Masaya Suzuki appointed manager of Besshi
Established the sustainable forestry approach

1882

Rules of Governing the House of Sumitomo established

1900s

1894

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

1909

Forestry Section established at Sumitomo Sohonten

1894

Launched the Large-Scale Reforestation Plan

1919

Six companies formed (established) from the Forestry Department of Sumitomo under the government’s zaibatsu dissolution order
After two mergers, they became two companies: Toho Agriculture and Forestry (Toho Norin) and Shikoku Forestry (Shikoku Ringyo)

1948

Mount Besshi in the present day

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

The Monjuin Shiigaki left by Masatomo Sumitomo (1585-1652), founder of the House of Sumitomo. The preamble of this brief explanation of philosophical business rules states, “Do your best prudently and meticulously, not only in business, but in every aspect of your life.” He emphasizes that care should be exercised in all matters and everything should be done with consideration and respect. Sumitomo also left behind writings such as “Value trust and make certainty a principle” advocating the importance of integrity, “Refrain from the pursuit of easy gains” which warns against being blinded by thirst for quick profits, and “Harmony between your interests and those of the public” 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 devoutly observed as the Sumitomo Spirit even in the present day.

Sumitomo Forestry's origin in the copper mine forestry business

Sumitomo Forestry was established back in 1691 with the opening of the Besshi Copper Mine in present-day Niihama, Ehime Prefecture. It began with the management of forests surrounding the Besshi Copper Mines in order to procure timber for fuel and wood to support mine walls, which was essential to the copper smelting business, and also timber and other materials for the construction of housing for people who lived and worked in mining and smelting.

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.
Expanding business in response to the needs of the times

During the over 330 years since our establishment, we have expanded our business areas to meet the needs of the times and built our current global business structure. While keeping our corporate philosophy rooted and drawing out the potential of trees, we will respond to diversifying values and social changes and aim to achieve sustainable growth.

1955
Yanoh Forestry Co., Ltd. and Shikoku Ringyo Co., Ltd. merge with Shikoku Ringyo Co., Ltd. as the surviving company to form Sumitomo Forestry Co., Ltd. Nationwide network to procure and sell domestic timber established

1956
Started the timber import business

1958
Waterfront at the Port of Vancouver

1959
Sumitomo Forestry employees performing inspections at timber yard facility

1960
Established the timber import business

1964
1964
Established a dedicated plywood production company in Japan

1966
Full-scale operation of MDF production plant by Nelson Pine Industries Ltd. (NPL) in New Zealand

1969
Entry into the greening business

1970
1970
Established PT. Kutai Timber (KTI) and launched full-scale construction materials business mainly for plywood

1975
Started the custom-built wooden housing business

1977
Entry into the greening business

1986
1986
Established a dedicated plywood production company in Japan

1991
Tsukuba Research Institute established, unified the R&D organization for building materials, housing, and resources

1993
Full-scale entry into the elderly care business

1995
Started the housing business in Australia

2001
2001
Full-scale entry into the detached apartment housing development business in the United States

2003
2003
Started housing business in the United States

2005
2005
Developed first wooden beam Rahmen structure (Big-Frame construction method) in Japan

2007
2007
Full-scale entry to the elderly care business

2008
2008
Started housing business in Australia

2009
2009
Gran Forest Kobe Mikage

2011
2011
Established a dedicated plywood production company in Japan

2013
2013
Developed first wooden beam Rahmen structure (Big-Frame construction method) in Japan

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

2020
2020
Full-scale entry into the detached apartment housing development business in the United States

Composition by segment (fiscal year ended December 31, 2021)

- Timmer and Building Materials: 15%
- Housing and Construction: 36%
- Overseas Housing and Real Estate: 45%
- Environment and Resources: 2%
- Others: 2%

Net sales:
- 36% Housing and Construction
- 45% Overseas Housing and Real Estate
- 2% Environment and Resources
- 2% Others

Recurring income:
- 7% Timmer and Building Materials
- 14% Housing and Construction
- 74% Overseas Housing and Real Estate
- 3% Environment and Resources
- 2% Others

The history of Sumitomo Forestry

- 1950s
- 1960s
- 1970s
- 1980s
- 1990s
- 2000s
- 2010s
- 2020s
Mission TREEING 2030, our long-term vision to guide us through an uncertain future

While the COVID-19 pandemic wreaked havoc on societal and economic activities around the world, restrictions are gradually being relaxed in the US and Europe. Even in Japan, hopes that life will return to normal are beginning to emerge. In the beginning of 2020, the spread of the pandemic triggered lockdowns in various countries, semiconductor shortages and supply chain disruptions due to a slowdown of marine transport, shaking the foundation of business activities in all sectors. In Japan, we are still experiencing wood shortages and soaring prices – in other words, the wood shock – as well as shortages in building materials and housing equipment. In addition, Russia’s military invasion of Ukraine in February 2022 has brought about resource, energy and food insecurities. Sudden inflation has had a huge impact on the global economy and may disrupt world order. Companies with global operations are facing a very uncertain future.

At COP26 held in November 2021 in Glasgow, the United Kingdom, member countries agreed to limit global warming to 1.5°C compared to pre-industrial levels and to steadily phase down coal power. Ahead of this in September, Sumitomo Forestry Group signed Business Ambition for 1.5°C, a campaign led by the Science Based Targets (SBT) initiative in partnership with the UN Global Compact and other organizations and set a goal to achieve net zero carbon emissions by 2050. In February 2022, we announced Mission TREEING 2030, our long-term vision to provide value for our planet, for people and society and for our market economy to make our planet safer and more secure for current and future generations of people and all living beings.

A look back at fiscal 2021

For the December 2021 fiscal term, the final year of our previous Medium-Term Management Plan, total net sales increased 25.5% from the previous term to 1,385.9 billion yen thanks to the strong performance of our Overseas Housing and Real Estate Business – in particular, our US housing operations. Recurring income increased 134.2% to 137.8 billion yen and profit attributable to shareholders of the parent company soared 213.0% to 87.2 billion yen, a record high profit that significantly exceeded our forecasts.

In the Timber and Building Materials Business, despite a tight supply and soaring prices of timber worldwide, sales and profits of imported lumber products, imported plywood and domestic lumber grew. In the Housing and Construction Business, thanks to successful digital marketing efforts of our main custom-built detached housing business, orders received and the ratio of ZEH (net-zero energy houses) rose, which combined with an increase in unit sales prices and new housing starts, resulted in higher net sales. However, rising wood and other building material costs held down profits.

The Overseas Housing and Real Estate Business, which drove our performance, registered significant increases in both sales and profit thanks to a strong new housing market in the United States, increases in the number of units sold and per unit prices, and robust real estate development operations. Through M&As and investments these past several years, we have been actively positioning ourselves in a growth market that is expanding both in terms of scale and diversity. As a result, we have been able to capitalize on this booming market to steadily lead the increase in overall Group revenues. The Environment and Resources Business benefitted from the strong performance of our overseas forestry business in New Zealand and Indonesia as well as rising timber prices in our domestic forestry business. In addition, the start of operations of the Kanda Biomass Power Plant...
Message from the President

and our other wood biomass power generation plants contributed to profits.

In our Lifestyle Service Business, the two elderly-care facility companies continued operations throughout the COVID-19 pandemic thanks to thorough preventive measures. We also opened the VISION Hotel in Taki, Mie Prefecture, in July 2021.

Despite the COVID-19 pandemic, we were able to respond flexibly to changes in our operating environment to register record-high profits for each of the three years* of our previous Medium-Term Management Plan. In terms of sales, profit and all major financial indices, we significantly exceeded forecasts.

* The December 2020 fiscal term was nine months due to a change in the fiscal year, and we achieved record high third quarter profits.

Formulating our long-term vision

The world is facing an uncertain post-COVID future with Russia’s invasion of Ukraine, decarbonization efforts and numerous other factors. It is precisely during times like these that the Sumitomo Forestry Group must continue to contribute to resolving societal issues and realizing a sustainable society through our business activities. By providing value for our planet, for people and society, and for the market economy, we want to make our planet safer and more secure for current and future generations of people and all living beings.

In preparation for 2030, the target year of our SDGs, we have formulated Mission TREEING 2030, our long-term vision that sets out what type of company we want to be. In drawing up this long-term vision, we surveyed our customers, business partners, investors, Group employees and other stakeholders from both within and outside the Company. In addition to incorporating their hopes and expectations for the Sumitomo Forestry Group, we held repeated internal discussions with mixed groups of employees, both young and management level. Through these processes, we were able to identify three values we want to provide – value for our planet, value for people and society, and value for the market economy. We are committed to promoting business activities that simultaneously enhance all three values without sacrificing any of the other values.

Based on these discussions, we also developed four different themes for Mission TREEING 2030: 1) Maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy; 2) Advancing globalization; 3) Striving for transformation and the creation of new value; and 4) Transforming our business foundation for growth.

For our first theme, maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy, our Group’s business operations both in Japan and overseas are pursuing the capacity of wood resources to absorb and reduce CO2s and contribute to the realization of a decarbonized society. For our second theme, advancing globalization, we are further expanding our overseas operations with the United States, Australia and Asia as our core overseas business platforms. For our third theme, striving for transformation and the creation of new value, we are promoting digitalization and other forms of business innovation and rebuilding the revenue base of our main businesses in Japan to restore profitability. For our fourth theme, transforming our business foundation for growth, we are working to hire, nurture and retain talented people who can respond to the increasing globalization and diversification of our operating environment. We are also enhancing employee engagement and reinforcing our risk management systems.

Through these and other initiatives, Sumitomo Forestry Group will strive to contribute to the decarbonization of society and expand to have a Group recurring income of 250 billion yen by 2030.

Contributing to the realization of a decarbonized society

One of the business policies of our long-term vision is maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy. To achieve this, we are going beyond decarbonization initiatives and setting goals that not only provide economic value, but also appropriately protect precious natural resources, such as biodiversity and water. Trees absorb carbon dioxide from the atmosphere in the growth process of photosynthesis, and even after harvesting, store large amounts of carbon. Utilizing wood for high-quality housing, furniture and other uses stores carbon for long periods of time and is the concept of HWP (harvested wood products) outlined in the Kyoto Protocol. In October 2021, the Forestry Agency released guidelines for construction and other companies on how to calculate carbon fixation amounts. By planting trees after logging, the younger trees more effectively absorb and store carbon as they grow. In addition, wooden buildings have significantly lower CO2 emissions compared to steel frame or concrete buildings. Construction waste from building demolitions, unutilized wood from woodlands, and sawdust and wood chips from manufacturing facilities can be utilized for biomass power generation as an alternative to fossil fuels, further reducing CO2 emissions. This cycle of harvesting trees, replanting them and then utilizing the wood they produce can make a significant contribution to realizing a decarbonized society.

For our long-term vision, we are pursuing initiatives in three fields – forests, wood and construction. In the area of forests, we have established a forestry fund to increase the sustainable forest area we own or manage worldwide from the current approximate 280,000 ha to 500,000 ha. In addition to forest management for sustainable timber production, we want to create high-quality carbon credits by appropriately maintaining and managing natural forests and tropical peatlands. Establishing this type of circular forestry business will support decarbonization for both countries and companies.

In the field of wood, we are promoting higher domestic self-sufficiency and greater use of wood, which we call wood change. To manage the growing stock of forests in Japan, we are establishing timber industrial complexes that fully utilize domestic wood using the cascade method, from wood product manufacturing to fuel for biomass power generation. As a first step, we have begun the operation of a wood processing plant in Shibusi, Kagoshima Prefecture.

In the field of construction, we are working to visualize CO2 emission reduction amounts and standardize decarbonized design. Specifically, we will implement an environmental labeling system called EPD (environmental product declaration) for building materials and equipment. We will also establish a design method that visualizes a building’s life cycle CO2 emissions using One Click LCA, a software that enables life cycle assessment calculations related to construction. The construction sector accounts for almost 40% of the world’s CO2 emissions. Of this, 70% is operational carbon (CO2 during occupancy), which is the
CO2 from energy usage in houses and offices. We are working to reduce operational carbon with the popularization of renewable energies, ZEH (net-zero energy houses) and ZEB (net-zero energy buildings). The remaining 30%, called embodied carbon (CO2 during construction), is the CO2 from the raw material procurement, processing, transport, construction, repair and disposal of building materials. With an increase in construction in developing countries and other parts of the world, reducing embodied carbon will become a critical issue. As the efforts of any one company alone would be insufficient, the construction industry as a whole must advance initiatives to reduce CO2 emissions, such as promoting the visualization of CO2 emissions for each building material and method. Our Company is promoting the standardization of decarbonized design by acquiring EPD for the construction industry and popularizing One Click LCA.

Ever since our establishment in 1691, our Company has been involved in a wide variety of businesses both in Japan and overseas centered on wood. With the ongoing operation of the wood cycle where trees are nurtured, utilized and then replanted, we believe we can contribute to decarbonization and resource recycling for not only our Company, but for society as a whole.

Our new Medium-Term Management Plan

Our new Medium-Term Management Plan, which started in fiscal 2022, is positioned as Mission TREEING 2030 Phase 1, part of our long-term vision. During this time frame, we will create the foundation for future growth and decarbonization. In our previous Medium-Term Management Plan, we were able to significantly expand our Overseas Housing and Real Estate Business, a major pillar of earnings, and enhance the competitiveness of materials, labor and other costs. For our new Medium-Term Management Plan, we will recover the profitability of our domestic operations, which was a remaining issue in our previous Medium-Term Management Plan. In addition, we will invest in our Resources and Environment Business, which forms the core of our decarbonization efforts, and strengthen the foundation needed to realize our long-term vision. In the Timber and Building Materials Business, we will build processing plants as a first step to creating timber industrial complexes that better utilize domestic timber. In addition, we will actively invest in decarbonization, DX promotion and other new businesses that have the potential to become a pillar of our operations. In the Housing and Construction Business, we will promote digital marketing and rationalization of construction methods to further increase the competitiveness and market share of our custom-built detached housing business. We will also expand our spec home business, our non-residential building business and renovation business. In the Environment and Resources Business, we will actively expand the area of forest land we manage both in Japan and overseas.

The further growth of our Overseas Housing and Real Estate Business

The further growth of our core Overseas Housing and Real Estate Business is a critical factor in achieving our Medium-Term Management Plan targets. In our main US market, rising policy interest rates are driving higher mortgage rates, which is resulting in declining affordability. However, demand for housing is expected to remain strong for the mid- to long-term due to an increase in the first home-buying population, such as Millennials, Generation Z and other demographic groups, and a housing shortage of four to six million units. Our Group is developing properties in regions with above-average population growth. Of the top 10 cities building the most new homes, we have a presence in eight. Furthermore, these cities have a lower-than-average home-price-to-income ratio, which gives us reason to believe that the market will continue to grow.

In addition to the United States, our Group considers Australia and ASEAN countries to be important markets where the population and economy are expected to grow steadily in a post-COVID era. By carefully selecting land plots and developing products that match the area’s characteristics, we plan to increase the number of single-family homes we sell to 20,000 units per year. In addition, with the expansion of our detached rental housing business, we are broadening our business field and at the same time, enhancing our cost competitiveness through better rationalization of materials and construction to build a business structure that can secure stable profits in any type of operating environment. To realize decarbonization through the construction of wooden buildings, which have a low environmental impact, we are also developing mid- and large-scale non-residential wooden building operations in the United States, Australia, the United Kingdom and other countries.

A resilient organization that works with a diverse range of stakeholders

Sumitomo Forestry Group is undertaking a number of initiatives to grow and transform into a resilient organization that values diversity. As part of management’s commitment to sustainable growth, our director compensation system is now linked with ESG management indices and specific long-term CO2 emissions reduction targets. To ensure that employees from a diverse range of backgrounds can work with a sense of security and harness their individuality, we introduced a new financial-performance-linked evaluation system that better promotes goal achievement and employee growth. In October 2021, we also announced our Declaration of Health Management to promote workstyle reform.

To work with a diverse group of stakeholders, we must actively pursue alliances, join organizations and pay close attention to emerging sentiment while sharing our own company’s knowledge, technologies and future vision. To begin fully promoting the understanding and utilization of biodiversity and other natural assets, we became a member of the Taskforce on Nature-related Financial Disclosures (TNFD). Compared to a year ago, interest in embodied carbon reduction and decarbonization through forest utilization has grown. More than ever before, we are meeting with business partners and new companies we have had no past contact with about opportunities for collaboration.

To our stakeholders

The Sumitomo Business Spirit is an integral element of our corporate philosophy and within it, there is the phrase, “Benefit self and benefit others, private and public interests are one and the same.” Behind this is the conviction that Sumitomo’s business must benefit the nation and society and emphasize harmony with public interest, and the belief that companies are simultaneously both private entities and public institutions. By revitalizing forests and popularizing wooden construction, we want to contribute to the decarbonization of the world. This is our 21st century interpretation of benefiting self and benefiting others. As we work tirelessly to pursue these goals, we kindly ask our stakeholders for their ongoing understanding and support.
In February 2022, Sumitomo Forestry Group announced Mission TREEING 2030, our long-term vision outlining our direction, our business policies and what type of company we want to be in 2030, the final year of our SDGs. Our Group aims to contribute to the global environment and people’s lifestyles through business activities that provide a variety of values. With the emergence of urgent, global-scale societal issues, such as climate change and energy problems, companies must manage their operations with a longer-term perspective. In this environment, we recognize the need to pursue further growth and value creation for the overall Group.

The three years of Mission TREEING 2030 Phase 1 (2022–2024) are being positioned as the period to build a foundation that will secure future growth and enable us to contribute to decarbonization. To achieve this, we are actively expanding our Overseas Housing and Real Estate Business, recovering the profitability of our domestic operations and further investing in our Environment and Resources Business, the core of our decarbonization efforts.
Long-Term Vision

**Mission TREEING 2030**

~Making our planet safer and more secure for future generations~

By providing value for our planet, for people and society, and for the market economy, we at Sumitomo Forestry Group will strive to make our planet safer and more secure for current and future generations of people and all living beings. With our long-held strengths in harnessing and expanding the value of forests and wood, we will create change for a new future.

![Value for our planet](image)

![Value for people and society](image)

![Value for the market economy](image)

### Nine material issues and related SDGs

| Value for our planet | 1. To enhance the value of forests and wood through sustainable management |
| 2. To realize carbon neutrality by leveraging forests and wood resources |
| 3. To realize a circular bioeconomy by leveraging forests and wood resources |

| Value for people and society | 4. To provide comfortable and secure spaces for society at large |
| 5. To improve the livelihood of the local communities where we operate |
| 6. To create a vibrant environment for all workers |

| Value for the market economy | 7. To create new markets with forests and wood |
| 8. To transform markets through DX and innovation |
| 9. To establish a robust business structure |

### Business policy

1. **Maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy**

2. **Advancing globalization**

3. **Striving for transformation and the creation of new value**

4. **Transforming our business foundation for growth**

### Financial performance target

**2030 recurring income target**

250.0 billion yen

To realize a decarbonized society, Sumitomo Forestry Group newly formulated Mission TREEING 2030, our long-term vision that sets out what type of company we want to be by 2030, the same year as our SDGs target year. We also drew up Mission TREEING 2030 Phase 1 (2022 ~ 2024), our Medium-Term Management Plan. Under Mission TREEING 2030, we defined three areas the Group can provide value – “value for our planet,” “value for people and society” and “value for the market economy” simultaneously without compromising any of them.

In terms of financial performance, we are aiming for growth that will enable us to reach 250.0 billion yen in recurring income by the December 2030 term (137.8 billion yen as of the December 2021 term).
Forests, a key element to realizing a decarbonized society

With the adoption of the Paris Agreement at the 21st United Nations Climate Change Conference held in Paris, France in 2015, the world began the move to realize a decarbonized society. In October 2020, Japan declared that it would strive to be carbon neutral by 2050. To realize carbon neutrality by 2050, we must not only reduce greenhouse gas emissions. We must also offset the greenhouse gases we emit through other types of reduction and absorption efforts.

An important key to doing so is increasing the CO2 absorption volume of forests. Trees absorb CO2 from the atmosphere in the growth process of photosynthesis and store that CO2 as carbon. In other words, forests play an important role in carbon absorption and storage.

Since 1990, the world’s forests have been declining at a faster rate than they are increasing. Because deforestation is directly related to lower forest CO2 absorption volume, we must increase forest area to achieve carbon neutrality. This is why forest protection is gaining increasing focus.

On the other hand, forests in Japan are aging, which presents a different problem. Younger trees absorb more CO2 than older trees. About 40 percent of Japan’s forests are man-made forests that were planted after World War 2, and about half of those forests are more than 50 years old. To increase CO2 absorption in Japan, mature trees must be harvested, effectively utilized and then replanted with seedlings to promote the rejuvenation of forests.

Point 1: To increase CO2 absorption amounts, we must stop deforestation and rejuvenate working forests.

World issue
Reduced CO2 absorption due to deforestation

Japan issue
Reduced CO2 absorption due to aging forests

Primarily, Conserve and increase conservation forests
Manage and expand forests

Primarily, Rejuvenate working forests
Harvest and replant forests

Carbon storage refers to the ability of trees to absorb CO2 and store it internally as carbon. By utilizing harvested wood to produce wood buildings, furniture and other wood products, carbon is stored for long periods of time without being released into the atmosphere.

Utilize wood for long-term carbon storage

Point 2: To realize a decarbonized society, we must increase CO2 absorption amounts by stopping deforestation around the world and promoting the rejuvenation of working forests in Japan. In addition, we must effectively utilize harvested trees to store carbon over the long term. The carbon that trees absorb in the growth process continues to be stored in the wood buildings, wood furniture and other products that the harvested trees are made into. By producing high-quality wood products, we can retain for long periods of time the large amounts of carbon the trees absorbed when they were growing.

But the benefits of using wood do not stop here. For example, when we compare the CO2 emitted when building with steel or concrete frames versus when building with wood, markedly less energy is consumed when using wood when we trace back to the production of raw materials. In other words, using wood to construct building structures will significantly reduce CO2 emissions.

Forests produce not only wood. They also absorb and store CO2, protect biodiversity, recharge water sources, conserve soil, prevent landslides and provide many other public benefits. With the rediscovery of the value of forests, people in Japan are beginning to better understand the importance of healthy forest management and effective wood production and utilization. We believe that promoting the use of wood in all aspects of society and increasing carbon storage amounts will help lead to a decarbonized society.

Long-term carbon storage using wood

Some of the world’s forests are working forests, and some of Japan’s forests are conservation forests. Forest management must be conducted optimally with appropriate zoning.

Integrated Report 2022 22Sumitomo Forestry Co., Ltd.
The three pillars of our Wood Solution – forests, wood, construction

Our Group is involved in businesses centered on wood, a renewable, natural resource. One of the main characteristics of our operations is that we are involved in all aspects of the wood cycle value chain, from upstream to downstream. By rejuvenating forests through sustainable forest management that effectively harvests and replants trees while protecting biodiversity, we are maintaining and increasing the ability of forests both in Japan and abroad to absorb and store CO2. We process trees into timber that can be used for a variety of applications and distribute it widely throughout society. Through the active use of wood in housing and medium- to large-scale non-residential buildings, we are working to promote long-term carbon storage. In addition, we are utilizing construction waste and leftover timber as fuel for biomass power generation. Our Group is developing all these operations to help realize a decarbonized society.

Our growth strategy has three pillars: in the area of forests, we will accelerate the cyclical forest business; in the area of timber, we will promote wood change; and in the area of construction, we will standardize carbon neutral design. This is our unique Wood Solution. With numerical goals for each of these pillars, we will actively pursue initiatives that will enable us to achieve these goals so that we can contribute to not only our own growth, but to a sustainable and prosperous society, as well.

Sumitomo Forestry’s Wood Solution

Forests
- Accelerate the cyclical forest business
  - We will create a global forestry fund to expand forest area worldwide, with an emphasis on Asia. Through carbon offsets, we will contribute to other companies and society.
  - New customers who are seeking the value of CO2 absorption
  - Supply chain partners
  - CO2 reduction (Scope 3, Category 1)

Wood
- Promote wood change
  - We will make Japanese forestry and wood product manufacturing more efficient and environmentally friendly, and accelerate the transition to wood-derived alternatives that increase carbon storage amounts.
  - We will make Japanese forestry and wood product manufacturing more efficient and environmentally friendly, and accelerate the transition to wood-derived alternatives that increase carbon storage amounts.
  - CO2 reduction (Scope 3, Category 11)

Construction
- Standardize carbon neutral design
  - We will promote carbon neutral buildings by populating LCCM houses both in Japan and abroad, and by establishing and standardizing carbon neutral design methods to contribute to decarbonization of other companies and entities.
  - We will popularize ZEH, ZEB and LCCM houses both in Japan and abroad, and by establishing and standardizing carbon neutral design methods to contribute to decarbonization of other companies and entities.
  - Building owners (general consumers, companies)
  - CO2 reduction (Scope 3, Category 11)

2024 Forestry fund related investments (~2024)
- 12.0 billion yen

2024 Timber industrial complexes investments (~2024)
- 20.0 billion yen

2024 Overseas non-residential wooden building investments (~2024)
- 30.0 billion yen

2030 Owned/managed forest area
- 500,000 ha

2030 Timber industrial complexes domestic timber usage
- 1.0 million m³/year

2030 Number of housing units supplied yearly
- 50,000 units

*1 A software that visualizes CO2 emissions during construction. Our Company signed an exclusive agency agreement for Japan.
*2 An environmental labeling system based on quantitative environmental data evaluated and certified by a third party.
*3 Total investment from FY22/12 to FY24/12
Wood Solution: Forests
Accelerate the cyclical forest business

Forests are categorized as either conservation forests, which should be protected for biodiversity, landslide prevention and other public benefits, or working forests, which should be effectively harvested and replanted in a cycle. Our Group conducts forest management both in Japan and overseas by appropriately zoning conservation forests and working forests and promoting sustainable cyclical forest management for working forests.

In addition, through the establishment of a global forestry fund, we will protect and expand the world’s forest and peatland areas in Asia, Oceania and North America, create a carbon credit allocation system, and contribute to the decarbonization of society. We are also collaborating with IHI on the NeXT FOREST Project to develop innovative forest management technologies that will help resolve global environmental problems.

Expanding owned/managed forest area

Our Group has approximately 48,000 ha of Company-owned forests in Japan, equivalent to about 1/800th of Japan’s total land area. In addition, we own or manage a total of 229,000 ha of forest area in Indonesia, New Zealand, Papua New Guinea and other countries overseas. We conduct sustainable forest management under strict surveillance so that we can utilize forest resources in perpetuity while maintaining their public benefit. Through the global forestry fund, we plan to increase the area of forest land that Sumitomo Forestry Group owns or manages to about 500,000 ha by 2030.

Establishing a global forestry fund

Our Group is planning to establish a global forestry fund. We will expand our sustainable forestry operations through owning or managing forests in Asia, Oceania and North America. In addition, we will create a carbon credit allocation system to contribute to the decarbonization of industries where drastic reductions of CO2 emissions are difficult. Our goal for this forestry fund is to have 100.0 billion yen in assets under management.

* At the time of preparation of this material, no specific decisions, including details and timing etc., have been made other than those described above.

Promoting the NeXT FOREST Project

In June 2021, we concluded a business alliance agreement with IHI Corporation and began working on the NeXT FOREST Project. We will bring our experience in managing the world’s only successful example of a peatland management technology we built in Indonesia with IHI’s expertise in satellite observation technologies to provide consulting services to countries, regional government organizations and companies that are fighting to stop deforestation and peatland destruction. In addition, we hope our work will help create higher quality carbon credits by appropriately assessing not just the value of forests and soil in terms of carbon absorption, but also the value of natural resources, such as biodiversity and water cycle conservation and regional contributions.
In the area of wood, we are promoting wood change – in other words, the use of wood and wood-derived materials for construction and other purposes as well as the use of wood as an alternative to other materials.

Wood is light, strong, resistant to deterioration and has thermal insulative properties. Even after it is made into different products and shapes, it continues to retain the CO₂ it absorbed. Compared to steel or concrete, wood produces significantly lower CO₂ emissions during manufacturing. As the number one timber and building materials company in Japan, we will pursue the many values that wood has to offer by establishing timber industrial complexes and leading the wood change movement. These initiatives will help stimulate the Japanese forestry and wood manufacturing industries to become more efficient and competitive. At the same time, by increasing the volume of harvested wood products (HWP) we handle and manufacture, we will increase carbon storage for the whole of society.

**Wood Solution ② Wood**

**Promote wood change**

<table>
<thead>
<tr>
<th>In the area of wood, we are promoting wood change – in other words, the use of wood and wood-derived materials for construction and other purposes as well as the use of wood as an alternative to other materials. Wood is light, strong, resistant to deterioration and has thermal insulative properties. Even after it is made into different products and shapes, it continues to retain the CO₂ it absorbed. Compared to steel or concrete, wood produces significantly lower CO₂ emissions during manufacturing. As the number one timber and building materials company in Japan, we will pursue the many values that wood has to offer by establishing timber industrial complexes and leading the wood change movement. These initiatives will help stimulate the Japanese forestry and wood manufacturing industries to become more efficient and competitive. At the same time, by increasing the volume of harvested wood products (HWP) we handle and manufacture, we will increase carbon storage for the whole of society.</th>
</tr>
</thead>
</table>

**2030 target**

Timber industrial complexes

Domestic timber usage volume

1 million m³/year

**Investment plan**

2024 timber industrial complexes investment amount (~2024)

20.0 billion yen

**Wood change overview**

Sumitomo Forestry is the No. 1 domestic timber and building materials company in terms of transaction amount.

Increasing the volume of harvested wood products (HWP) we handle and manufacture to promote carbon storage in society.

**HWP:** Harvested Wood Products

Wood products processed from harvested wood. Because trees absorb CO₂ and store it as carbon, promoting the use of wood products advances the decarbonization of society.

Japanese timber has low price competitiveness due to a shortage of forestry workers and lack of infrastructure.

Japan relies on imports for most of its wood products and with the wood shock, experienced shortages and price increases.

We want to establish timber industrial complexes, which are built on the premise of cascade utilization of Japanese timber, to raise productivity of wood manufacturing, secure a stable supply of wood products and ultimately, increase price competitiveness.

**Establishing timber industrial complexes**

Timber industrial complexes are facilities where all functions necessary for the timber industry are consolidated in one location, from log storage, manufacturing and processing to biomass power generation for the supply of electricity and heat, and port facilities for shipping and foreign export. Timber industrial complexes help to revitalize the forestry industry, increase competitiveness of domestic timber, stabilize timber prices and supply, and raise Japan’s wood self-sufficiency ratio. This promotes wood change, which in turn, contributes to the decarbonization of society.

As a first step, we concluded a letter of agreement with Shibushi, Kagoshima Prefecture, and are now beginning feasibility studies to construct a wood processing factory and biomass power generation plant that use domestic timber. After formulating concrete operational plans and selecting equipment, we are aiming to begin operations in 2025.

**Timber industrial complex overview**

**Wood biomass power generation plant**

**Export materials for the US, China**

**Processed goods for export**

**Sawmill**

**Factory electricity**

**Shipping**

**Domestic market**

**Cascading flow**

**Ripple effect of timber industrial complexes**

An increase in the carbon storage period that contributes to decarbonization

An increase in the added value of wood and the creation of employment opportunities for forestry workers

A stable supply of domestic timber and the enhancement of price competitiveness
Wood Solution Construction
Standardize carbon neutral design

In the area of construction, we are promoting the standardization of carbon neutral design. Of the world’s CO₂ emissions (approximately 31.5 billion tons annually), 37% is attributed to the construction sector. Hence, decarbonization in the construction sector is an important societal issue. We will first try to tackle this by popularizing ZEH (net-zero energy houses), ZEB (net-zero energy buildings) and similar types of buildings to reduce the CO₂ emitted during occupancy, which is about 70% of the construction sector’s CO₂ emissions.

With the economic development of emerging countries, the world’s building area is expected to double by 2060, which will make decarbonization during construction increasingly important. To respond to this, our Group is developing and popularizing LCCM (life cycle carbon minus) homes that realize negative CO₂ emissions during the house’s life cycle. We want to promote decarbonization during construction as well as occupancy and operation.

Reducing two types of CO₂ emissions – operational carbon*1 and embodied carbon*2

- Reduction with the use of wood
- Design and construction that take into consideration CO₂ emissions
- Use of low-carbon building materials

Expand share in the United States and Australia, the world’s largest wooden housing markets.

In the housing market, aim to supply 40,000 units annually, approximately 23,000 units up from current figures. In the non-residential market, accelerate the development of medium- to large-scale wooden commercial, office and other types of buildings.

Domestic housing market targets

Wood structures account for 69% of the domestic housing market and 10% of the non-residential market (on a floor area basis). We want to increase this ratio for both residential and non-residential buildings to contribute to reducing CO₂ emissions.

- Further promote ZEH and popularize LCCM houses for decarbonization of operational carbon and embodied carbon
- Further promote ZEB for decarbonization of operational carbon
- Increase share of wooden buildings by using One Click LCA to visualize CO₂ emissions
- Woodification of non-residential buildings
  - Reduces embodied carbon

Overseas housing market targets

Expand market share in the United States and Australia, the world’s largest wooden housing markets.

- Promote ZEH, ZEB
- Non-fossil fuel certificates for renewable energy power generation
- Increase share of wooden buildings by using One Click LCA to visualize CO₂ emissions
- Woodification of non-residential buildings
  - Reduces embodied carbon

2030 target
Annual housing units supplied 27,000 units ➞ 50,000 units

Investment plan
2024 overseas non-residential wooden building investments (~2024) 30.0 billion yen
Long-Term Vision

Selling LCCM houses

LCCM houses are homes that result in negative CO₂ emissions during the entire house’s life cycle, from construction to occupancy and demolition. Our Company further reduces CO₂ emissions by utilizing biomass fuel for the timber drying process. In addition to superior thermal insulative properties and environmentally conscious equipment and appliances, LCCM houses feature a passive design that controls light and heat and flexible room layouts that contribute to a decarbonized society both during the construction and occupancy stages.

Expanding ZEB supply overseas

Our Group is working to increase the supply of ZEB, which utilizes energy conservation and energy creating technologies to realize net-zero energy consumption. We are also expanding the use of wood in skeletal structures. At the end of 2021 in Melbourne, Australia, we began construction of a 15-floor office building where the 6th floor and higher will be made from wood. This building will use 4,000m³ of timber, which will result in 3,000 tons (on a CO₂ base) of carbon storage. In London, we are also involved in the construction of a net-zero carbon 6-floor wooden office building, which is scheduled for completion in 2024.

Visualizing CO₂ emissions with One Click LCA

In January 2022, our Company became the exclusive Japan agent of One Click LCA (life cycle assessment), a software that enables the visualization of a building’s CO₂ emissions. This software is utilized in 130 countries around the world and complies with ISO, European Standard and more than 50 other global environmental certification schemes, standards and requirements. With One Click LCA, we will work with the Japanese housing and real estate industry to build a foundation for calculating decarbonization during construction.

Popularizing the EPD environmental certification labeling system

EDP (Environmental Product Declaration), an environmental certification labeling system for materials, is gaining popularity in Europe and other countries as one means to visualize CO₂ emissions during construction. As a leading company in the timber and building materials industry, our Company is creating a system to support companies seeking EPD certification. With One Click LCA and our consulting services to reduce CO₂ emissions of buildings, we are promoting the popularization of environmentally conscious buildings that achieve net-zero CO₂ emissions.
Trees absorb CO₂ and release oxygen as part of the growth process. In addition, harvested wood products and wood constructions continue to store large amounts of carbon. Compared to materials that emit large volumes of CO₂ during their raw material procurement to manufacturing stages, using wood as an alternative helps to reduce emissions.

In addition, long-term use of wood products and housing leads to long-term carbon fixation. Even as waste, wood used as fuel for biomass power generation releases only the CO₂ that was absorbed during the growth process, making biomass power generation carbon neutral.

Wood is a sustainable material that can be planted, nurtured, cut down, utilized and then replanted. In addition, not only do forests produce wood, but they also have numerous functions that provide public benefit, such as absorbing and storing CO₂ (which causes global warming), protecting biodiversity, recharging water sources, conserving soil and preventing landslides.

Sumitomo Forestry Group contributes to maintaining the public benefit of forests through our forest management operations and is involved in a wide range of global businesses, such as wood processing, distribution, wooden construction and biomass power generation. By utilizing renewable natural forest resources that store absorbed CO₂ through the wood cycle, we will contribute to the shift to wood and decarbonization for not only our own company, but also for the whole of society.

The carbon cycle of forests and wood that supports a circular society

Trees absorb CO₂ and release oxygen as part of the growth process. In addition, harvested wood products and wood constructions continue to store large amounts of carbon. Compared to materials that emit large volumes of CO₂ during their raw material procurement to manufacturing stages, using wood as an alternative helps to reduce emissions.

In addition, long-term use of wood products and housing leads to long-term carbon fixation. Even as waste, wood used as fuel for biomass power generation releases only the CO₂ that was absorbed during the growth process, making biomass power generation carbon neutral.

Accelerate the cyclical forest business

We will increase CO₂ absorption volume to contribute to carbon offsetting for other companies and society by establishing a forestry fund and expanding the forest area we own and manage around the world, primarily in Asia.

Development of carbon-neutral biomass power generation plants that use construction waste and unused forest resources as an energy resource.

We will contribute to the decarbonization of other companies and organizations with the popularization of ZEH (net-zero-energy houses), ZEB (net-zero-energy buildings), LCCM (life cycle carbon minus) houses and net-zero-carbon buildings, and the establishment of decarbonized design (One Click LCA*1 x EPD*2).

*1 A software that visualizes the volume of CO₂ emissions during construction
*2 An environmental labeling system based on the evaluation and certification of quantitative environmental data by a third-party organization.

Promote wood change

We will enhance the efficiency of the Japanese forestry and wood products manufacturing industries and contribute to regional revitalization by creating timber industrial complexes that promote the use of wood-derived materials. In addition, we will increase carbon fixation by using wood-derived materials as an alternative.
Data on Sumitomo Forestry Group's contributions to a decarbonized society

**Sumitomo Forestry Group’s CO2 emissions and absorption volumes**

*Data collection period, January – December 2021*

**Our Company’s CO2 emissions (annual)**

Thanks to the CO2 absorption volume of the forests we own and manage, the Company is carbon negative (Scope 1, Scope 2)

<table>
<thead>
<tr>
<th>CO2 Emissions</th>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct CO2 emissions</td>
<td>371,000 tons</td>
<td>253,000 tons</td>
</tr>
<tr>
<td>Indirect CO2 emissions</td>
<td>408,000 tons</td>
<td>111,000 tons</td>
</tr>
</tbody>
</table>

Annual CO2 emissions

**Annual CO2 absorption by forests**

<table>
<thead>
<tr>
<th>CO2 Absorption</th>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct CO2 absorption</td>
<td>130,000 tons</td>
<td>278,000 tons</td>
</tr>
</tbody>
</table>

**CO2 emissions in the value chain**

For Scope 3, we aim to reduce CO2 by actively proposing products and services that lead to decarbonization for our customers and business partners.

**Sumitomo Forestry Group potential carbon stock (as of December 2021)**

**Carbon stock of forests**

<table>
<thead>
<tr>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>66,001 thousand tons</td>
<td>52,395 thousand tons</td>
</tr>
</tbody>
</table>

**HWP* existing carbon stock**

<table>
<thead>
<tr>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>24,622 thousand tons</td>
<td>9,524 thousand tons</td>
</tr>
</tbody>
</table>

**Use of sold products**

<table>
<thead>
<tr>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>9,835 thousand tons</td>
<td>6,534 thousand tons</td>
</tr>
</tbody>
</table>

**Use of owned and managed forests and currently standing wooden buildings and other HWP**

<table>
<thead>
<tr>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>253,000 thousand tons</td>
<td>111,000 thousand tons</td>
</tr>
</tbody>
</table>

**Sustainability procurement survey implementation rate for imported wood product suppliers**

<table>
<thead>
<tr>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>98.5%</td>
</tr>
</tbody>
</table>

**Recycling rate of manufacturing site waste**

<table>
<thead>
<tr>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>99.1%</td>
<td>98.5%</td>
</tr>
</tbody>
</table>

**Volume of wood and wood products handled**

<table>
<thead>
<tr>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>8,383,000 m³</td>
<td>278,000 m³</td>
</tr>
</tbody>
</table>

**Power supply from wood biomass power generation**

<table>
<thead>
<tr>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>334,000 households</td>
<td>8,000 units</td>
</tr>
</tbody>
</table>

**Forest certification acquisition rate**

<table>
<thead>
<tr>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>91.3%</td>
</tr>
</tbody>
</table>

*Forest certification acquisition rate for the operating area (planted area)

**Ratio of new, custom-built detached houses in Japan that have acquired long-life quality housing certification**

<table>
<thead>
<tr>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>94.6%</td>
<td>94.9%</td>
</tr>
</tbody>
</table>

*Orders-based value that includes ZEH, Nearly ZEH, ZEH-Oriented

**Cumulative number of houses transferred**

<table>
<thead>
<tr>
<th>Japan</th>
<th>Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approximately 340,000 units</td>
<td>Approximately 80,000 units</td>
</tr>
</tbody>
</table>

*Data collection period, January – December 2021
Mission TREEING 2030 Phase 1
(Fiscal Year Ending December 2022—Fiscal Year Ending December 2024)

Three years to build a foundation for future growth and for contributing to decarbonization

In 2022, the Sumitomo Forestry Group launched a new medium-term management plan, “Mission TREEING 2030 Phase 1” as the first step towards achieving its long-term vision of “Mission TREEING 2030.” Under this medium-term management plan, we are positioning the next three years as a period for building a foundation for future growth and for contributing to decarbonization, and we have established the following five themes as the basic policy for the plan:
1) Efforts to address decarbonization challenges using wood resources,
2) Promotion of a more resilient earnings base,
3) Acceleration of global expansion,
4) Strengthen management base for sustainable growth,
5) Further integration of business operations and ESG.

As our performance targets by the fiscal year ending December 2024, the final year of the medium-term management plan, we are aiming for 1,770 billion yen in net sales, 173 billion yen in recurring income (excluding actuarial difference regarding employees’ retirement benefit obligation), 116 billion yen in net income attributable to shareholders of parent, and at least 15% in ROE.

While continuing to devote ourselves to non-financial initiatives connected to ESG (Environment, Society, Governance) such as harmony with the environment, improving customer satisfaction, respecting human rights and diversity, and strengthening risk management, compliance and governance, the Sumitomo Forestry Group will work to further enhance corporate value as we contribute to the realization of a sustainable society.

Performance targets

Segment targets

<table>
<thead>
<tr>
<th>Segment</th>
<th>2021/12</th>
<th>2024/12</th>
<th>Percent of change</th>
<th>2021/12</th>
<th>2024/12</th>
<th>Percent of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timber and Building Materials</td>
<td>216.9</td>
<td>264.0</td>
<td>+21.7%</td>
<td>10.0</td>
<td>11.5</td>
<td>+15.2%</td>
</tr>
<tr>
<td>Housing and Construction</td>
<td>510.9</td>
<td>547.0</td>
<td>+7.1%</td>
<td>19.6</td>
<td>32.0</td>
<td>+62.9%</td>
</tr>
<tr>
<td>Overseas Housing and Real Estate</td>
<td>644.6</td>
<td>954.0</td>
<td>+48.0%</td>
<td>104.3</td>
<td>129.0</td>
<td>+23.6%</td>
</tr>
<tr>
<td>Environment and Resources</td>
<td>22.3</td>
<td>26.5</td>
<td>+18.8%</td>
<td>3.9</td>
<td>4.0</td>
<td>+1.8%</td>
</tr>
<tr>
<td>Others</td>
<td>23.9</td>
<td>29.0</td>
<td>+21.1%</td>
<td>3.0</td>
<td>5.0</td>
<td>+66.0%</td>
</tr>
<tr>
<td>Adjustments</td>
<td>(32.7)</td>
<td>(50.5)</td>
<td>-</td>
<td>(3.1)</td>
<td>(8.5)</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>1,385.9</td>
<td>1,770.0</td>
<td>+27.7%</td>
<td>137.8</td>
<td>173.0</td>
<td>+25.6%</td>
</tr>
</tbody>
</table>

(Reference) Excluding the effect of actuarial gains and losses

Net sales: 134.5 (2021/12), 173.0 (2024/12) +28.6%
We will maintain the stability of our financial base while enhancing our forestry fund and decarbonization-related investments, and aim for further profit growth.

Tatsumi Kawata
Director and Senior Managing Executive Officer

Message from the executive in charge of corporate planning and finance

Review of FY ended December 2021
Earned record profits, recurring income exceeded 100.0 billion yen for the first time

In the fiscal year that ended in December 2021, which was also the final year of the previous medium-term management plan, the Timber and Building Materials business and Housing and Construction business did not meet their targets, mainly in the Japanese market. However, buoyed by strong sales in the Overseas Housing and Real Estate Business, mainly in the USA, the Group as a whole posted net sales of 1,385.9 billion yen, with recurring income of 137.8 billion yen. Recurring income far exceeded the previous medium-term management plan’s target of 85.0 billion yen and set a new record by crossing 100.0 billion yen for the first time ever.

On the financial side, our financial indicators improved greatly. We achieved our stated target of making total free cash flow positive and attaining an ROE of over 10%. We also achieved an equity ratio of 37.7% by accumulating profits and carrying out our first public offering in 48 years.

Initiatives for the Mission TREEING 2030 Phase 1 medium-term management plan
Achieve stable ROE of 15% or more

The new medium-term management plan that began in 2022 forms Phase 1 of the Mission TREEING 2030 long-term vision, and we have positioned the next three years as a period for creating the foundation for contributing to future growth and decarbonization. To secure a foothold for realizing our long-term vision, we will diversify the Overseas Housing and Real Estate Business, which has become the pillar of our revenue, and strive to enhance cost competitiveness for material and labor costs. At the same time we will work to recover the earning power of our domestic businesses, which remained an issue in the previous medium-term management plan, and we will also accelerate investments in the environment and resources business which will form the core of decarbonization.

Financially, we will strive to maintain an equity ratio of at least 40% and a net DE ratio of 0.7 or less while making future-oriented growth investments, and we have also set a new target of stably achieving an ROE of 15% or more, exceeding the target of the previous medium-term management plan.

ROE (Return on equity) (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>ROE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>20.0</td>
</tr>
<tr>
<td>2020</td>
<td>20.3</td>
</tr>
<tr>
<td>2021</td>
<td>20.7</td>
</tr>
<tr>
<td>2022 (9M)</td>
<td>21.3</td>
</tr>
</tbody>
</table>

Total assets / Equity ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Total assets (¥ billion)</th>
<th>Equity ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>1,350</td>
<td>37.7</td>
</tr>
<tr>
<td>2020</td>
<td>1,370</td>
<td>37.9</td>
</tr>
<tr>
<td>2021</td>
<td>1,390</td>
<td>38.1</td>
</tr>
<tr>
<td>2022 (9M)</td>
<td>1,410</td>
<td>38.3</td>
</tr>
</tbody>
</table>

Planned investments of 300.0 billion yen in three years in decarbonization and other fields

We plan to invest a total of 300.0 billion yen over a three-year period. Out of that, we intend to spend 62.0 billion yen on decarbonization-related investments such as non-residential buildings, overseas, forestry funds and timber industrial complexes.

Furthermore, apart from the 300.0 billion yen investment plan, we will continue to acquire real estate for sale particularly in the United States where we expect to see robust demand, and by the end of December 2024, the final year of the medium-term management plan, we plan to have a balance of 560.0 billion yen, a 220.0 billion yen increase over the 340.0 billion yen recorded at the end of the previous year. We will seek growth investments exceeding the results of the previous medium-term management plan and aim to expand our businesses even further.

The Sumitomo Forestry Group pursues investment projects that guarantee returns higher than the capital costs. To increase the ROE and ROIC that serve as KPIs, we use IRR or NDI yields as quantitative evaluation standards when making new investments or withdrawing from businesses. Generally speaking, the condition for undertaking a new business investment or remaining in a business is that the IRR and other efficiency indicators calculated from the business plan must be higher than the hurdle rate (such as WACC).

From the fiscal year ending in December 2022 and onwards, we have changed from determining the hurdle rate by country to setting it by country and by business. We have also newly established two types of standards, Project IRR and Equity IRR, which we have begun to apply. We hope to increase corporate value even further by establishing selection standards that better suit investment projects.

Investment plan

<table>
<thead>
<tr>
<th>Year</th>
<th>Timber and building materials</th>
<th>Forestry fund-related investments</th>
<th>Overseas non-residential wooden construction investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2022 (9M)</td>
<td>Approx. 130.0 billion yen</td>
<td>Approx. 35.0 billion yen</td>
<td>Approx. 100.0 billion yen</td>
</tr>
<tr>
<td>2023</td>
<td>Approx. 150.0 billion yen</td>
<td>Approx. 40.0 billion yen</td>
<td>Approx. 150.0 billion yen</td>
</tr>
<tr>
<td>2024</td>
<td>Approx. 170.0 billion yen</td>
<td>Approx. 50.0 billion yen</td>
<td>Approx. 200.0 billion yen</td>
</tr>
</tbody>
</table>

*The amounts for the investment plans listed above do not include amounts for acquiring real estate for sale.

Continuing to provide appropriate returns to shareholders based on profits

At Sumitomo Forestry, we view returns to shareholders as one of our most important tasks, and it is our basic policy do so in a stable and ongoing manner.

Going forward, we will endeavor to increase our ROE and enhance our equity ratio by using our internal reserves efficiently in effective investment and R&D activities that help increase long-term corporate value while also paying out the appropriate level of returns based on our profit situation, taking the balance of our management base, financial position and cash flows into comprehensive account.

Dividend per share/Net income per share

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend per share (¥)</th>
<th>Net income per share (¥)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2022</td>
<td>125</td>
<td>500.39</td>
</tr>
<tr>
<td>FY2023</td>
<td>120</td>
<td>480.00</td>
</tr>
<tr>
<td>FY2024</td>
<td>115</td>
<td>460.00</td>
</tr>
</tbody>
</table>

*Expectations for FY2022 are expected values as of August 9, 2022. Visit our website for information about the latest expectations. https://sfc.jp/english/ir/
Financial highlights

Net sales

Operating income

Recurring income

Net income attributable to shareholders of parent

ROE (Return on equity)

ROA (Return on assets)

Total assets / Equity ratio

Net income per share

Dividend per share

Non-financial highlights

Sustainability procurement survey implementation rate of suppliers of imported timber

Recycling rate at manufacturing plants in Japan

Rate of ZEH among new custom-built detached houses

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

Area of forest owned, managed, etc.

Carbon stock in area of forest owned and managed (Carbon dioxide equivalent)

CO2 emissions

Rate of paid leave taken (non-consolidated basis)

Rate of taking childcare leave (non-consolidated basis)

---

*1 Regarding the application of the Accounting Standard for Revenue Recognition, the Sumitomo Forestry Group has been applying the Accounting Standard for Revenue Recognition (ASBJ Statement No.29) 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 FY 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.

*3 It includes Nearly ZEH and has included ZEH Oriented in narrow areas since FY ended March 2019, and ZEH Oriented in heavy snowfall areas since FY ended March 2020. It has included Hokkaido since FY ended December 2020.

*4 From FY ended December 2020, conservation forests overseas were added to the scope of calculation.

*5 Paid leave is granted in January every year, so the figures in the table represent the results for the calendar year. Rate of paid leave taken = number of days of paid leave taken/number of days of paid leave granted.

*6 Rate of taking childcare leave = number of persons starting childcare leave in the applicable fiscal year/number of persons to whom children were born in the applicable fiscal year.
Based on a global network built up over years of developing operations worldwide, the timber and building materials distribution business leverages its domestic and international procurement power and focused on maintaining a stable supply system for our customers. Moreover, to diversify our revenue sources, we endeavored to increase our handling of wood fuel for use in biomass power generation and undertook measures to use domestically-produced timber while also striving to expand sales of plywood and building materials made from sustainable plantation timber. The segment performed strongly as a result.

On the other hand, business was sluggish in the manufacturing business due to soaring manufacturing costs, including saw materials in Japan. Overseas, the particle board business for the Indonesian market performed well locally, but the plywood business and construction material business both produced disappointing results. In New Zealand, the effects of city-wide lockdowns led to fewer sales of MDF, leading to poor performance.

**Review of FY ended December 2021**

In the face of a rapid worldwide increase in demand for wood, the timber and building materials distribution business leveraged its domestic and international procurement power and focused on maintaining a stable supply system for our customers. Moreover, to diversify our revenue sources, we endeavored to increase our handling of wood fuel for use in biomass power generation and undertook measures to use domestically-produced timber while also striving to expand sales of plywood and building materials made from sustainable plantation timber. The segment performed strongly as a result.

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**Data**

<table>
<thead>
<tr>
<th>Division</th>
<th>Number of employees</th>
<th>Recurring income (¥ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Japan</strong></td>
<td>1,576</td>
<td>8.0</td>
</tr>
<tr>
<td><strong>Overseas</strong></td>
<td>4,744</td>
<td>11.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,320</td>
<td>19.5</td>
</tr>
</tbody>
</table>

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

**Initiatives for the medium-term management plan (FY 22/12 - FY 24/12)**

In the timber and building materials distribution business, we will utilize supply chains for sustainable procurement of timber to promote sales of environmentally conscious products like plantation timber. We will also continue to expand our efforts in the non-residential building construction market while working to build a stable supply system for wood fuel used in biomass power generation.

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

**Basic policy**

- **Domestic timber business**
  - Establish a circular material supply system with timber industrial complexes as central pillars
  - Expand forest harvesting and reforestation by enhancing the functions of Sumitomo Forestry Wood Products Co., Ltd.
- **Promote decarbonization**
  - Visualize LCA for products handled and thereby create new businesses
  - Deepen involvement in environment-related businesses
  - Expand biomass fuel business
- **Domestic distribution business**
  - Create new functions and services using digital transformation
- **Overseas manufacturing and distribution businesses**
  - Build value chains and expand business areas in North America, Southeast Asia and other regions

**Signed agreement with Shibushi City in Kagoshima Prefecture for the construction of a new plant**

Sumitomo Forestry and Shibushi City in Kagoshima Prefecture have concluded a basic agreement on location for the construction of a new plant and biomass power plant at the Shibushi City Seaside Industrial Park.

As the steep rise in timber prices worldwide and the aging of forest resources in Japan become issues to be tackled, Sumitomo Forestry aims to establish a new plant to process the timber and thinning that are shipped from Shibushi Harbor as logs into value-added products in order to reinforce the stable supply system in Japan and export products to Asia, North America and other regions. Moreover, the factory will help increase the value of domestic timber and encourage its use by using wood fully without waste for everything from the manufacture of wood products to the use of wood as fuel for biomass power generation.

We plan to commence operations in 2025 after formulating detailed business plans and selecting equipment.
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.

Furthermore, leveraging the designing and technological capabilities it accumulated in the custom-built detached housing business, Sumitomo Forestry has diversified its operations into the apartment business, residential property development (spec homes) business, landscaping business, and existing homes business, offering the unique comfort of wood. The use of wood in non-residential building construction fields has increased in recent years, contributing to the expansion in the production and consumption of timber promoted by the Japanese government.

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.

Review of FY ended December 2021

The custom-built detached housing business further improved its digital marketing as part of its measures to strengthen sales in the face of the coronavirus crisis. We also focused on utilizing our design capabilities to offer plans tailored to changes in our customers’ lifestyles. Additionally, in response to our customers’ growing awareness of environmental issues, we endeavored to undertake more orders for zero net energy consumption houses (Net Zero Energy Houses, or ZEH), resulting in a high level of orders. When it comes to construction, although the COVID-19 crisis threw the supply chain into chaos, we pressed on with the equalization of customers’ lifestyles. Additionally, in response to our customers’ lifestyles.

Furthermore, leveraging the designing and technological capabilities it accumulated in the custom-built detached housing business, Sumitomo Forestry has diversified its operations into the apartment business, residential property development (spec homes) business, landscaping business, and existing homes business, offering the unique comfort of wood. The use of wood in non-residential building construction fields has increased in recent years, contributing to the expansion in the production and consumption of timber promoted by the Japanese government.

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 for the medium-term management plan (FY 22/12 - FY 24/12)

By promoting digital marketing and streamlining construction, we aim to improve our competitiveness and increase the market share of the custom-built detached housing business while continuing to expand the spec homes business, renovation business and non-residential building business.

### Basic policy

- **Custom-built detached housing business**
  - Expand sales of ZEH and LCCM (Life Cycle Carbon Minus) homes
  - Promote digital marketing
  - Streamline construction
  - Develop new materials

- **Apartment business**
  - Expand sales of high-added value apartments such as ZEH-M

- **Residential property development (spec homes) business**
  - Carefully select sites to purchase
  - Promote superimposing of offers on sites to purchase
  - Strengthen brand by obtaining environmental certifications

- **Renovation business**
  - Accelerate the development of infrastructure and mechanisms aimed at maintaining ties with owners

- **The use of wood in non-residential building construction fields**
  - Selection and concentration in sales
  - Secure and develop human resources with technological skill
  - Increase synergy with Kumagai Gumi Co., Ltd. and COHNAN KENSETSU INC.

### ZEH popularization target: 80% by fiscal 2025

<table>
<thead>
<tr>
<th>Fiscal year</th>
<th>2022/3</th>
<th>2023/3</th>
<th>2024/3</th>
<th>2025/3</th>
<th>2026/3</th>
<th>2027/3</th>
<th>2028/3</th>
<th>2029/3</th>
<th>2030/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>ZEH rate (%)</td>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
<td>33.3</td>
<td>67.4</td>
</tr>
</tbody>
</table>

* It includes Nearly ZEH and has included ZEH Oriented in narrow areas since FY ended March 2019 and ZEH Oriented in heavy snowfall areas since FY ended March 2020.

* It has included Hollards since FY ended December 2020.

* Calculation period: Accounting period (January 2020 - December 2020 for FY ended December 2020 only)

### Toho Gakuen Munetsugu Hall wins the Forestry Agency Director-General Award

Toho Gakuen Munetsugu Hall, designed and constructed as a joint venture between Sumitomo Forestry and Maeda Corporation, won the Forestry Agency Director-General Award in the Outstanding Facilities Using Timber Contest for 2021. The facility is a musical hall that features C1T (cross-laminated timber) in its design, construction and acoustics. Among other things, it was praised for the construction of flat surfaces such as the ceiling and walls in a bent folding screen shape to increase strength, for the pillarless space spanning 17m and for creating a sound environment overlapping with the essence of wood.

According to our estimates, 1,757t of CO₂ was emitted from the production of the materials used in the main structural framework of Toho Gakuen Munetsugu Hall, representing a reduction of 21% compared to a steel-frame structure and 29%, compared to a reinforced concrete structure.

### Data

**Number of employees**

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan</th>
<th>(¥ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>9,416</td>
<td>0.4628</td>
</tr>
<tr>
<td>2019</td>
<td>9,416</td>
<td>0.4740</td>
</tr>
<tr>
<td>2020</td>
<td>9,416</td>
<td>0.3323</td>
</tr>
<tr>
<td>2021</td>
<td>9,416</td>
<td>0.5109</td>
</tr>
<tr>
<td>2022 (planned)</td>
<td>9,416</td>
<td>0.5470</td>
</tr>
</tbody>
</table>

* Starting in the FY ended March 31, 2020, Sumitomo Forestry adopted the “Accounting Standard for Revenue Recognition” (ASB Statement No. 29). For transactions where the Company’s role in providing the product to the customer is fulfilled by an agent, instead of the total amount, revenue is not recognized in the net amount.

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**Toho Gakuen Munetsugu Hall**

Toho Gakuen Munetsugu Hall is a musical hall that features C1T (cross-laminated timber) in its design, construction and acoustics.
Since the launch of the detached housing business in the United States in 2003, the Group has actively entered into 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.

The detached housing business, which mainly targets actual demand, is a business with strong local characteristics that is required to accommodate local customs and lifestyle habits. Therefore, we manage this business by making full use of the knowledge of our Group companies in each region and their ability to propose products tailored to the needs of those regions.

In the real estate development business, in the United States, we are progressing with the detached apartment development business which is expected to synergize with the detached housing business. In Australia and the UK, we are participating in medium- to large-scale wooden construction projects to help realize a decarbonized society. Additionally, we are working to visualize and reduce CO2 emissions in the construction industry through life cycle assessment.

We will continue to leverage the comprehensive strength of the Group to increase profitability by procuring materials, streamlining construction and moving into peripheral businesses such as land development and landscaping. We will also strive to bolster governance and manage in a way that fosters group-wide unity.

Review of FY ended December 2021

In the detached housing business in the United States, all the Group companies performed strongly thanks to increased housing prices due to low mortgage interest rates and rising interest in moving from urban areas to the suburbs. Profits rose significantly in the real estate development business as properties sold briskly due to the increased willingness of investors to invest in the real estate market.

In the detached housing business in Australia, we experienced a major increase in orders received due to the effects of governmental housing purchase subsidy policies implemented up to March 2021. The sector therefore performed solidly despite the effects of lockdowns to counter the spread of COVID-19. Furthermore, as part of our efforts towards a decarbonized society, in October 2021, we decided to participate in a project for the development of a wooden office building on the outskirts of Melbourne. This marks the start of our initiatives to realize Net Zero Carbon Buildings.

In Southeast Asia, the coronavirus crisis caused delays in the construction and selling plans for the landed houses, and condominium projects we are working on in Vietnam, Indonesia and Thailand. In our new project, a large-scale housing development in the city of Makassar in Indonesia, we intend to develop environmentally conscious housing in Southeast Asia as well through designs that bring out the power of nature and through the use of building materials with a low energy loss, both of which are elements we have cultivated through our domestic housing businesses.

Initiatives for the medium-term management plan (FY 22/12 - FY 24/12)

In the single family home business, we plan to move into new growth areas, carefully select lands to purchase and develop products tailored to the characteristics of the area so as to greatly increase the number of units sold.

In the real estate development business, we will promote the development of medium- to large-scale wooden construction in the United States, Australia and Europe while at the same time continuing to obtain environmental certifications and pursuing developments with regional communities in mind. We will establish a structure to stabilize revenue.

<table>
<thead>
<tr>
<th>Basic policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Establish a system for constructing 16,000 units a year (one of the top 10 in the United States)</td>
</tr>
<tr>
<td>• Obtain land after careful selection and develop products tailored to the characteristics of the area</td>
</tr>
<tr>
<td>• Off-balance assets through joint ventures, land banks and other means</td>
</tr>
<tr>
<td>• Enter the construction contract business and the manufacturing business for items like structural panels, and expand our contract work business with a focus on single-family rentals.</td>
</tr>
<tr>
<td>• Establish a system to construct 4,000 units a year through market share expansion</td>
</tr>
<tr>
<td>• Expand business portfolio (enter landscaping business, promote development of medium- to large-scale wooden constructions)</td>
</tr>
<tr>
<td>• Use the Group’s technology and knowhow to add value to existing businesses and obtain new projects</td>
</tr>
<tr>
<td>• Prepare a system for the company to be able to carry out business independently; build a revenue structure to bring in medium- to long-term growth</td>
</tr>
<tr>
<td>• Perform market research and search for business opportunities using “decarbonization” and “wood construction” as keywords</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Quantitative targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing in U.S.</td>
</tr>
<tr>
<td>Results in FY 21/12</td>
</tr>
<tr>
<td>New detached apartments from Crescent Communities to be commercialized</td>
</tr>
<tr>
<td>11,230 units</td>
</tr>
<tr>
<td>3,169 units</td>
</tr>
<tr>
<td>3 year total (2022-2024)</td>
</tr>
<tr>
<td>1,700 units</td>
</tr>
</tbody>
</table>

Participating in an environmentally conscious six-story timber office building development project in London, England

As part of our drive to achieve net-zero carbon emissions, Sumitomo Forestry has set up a joint venture company with Bywater Properties Limited, a real estate development company in the UK, to participate in the development of an environmentally conscious six-story timber office project in London.

In this project, the first for the overseas housing and real estate business in Europe, we intend to achieve an about 80% reduction in CO2 emissions at all stages from raw material procurement to construction and demolition compared to typical reinforced concrete structures in the UK. Moreover, the CO2-fixing effect of wood, the use of energy-saving and energy-creating technology and the use of renewable energy make this an extremely advanced initiative that is expected to emit net-zero carbon for approximately 60 years from the end of construction even accounting for the added CO2 emissions from the use of the building. 

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

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

The Group started construction and sales of 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 knowhow while valuing the United States’ unique housing culture, customs, and construction methods. In 2021, we have built long-term partnerships and expanded our business in the United States, the world’s largest housing market. We have built long-term partnerships and expanded our business in the United States, the world’s largest housing market. We have built long-term partnerships and expanded our business in the United States, the world’s largest housing market.

Gehan Homes Group entered the Nashville, Tennessee market, expanding our business area. We also leveraged our strengths as a Group with both detached housing and real estate development businesses to enter the detached apartment development business in earnest. Going forward, we will promote advancement into peripheral businesses like panel manufacturing, framing construction and asset management. We will also search for business opportunities involving the development of medium- to large-scale wooden buildings.

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 construction quality, environmental performance and design features. Moreover, we are further progressing business expansion and development and providing living environments and communities that meet the needs of our business areas.

Expanding our detached housing business throughout Australia

In Australia we mainly construct and sell order home housing and spec homes. Since launching our housing business there in 2008, we have been steadily expanding our business area. We currently operate in all the major five cities - Melbourne, Brisbane, Sydney, Adelaide, and Perth. Utilizing a network spanning all Australia, we are building and selling high-quality housing. 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.

In 2021, we launched a wooden office building development project in Melbourne. This project aims to receive the maximum 6-star rating in Australia’s Green Star environmental certification and be certified net-zero carbon according to Australian standards, furthering efforts to create a decarbonized society. We also entered the landscaping business by adding Regal Innovations to the Group in April 2022, helping us diversify our businesses.

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

Asia is a region that is expected to experience medium- to long-term economic growth along with a rise in housing demand, so we have positioned it as the third pillar of the overseas housing and real estate business after the United States and Australia and are working to strengthen our revenue bases there. We are currently engaged in joint development of condominiums for sale and the landed homes business with local companies in Vietnam, Indonesia, and Thailand. Utilizing our accumulated design expertise in the effective use of spaces, the improvement of functionality and the creation of attractive interiors rich with the essence of wood, we provide high-quality living environments that improve people’s quality of life. In 2021, we joined a large-scale residential development project in Makassar, Indonesia. This is the first time a foreign company has undertaken a large-scale residential project in Makassar, and we aim to develop environmentally conscious detached homes. We will use this opportunity to accelerate the development of environmentally conscious residences and real estate in Southeast Asia as well.

We intend to stabilize our business foundation while capturing housing demand that is strong during this time when infrastructure is being rapidly established, populations are increasing, and income levels are rising.
The environment and resources business deploys businesses that maximize the value of forest resources in Japan and overseas. In the forestry business, Sumitomo Forestry owns a total of approximately 48,000 hectares of forest in Japan, which is approximately 1/800th 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). In Indonesia, Papua New Guinea, and New Zealand, we own and manage approximately 229,000 hectares of plantation forests, including forests that have acquired third-party forestry certification such as FSC®, while we are also contributing to preserving biodiversity and developing local communities.

As awareness of climate change countermeasures rises globally, we also manage renewable energy businesses in Japan that use mainly wood resources in an effective way. In 2022, we established the Forest Carbon Sink Business Department to undertake efforts such as expanding the area of forests we own and manage in order to achieve our long-term “Mission TREEING 2030®” vision that seeks to decarbonize all of society. (FSC® license code: FSC-C119517)

**Review of FY ended December 2021**

In the renewable energy business, Kanda Biomass Energy K.K. commenced operations in June 2021. Including Kanda Biomass Energy, our five wood biomass generation plants around Japan operated stably, but the end of the government’s drastic mitigation measures under FIT (the feed-in tariff system) resulted in a need to revise contracts with energy buyers, which affected performance negatively. The overseas forestry business posted solid results due to rising demand for domestic wood and forest products.

Additionally, we gained in Indonesia, the Sumitomo Forestry Group will continue to expand its forestry assets and management activities.”

**Initiatives for the medium-term management plan (FY 22/12 - FY 24/12)**

**Environment and Resources Segment**

**Environment and Resources Business**

**Data**

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Net sales (¥ billion)</th>
<th>Recurring income (¥ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan 110</td>
<td>Overseas 838</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2021 (planned)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
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</tr>
</tbody>
</table>

* Starting in the FY ended March 31, 2020, the Environment and Resources Business was transferred from the “Other” segment.

**Basic policy**

- **Domestic forestry business**
  - Promote reforestation and the stable supply of seedlings to expand sustainable forestry
  - Expand business contracting from municipalities to revitalize the forestry and wood industry, and create carbon sink businesses for private businesses
  - Increase safety and productivity of operations by upgrading forest management technology and enhancing human resource development

- **Overseas forestry business**
  - Increase value of forests by increasing forest area managed, diversifying tree species and strengthening connections with businesses outside the Group
  - Pursue new uses and new purchases for wood based on medium- to long-term predictions of demand
  - Increase safety and productivity of operations by upgrading forest management technology and enhancing human resource development

- **Renewable energy business**
  - Maximize profits from the development of power sources in light of the FIT system and select optimum power sources from a post-FIT viewpoint
  - Take post-FIT business continuation measures for existing biomass generation businesses by, for example, developing low-cost fuels
  - Secure and develop expert personnel

- **Decarbonization initiatives**
  - Develop high-precision measurement technology to create high-quality carbon credits and thereby promote the visualization of CO2 absorption amounts
  - Expand business by creating new forest value form to carve the core component of carbon sink businesses

**Area of forest owned and managed (as of end of December 2021)**

<table>
<thead>
<tr>
<th>Plantation forest</th>
<th>Natural forest</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan Approx. 48,000 ha</td>
<td>Indonesia Approx. 31,000 ha</td>
<td>New Zealand Approx. 37,000 ha</td>
</tr>
</tbody>
</table>

**Our wood biomass power plants (as of end of December 2021)**

<table>
<thead>
<tr>
<th>Kawanami Biomass</th>
<th>Minamibosui Biomass</th>
<th>Takaosuka Biomass</th>
<th>Tsukamoto Biomass</th>
<th>Hachinohe Biomass</th>
<th>Kanda Biomass</th>
<th>Hachinohejo Biomass</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service areas</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kanagawa Prefecture</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start of operation</td>
<td>February 2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fiscal year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payload capacity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of plants</td>
<td>33</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power generation</td>
<td>22.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>30%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>51%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>20%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022 (planned)</td>
<td>52%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022 (planned)</td>
<td>41.5%</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
In the lifestyle services business, the Group offers a wide range of living-related services centered on our elderly care 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. The decline of Japan’s rural areas due to depopulation 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 keep Japanese society attractive into the future.

Review of FY ended December 2021

In July 2021, we opened a new lodging and accommodations business at VISON, the largest commercial resort facility in Japan 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. Our private-pay elderly care facilities business performed strongly, maintaining high occupancy rates.

In our elderly care 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. Working together with local communities to deliver advanced, high-quality services, we help to create a society in which people can enjoy vibrant, healthy lives.

When running a lodging business at VISON, which was opened as a new business to trigger regional development and revitalization, our aim is stable management and an increase in earning power through cooperation with commercial establishments. 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 for the medium-term management plan (FY 22/12 - FY 24/12)

In our elderly care 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. Working together with local communities to deliver advanced, high-quality services, we help to create a society in which people can enjoy vibrant, healthy lives.

When running a lodging business at VISON, which was opened as a new business to trigger regional development and revitalization, our aim is stable management and an increase in earning power through cooperation with commercial establishments. 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.
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.

Furthermore, we adjusted the ratio of outside directors on the Board of Directors to one-third, and 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 resolve any recognized issues in order to further improve effectiveness.

Outline of the corporate governance system

<table>
<thead>
<tr>
<th>Organizational structure</th>
<th>Number of independent officers</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of board of directors</td>
<td>16 times</td>
<td></td>
</tr>
<tr>
<td>Adoption of the executive officer system</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Nomination and remuneration advisory committee</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Accounting auditor</td>
<td>Ernst &amp; Young ShinNihon LLC</td>
<td></td>
</tr>
</tbody>
</table>

Sumitomo Forestry basic policy on corporate governance

PART 2 ESG management as a foundation for growth
Introducing the Board of Directors and Statutory Auditors (As of March 29, 2022)

Tatsuru Satoh
Representative Director, President

Career history
Apr. 1976 - Joined the Company
Jun. 2010 - Senior Managing Executive Officer
Jun. 2016 - Director (current position)
Apr. 2018 - Managing Executive Officer
Apr. 2020 - Chairman of the Board (current position)

Reason for appointment
Tatsuru Satoh has abundant knowledge and experience related to the Sumitomo Forestry Group’s business. He was appointed as President and Director as well as Chairman of the Board.

Atsushi Kawamura
Director (Born Feb. 24, 1965)

Career history
Apr. 1987 - Joined the Company
Apr. 2006 - Managing Executive Officer
Jun. 2016 - Executive Officer
Apr. 2018 - Deputy Divisional Manager of Overseas Housing and Real Estate Division
Apr. 2020 - Divisional Manager of Overseas Housing and Real Estate Division (current position)

Reason for appointment
Atsushi Kawamura has abundant experience related to the Sumitomo Forestry Group’s business. After serving as Divisional Manager of the Overseas Housing and Real Estate Division, he was appointed as Deputy Divisional Manager of the Overseas Housing and Real Estate Division in June 2020.

Ikuro Takahashi
Director (Born June 4, 1959)

Career history
Apr. 1986 - Joined the Company
Apr. 2016 - Director and Managing Executive Officer of Sumitomo Forestry Home Tech Co., Ltd.
Jun. 2018 - Divisional Manager of Housing Division
Jun. 2018 - Executive Officer and Deputy Divisional Manager of Housing and Construction Division
Apr. 2020 - Managing Executive Officer (current position), Divisional Manager of Housing and Construction Division (current position)

Reason for appointment
Ikuro Takahashi has abundant experience related to the Sumitomo Forestry Group’s business, being served on the General Manager of the Engineering Department of the Housing Division and Deputy Divisional Manager in the latter position. He was appointed as Executive Officer in December 2018 and Divisional Manager of the Housing and Construction Division in June 2018.

Toshiro Mitsuyoshi
Representative Director, President

Career history
Apr. 1980 - Joined the Company
Jun. 2010 - Managing Executive Officer
Jun. 2016 - Director (current position)
Apr. 2018 - Senior Managing Executive Officer
Apr. 2020 - Representative Director (current position)

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

Junko Hirakawa*
Outside Director

Career history
Feb. 2003 - Partner of City-Yuwa Partners (current position)
Jul. 1997 - Established Hirakawa, Sato & Kobayashi (currently City-Yuwa Partners)
Feb. 2001 - Partner of Iwama & Kobayashi
Feb. 2000 - Partner of Iwama & Kobayashi

Reason for appointment
Junko Hirakawa has abundant experience and achievements related to the Sumitomo Forestry Group’s business. She was appointed as an outside director at KONICA MINOLTA, INC.

Mitsue Kurihara
Outside Director (Born Apr. 2, 1946)

Career history
Mar. 2002 - General Manager of Financial Marketing Division, Accenture Japan Ltd.
Apr. 2005 - Deputy Governor of Japan Post
Dec. 2007 - President & CEO, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd.
Jun. 2012 - Chairman, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd
Jun. 2013 - Independent Director, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd
Jun. 2016 - Outside Director of the Company (current position)

Reason for appointment
Mitsue Kurihara has abundant knowledge of corporate law in Japan and abroad, and has been judged to be playing an appropriate role in strengthening the Company’s corporate governance based on her experience and insight. The Company expects her to contribute to strengthening the Company’s corporate governance based on her expertise and insight.

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

Career history
Apr. 1987 - Joined the Bank of Japan
Apr. 1996 - General Director of Financial Markets Department, Bank of Japan
Mar. 2002 - General Manager of Investor Marketing Division, Accenture Japan Ltd.
Apr. 2005 - Deputy Governor of Japan Post
Dec. 2007 - President & CEO, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd.
Jun. 2012 - Chairman, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd
Jun. 2013 - Independent Director, Representative Executive Officer of JAPAN POST INSURANCE Co., Ltd
Jun. 2016 - Outside Director of the Company (current position)

Reason for appointment
Izumi Yamashita has abundant experience and insight to make recommendations to management from her expert point of view.

Akira Ichikawa
Representative Director, Chairman of the Board

Career history
Apr. 1978 - Joined the Company
Jun. 2008 - Director
Apr. 2018 - Managing Executive Officer
Apr. 2018 - Chairman of the Board (current position)

Reason for appointment
Akira Ichikawa has abundant experience and achievements related to the Sumitomo Forestry Group’s business, serving as President and Director as well as Chairman of the Board.
Introducing the Board of Directors and Statutory Auditors (As of March 29, 2022)

Statutory Auditors

* is an independent officer. “Attendance” is the number of Board of Directors meetings (left), and Board of Statutory Auditors meetings (right) attended in the fiscal year ended December 2021.

Akihisa Fukuda
Senior Statutory Auditor (Full-time) (Born Apr. 16, 1957)

Career History
Apr. 1981 - Joined the Company
Apr. 2015 - Executive Officer
Jun. 2010 - Executive Officer
Jun. 2020 - Senior Statutory Auditor (current position)

Reason for appointment
Akihisa Fukuda has abundant experience related to the ShinNihon Forestry Group's business, having served as Director, as an Executive Officer who oversees Corporate Planning, Finance and Information Systems, and as Divisional Manager of Timber and Building Materials Division among other positions.

Noriaki Toi
Statutory Auditor (Full-time) (Born Feb. 22, 1956)

Career History
Jun. 1987 - Joined Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
Aug. 1981 - Registered as a Certified Public Accountant

Reason for appointment
Noriaki Toi has a wealth of experience in financial and accounting matters. As a certified public accountant, Yoshimasa Tetsu has a high level of specialized knowledge and a wealth of experience in financial and accounting matters, which we have determined is being utilized by the Company's audit operations.

Yoshitugu Minagawa*
Outside Statutory Auditor (Born Apr. 27, 1954)

Career History
Nov. 1974 - Joined Dentsu Audit Corporation (currently Ernst & Young ShinNihon LLC)
Aug. 1983 - Registered as a Certified Public Accountant
May 1987 - Joined Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
Aug. 1997 - Representative partner of Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
Jun. 2011 - Resigned from ShinNihon LLC (currently Ernst & Young ShinNihon LLC)
Jun. 2015 - Outside Statutory Auditor of the Company (current position)

Reason for appointment
Yoshitugu Minagawa has abundant experience and deep insight in the agricultural, forestry and fishing sectors, and the Company believes that he is utilizing these assets in his auditing duties.

Yoshimasa Tetsu*
Outside Statutory Auditor (Born Dec. 23, 1948)

Career History
Nov. 1974 - Joined Dentsu Audit Corporation (currently Ernst & Young ShinNihon LLC)
Aug. 1983 - Registered as a Certified Public Accountant
May 1987 - Joined Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
Aug. 1997 - Representative partner of Century Audit Corporation (currently Ernst & Young ShinNihon LLC)
Jun. 2011 - Resigned from ShinNihon LLC (currently Ernst & Young ShinNihon LLC)
Jun. 2015 - Outside Statutory Auditor of the Company (current position)

Reason for appointment
Yoshimasa Tetsu has a wealth of experience related to the ShinNihon Forestry Group's business, having served as Director, as Director of each被捕's Business Division, as an Executive Officer who oversees Corporate Planning, Finance and Information Systems, and as Divisional Manager of Timber and Building Materials Division among other positions.

Makoto Matsuoka*
Outside Statutory Auditor (Born May 28, 1949)

Career History
Apr. 1978 - Registered as Attorney at Law admitted in Japan
May 1981 - Established Momo-o, Matsuo & Namba
Apr. 1981 - Joined Momo-o, Matsuo & Namba (current position)
Jun. 2015 - Outside Statutory Auditor of the Company (current position)

Reason for appointment
Makoto Matsuoka has abundant experience in corporate legal affairs both in Japan and abroad, so is expected to appropriately manage the Company’s audit operations with his specialized perspective.

Executive Officers

*M doubles as Director and Executive Officer

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside Statutory Auditor of the Company (current position)</td>
<td>Yoshitugu Minagawa*</td>
<td>Outside Statutory Auditor of the Company (current position)</td>
</tr>
<tr>
<td>Senior Statutory Auditor (current position)</td>
<td>ShinNihon LLC)</td>
<td>Senior Statutory Auditor (current position)</td>
</tr>
<tr>
<td>Outside Statutory Auditor of the Company (current position)</td>
<td>Yoshimasa Tetsu*</td>
<td>Outside Statutory Auditor of the Company (current position)</td>
</tr>
<tr>
<td>Outside Statutory Auditor of the Company (current position)</td>
<td>Noriaki Toi</td>
<td>Outside Statutory Auditor of the Company (current position)</td>
</tr>
<tr>
<td>Outside Statutory Auditor of the Company (current position)</td>
<td>Makoto Matsuoka*</td>
<td>Outside Statutory Auditor of the Company (current position)</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>Akihisa Fukuda</td>
<td>Executive Officer</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>Yoshimasa Tetsu*</td>
<td>Executive Officer</td>
</tr>
<tr>
<td>Senior Statutory Auditor (full-time) (Born Apr. 16, 1957)</td>
<td>Akihisa Fukuda</td>
<td>Senior Statutory Auditor (full-time) (Born Apr. 16, 1957)</td>
</tr>
<tr>
<td>Executive Officer</td>
<td>Noriaki Toi</td>
<td>Executive Officer</td>
</tr>
<tr>
<td>Senior Statutory Auditor (full-time) (Born Apr. 16, 1957)</td>
<td>Yoshimasa Tetsu*</td>
<td>Senior Statutory Auditor (full-time) (Born Apr. 16, 1957)</td>
</tr>
<tr>
<td>Senior Statutory Auditor (full-time) (Born Apr. 16, 1957)</td>
<td>Noriaki Toi</td>
<td>Senior Statutory Auditor (full-time) (Born Apr. 16, 1957)</td>
</tr>
<tr>
<td>Senior Statutory Auditor (full-time) (Born Apr. 16, 1957)</td>
<td>Makoto Matsuoka*</td>
<td>Senior Statutory Auditor (full-time) (Born Apr. 16, 1957)</td>
</tr>
</tbody>
</table>

Experience and expertise of directors and statutory auditors

The table below shows the expertise and experience expected of directors and auditors in particular.

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Corporate Management</th>
<th>ESG</th>
<th>Sustainability</th>
<th>Risk Management</th>
<th>IT</th>
<th>Compliance</th>
<th>International Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Akira Ichikawa</td>
<td>Representative Director, Chairman of the Board</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>Tatsumi Mineyama</td>
<td>Representative Director, President, President and Managing Executive Officer</td>
<td>•</td>
<td>•</td>
<td>•</td>
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</tr>
<tr>
<td>Tatsuro Katsura</td>
<td>Director, Executive Vice President and General Manager of Sustainability Department</td>
<td>•</td>
<td>•</td>
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</tr>
<tr>
<td>Tatsuro Nakata</td>
<td>Director, Executive Vice President</td>
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<td></td>
</tr>
<tr>
<td>Akira Oyama</td>
<td>Managing Executive Officer</td>
<td>•</td>
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<td>•</td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>Jiro Fujita</td>
<td>Director</td>
<td>•</td>
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<td>•</td>
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<td>•</td>
<td></td>
</tr>
<tr>
<td>Junko Kojima</td>
<td>Director, Managing Director</td>
<td>•</td>
<td>•</td>
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<td>•</td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>Junko Saishu</td>
<td>Managing Director, President</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>Akira Ichikawa</td>
<td>Senior Statutory Auditor</td>
<td>•</td>
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<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
</tr>
<tr>
<td>Makoto Matsuoka*</td>
<td>Outside Statutory Auditor</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td>•</td>
<td></td>
</tr>
<tr>
<td>Noriaki Toi</td>
<td>Statutory Auditor</td>
<td>•</td>
<td>•</td>
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<td>•</td>
<td></td>
</tr>
<tr>
<td>Yoshimasa Tetsu*</td>
<td>Senior Statutory Auditor</td>
<td>•</td>
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</tr>
</tbody>
</table>

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Integrated Report 2022 60Sumitomo Forestry Co., Ltd.59

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

Reforms to corporate governance (from 2014)

<table>
<thead>
<tr>
<th>Year</th>
<th>Corporate Philosophy</th>
<th>Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Added a Code of Conduct</td>
<td>Appointed a woman as a director</td>
</tr>
<tr>
<td>2015</td>
<td>Revised current corporate policies</td>
<td>Total with or fewer people (Articles of Incorporation)</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td>Increased the number of female directors to 2</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td>Increased to 3 people, making outside directors comprise 1/3 of the Board of Directors</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td>Terms of directors shortened to 1 year</td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
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<tr>
<td>2021</td>
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<tr>
<td>2022</td>
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<td></td>
</tr>
</tbody>
</table>

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 meetings, the Executive Committee, an advisory body for the president, generally holds a meeting twice a month to ensure that important issues have been sufficiently discussed in advance. Executive Committee meetings are attended by those directors who also serve as executive officers, as well as the full-time statutory auditors.

The Board of Directors met 16 times and the Executive Committee met 26 times in the fiscal year ended December 2021. Directors and statutory auditors strive to maintain a Board of Directors meeting attendance rate of at least 75%.

Statutory Audit System

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

As assistants to the statutory auditors, ten auditing inspectors, who double as senior managers of major departments, are assigned particularly to enhance the function of audit from a practical perspective. Under this system, the statutory auditors attend important meetings such as Board of Directors 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, striving to cooperate with the accounting auditor as well as the Internal Audit Department.

The statutory auditors are also provided with opportunities to utilize the deep insights and diverse perspectives they have acquired from their various backgrounds.

Nomination and Remuneration Advisory Committee

The Company has 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 executives (3 outside directors and 3 outside statutory auditors) so that the majority of members are outside executives. An outside director serves as the committee chair.

Nomination and Remuneration Advisory Committee members

<table>
<thead>
<tr>
<th>Position*1</th>
<th>Name</th>
<th>Number of meetings (times)</th>
<th>Attendance rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Committee Chairperson</td>
<td>Director (Outside) Tatsuro Hikawa</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Director (Outside)</td>
<td>Tatsuro Yamauchi</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Director (Outside)</td>
<td>Mitsue Kurihara</td>
<td>1*2</td>
<td>100*1</td>
</tr>
<tr>
<td>Statutory Auditor (Outside)</td>
<td>Shoichiro Minagawa</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Statutory Auditor (Outside)</td>
<td>Shoichiro Iwata</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Representative Director, Chairman of the Board</td>
<td>Makoto Matsumoto</td>
<td>2</td>
<td>100</td>
</tr>
<tr>
<td>Representative Director, President</td>
<td>Shinsuke Shioda</td>
<td>2</td>
<td>100</td>
</tr>
</tbody>
</table>

*1 Positions are current as of March 29, 2022.
*2 The number of Nomination and Remuneration Advisory Committee meetings attended and the attendance rate for FY 2021 is listed.
*3 The person’s status is listed since becoming a director on March 30, 2021.
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 December 2020**

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

**Results of evaluation**

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

**<Future issues>**

- Optimize the management of the Board of Directors by means such as further improving materials of the Board of Directors meeting
- Regular monitoring of progress on the medium-term management plan by the Board of Directors

**Executive remuneration**

Along with formulating Sumitomo Forestry Group’s “Mission TREERING 2030” long-term vision and a new three-year medium-term management plan that started from January 2023, “Mission TREERING 2030 Phase 1,” we also revised the executive remuneration system at the Board of Directors’ meeting held on February 14, 2022 with the aim of establishing an executive remuneration system that could further heighten the motivation of every executive to achieve the medium-term management plan.

Remuneration for directors (excluding outside directors) and executive officers

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

  - The remuneration for directors and executive officers of the Company, excluding outside directors, comprises fixed remuneration commensurate with the director’s responsibilities and roles, an annual performance-based bonus as a short-term incentive, and performance-based restricted stock remuneration as a medium- to long-term incentive.

- The Company will determine the amount of fixed remuneration for each position of directors and executive officers in accordance with their responsibilities and roles and pay the fixed remuneration as a monthly remuneration. The amount of the annual performance-based bonus will be determined through comprehensive judgment based on the amount obtained by multiplying the standard bonus amount determined for each position by the payment rate which varies in proportion to the base.

**Formula for calculating annual performance-based bonus**

\[
\text{Payment rate} = \frac{\text{Base profit (100 billion)} \times \text{Incentive curve}}{100.5} \times \text{Vesting rate} \times \text{Restricted stocks (8%)}
\]

**Formula for calculating performance-based restricted stock remuneration**

\[
\text{Remuneration linked to market capitalization growth rate} = \frac{\text{Market capitalization growth rate}}{\text{Target market capitalization growth rate}} \times \text{Restricted stocks (15%)}
\]

**Statutory auditor remuneration**

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

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

**Remuneration (fiscal year ended December 2021)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Total remuneration (million)</th>
<th>Monthly remuneration (bonus)</th>
<th>Remuneration linked to market capitalization growth rate (bonus)</th>
<th>Remuneration linked to the sustainability index achievement rate (bonus)</th>
<th>Number of eligible executives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors*</td>
<td>463</td>
<td>267</td>
<td>31</td>
<td>165</td>
<td>6</td>
</tr>
<tr>
<td>Statutory auditors*</td>
<td>48</td>
<td>48</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Outside directors</td>
<td>35</td>
<td>35</td>
<td>—</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>Outside statutory auditors*</td>
<td>30</td>
<td>30</td>
<td>—</td>
<td>—</td>
<td>3</td>
</tr>
</tbody>
</table>

* The total remuneration for directors does not include compensation as an employee or a compensation for the execution of other duties.
* The total amount of performance-based bonus paid for directors at the 82nd Ordinary General Meeting of Shareholders held on the 74th Ordinary General Meeting of Shareholders held on June 29, 2005 was ¥18 million.
* The total amount of non-remuneration remuneration paid to outside directors in the form of restricted stock was ¥1 million.
Strategically held shares

Article 5 of the Sumitomo Forestry Basic Policy on Corporate Governance states the following concerning strategically held shares:

1. The Company may acquire and hold shares in its business partners and counterparties when the Company determines that such shareholdings will contribute to mid- to long-term enhancement of the Company’s corporate value from the perspective of, among others, maintenance and reinforcement of long-term and stable business relationships with those partners and counterparties as well as expansion of the Company’s business as a result of such closer ties with those parties.

2. At meetings of the Board of Directors, the Company will regularly examine whether the holdings of the shares under the preceding paragraph (the “strategically held shares”) lead to the improvement of its corporate value through analyzing the relationship between the profits and risks associated with such holdings and the cost of capital, and will verify the purpose and rationale of such holdings. When the Company judges that the rationale and necessity of such holdings cannot be confirmed, it will reduce the number of such strategically held shares.

3. The Company will appropriately exercise its voting rights pertaining to the strategically held shares in accordance with its voting criteria and based on its comprehensive judgment from the perspective of the improvement of its corporate value. In addition, to verify the rationality and necessity of cross-shareholdings, the Board of Directors compares the returns of each of the strategically held shares to the hurdle rates set by the Company and also confirmed whether the holdings of such shares led to higher corporate value by verifying the status of transactions with the companies of the strategically held shares. If a business partner or counterparty of the strategically held shares company suffers a long-term slump in business performance or seriously violates laws or causes scandal, the Company will judge how to exercise its voting rights pertaining to the strategically held shares by gathering information through dialogue with such counterparties.

Risk management

Establishment of internal controls system

The Company has enacted a basic policy on the establishment of an internal controls system at the Board of Directors meeting and has instituted Our Values to embody our corporate philosophy as well as the Code of Conduct that all officers and employees of the Group should follow. The Company has also 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 laid down the Risk Management Basic Regulations. In accordance with the Regulations, the President has been appointed as the highest authority on risk management for the Sumitomo Forestry Group. Each executive officer in charge of a head office department or business division is appointed to the position responsible for risk management in the area of their own responsibility. Additionally each general manager is responsible for risk management in the department under their jurisdiction. The regulation also comprehensively deals with risks from the aspect of ESG.

According to the Regulations, the Risk Management Committee, which is comprised of all executive officers, must meet once every quarter. The Committee identifies the risks the Company should be aware of, analyzes them, shares and discusses countermeasures, and assesses the status of execution. Under the umbrella of the Risk Management Committee, the Company has the Compliance Subcommittee and the Business Continuity Management (BCM) Subcommittee, which improve the effectiveness of risk management pertaining to Group-wide compliance risks and business interruption risks.

These activities are reported to the Board of Directors, and the findings are reflected in the execution of business, such as by the performance of management reviews. In the fiscal year ended December 2021, the Risk Management Committee convened four times, the Compliance Subcommittee twice, and the BCM Subcommittee twice, and the Board of Directors received reports from them four times.

Rapidly identifying and responding to risk

In addition to the normal reporting line, we have a “two-hours reporting rule,” which is a system designed to convey critical information promptly and properly to the management via the headquarters’ risk management division, in the event of an emergency situation that may cause a serious impact on the Company. This enables the Company to make swift and optimal management decisions and take immediate action in order to avoid or minimize losses. The reported information is also collected and stored and studied for useful case studies, which are shared to prevent recurrence of the same incident and improve business operation. When a critical issue arises, the information is shared with the Corporate Communications Department and disclosed to stakeholders in a timely and appropriate manner.

Two-hours reporting rule and use of risk information

Corporate Communications Department

1. Make swift and optimal management decisions

2. Minimize loss with appropriate initial response

3. Utilize the incident report to prevent recurrence and improve operations
Managing business continuity

The Sumitomo Forestry Group has established the BCM Subcommittee to address risks presented by events or emergency situations, such as major natural disasters or the spread of emerging infectious diseases, which are extremely difficult for a company to prevent on its own and which can have serious impacts on headquarters’ functions. The BCM Subcommittee is responsible for spreading awareness of and strengthening the business continuity management structure (BCM), formulating, revising and improving Business Continuity Plans (BCP), and conducting drills based on BCP.

In the fiscal year ended December 2021, the committee met twice, encouraging each department and subsidiary to tackle BCM proactively and voluntarily by explaining to each organization through the committee members that a Group-wide coordinated effort has a great impact on the effectiveness of BCPs.

In response to the global spread of the COVID-19, the Sumitomo Forestry Group has established a task force headed by the President and has made efforts to tackle the pandemic since March 2020.

Infectious diseases, which are extremely difficult for a company to prevent, are in our management focus. We also have a crisis management portal website for employees stationed overseas so that they can quickly confirm their safety in emergency situations, such as natural disasters or acts of terrorism. We also have a “First response drills” to train them by sharpening their decision-making skills and abilities.

Supply chain business continuity

In preparation for the potential disruption of its Housing and Construction Business supply chain following a 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.

When a natural disaster such as an earthquake or an accident such as a fire occurs at a supplier, we share the disaster status of the factory, distribution point or other location and help them to quickly plan and execute countermeasures aimed at ensuring supply. We also proactively work towards building a structure where as a principle we can procure the same parts or material from two or more companies (including a structure where we can secure two or more production sites for the same component) as a way of guarding against a lack of supply.

However, due to complex factors such as the coronavirus pandemic that spread around the globe and the shortage of various parts, especially semiconductors, there are ongoing delays in the procurement of parts for water heaters and other items. As a result, Sumitomo Forestry has asked its suppliers to stockpile inventories of materials that experienced delays, as a short-term preparation. For medium- to long-term preparations, Sumitomo Forestry will discuss with its suppliers how to reduce risk by geographically dispersing their production bases, moving from having them (including secondary suppliers) in a single country, toward establishing bases in other countries.

Sumitomo Forestry added items related to business continuity, such as whether there is a system in place to ensure alternate supply routes during an emergency, to the supplier evaluation it conducts every year to determine whether to continue transactions with each supplier. Through these efforts, the Company strives to further reduce the risk of business disruption.

Maintaining customer service

Sumitomo Forestry has set up call centers in Tokyo and Okinawa that are able to provide 24-hour after-sales services. We are also developing a mechanism whereby either call center can back up the functions of the other center in the event of a disaster.

We strive to enable a quick response to requests for repairs by maintaining management for each base through a unified emergency system which allows the Company to share disaster information pertaining to owners.

Ensuring employee safety

In an emergency situation, the Company gives the highest priority to the safety of employees and their families as a general rule. To that end, along with preparing emergency contact networks within each organization, all Group companies in Japan have introduced systems linked to disaster information that automatically issue safety confirmation messages in order to obtain as much information as possible about the safety of employees before communication lines become congested or interrupted due to the effects of the disaster.

We regularly inform employees of what they should do and prepare for their safety through delivering an easily-understood Safety Confirmation Handbook. Safety confirmation drills are also held at all domestic Group companies every year. In the fiscal year ended December 2021, a total of 15,332 people participated in these drills.

Additionally, in 2019 we introduced a safety confirmation system for employees stationed overseas so that they can quickly confirm their safety in emergency situations, such as major earthquakes, acts of terrorism or volcanic eruptions, in the country they are in. We also have a crisis management portal website for employees and their families where they can find all kinds of information about the disaster or the Company’s ongoing countermeasures. The website is accessible from outside of the Company’s private network. Through these measures, we endeavor to prevent secondary disasters and other incidents.

Continuation of important duties

The BCP regulations of the Sumitomo Forestry Group established its BCM regulations in October 2019 and formulated a BCP based on the assumptions listed below.

1. Occurrence of an emergency situation which can have serious impacts on headquarters’ functions.
2. Occurrence of an emergency situation that may cause severe damage to a number of residences and buildings at the same time or on a regional scale.

In our BCPs, we identify the important duties, such as confirming the safety of employees and keeping up payments to our suppliers.

We are able to perform these duties in Osaka instead of the headquarters in Tokyo so that we can minimize the impact even if the headquarters are disabled by damage from a crisis. Additionally, we have prepared remote backups of the data and the systems essential for the execution of the duties.

In each workplace, the person in charge on site needs to make decisions on case-by-case basis to make a right and speedy first response to the disaster. In emergency situations, the chain of command from the headquarters could be interrupted, making it difficult for those who are in charge on site to get instructions from the Company. Therefore we conduct “First response drills” to train them by sharpening their decision-making skills and abilities.

This drill has been conducted since 2011 and although it was postponed in 2020 due to COVID-19 concerns, we re-conducted the drill on the web in 2021 and total of 81 persons in charge on site took part.

Additionally, in preparation for a major earthquake that requires employees to walk long distances back home or stay at the office because of difficulties returning home, each workplace stores emergency supplies such as water, foods and portable toilets according to the guidelines the Company determines. In the capital area and major cities, such as Osaka and Nagoya, where it is assumed that there will be many people with difficulty returning home, we have stockpiled emergency supplies with the assumption of a three-day stay in the office.

Apart from these, from the perspective of disaster prevention and mitigation, a person in charge of disaster prevention from the head office participates in the selection of a new office, and we also take measures to prevent business machinery from falling and to stop multifunction machines on casters from moving around.

Obtained the “Resilience Certification”

In July 2021, Sumitomo Forestry obtained the Certificate for an Organization that Contributes to National Resilience (Resilience Certification) granted to a company that proactively works towards business continuation and social contributions.

Furthermore, since the Great East Japan Earthquake in 2011, we have been working towards building safe and secure towns, revitalizing regions and resolving regional social issues based on the agreements between local governments and the Wooden Home Builders Association of Japan, of which the Company is a major member. We received the certificate in recognition of these efforts.

To minimize the risks of stoppage or interruption of our business continuity caused by various emergency situations, we will continue to improve our business resilience going forward.
Ensuring management transparency

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

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

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

Disclosure of a wide range of information
At the General Meeting of Shareholders, we endeavor to provide reports and explanations that are easy to understand. Additionally, we display accounting-related information such as summaries of accounts, fact books and financial results overviews on our website, together with a wealth of IR information in Japanese and English such as 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 Meeting of Shareholders.

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 Meeting of Shareholders.

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 215 companies in Japan and abroad in the fiscal year ended December 2021. 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 effects of the spread of COVID-19, briefings were not held in the fiscal year ended December 2021, 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 Group’s businesses, we explain the Group’s growth strategy, set up exhibition booths, and introduce the Group’s custom-built detached houses, apartments, renovation services, private-pay elderly care facilities and overseas real estate to interested individual investors.

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 2021, management held online meetings with institutional investors and shareholders in North America, Europe and Asia. At these meetings, there was an exchange of opinions as well as 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.

IR calendar
https://publnk.jplegisl.gov/calendar.html
Messages from outside directors

Expectations of the long-term vision leading to the achievement of the SDGs

Junko Hirakawa
Outside Director

As outside directors spent a year participating in the formulation of "Mission TREEING 2030," which sets out the Company’s specific long-term strategies, we kept the W350 Plan research technology development concept announced in 2018 firmly at the forefront of our minds. All of the Company's businesses embody SDGs, from the cultivation and management of forests in Japan and overseas to the distribution of logs and timber, the manufacture and the use of wood such as in wood construction, and biomass power generation. So in this age when SDGs are gaining increased attention, I cannot help but feel that our time has finally come. One of the business policies the Company announced in 2022 is “Maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy,” and we will not let that remain an armchair theory. The Company is using its knowhow supported by its 330-year history in forest cultivation to develop technology that scientifically quantifies the value of forests as a carbon sink. In my opinion, this represents the priceless and unusual value of Sumitomo Forestry. Up until now, we have supported the environmental conservation efforts of many other companies and involved ourselves heavily in forest asset management operations. However, with the announcement of Mission TREEING 2030, I believe it is time for us to lead the way for SDGs-promoting companies and proclaim the vital importance of an appropriate understanding of the value of forests.

Besides this, as a result of expanding globalization in recent years we have obtained astonishing results in forest management and in the housing and real estate business. This success may be attributed to our method of respecting the characteristics of each region and using the capabilities of local management ranks to the fullest, but it also brings with it a need to further strengthen global governance: To achieve that, it will be important to facilitate personnel interaction and selected talented personnel for higher positions on a global level, and also put systems in place for close personal communication within companies and throughout all Group companies. Finally, we will do our utmost to pursue concrete measures to expand opportunities for female employees to succeed even more. The true point of female empowerment lies beyond gender. We will strive earnestly to achieve the SDGs for the sake of all employees, searching at all times for ways to make them truly feel that “Happiness Grows From Trees” by carefully reviewing their workstyles and work flows, creating avenues for discussion, eliminating waste, and increasing work efficiency.

Promoting decarbonization as a driving force for further growth

Izumi Yamashita
Outside Director

When the long-term vision was formulated, my particular focus was on clearly indicating the pathways for basic strategies and initiatives areas for non-decarbonization, which will form the non-linear forest management, change climate change and global environmental challenges. The Company’s strengths are its experience, knowhow and advanced technologies related to wood and forests. Its role is therefore to leverage these advantages to the fullest and to cooperate and coordinate with a variety of corporations and governmental organizations which share our ambition in order to serve as a platform for driving decarbonization and green innovation. The recently announced cooperation with IH Corporation in a tropical peatland business and the concept of “timber industrial complexes” aimed at reforesting the Japanese forestry business are two examples of the exact kind of leadership I have in mind.

Another area we should focus on is reinforcing our financial bases. This will enable us to expand the forest area we hold in Japan and beyond and actively engage in promoting various wood cycle businesses such as medium- and high-rise wooden construction, which will help reduce the non-residential sector, while continuing to grow steadily on investments in housing construction and real estate development overseas. SFC Asset Management was recently incorporated, the first fund has been established, and talks about setting up a “forest fund” are under way. As we increase our income assets by expanding into various businesses domestically and internationally, it will be crucial for us to improve capital efficiency and strengthen our financial structure by securing those assets, among other means. Going forward, we will monitor the processes involved in turning the long-term vision into reality to ensure that the PDCA cycle is being properly performed. As the presence of overseas businesses grows and we establish various new businesses through means such as digital transformation (DX), the number of new risks we are exposed will mount. In light of that, I believe it is more essential than ever for us to spend time discussing how to enhance risk management from the perspective of “defensive” governance. I will fulfil my responsibilities as an outside director to help the Company achieve sustained growth and ensure increased corporate value in the medium and long-term, guided by the words of Ito Iba, the second director-general of Sumitomo, who stated the following regarding Sumitomo’s business policy: “Always aspire to ideals and be the one to take a step ahead of reality.”

Strengthening our management foundation is essential to unparalleled value creation

Mitsue Kurihara
Outside Director

I can feel the Company’s sense of purpose, determination and ability to decarbonize the planet from its Mission TREEING 2030 long-term vision. The statement “Making our planet safer and more secure for future generations,” which clearly expresses the Company’s purpose (reason of being) and directs the Group as a whole, has been widely communicated.

The long-term vision and medium-term management plan were created through a group effort after multiple discussions within the Company and across the Group, the exchange of ideas with experts and lively debates at the management level.

As a participant in these discussions, I keenly realized firstly that the Company is capable of becoming carbon negative, and that it has the ability to draw out the value of forests and return it to society. Thus we discussed how to accept the high expectations held for that value creation, visualize the value and then back-cast it to be able to develop comprehensive business strategies.

Secondly, our investment strategy considers all companies holistically, we assumed that there would be changes in the financial structure and risk profile. Therefore we deepened our discussions on enhancing the financial base that underpins growth investment and managing and distributing investment resources. The key to achieving all this will be strengthening our management foundation. Sumitomo Forestry has no equal when it comes to realizing the wood cycle. To boost this value, we must strengthen each business area while blending their portfolios in order to display synergy.

To that end, I believe we need to pursue DX, which will combine and visualize information from various sources including the Group and the supply chain and create fresh value from it. We must also focus on a human asset strategy that helps diverse human resources including female employees and foreign workers to grow and flourish. Moreover, we must fortify Group governance to optimize the management assets of the Group as a whole and maximize value.

The Board of Directors will conduct monitoring appropriately and discuss issues that appear in the course of execution in a timely fashion.

As an outside director, I intend to apply my personal expertise and also adopt a more multifaceted approach to issues so that, while prioritizing reflecting the viewpoints of various stakeholders in management, we can strive to increase the corporate value of the Company and create social value.
Sustainability initiatives

Sumitomo Forestry Group Corporate Philosophy and Sustainability Management

Sumitomo Forestry Group has been operating and engaging in sustainable management based on its Corporate Philosophy of "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 the company's establishment and to meet with global social needs such as international conventions and initiatives. Sumitomo Forestry Group is seeking to disseminate and implement the Code of Conduct throughout its supply chain as a global standard, in addition to the Group and its partners, including suppliers and subcontractors. To guarantee that Sumitomo Forestry Group Code of Conduct is widely known, Sumitomo Forestry Group Code of Conduct Guidebook is issued to each employee at Group companies in Japan, translated into English and other languages, and implemented at abroad affiliates as well as through e-learning. This information has also been disclosed on our website to our business partners and other stakeholders. In addition, we monitor the practice and effectiveness of these principles from our Corporate Philosophy to Our Values and Code of Conduct, etc. at the ESG Promotion Committee convened four times a year.

We have also established policies such as: "Environmental Policy", "Procurement Policy", and "Occupational Health and Safety Policy", and various guidelines based on our Corporate Philosophy and Code of Conduct. We are dealing with ESG-related sustainability targets as a specific practice for the Mid-term Management Plan. We formulated Mission TREEING 2030 in February 2022, a long-term vision that incorporates the ideal image of Sumitomo Forestry Group into a long-term business concept. Our Group aspires to realize a sustainable society by addressing the Nine Material Issues identified and providing values to the global environment, people's lives and society, and markets and economic activities, etc.

Formulation and management of Mid-Term Sustainability Targets

Sumitomo Forestry Group has announced “Mission TREEING 2030 Phase 1” (2022-2024), the first phase of its long-term vision “Mission TREERING 2030”, a three-year medium-term management plan that provides the groundwork for future growth and contribution to decarbonization. One of the five basic policies is “Further Integration of Business and ESG,” and the Group has established “Sustainability Targets as part of Mid-term Management Plan in fiscal 2024,” which incorporates the Group’s sustainability strategy and material issues. “Mid-term Sustainability Targets in fiscal 2024” is a revision of the specific ESG-related goals in the Medium-Term Management Plan that has been in operation since fiscal 2019, with the goal of better aligning our business and ESG strategies in accordance with the new policies of the Mid-term Management Plan. Under the long-term vision “Mission TREEING 2030”, the value created by the Group was organized from the perspectives of providing “Value for our planet”, “Value for people and society”, and “Value for the market economy”, and nine new material issues were identified. Specific numerical targets have been defined for each business unit in more detail until 2024 in order to realize these nine material issues.

We believe that it will not only meet the expectations of society, including the SDGs, but also lead to an increase in corporate value that cannot be judged only from the economic perspective.

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 April 2018. The Sustainability Committee is comprised of executive officers and directors, as well as general managers, with the President and Executive Officers 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. 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

All new business and project plans that are brought for deliberation to the Board of Directors and the Executive Committee, which is the advisory body to the president, Sumitomo Forestry conducts risk assessment for the following categories, taking into account the entire supply chain. If a risk is confirmed, a report is made regarding the risk and measures to deal with it, which is used to determine implementation. In addition, the same risk assessment is recommended for new business projects that are not brought for deliberation to these meetings because they can be implemented under the jurisdiction of the respective division or affiliated company. In fiscal year 2021, 15 new businesses and projects were discussed.

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.

Main risk assessment List

Environmental Aspects

1. Greenhouse Gases
2. Biodiversity Conservation (Including Verification of Protected Regions)
3. Waste
4. Water Resources
5. Soil Contamination
6. Noise
7. Other

Social Aspects

1. Relationships with Companies We Do Business With
2. Anti-Corruption in All Its Forms, Including Extortion and Bribery.
3. Human Rights Considerations for Workers and Other Stakeholders
4. Promotion of Employee Diversity
5. Prohibition of Forced Labor and Child Labor
6. Appropriate Working Hours and Wages
7. Occupational Health and Safety
8. Impact on Local Communities (Including Concern for Local Residents and Administrations, Industry Organisations, NGOs, Municipal Citizens’ Groups and Indigenous People)

Legal and Regulatory Compliance

–

Overall

Recognition of Indications from External Organization About Business Models, Products, Services and the Related Business Entities
Following on from 2008, Sumitomo Forestry Group identified important CSR issues in March 2015. Since then, major changes have occurred around the world, including adoption of the SDGs (Sustainable Development Goals) and the conclusion and entry into force of the Paris Agreement, and in Japan, the GPIF (Government Pension Investment Fund) signing of the PRI (United Nations Principles for Responsible Investment) has accelerated the trend toward ESG investment. In response to these trends, Sumitomo Forestry Group developed its long-term vision “Mission TREEING 2030” in February 2022, which identified nine new material issues.

In addition to analyzing geopolitical changes, technological innovations such as digitalization, and changes in the stakeholder preferences such as employees and customers’ choices, we’ve also used Sumitomo Forestry Group’s strengths, which have grown significantly through M&A and capital and business alliances, to identify areas where the Group can make a unique contribution, not just to sustainability, but also as material issues of the Group’s overall business.

In order to formulate our mission, we conducted a questionnaire survey of all stakeholders, including customers, business partners, shareholders and investors, outside experts, and employees, and received responses from approximately 6,000 people. Based on external changes (Megatrends), we identified matters that would impact on Sumitomo Forestry Group and set 35 issues while classifying into 5 categories of “Environmental Issues (Climate change),” “Environmental Issues (Resources and Biodiversity),” “Social Issues,” “Governance,” and “Economic Issues” and let respondents select what they think was important.

Individual interviews with young employees and management-level personnel were also conducted.

We narrowed down the material issues for Sumitomo Forestry Group based on the results of these questionnaires and interviews. Furthermore, we incorporated management’s opinions and performed materiality assessments in consideration of risks and opportunities through a series of discussion among management ranks. Finally, we selected nine material issues from three perspectives: “Value for our planet,” “Value for people and society” and “Value for the market economy.”

### Nine Material Issues

#### Identifying material issues

Following on from 2008, Sumitomo Forestry Group identified important CSR issues in March 2015. Since then, major changes have occurred around the world, including adoption of the SDGs (Sustainable Development Goals) and the conclusion and entry into force of the Paris Agreement, and in Japan, the GPIF (Government Pension Investment Fund) signing of the PRI (United Nations Principles for Responsible Investment) has accelerated the trend toward ESG investment. In response to these trends, Sumitomo Forestry Group developed its long-term vision “Mission TREEING 2030” in February 2022, which identified nine new material issues.

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As global environmental problems such as climate change, resource depletion, and biodiversity loss become more serious, expectations for wood and forests that produce natural resources and biological resources to solve these problems are rising. Forests not only have functions of absorbing and storing CO2, conserving biodiversity, and producing wood building materials, fuel materials, or the like, but also have various public welfare functions such as water source recharge, soil conservation, and sediment disaster prevention.

Sumitomo Forestry Group has developed various businesses centered on wood, such as forestry business, timber and building material distribution and manufacturing business, housing and building business, and renewable energy business. “Sumitomo Forestry Group contributes to realization of a sustainable and prosperous society through all kinds of services related to people’s lives, utilizing “trees” that are friendly to people and the global environment based on “Sumitomo Business Spirit” that emphasizes fairness and trust and benefits society. In order to realize our management philosophy, we intend to enhance value of forest resources by promoting further integration of business and ESG and by conducting sustainable forest management and the use of wood.

**Material issues 1**

To enhance the value of forests and wood through sustainable forest management

Nurturing forests to enhance and harness the value of wood and other forest resources.

**Number of seedlings supplied**

Domestic forestry (number of shipments)

1,460,000 ➔ 2,530,000

**Volume of fuel wood chips and pellets handled**

1,863,870t ➔ 2,482,964t

**As per FY2021 (actual)** ➔ **FY2024 (target)**

**Material issues 2**

To realize carbon neutrality by leveraging forests and wood resources

Contributing to the decarbonization of society by reducing our own GHG emissions, by offering timber and wood products that sequester carbon, and by providing low-carbon-footprint products and services.

**Energy tax credits**

Number of units covered

(United States)

8,993 units ➔ 15,574 units

2.6% ➔ 35.1%

*1 Tax deductions for residences that meet the criteria ($2,000 USD per unit).

*2 Heating and cooling energy values are 50% or less of 2006

**Material issues 3**

To realize a circular bioeconomy by leveraging forests and wood resources

Realizing a circular society by making the most of wood, a renewable and natural resource from the forest ecosystem.

**Recycling ratio**

New housing construction sites

95.1% ➔ 98%

Housing demolition work sites

94.6% ➔ 100%

**Number of ECO acquisition proposals to suppliers**

A total of 65 suppliers ➔ 71%

* Percentage of purchase amount

**As per FY2021 (actual)** ➔ **FY2024 (target)**

**Material issues 4**

To provide comfortable and secure spaces for society at large

Providing safe, comfortable and secure spaces to society at large.

Survey conducted among employees who moved into the new office in 2020

Surveys conducted when owners move in (NPS score*)

50.9% ➔ 53.0%

* NPS (Net Promoter Score). A new indicator used to measure customer loyalty (trust and attachment) to a company or brand.

**Material issues 5**

To improve the livelihood of the local communities where we operate

Creating jobs through our businesses and contributing to the development of local communities.

OBT Ltd.* Recruitment of local human resources to increase volume of logs produced

57 people (total)

* Open Bay Timber Ltd.

**Material issues 6**

To create a vibrant environment for all workers

Creating a work environment where everyone throughout the supply chain is safe, healthy and motivated.

**Ratio of female executives**

(Net Promoter Score)

10.7% ➔ 19.4%

Percentage of men taking childcare leave

50.4% ➔ 100%

Sumitomo Forestry Group sets “We promote a free and open-minded corporate culture that respects diversity,” as one of Code of Conduct, and also make Declaration on Health Management that it strives to maintain and improves physical and mental health of all employees and their families so that they can work healthily and actively. In the future, with the utmost emphasis on continuous improvement of employee satisfaction, we will work on multi-faceted and customized targets such as realization of diversity, prevention of harassment, elimination of occupational injuries, and improvement of retention rate and number of obtained qualifications.

As various social issues such as human rights issues such as discrimination and poverty, inter-ethnic/disasters, and the spread of infectious diseases with the new coronavirus become apparent, the tendency toward well-being has increased, and people’s living spaces, especially homes, are required to be safe, secure, comfortable and warm. Sumitomo Forestry Group strives to improve customer satisfaction by setting “We provide high-quality products and services that bring joy to our customers.” in the Code of Conducts, and focusing on providing high-quality products that give a sense of security, safety, comfort and warmth to many customers, focusing on newly built detached houses and remodeling.

In order to achieve sustainable business growth, it is important to create an environment where people involved can thrive. Foundation of a fair work environment is that everyone in the supply chain accepts diversity, including race, religion, ethnicity, nationality, and gender, and respects human rights without discrimination. We must also accept work-life balance, which emphasizes lifestyle of each individual. In addition, there is a possibility that serious occupational accidents may occur in the forest business or Housing and Construction Business, and sufficient measures are necessary. Sumitomo Forestry Group sets “We promote a free and open-minded corporate culture that respects diversity,” as one of Code of Conduct, and also make Declaration on Health Management that it strives to maintain and improves physical and mental health of all employees and their families so that they can work healthily and actively. In the future, with the utmost emphasis on continuous improvement of employee satisfaction, we will work on multi-faceted and customized targets such as realization of diversity, prevention of harassment, elimination of occupational injuries, and improvement of retention rate and number of obtained qualifications.

**Value for our planet**

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**Value for people and Society**

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**Sustainability initiatives**

**Value for the market economy**

**Material issues 1**

To create new markets with forests and wood

Creating new markets that enrich the economy through the resourceful use of forests and wood.

Number of contracts with joint research partners (Number of contracts, percentage of all topics)

<table>
<thead>
<tr>
<th>Number of Contracts</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>35</td>
<td>48.6%</td>
</tr>
<tr>
<td>38</td>
<td>54.0%</td>
</tr>
</tbody>
</table>

Utilization of forests and wood is emphasized in order to enrich the economy while solving various environmental and social issues such as realization of a decarbonization society and a circular economy, conservation of biodiversity, and respect for human rights. In order to deepen and expand utilization of wood and activate functions of forests, creation of new markets that utilize them is also the key.

Sumitomo Forestry Group will expand its medium- and large-scale wooden construction business globally while challenging many issues such as technology, legal regulations, and cost relating to construction such as structure, fire resistance, production, and environment. In addition, in order to develop various new technologies, new products, and new markets that utilize “wood” and “forests,” we will promote research and development that emphasizes collaboration with the outside world without being bound by our own technologies.

In the fields of forestry and wooden construction business, where tradition and experience have been emphasized, it is necessary to raise economic efficiency and increase added value through market reforms such as DX and innovation, in view of the situation such as decrease and aging of main players, technological advancement and globalization, and future demand expansion.

Sumitomo Forestry Group aims to ensure quality and quantity of wood resources and provide them with high added value by improving efficiency of sales activities and supply chains through DX and innovation. In the field of elderly care business, which faces similar challenges, we will introduce innovations to create added value and improve operational efficiency, such as user safety and security for users.

**Material issues 2**

To transform markets through DX and innovation

Enhancing economic efficiency and added value through business transformation brought about by DX and innovation.

Number of facilities in the elderly care business where senior devices have been installed

<table>
<thead>
<tr>
<th>Number of Facilities</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>-</td>
</tr>
<tr>
<td>19</td>
<td>+</td>
</tr>
</tbody>
</table>

Building a strong business system is important for a company to carry out sustainable business as the crisis that has a great impact on the economy such as intensification of natural disasters, spread of unknown infectious diseases such as the new coronavirus, and financial and geopolitical risks continues worldwide. Continuing business even in the face of unexpected events also contributes to stability of the industry and market as a whole.

Sumitomo Forestry Group will not only build a Business Continuity Management (BCM) system to provide stable value even in the event of unexpected events, but also aim to strengthen supervisory function of the Board of Directors during normal times, and prompt strengthening of the governance and information security of expanding overseas affiliated companies. With respect to climate change and natural disasters, we will continue to analyze scenarios based on TCFD Proposal to build a strong business.

Visit our website for further details about the nine material issues and other indicators.


**Mitigation of Climate Change**

As the impact of climate change becomes more urgent globally, companies are being asked to reduce their emissions of greenhouse gases as a measure to counter global warming. The Sumitomo Forestry Group submitted a commitment letter to SBTi* to establish an SBT for the entire Group in June 2017. The new set of long-term greenhouse gas reduction targets has been approved as SBT by SBT in July 2018. In October 2018, the IPCC (Intergovernmental Panel on Climate Change) “1.5°C Special Report” was published, which reports the latest scientific findings on global warming. In the latter half of this century, it became clear that there is a big difference in the impact on the global environment between suppressing the rise in average temperature of the earth from before the Industrial Revolution to 2°C and 1.5°C. The SBT Initiative changed the SBT certification standard to two types of greenhouse gas emission reduction targets in which the global average temperature rise becomes a level of 1.5°C, well below 2°C compared to that before the Industrial Revolution in April 2019 in response to the trend of the “1.5°C Special Report” (applicable from October 2019). In September 2021, we submitted an application to the SBT Secretariat to enhance our Scope 1 and 2 greenhouse gas emissions reduction targets from the previous 21% reduction to a 54.6% reduction, with 2030 as the target year, in order to expedite our initiatives. Our greenhouse gas emissions reduction targets (SBTs) are explained below.

**SBTs (Science Based Targets)**

**2°C target (Approved)**

Scope 1*1, 2*2

21% reduction of greenhouse gas emissions compared to 2017 (base year) by 2030.

Scope 3*3

16% reduction of total greenhouse gas emissions from Category 1 and Category 11 compared to 2017 (base year) by 2030.

*1 Direct GHG emissions of a company, including those from fuel consumption. For example, CO₂ emissions from using gasoline in company vehicles.

*2 Indirect GHG emissions (including CH₄ and N₂O) from purchased electricity and heat. For example, CO₂ emissions from using electricity in office buildings.

*3 GHG emissions occurring in the supply chain. For example, CO₂ emissions when sold products are used.

*4 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.

**1.5°C target (submitted)**

Scope 1

54.6% reduction of greenhouse gas emissions compared to 2017 (base year) by 2030.

Scope 3

16% reduction of total greenhouse gas emissions from Category 1 and Category 11 compared to 2017 (base year) by 2030.

**Progress on Reaching Our SBTs**

<table>
<thead>
<tr>
<th>Fiscal 2017 (base year)*1</th>
<th>Fiscal 2021*1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1 - 2</td>
<td>54.6% reduction of greenhouse gas emissions compared to 2017 (base year) by 2030.</td>
</tr>
<tr>
<td></td>
<td>369,785 t-CO₂e</td>
</tr>
<tr>
<td>Scope 3</td>
<td>16% reduction of total greenhouse gas emissions from Category 1 and Category 11 compared to 2017 (base year) by 2030.</td>
</tr>
<tr>
<td></td>
<td>8,885 thousand t-CO₂e</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 2021 was January to December 2021.

*2 Scope 3 emissions increased due to a higher number of units sold and handed over in the overseas housing and real estate business and the addition of COMPAN KIENETSU INC. to the Sumitomo Forestry Group.
**Sustainability initiatives**

**Aiming for 100% Renewable Energy used and Joining the RE100**

The Sumitomo Forestry Group positions reduction of environmental impact of our business activities as one material issue that needs to be addressed and strives to engage in energysaving activities and use of renewable energy. As part of these initiatives, we joined the international RE100* initiative that aims for 100% of electricity used to be from renewable energy in March 2020 to accelerate our efforts to reduce greenhouse gases.

* RE100 is an international initiative run jointly by The Climate Group, a global environmental NGO, and the CDP. As of January 2022, 290 companies worldwide are members, of which 50 companies are Japanese.

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.

**Toward the RE100 targets**

In fiscal 2021, amount of renewable energy introduced in the electricity used in Sumitomo Forestry Group’s business activities resulted in 17.2 % which is the total amount of electricity used by the entire Group such as solar panels installed in housing exhibition halls and for private use of power generated by biomass power plants (including adjacent wood chip manufacturing plants for fuel), etc. In addition, ratio of biomass-derived fuel to the fuel consumption of the power generation business is 88.5% (calorific value conversion). In the Medium-Term Management Plan Sustainability 2024 announced in February 2022, we have set a goal of reaching a renewable energy introduction rate of 35.1% in power consumption of the Group’s business activities in fiscal 2024, with the aim of achieving the part of RE100, which could be achieved by our own efforts by 2030.

**Progress on Reaching RE100**

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

**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. In fiscal 2021, Scope 1 and Scope 2 emissions remained at mostly unchanged year-on-year. Of the total for Scope 1 and 2 greenhouse gas emissions recognized under the GHG Protocol, overseas plants emitted 30.8%, while domestic plants and the power generation business accounted for 56.7%.

We also started to calculate Scope 3 in fiscal 2013 and the targets for this calculation largely expanded in fiscal 2015 and fiscal 2017. Among these results, the impact in category 11, “emissions during use of detached houses sold”, is acknowledged to be a major factor, and the increase in residential and construction operations in fiscal 2020 of Net Zero Energy House (ZEH) projects is expected to reduce CO2 emissions volumes while the homes are in use.

In the future, we will work to meet the SBt in an effort to reduce greenhouse gas emissions to another level.

<table>
<thead>
<tr>
<th>Greenhouse gas emissions for Scopes 1 and 2</th>
<th>Scope1</th>
<th>Scope2</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>307,722</td>
<td>117,712</td>
</tr>
<tr>
<td>2011</td>
<td>307,722</td>
<td>117,712</td>
</tr>
<tr>
<td>2012</td>
<td>307,722</td>
<td>117,712</td>
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<tr>
<td>2019</td>
<td>307,722</td>
<td>117,712</td>
</tr>
<tr>
<td>2020</td>
<td>307,722</td>
<td>117,712</td>
</tr>
</tbody>
</table>

1. Excludes figures for the power generation business (Mombetsu Biomass Power Plant and Hachinohe Biomass Power Plant)
2. The calculation period for total emissions in the fiscal year ended December 2020 was January to December 2020, and the calculation period for every previous fiscal year was April of that year until March of the subsequent year.

**Response to TCFD**

The Sumitomo Forestry Group is aware of the risks and opportunities that accompany climate change. In July 2018, we announced our support for the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures) established by the Financial Stability Board. In that same year, we conducted our first scenario analysis, based on the recommendations of the TCFD. It covered the timber and building materials business and the housing and construction business, and it assessed the risks and opportunities posed to the Group by climate change issues, and the resilience of its strategies. In 2019, we began disclosing information according to the TCFD’s recommended framework.

Additionally, in 2021, we performed a scenario analysis for the environment and resources business and the overseas housing and real estate business, improving the level of the Sumitomo Forestry Group’s scenario analysis disclosures.

**Information disclosure based on the TCFD framework**

- The Sustainability Committee analyzes medium- to long-term ESG issues including climate change-related risks and opportunities. It also plans and advances initiatives related to these issues and manages the progress of medium-term sustainability targets.
- Chaired by the President and Executive Officer, the committee meets four times a year. It works to promote integration of businesses and EGI initiatives, and all discussions are reported to the Board of Directors.
- In February 2022, the executive remuneration system was partly revised. In addition to increasing the link between medium- to long-term performance and higher corporate value, we also introduced remuneration linked to the sustainability index achievement rate. The remuneration was specifically tied to the rate of achievement of greenhouse gas emissions reduction targets based on the SBt.

**Governance**

- In response to the “Global Warming of 1.5 °C” special report and the “Sixth Assessment Report” issued by the Intergovernmental Panel on Climate Change (IPCC), society’s expectations are mounting about the function of forests as a way to absorb CO2 and stock carbon, about timber production and wood construction as a way to stock carbon and reduce CO2 emissions, and about the use of unused timber from forests as biomass power generation fuel.
- One of the business policies we established in the long-term vision we announced in February 2022 is “Maximizing the value of forests and wood to realize decarbonization and a circular bioeconomy.” and we are pursuing opportunities to that end.
- The relevant division at headquarters and each division work together to expose risks and opportunities. In 2021, we performed a scenario analysis for the overseas housing and real estate business and the environment and resources business. (See page B3)
- Started working on countermeasures in the medium-term management plan, and further studies are ongoing.

**Strategies**

- Evaluate risks for climate change-related items such as greenhouse gas emissions, biodiversity and water for all matters deliberated on by the Board of Directors and the Executive Committee, an advisory body to the president.
- The progress of indicators incorporated in the medium-term sustainability targets is checked every quarter and reported and confirmed by the Sustainability Committee twice a year.
- For risks that may arise in the short-term in day-to-day operations, each department decides on specific measures and assessment indicators and delivers a progress report every quarter to the Risk Management Committee.

**Risk management**

- In response to the “Global Warming of 1.5 °C” special report and the “Sixth Assessment Report” issued by the Intergovernmental Panel on Climate Change (IPCC), society’s expectations are mounting about the function of forests as a way to absorb CO2 and stock carbon, about timber production and wood construction as a way to stock carbon and reduce CO2 emissions, and about the use of unused timber from forests as biomass power generation fuel.
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**KPIs and targets**

- Group companies and divisions set annual targets based on the medium-term sustainability targets that include SBt and RE100. (See page B3-81)
The first scenario analysis, conducted in 2018, analyzed the business risks and opportunities posed by climate change for the wood building materials and housing and construction industries, using two scenarios in which average global temperature increases are less than 2°C and 4°C, respectively, compared to that of pre-industrial times, and disclosed relevant information. For 2021, we conducted scenario analysis for the resources and environment business, as well as the overseas housing and real estate business. We considered at the situation in 2030 using two scenarios: the 4°C scenario, in which no progress is made in tackling climate change in order to enhance transparency, and the 1.5/2°C scenario, in which progress is made in transitioning the company toward decarbonization.

The relevant departments and each division of our Company collaborated to identify risks and opportunities, conducted financial impact assessments, and discussed countermeasures for items that were identified as significant risks and opportunities. In 2018 and 2021, the subject businesses for which scenario analysis was conducted accounted for approximately 98% (as of FY2021) of the net sales of Sumitomo Forestry Group. Results of the scenario analysis are presented to the ESG Promotion Committee and the Board of Directors, and additional initiatives are outlined in the Mid-term Sustainability Targets.

### TCFD Scenario Analysis

#### Identification and measures for environmental risk

- **Timber and building materials business**
  - Increased timber procurement costs due to the tightening of regulations such as forest protection policies and logging regulations in various countries
  - Increased fuel (wood chip) costs as a result of higher demand for biomass power generation due to changes in the energy mix
  - Increased demand for biomass power generation businesses and fuel chips as a result of tightening regulations on fossil fuels
  - Increased demand for wood that does not require a lot of energy for manufacturing and processing and that can suppress the emission of greenhouse gases

- **Housing and construction business**
  - Increased timber procurement costs due to the tightening of regulations such as forest protection policies and logging regulations in various countries
  - Increased costs for complying with policies such as the Building Energy Efficiency Act
  - Increased construction costs if a large-scale natural disaster occurs due to construction time delays and reconstruction activities to restore facilities owner
  - Decreased outdoor work efficiency due to an increase in extremely hot days, leading to increased costs due to construction time delays and maintaining and enhancing employee health management
  - Increased demand for environmentally-friendly homes such as ZEH due to tightened regulations aimed at decarbonization and greater market need for decarbonization products

- **Overseas housing and real estate business**
  - Increased costs for complying with carbon taxes introduced in countries
  - Increased construction costs due to stricter building standards
  - Increased costs for land acquisition, construction, and development due to intensified weather abnormalities
  - Increased demand for environmentally-friendly homes and medium- and high-rise wooden construction due to tightened decarbonization regulations

- **Environment and resources business**
  - Increased operating costs due to the introduction of carbon taxes and environmental regulations and the tightening of logging regulations
  - Increased costs as a result of more efficient resource use and production, and the development and introduction of low-carbon technologies
  - Increased risk of lost sales opportunities due to damage to forests caused by an increase in pest and wild animal damage triggered by intensified weather abnormalities
  - Increased risk of forest fires due to a rise in air temperature
  - Increased demand for timber that does not require a lot of energy for manufacturing and processing and that can suppress the emission of greenhouse gases
  - Greater credit income due to growth in wood biomass power generation demand and more active forest carbon credit transactions

### Opportunities and strategies related to climate change

**Expand sales of homes in tune with government’s net zero-energy house promotion**

In response to the Japanese government’s ZEH promotion policies, the Sumitomo Forestry Group has set targets for receiving ZEH orders in our medium-term sustainability targets, and we are proceeding with ZEH sales. By advertising the special feature of Sumitomo Forestry’s ZEH, which is the double generation of power using solar panels and BNE-144M residential fuel cell units, we are creating a competitive advantage and increasing the ratio of ZEH. We have also adopted 36°2° TRIPLE Insulation as a standard to boost the insulation efficiency of our custom-built detached houses (including fire-resistance specifications). We provide highly energy-efficient homes by using highly insulating structural material and windows all around in our buildings in addition to high-performance thermal insulators.

The 2030 scenario analysis predicts that in the case of the 4°C scenario, the ZEH ratio desired by the government will increase even further, while in the 2°C scenario, the even more energy-efficient ZEH+ will become standardized, and thus the competitiveness of Sumitomo Forestry, which has technological development skill in the housing market, will increase.

**Expanding sales of ZEH+**

We expect our earnings to grow as renewable energy needs increase, resulting in greater demand for fuel chips for biomass power generation. Furthermore, as of June 2021, the Sumitomo Forestry Group was operating five wood biomass power generation businesses in Japan. We also expect the Motomiyaka Biomass Plant in Miyagi prefecture to begin operations in November 2023. Once it begins operation, the total power generating capacity of the Sumitomo Forestry Group will be approximately 251.6MW. When converted to power generation according to the equity ratio, this is equivalent to enough power to supply 274,366 households.

In light of the Agency of Natural Resources and Energy’s overall vision to achieve the ideal energy mix for 2030, the scenario analysis estimates that the 1.7% rate currently occupied by biomass power generated in Japan’s power source composition will rise to 3.7% for the 4°C scenario and 4.8% in the 2°C scenario by 2030. We predict that sales in the Sumitomo Forestry Group’s fuel chip supply business will increase accordingly.

**Opportunities in the building materials business**

- Increased demand for environmentally-friendly homes and medium- and high-rise wooden construction due to tightened decarbonization regulations

**Opportunities in the housing and construction business**

- Increased demand for biomass power generation businesses and fuel chips as a result of tightening regulations on fossil fuels

**Opportunities in the timber and building materials business**

- Increased demand for wood that does not require a lot of energy for manufacturing and processing and that can suppress the emission of greenhouse gases

**Opportunities in the environment and resources business**

- Increased demand for timber that does not require a lot of energy for manufacturing and processing and that can suppress the emission of greenhouse gases

**Building interest in forest carbon credit**

- Forests play an important role in achieving carbon neutrality. According to the scenario analysis, as the carbon credit market grows, forest-based carbon credits will become a new source of revenue for forestry businesses.

- In our long-term vision, Sumitomo Forestry has set the goal of contributing to carbon off-setting for society as a whole while establishing forestry funds aimed at securing forestry assets that include carbon credits and other types of new value and developing businesses through forest management and asset management.

- One of these initiatives will be combining the forest management technology Sumitomo Forestry has cultivated in Japan and overseas with HHI Corporation’s observation technology that is used in artificial satellites to perform high-precision water-level management, resulting in advanced forest management that prevents peat fires. Using that knowledge, we plan to establish a consulting business aimed at companies and national and regional governmental organizations trying to stop deforestation or peatland destruction. In our medium-term management plan, we have also set goals to establish a method for calculating the amount of carbon absorbed by forests and work to improve its accuracy, and to increase the percentage of earnings from new forest value creation businesses.
Sustainability initiatives

Human Rights Initiatives

The Sumitomo Forestry Group formulated the Sumitomo Forestry Group Human Rights Policy in July 2019, participates internationally such as in the UN Global Compact and the World Business Council for Sustainable Development (WBCSD), complies with international human rights bills (Universal Declaration of Human Rights and International Covenants on Human Rights), the International Labour Organization (ILO) Core Labour Standards, the Ten Principles of the UN Global Compact and the United Nations Guiding Principles on Business and Human Rights.

In addition, the “Sumitomo Forestry Group Code of Conduct”, which is based on these international norms, states respect for human beings and the realization of a healthy workplace. Furthermore, the Sumitomo Forestry Group is permeating these policies and conducts proper assessments to ensure this same level of respect by business partners as well. We are also conducting human rights due diligence and respond to human rights risks in an effort to fully grasp and mitigate any risk to human rights.

Respect for Human Rights at Overseas forestry business

PT. Wana Subur Lestari and PT. Mayangkara Tanaman Industrti operate with respect for human rights and the environment, conducting joint surveys with the International Finance Corporation (IFC), a member of the World Bank Group, and interviewing local residents to hear their opinions. Additionally, Open Bay Timber Ltd. (OBT) in Papua New Guinea has installed a suggestion box that anyone in the community, including people inside and outside the company, can post in. Being open to consultations from not only employees but also the residents of the surrounding area helps to increase the company’s perceived trustworthiness by giving people a way to communicate their thoughts to the company.

Initiatives in Indonesia

2012

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

2013 and 2015

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

Since 2018

With help from the IFC, Sumitomo Forestry set up grievance mechanisms at WSL and MTI to collect information and opinions from local residents.

Implementation of Due Diligence and Managing Important Risks

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

Internal Sustainability Survey of the Sumitomo Forestry Group

Regarding the initiatives of each Group company, in fiscal 2021, a survey was conducted involving 58 Group companies around the world, confirming that 50 companies provided human rights training, 47 companies have systems to handle grievances, and 56 companies have risk mitigation plans in place. Furthermore, there were 0 violations of the Sumitomo Forestry Group Code of Conduct as pertains to human rights.

Identifying and Managing Human Rights Risks

In order to strengthen initiatives in human rights due diligence, each business division maps risks associated with stakeholders in value chain and identifies important human rights risks for each group. We identified important risks as follows: The Environment and Resources Division - “Infringing indigenous or community land rights and managing related laws” as well as “Occupational safety and health management in mountain forests (dangerous work, etc.)”. The Timber & Building Materials Division - “Infringing indigenous land rights,” “Occupational safety and health management at factories (fires, dust explosions, etc.),” and “Child labor at timber plantations (including dangerous operations).” The Housing and Construction Division and the Overseas Housing and Real Estate Division - “Labor conditions of migrant workers (forced labor, etc.).” In addition, we reviewed the mapping in fiscal 2020, considering the impact of spread of new coronavirus infection as a new risk factor.

Regarding the identified risks, we take measures to reduce and correct risks for each business. For example, we have identified more risks in fiscal 2020, of which we have verified the condition of respect for human rights of foreign technical trainees which is the particular importance and of major social interest in Japan. Third-party agencies gathered feedback from partner building contractors and organizations supervising technical trainees, verified conditions of migrant workers (forced labor, etc.).” In addition, we reviewed the mapping in fiscal 2020, considering the impact of spread of new coronavirus infection as a new risk factor.

Respect for Human Rights Through Sustainability Survey in supply chain.

Sumitomo Forestry Group is conducting fair and responsible procurement under the Sumitomo Forestry Group Procurement Policy. Specifically for timber procurement our group conducts sustainability surveys of all, to ensure that the procurement is performed in a sustainable manner with consideration of legal compliance, human rights, labor practices, biodiversity conservation, and local communities.

* A system for processing complaints and resolving issues that allows persons or regions that have been damaged to file claims and seek redress over negative impacts related to a company.
Sumitomo Forestry Group is engaged in responsible timber procurement activities in accordance with our Timber Procurement Basic Policy formulated in 2005 and our Timber Procurement Principles and Policies formulated in 2007. In 2015 with the Sumitomo Forestry Group Procurement Policy, we expanded our scope beyond timber to include a wide range of other procured products, such as metals, ceramics, resins, and other building materials, and based on this policy, are engaged in procurement activities that take into consideration the economy, society, and environment.

The Sumitomo Forestry Group Procurement Policy (Excerpt)

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

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

Timber procurement management

Sumitomo Forestry Group established the Timber Procurement Committee, chaired by the officer in charge of sustainability promotion at Sumitomo Forestry (director and managing executive officer) and comprising managers from departments in charge of timber procurement. The committee discusses issues related to group-wide timber procurement, including procurement standards and risk assessments for illegal logging.

In fiscal 2021, the Timber Procurement Committee met four times to confirm the legality and conduct a "Sustainability Survey" for all 193 directly-imported suppliers subject to screening and suppliers with whom overseas Group companies (distribution) do business. Regularly (once a year or once every two years), we confirm legality and sustainability of both new and ongoing parties we conduct business with.

Initiatives for enabling sustainable timber procurement

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

Consideration for Biodiversity Conservation, Labor Practices and Human Rights, and Local Communities

Following items are checked, through Sustainability Procurement Surveys to suppliers and local interviews for the products that are being procured.

• Whether the rights of workers, local and indigenous community 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 take place with consideration for these rights.

• Whether the high conservation value forests 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.

In fiscal 2021, the final year of the Sustainability Chapter 2021 of the Medium-Term Management Plan, we strengthened our scrutiny of our suppliers’ procurement to achieve 100% sustainable wood procurement, and developed due diligence on the sustainability of wood and biomass fuels such as PKS and pellets.

Supply chain management

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.

In FY 2021, the rate of sustainable timber and timber products we handled throughout the year was 97.8%, but after discussions with business partners that did not meet our procurement standards, we switched to certified timber; and in September 2021 we canceled our contracts with suppliers who could not guarantee sustainable timber, achieving a 100% rate of handling for sustainable timber and timber products on a contract basis. We will continue to ensure that we procure only sustainable timber.

Policy on “Sustainable Timber and Wood Products”

To confirm the legality as precondition, we define timber and wood products as sustainable if they fulfill one of the following:

Sustainable = Environmental: No contribution to deforestation
Social: No violation of human rights such as occupational safety, forced labor, indigenous rights, etc.

1. Certified timber and pre-certified timber: FSC, PEFC, and SGEF
(Regardless of CoC connection, we place emphasis on certification at time of production and promote a shift to certified timber)

2. Timber from plantation forests

3. Natural timber where forest management and distribution can be assessed as sustainable.
(Does not include timber from conversion forests = timber harvested from natural forests that were converted to farm land such as oil palm plantations)

4. Recycled wood
Sustainability initiatives

Diversity & inclusion

Activities for diverse talent acquisition

The Sumitomo Forestry Group advocates the promotion of a free and open-minded corporate culture that respects diversity as one of the principles in Our Values. According to internationally accepted human rights norms, we shall of course respect equal opportunity and diversity as well as respect the human rights of all individuals, including women, children, indigenous people, minorities and vulnerable people in the employment and treatment of employees as stated in the Sumitomo Forestry Group Code of Conduct. We have also defined “a vibrant work environment where a diverse workforce can harness their skills and individuality” as one material issue for sustainability. As part of the specific strategies and goals set in the M&A Term Sustainability Targets, we aim to create a work environment that generates diverse ideas, job satisfaction and vibrancy as well as secure human resources by training younger workers and utilizing older ones, which we incorporate into our management practices through inclusion in annual activity policy and measures for each department. In recruitment activities, the Company emphasizes the ambition and vision of the applicant, and does not differentiate the 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, age, or gender.

As for the disciplinary punishment and dismissal of employees, if there has been a compliance violation, the employee will be dealt with appropriately in accordance with Employment Regulations. We have also put in place a system to prevent unfair dismissals.

Recently, talent acquisition has been recognized as one of the major management issues for management in Japan triggered mainly by low birth rate and thereby aging population. Sumitomo Forestry communicates this type of approach with potential employees during recruitment and expands supportive programs to foster diverse work styles and performance of female employees in effort of acquiring valuable, next-generation talent.

Employment and promotion of women (non-consolidated)

<table>
<thead>
<tr>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of female employees</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>3.7%</td>
<td>4.2%</td>
<td>4.8%</td>
</tr>
<tr>
<td>Ratio of newly graduated female recruit*1</td>
<td>24.8%</td>
<td>26.9%</td>
<td>30.2%</td>
</tr>
</tbody>
</table>

*1 The ratio of female employees and the ratio of female employees in management positions are calculated from the number of employees enrolled on March 31 of each year from fiscal 2018 to fiscal 2019. The rate is calculated based on the number of employees as of December 31 due to the change in the accounting period after fiscal 2020.

Promoting health management

Initiatives to maintain and improve employee health

At the Sumitomo Forestry Group, we believe that maintaining and improving the health of employees in a company firstly contributes to the happiness of the employees as individuals and also leads to increased productivity and greater work efficiency. Based on that belief, on October 1st, 2021, we established the Sumitomo Forestry Group Declaration on Health Management. Sumitomo Forestry places and keeps clinical psychologists and public health nurses in the Healthcare Promotion Team in the Workstyle Diversification Department in the Personnel Department. We also undertake 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 intranet.

We 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.

Sumitomo Forestry Group Declaration on Health Management


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 to conduct stress checks and help all employees in Japan (excluding employees on long-term leaves of absence from work such as those undergoing medical treatment or on childcare leave) prevent mental disorders.

In FY 2021, to verify our strategic policy and improve the working environment, we added items that measure health reasons and psychological safety, such as illnesses and symptoms that affect work performance, to the stress check items. Moreover, as a follow-up measure, we distributed the individual organisational analysis results sheet to business sites and organized Stress Check Results Feedback Training for all general managers to help raise their awareness about creating healthier workplaces. Departments with issues received individual consultations to help them improve their working environments. Furthermore, we added a new “healthcare” category to e-learning, enriched the content intended to help each employee cultivate a healthier mind and body and are working to increase health literacy.

Results of mental disorder prevention measures

<table>
<thead>
<tr>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stress check use rate (%)</td>
<td>91.6%</td>
<td>93.5%</td>
<td>96.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment of persons with disabilities* (domestic subsidiaries)</td>
<td>1.76%</td>
<td>1.77%</td>
<td>1.85%</td>
</tr>
</tbody>
</table>

* Calculated as of June for every fiscal year

WEB


May 31 for fiscal 2020 due to a change in the accounting period.

Also the employment ratio of female employees*1

Ratio of female employees in management positions*1

Ratio of newly graduated female recruit*1

Result Feedback Training for all general managers to help raise their awareness about creating healthier workplaces. Departments with issues received individual consultations to help them improve their working environments. Furthermore, we added a new “healthcare” category to e-learning, enriched the content intended to help each employee cultivate a healthier mind and body and are working to increase health literacy.

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WEB


May 31 for fiscal 2020 due to a change in the accounting period.
### Eleven-year consolidated financial summary

#### Operating results: ($ million)

<table>
<thead>
<tr>
<th>Year</th>
<th>2021/12</th>
<th>2020/12 (fY)</th>
<th>2020/3</th>
<th>2019/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥1,385,930</td>
<td>¥1,039,152</td>
<td>¥1,104,094</td>
<td>¥1,308,899</td>
</tr>
<tr>
<td>Gross profit</td>
<td>341,994</td>
<td>243,889</td>
<td>242,889</td>
<td>232,146</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>208,344</td>
<td>143,862</td>
<td>191,312</td>
<td>182,889</td>
</tr>
<tr>
<td>Operating income</td>
<td>113,651</td>
<td>47,462</td>
<td>51,377</td>
<td>49,247</td>
</tr>
<tr>
<td>Recurring income</td>
<td>137,751</td>
<td>51,293</td>
<td>58,824</td>
<td>51,436</td>
</tr>
<tr>
<td>Net income attributable to shareholders of parent / net income</td>
<td>87,175</td>
<td>30,398</td>
<td>27,853</td>
<td>29,160</td>
</tr>
<tr>
<td>Recurring income (excluding actuarial differences)</td>
<td>134,481</td>
<td>46,470</td>
<td>61,356</td>
<td>54,846</td>
</tr>
</tbody>
</table>

#### Financial position:

<table>
<thead>
<tr>
<th>Year</th>
<th>2021/12</th>
<th>2020/12 (fY)</th>
<th>2020/3</th>
<th>2019/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>¥1,314,226</td>
<td>¥1,019,152</td>
<td>¥1,004,786</td>
<td>¥970,976</td>
</tr>
<tr>
<td>Working capital</td>
<td>470,909</td>
<td>297,669</td>
<td>273,167</td>
<td>236,047</td>
</tr>
<tr>
<td>Interest-bearing debt</td>
<td>302,763</td>
<td>302,933</td>
<td>119,069</td>
<td>92,975</td>
</tr>
<tr>
<td>Net assets</td>
<td>540,889</td>
<td>395,456</td>
<td>357,664</td>
<td>353,489</td>
</tr>
</tbody>
</table>

#### Cash flows:

<table>
<thead>
<tr>
<th>Year</th>
<th>2021/12</th>
<th>2020/12 (fY)</th>
<th>2020/3</th>
<th>2019/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>¥91,576</td>
<td>¥46,840</td>
<td>¥45,724</td>
<td>¥40,689</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(40,254)</td>
<td>(44,635)</td>
<td>(38,874)</td>
<td>(71,659)</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>(7,029)</td>
<td>(6,469)</td>
<td>(1,142)</td>
<td>(11,513)</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the year</td>
<td>170,681</td>
<td>122,227</td>
<td>112,565</td>
<td>105,102</td>
</tr>
</tbody>
</table>

#### Capital investment:

<table>
<thead>
<tr>
<th>Year</th>
<th>2021/12</th>
<th>2020/12 (fY)</th>
<th>2020/3</th>
<th>2019/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property, plant and equipment</td>
<td>¥21,844</td>
<td>¥18,124</td>
<td>¥32,414</td>
<td>¥17,071</td>
</tr>
<tr>
<td>Intangible fixed assets</td>
<td>3,892</td>
<td>2,099</td>
<td>3,470</td>
<td>3,179</td>
</tr>
<tr>
<td>Others</td>
<td>2,498</td>
<td>2,834</td>
<td>2,297</td>
<td>2,088</td>
</tr>
<tr>
<td>Total</td>
<td>28,224</td>
<td>23,946</td>
<td>38,151</td>
<td>22,331</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>16,491</td>
<td>11,503</td>
<td>14,388</td>
<td>13,696</td>
</tr>
</tbody>
</table>

#### Per share data (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2021/12</th>
<th>2020/12 (fY)</th>
<th>2020/3</th>
<th>2019/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>457.67</td>
<td>167.54</td>
<td>153.54</td>
<td>160.80</td>
</tr>
<tr>
<td>Net assets</td>
<td>2,479.76</td>
<td>2,025.13</td>
<td>1,777.57</td>
<td>1,755.06</td>
</tr>
<tr>
<td>Cash dividends</td>
<td>80.0</td>
<td>35.0</td>
<td>40.0</td>
<td>40.0</td>
</tr>
</tbody>
</table>

#### Financial ratios: (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2021/12</th>
<th>2020/12 (fY)</th>
<th>2020/3</th>
<th>2019/3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross profit margin</td>
<td>23.2</td>
<td>22.8</td>
<td>22.0</td>
<td>17.7</td>
</tr>
<tr>
<td>Operating income margin</td>
<td>8.2</td>
<td>6.7</td>
<td>4.7</td>
<td>3.8</td>
</tr>
<tr>
<td>Recurring income margin</td>
<td>9.9</td>
<td>6.1</td>
<td>5.3</td>
<td>3.9</td>
</tr>
<tr>
<td>Return on assets (ROA)*</td>
<td>11.5</td>
<td>4.9</td>
<td>6.0</td>
<td>5.5</td>
</tr>
<tr>
<td>Return on equity (ROE)**</td>
<td>20.2</td>
<td>8.8</td>
<td>8.8</td>
<td>9.3</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>37.7</td>
<td>37.7</td>
<td>32.1</td>
<td>32.8</td>
</tr>
<tr>
<td>Interest-bearing debt ratio***</td>
<td>37.1</td>
<td>45.2</td>
<td>45.4</td>
<td>43.9</td>
</tr>
<tr>
<td>Current ratio</td>
<td>211.9</td>
<td>178.3</td>
<td>175.3</td>
<td>163.2</td>
</tr>
<tr>
<td>Interest coverage ratio (times)**</td>
<td>39.7</td>
<td>24.9</td>
<td>16.9</td>
<td>20.1</td>
</tr>
</tbody>
</table>

---

* Working capital = Current assets - Current liabilities.  
** 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.  
*** ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.  
*1 Interest-bearing debt ratio = Interest-bearing debt / (Interest-bearing debt + Shareholders’ equity)  
*2 ROA and ROE are calculated using the simple average of beginning and end of term balance sheet figures.  
*3 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.
<table>
<thead>
<tr>
<th>ASSETS</th>
<th>December 31, 2021</th>
<th>December 31, 2020</th>
<th>millions of yen</th>
<th>Thousands of U.S. dollars (Note 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td>¥1,314,226</td>
<td>¥1,091,152</td>
<td></td>
<td>$1,165,378</td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and deposits (Notes 8, 12, 17)</td>
<td>¥139,957</td>
<td>¥85,500</td>
<td>$1,216,803</td>
<td></td>
</tr>
<tr>
<td>Notes and accounts receivable - trade (Notes 8, 16, 17, 18)</td>
<td>140,075</td>
<td>119,687</td>
<td>1,217,835</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable from completed construction contracts (Note 8)</td>
<td>49,098</td>
<td>49,098</td>
<td>460,328</td>
<td></td>
</tr>
<tr>
<td>Marketable securities (Notes 8, 12, 17)</td>
<td>3,303</td>
<td>3,302</td>
<td>28,718</td>
<td></td>
</tr>
<tr>
<td>Merchandise and finished goods</td>
<td>24,426</td>
<td>13,762</td>
<td>212,364</td>
<td></td>
</tr>
<tr>
<td>Work in process</td>
<td>1,481</td>
<td>1,312</td>
<td>12,897</td>
<td></td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>9,096</td>
<td>8,080</td>
<td>84,299</td>
<td></td>
</tr>
<tr>
<td>Costs on construction contracts in progress (Note 8)</td>
<td>14,975</td>
<td>14,991</td>
<td>130,177</td>
<td></td>
</tr>
<tr>
<td>Real estate for sale (Note 8)</td>
<td>14,975</td>
<td>14,991</td>
<td>130,177</td>
<td></td>
</tr>
<tr>
<td>Short-term loans receivable (Note 12)</td>
<td>35,493</td>
<td>35,390</td>
<td>388,581</td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>35,493</td>
<td>35,390</td>
<td>388,581</td>
<td></td>
</tr>
<tr>
<td>Other receivable (Note 8)</td>
<td>54,580</td>
<td>47,592</td>
<td>544,985</td>
<td></td>
</tr>
<tr>
<td>Total current assets</td>
<td>891,012</td>
<td>677,662</td>
<td>7,744,406</td>
<td></td>
</tr>
<tr>
<td><strong>Non-current assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lease obligations (Note 7)</td>
<td>6,556</td>
<td>8,080</td>
<td>84,299</td>
<td></td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>422,314</td>
<td>217,998</td>
<td>425,328</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>1,314,336</td>
<td>1,309,150</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LIABILITIES AND NET ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>¥1,314,226</td>
<td>¥1,091,152</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Shareholders’ equity (Note 13):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock — Authorized: 400,000,000 shares issued and outstanding 201,200,936 shares in December 31, 2021 and 182,778,336 shares in December 31, 2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>333,134</td>
<td>311,403</td>
<td>3,570,793</td>
<td></td>
</tr>
<tr>
<td>Treasury shares, 1,338,269 shares in December 31, 2021 and 1,327,588 shares in December 31, 2020</td>
<td>(2,362)</td>
<td>(2,340)</td>
<td>(20,532)</td>
<td></td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>333,132</td>
<td>311,401</td>
<td>3,570,771</td>
<td></td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>98,004</td>
<td>99,752</td>
<td>1,165,378</td>
<td></td>
</tr>
</tbody>
</table>
### Consolidated Statement of Income

**Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries**

**For the fiscal years ended December 31, 2021 and 2020**

#### Consolidated Statement of Comprehensive Income

<table>
<thead>
<tr>
<th>Fiscal Year Ended December 31, 2021</th>
<th>Fiscal Year Ended December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Millions of yen</strong></td>
<td><strong>Millions of yen</strong></td>
</tr>
<tr>
<td><strong>Fiscal year ended December 31, 2021</strong></td>
<td><strong>Fiscal year ended December 31, 2020</strong></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td><strong>Net income</strong></td>
</tr>
<tr>
<td>¥104,516</td>
<td>¥90,796</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td><strong>Other comprehensive income</strong></td>
</tr>
<tr>
<td>¥1,385,936</td>
<td>¥1,308,681</td>
</tr>
<tr>
<td><strong>Comprehensive income</strong></td>
<td><strong>Comprehensive income</strong></td>
</tr>
<tr>
<td>¥128,877</td>
<td>¥120,507</td>
</tr>
</tbody>
</table>

#### Consolidated Statement of Changes in Net Assets

**Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries**

**For the fiscal years ended December 31, 2021 and 2020**

<table>
<thead>
<tr>
<th>Fiscal Year Ended December 31, 2021</th>
<th>Fiscal Year Ended December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>Total</strong></td>
</tr>
<tr>
<td><strong>Millions of yen</strong></td>
<td><strong>Millions of yen</strong></td>
</tr>
<tr>
<td><strong>Fiscal year ended December 31, 2021</strong></td>
<td><strong>Fiscal year ended December 31, 2020</strong></td>
</tr>
<tr>
<td><strong>Balance at January 1, 2021</strong></td>
<td><strong>Balance at January 1, 2021</strong></td>
</tr>
<tr>
<td>¥32,803</td>
<td>¥29,988</td>
</tr>
<tr>
<td><strong>Changes during the period</strong></td>
<td><strong>Changes during the period</strong></td>
</tr>
<tr>
<td>¥332,363</td>
<td>¥441,241</td>
</tr>
<tr>
<td><strong>Balance at December 31, 2021</strong></td>
<td><strong>Balance at December 31, 2021</strong></td>
</tr>
<tr>
<td>¥365,166</td>
<td>¥471,225</td>
</tr>
</tbody>
</table>

### Financial Section

**Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries**

**For the fiscal years ended December 31, 2021 and 2020**
### Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries
#### Consolidated Statement of Cash Flows

**For the fiscal years ended December 31, 2021 and 2020**

#### Financial Section

<table>
<thead>
<tr>
<th>Description</th>
<th>Fiscal Year Ended December 31, 2021</th>
<th>Fiscal Year Ended December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>¥115,979</td>
<td>¥93,211</td>
</tr>
<tr>
<td>Depreciation</td>
<td>¥16,556</td>
<td>¥12,211</td>
</tr>
<tr>
<td>Amortization of intangible assets</td>
<td>¥2,159</td>
<td>¥3,210</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>¥5,709</td>
<td>¥4,069</td>
</tr>
<tr>
<td>Decrease in trade receivables</td>
<td>¥19,806</td>
<td>¥10,520</td>
</tr>
<tr>
<td>Increase in trade payables</td>
<td>¥17,978</td>
<td>¥7,907</td>
</tr>
<tr>
<td>Increase in advance received on construction contracts in progress</td>
<td>¥1,478</td>
<td>¥2,557</td>
</tr>
<tr>
<td>Increase in accounts payable</td>
<td>¥1,624</td>
<td>¥520</td>
</tr>
<tr>
<td>Increase in other current liabilities</td>
<td>¥6,475</td>
<td>¥9,278</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation</strong></td>
<td>¥208</td>
<td>¥18,243</td>
</tr>
<tr>
<td><strong>Payments for long-term loans receivable</strong></td>
<td>¥2,070</td>
<td>¥19,190</td>
</tr>
<tr>
<td><strong>Other payments</strong></td>
<td>¥1,161</td>
<td>¥2,450</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>¥18,917</td>
<td>¥205,140</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in property, plant and equipment</td>
<td>¥13,803</td>
<td>¥27,482</td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>¥34,294</td>
<td>¥31,858</td>
</tr>
<tr>
<td>Other changes in non-controlling interests</td>
<td>¥3,305</td>
<td>¥26,799</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation</strong></td>
<td>¥18,243</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash used in investing activities</strong></td>
<td>¥122,243</td>
<td>¥205,140</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase in short-term borrowings</td>
<td>¥1,082</td>
<td>¥11,129</td>
</tr>
<tr>
<td>Increase in deferred interest accounts</td>
<td>¥3,318</td>
<td>¥24,216</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation</strong></td>
<td>¥18,243</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash used in financing activities</strong></td>
<td>¥170,035</td>
<td>¥217,362</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.

### Additional Tables

#### Financial Section

**Consolidated Statement of Changes in Shareholders' Equity**

<table>
<thead>
<tr>
<th>Description</th>
<th>Fiscal Year Ended December 31, 2021</th>
<th>Fiscal Year Ended December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shareholders' equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in ownership interest of parent due to transactions with non-controlling interests</td>
<td>(1,880)</td>
<td>(5,491)</td>
</tr>
<tr>
<td><strong>Total changes during the period</strong></td>
<td>150,068</td>
<td>946,091</td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
1. Nature of Operations
Sumitomo Forestry Co., Ltd. (the “Company”) and its affiliated companies (together, 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 housing-related products and services; development of the foundation of its business. Specifically, the Group’s operations (together, the “Group”) are involved in various business operations, including construction, maintenance, renovation and development of multi-family housing and commercial complexes; environment and resources-related operations, including biomass power generation business and forestation business, and other businesses, including private-pay elderly care facilities and elderly residences that combine living support service business, insurance agency business and civil engineering and construction work.

2. Basis of Presenting Consolidated Financial Statements
The Company and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.
Effective April 1, 2008, the Company adopted the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No. 18).” In accordance with PITF No. 18, the accompanying consolidated financial statements include foreign 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 differ in certain respects as to the application and disclosure requirements of IFRS and U.S. GAAP and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

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

Notes to Consolidated Financial Statements
(a) Basis of consolidation and investments in affiliates
The consolidated financial statements include the accounts of the Company and those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation. Investments in affiliates in which the ability to exercise significant influence exist are stated at cost plus equity in undistributed earnings (losses). Net carrying amounts for investments include the Company’s share of the current net earnings (losses) of such companies, after elimination of unrealized intercompany profits. As of December 31, 2021, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 324 and 132 (267 and 107 as of December 31, 2020), respectively.

3. Summary of Significant Accounting Policies
(a) Basis of consolidation and investments in affiliates
The consolidated financial statements include the accounts of the Company and those of its subsidiaries. All significant intercompany transactions and accounts and unrealized intercompany profits are

(b) Translation of foreign currency transactions and accounts
Current and long-term receivables and payables in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date.

(c) Statement of cash flows
Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less and 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 default rates estimated for, depending on management’s judgment, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; ii) marketable-for-sale securities, which are not classified as the aforementioned securities, are reported at fair value, unless unrealized gains and losses, net of applicable taxes, reported in a separate component of net assets; iii) non-marketable for-sale securities are carried at cost. The Company determines cost of securities sold by the moving average method.

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

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

(n) Long-term investments
The investment in an equity-method affiliate is accounted for by the equity method. The investment in an equity-method affiliate is included in the scope of consolidation in the current year.

(o) Intangible assets
Amortization of intangible assets is calculated using the straight-line method over the estimated useful life of the assets according to general class, type of construction and use. In the foreign consolidated subsidiaries, depreciation is computed by the straight-line method, with minor exceptions. In the case of disposal or retirement, the difference between the net book value and salvage or sales proceeds is charged to income.

(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 disposal or retirement, 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 life of 5 years.

(r) Disposal 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 amount, 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) Hedge accounting
The deferred hedge accounting method is applied. The allocation method is applied to foreign exchange hedging transactions. The exceptional method is used for interest rate swaps if they satisfy the requirements for the exceptional method.

(t) Hedging methods
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. Hedge accounting is not applicable.

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

(v) Revenue recognition
The financial statement “Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ)
Overview: The ASBJ developed the accounting standard and implementation guidance on fair value measurement focusing on the guidance and disclosures on the fair value measurement of financial instruments based in international accounting standards with nearly identical detailed guidance issued by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (IFRS 13 by the IASB and Topic 820 by the FASB) and issued them from a standpoint of enhancing comparability between financial statements of companies in Japan and overseas.

Implementation Guidance on Disclosures about Fair Value of Financial Instruments: The ASBJ issued “Revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 30) and “Revised Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Statement No. 31 of March 31, 2020) from a standpoint of enhancing comparability between financial statements of companies in Japan and overseas with a unified calculation method. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to common accounting practices in Japan, etc.

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

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

The recoverable amount is either the net realizable value or the value in use method. Furthermore, the ASBJ added alternative accounting treatment without impairing comparability when there are matters to be considered related to common accounting practices in Japan, etc.

(i) Overview
The ASBJ developed the accounting standard and implementation guidance on fair value measurement focusing on the guidance and disclosures on the fair value measurement of financial instruments based in international accounting standards with nearly identical detailed guidance issued by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) (IFRS 13 by the IASB and Topic 820 by the FASB) and issued them from a standpoint of enhancing comparability between financial statements of companies in Japan and overseas.

As the basic policy of the ASBJ in developing accounting standards for fair value measurement, the ASBJ accepted the basic principle of IFRS 13 from a standpoint of enhancing comparability between financial statements of companies in Japan and overseas.


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

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

(g) Changes in presentation
(1) Application of Accounting Standard for Disclosure of Accounting Estimates: Effective from the fiscal year ending December 31, 2020, the Company adopted “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31 of March 31, 2020) from the beginning of the fiscal year ended December 31, 2021. Accordingly, details about significant accounting estimates are presented as a part of the notes to the consolidated financial statements.

In accordance with the transitional treatment prescribed in the proviso in the paragraph 11 of the accounting standard, no details were provided regarding the previous fiscal year in the note.

Change of Fiscal Year End: Effective from the fiscal year ended December 31, 2020, the Company and its domestic subsidiaries changed their fiscal year from March 31 to December 31. The change is to adjust the closing date of the Companies in order to disclose management information in a timely and accurate manner and to enhance the transparency of management. Accordingly, the fiscal year ended December 31, 2020, is a nine-month period from April 1, 2020, to December 31, 2020, for the Company and its subsidiaries.

4. Dollar Amounts
The U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetic computation only, at the rate of ¥115.02 =US $1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of December 2021. This translation should not be construed as a representation that the yen amounts actually represent, have ever 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. Significant Accounting Judgments, Estimates and Assumptions
Impairment of Non-Current Assets
(1) Amounts recorded in the consolidated financial statements for the current fiscal year

The carrying amounts and estimated fair values of the securities classified as available-for-sale at December 31, 2021 and 2020 were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 2021</th>
<th>Carrying amount</th>
<th>Estimated fair value</th>
<th>Unrealized gain (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>¥2,000</td>
<td>¥2,249</td>
<td>(249)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>¥5,000</td>
<td>¥5,249</td>
<td>(249)</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥7,000</td>
<td>¥7,548</td>
<td>(71)</td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>¥1,000</td>
<td>¥1,000</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>¥5,000</td>
<td>¥5,249</td>
<td>(249)</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥6,000</td>
<td>¥6,249</td>
<td>(249)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥13,000</td>
<td>¥13,797</td>
<td>(71)</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment and intangible assets</td>
<td>¥2,064,954</td>
<td>¥1,781,026</td>
<td>¥383,928</td>
<td></td>
</tr>
<tr>
<td>Amount of impairment loss</td>
<td>¥3,819</td>
<td>¥33,205</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

(2) Other information that contributes to understanding of the content of estimates
(i) Calculation method
For an asset or an asset group that have indicators of impairment, if the sum of the undiscounted future cash flows from such asset is less than the sum of the carrying amounts at the time of determination of impairment loss, an impairment loss is recorded for the difference between the carrying amounts at the time of determination of impairment loss and the recoverable amounts.

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

Also, as described in the Note 9 (Loss on Impairment of Non-Current Assets), the Company recognized an impairment loss on goodwill etc., relating to Sumita Co., Ltd. The assessment on impairment indicators and the future cash flow estimation on its assets or asset groups are based on its business plan, which includes multiple assumptions such as the number of new residents, the number of residents who have left and discount rate.

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

6. Securities
(a) The carrying amounts and estimated fair values of the securities classified as held-to-maturity at December 31, 2021 and 2020 were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 2021</th>
<th>Carrying amount</th>
<th>Estimated fair value</th>
<th>Unrealized gain (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>¥7,700</td>
<td>¥7,716</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥7,700</td>
<td>¥7,716</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>¥790</td>
<td>¥790</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥790</td>
<td>¥790</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥8,490</td>
<td>¥8,506</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment and intangible assets</td>
<td>¥2,064,954</td>
<td>¥1,781,026</td>
<td>¥383,928</td>
<td></td>
</tr>
<tr>
<td>Amount of impairment loss</td>
<td>¥3,819</td>
<td>¥33,205</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥2,064,954</td>
<td>¥1,781,026</td>
<td>¥383,928</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment and intangible assets</td>
<td>¥2,064,954</td>
<td>¥1,781,026</td>
<td>¥383,928</td>
<td></td>
</tr>
<tr>
<td>Amount of impairment loss</td>
<td>¥3,819</td>
<td>¥33,205</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

(b) The carrying amounts and estimated fair values of the securities classified as available-for-sale at December 31, 2021 and 2020 were as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 2021</th>
<th>Carrying amount</th>
<th>Estimated fair value</th>
<th>Unrealized gain (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>¥914</td>
<td>¥927</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥914</td>
<td>¥927</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>¥754</td>
<td>¥766</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥754</td>
<td>¥766</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥1,668</td>
<td>¥1,693</td>
<td>25</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 2020</th>
<th>Carrying amount</th>
<th>Estimated fair value</th>
<th>Unrealized gain (loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt securities</td>
<td>¥75,800</td>
<td>¥21,169</td>
<td>¥54,630</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥75,800</td>
<td>¥21,169</td>
<td>¥54,630</td>
<td></td>
</tr>
<tr>
<td>Equity securities</td>
<td>¥2,009</td>
<td>¥2,249</td>
<td>(240)</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>¥2,009</td>
<td>¥2,249</td>
<td>(240)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>¥78,009</td>
<td>¥23,418</td>
<td>¥52,229</td>
<td></td>
</tr>
</tbody>
</table>
9. Loss on Impairment of Non-Current Assets

Loss on impairment of non-current assets for the year ended December 31, 2021 mainly consisted of the following:

<table>
<thead>
<tr>
<th>Location</th>
<th>Major use</th>
<th>Asset category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kobe, Hyogo etc.</td>
<td>Loss on sale of completed construction</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$2,316</td>
</tr>
</tbody>
</table>

The Group classifies assets based on the categories used for management accounting. Rental assets and idle assets are assessed individually and are separated from this classification.

For Sumirin Care Life Co., Ltd., the Company’s consolidated subsidiary, the Company reviewed its business plan for the operation, and as a result the unamortized balance of its goodwill and other intangible assets were recorded as an impairment loss because the Company no longer expects it to generate the revenue expected at the time of acquisition. The recoverable amount of the assets was measured in terms of its value in use, which was calculated by discounting expected future cash flows at a rate of 5.0%.

Also, for the buildings owned by Sumirin Care Life Co., Ltd., the book value of the buildings was reduced to their recoverable amount, and the amount of the reduction was recorded as an impairment loss as it was considered difficult to recover the invested amount due to decline in the profitability of the buildings.

The recoverable amount was measured at the net realizable value, which is based on the appraisal value of real estate with reasonable adjustments added.

10. Income Taxes

Income taxes in Japan applicable to the Companies generally comprise corporation tax, enterprise tax, and prefectural and municipal inhabitant taxes. The effective statutory tax rate for the fiscal years ended December 31, 2021 and 2020 was 30.6%.

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

The breakdowns of amount of tax loss carryforwards and deferred tax assets by expiration period as of December 31, 2021 and 2020 were as follows:

<table>
<thead>
<tr>
<th>Fiscal year ended</th>
<th>Deferred tax assets</th>
<th>(with exception of portion due within 1 year) from the fiscal year end</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2024</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2026</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The significant components of deferred tax assets and liabilities at December 31, 2021 and 2020 were as follows:

<table>
<thead>
<tr>
<th>Location</th>
<th>Major use</th>
<th>Asset category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kobe, Hyogo etc.</td>
<td>Loss on sale of completed construction</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$2,316</td>
</tr>
</tbody>
</table>

The table below shows the significant components of deferred tax assets and liabilities at December 31, 2021 and 2020 were as follows:

<table>
<thead>
<tr>
<th>Location</th>
<th>Major use</th>
<th>Asset category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kobe, Hyogo etc.</td>
<td>Loss on sale of completed construction</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$2,316</td>
</tr>
</tbody>
</table>
11. Selling, General and Administrative Expenses

The components of “Selling, General and Administrative Expenses” for the fiscal years ended December 31, 2021 and 2020 were as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selling expenses</td>
<td>11,720</td>
<td>12,540</td>
</tr>
<tr>
<td>General expenses</td>
<td>12,846</td>
<td>12,482</td>
</tr>
<tr>
<td>Selling and general expenses</td>
<td>24,566</td>
<td>25,022</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>9,755</td>
<td>8,384</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>34,321</td>
<td>33,406</td>
</tr>
</tbody>
</table>

12. Cash and Cash Equivalents

Cash and cash equivalents at December 31, 2021 and 2020 consisted of the following:

<table>
<thead>
<tr>
<th>Component</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>1,216,803</td>
<td>1,478,312</td>
</tr>
<tr>
<td>Less: Deposits</td>
<td>247,921</td>
<td>202,098</td>
</tr>
<tr>
<td>Deposits which mature or become due over three months after the date of acquisition</td>
<td>(3,122)</td>
<td>2,101</td>
</tr>
<tr>
<td>Long-term deposits</td>
<td>113</td>
<td>129</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>2,098</td>
<td>2,106</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>1,216,803</td>
<td>1,478,312</td>
</tr>
</tbody>
</table>

13. 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 is 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, 2021 and 2020, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million ($24,840 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, annual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Law.

14. 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 period 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.

15. Contingent Liabilities

Contingent liabilities as of December 31, 2021 and 2020 were as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantee on loans from financial institutions</td>
<td>188,516</td>
<td>159,779</td>
</tr>
<tr>
<td>Kanda Biomass Energy K.K.</td>
<td>7,220</td>
<td>7,571</td>
</tr>
<tr>
<td>Kawasaki Biomass Electric</td>
<td>3,004</td>
<td>2,106</td>
</tr>
<tr>
<td>DB Group (DB Group Georgia, LLC and DB Group Alabama, LLC)</td>
<td>4,004</td>
<td>2,066</td>
</tr>
<tr>
<td>DIPA</td>
<td>4,795</td>
<td>3,885</td>
</tr>
<tr>
<td>Total</td>
<td>229,545</td>
<td>199,557</td>
</tr>
</tbody>
</table>

16. Matured Notes at the End of the Fiscal Year

Matured notes set out on the current page. The following notes are included in the consolidated balance sheets as of December 31, 2021 and 2020 as the maturity date was on a business holiday for financial institutions in Japan.

17. Financial Instruments

(a) Policy for financial instruments

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

(b) Details of financial instruments and related risk

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

(c) Risk management for financial instruments

(Credit risk management)

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

(Risk management of foreign currency exchange rate fluctuation and interest rate fluctuation)

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

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

(Risk management of liquidity risk that the Companies cannot meet its contractual obligation in full on maturity dates)

The Finance Department of the Company manages liquidity risk by establishing and revising cash flow plan based on reports from each section.

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

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

(e) Fair value of financial instruments

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

18. Supplemental Financial Statements

Financial Section

<table>
<thead>
<tr>
<th>Component</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Note receivable</td>
<td>6,222</td>
<td>6,018</td>
</tr>
<tr>
<td>Net cash used</td>
<td>6,475</td>
<td>6,198</td>
</tr>
<tr>
<td>Net cash provided</td>
<td>3,048</td>
<td>3,256</td>
</tr>
</tbody>
</table>
### 1. Assets

#### (1) Cash and deposits

<table>
<thead>
<tr>
<th>Item</th>
<th>December 31, 2021</th>
<th>Fair value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and deposits</td>
<td>¥139,267</td>
<td>¥139,267</td>
<td>¥0</td>
</tr>
</tbody>
</table>

#### (2) Marketable securities and investment securities

<table>
<thead>
<tr>
<th>Item</th>
<th>December 31, 2021</th>
<th>Fair value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketable securities and investment securities</td>
<td>¥1,217,835</td>
<td>¥1,217,835</td>
<td>¥0</td>
</tr>
</tbody>
</table>

#### (3) Notes and accounts receivable – trade

<table>
<thead>
<tr>
<th>Item</th>
<th>December 31, 2021</th>
<th>Fair value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes and accounts receivable – trade</td>
<td>¥3,505,547</td>
<td>¥3,505,547</td>
<td>¥0</td>
</tr>
</tbody>
</table>

#### (4) Accounts payable for construction

<table>
<thead>
<tr>
<th>Item</th>
<th>December 31, 2021</th>
<th>Fair value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable for construction</td>
<td>¥5,177</td>
<td>¥5,177</td>
<td>¥0</td>
</tr>
</tbody>
</table>

#### (5) Notes and accounts payable – trade

<table>
<thead>
<tr>
<th>Item</th>
<th>December 31, 2021</th>
<th>Fair value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes and accounts payable – trade</td>
<td>¥5,177</td>
<td>¥5,177</td>
<td>¥0</td>
</tr>
</tbody>
</table>

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

#### (1) Derivative transactions

<table>
<thead>
<tr>
<th>Item</th>
<th>Present value</th>
<th>Fair value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives****</td>
<td>¥45,010</td>
<td>¥45,010</td>
<td>¥0</td>
</tr>
</tbody>
</table>

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

#### (1) Financial instruments whose fair values are extremely difficult to determine

<table>
<thead>
<tr>
<th>Item</th>
<th>December 31, 2021</th>
<th>Fair value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivatives****</td>
<td>¥45,010</td>
<td>¥45,010</td>
<td>¥0</td>
</tr>
</tbody>
</table>

### 18. Derivatives and Hedging Activities

#### Derivative transactions to which hedge accounting is not applied

<table>
<thead>
<tr>
<th>Item</th>
<th>Fair value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative transactions to which hedge accounting is not applied</td>
<td>¥536</td>
<td>¥536</td>
</tr>
</tbody>
</table>

### 19. Derivatives and Hedging Activities

#### Derivative transactions to which hedge accounting is not applied

<table>
<thead>
<tr>
<th>Item</th>
<th>Fair value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Derivative transactions to which hedge accounting is not applied</td>
<td>¥536</td>
<td>¥536</td>
</tr>
</tbody>
</table>
### 19. Employees’ Retirement Benefits and Pension Plans

The Company and most of its consolidated subsidiaries have either unfunded or defined benefit plans and 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, 2021 and 2020 were as follows (except for the plans under the simplified method):

<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>2021</td>
<td>2020</td>
<td>2021</td>
</tr>
<tr>
<td>Balance at the beginning of the year</td>
<td>$78,013</td>
<td>$74,417</td>
</tr>
<tr>
<td>Service cost</td>
<td>3,488</td>
<td>2,627</td>
</tr>
<tr>
<td>Interest cost</td>
<td>460</td>
<td>265</td>
</tr>
<tr>
<td>Accumulated plan and loss</td>
<td>(1,161)</td>
<td>(790)</td>
</tr>
<tr>
<td>Retirement benefits paid</td>
<td>(2,263)</td>
<td>(1,553)</td>
</tr>
<tr>
<td>Prior service cost</td>
<td>(7)</td>
<td>0</td>
</tr>
<tr>
<td>Decrease due to transition to defined contribution plan</td>
<td>(173)</td>
<td>(1,560)</td>
</tr>
<tr>
<td>Increase due to new consolidation</td>
<td>827</td>
<td>7,192</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>569,294</td>
<td>214,482</td>
</tr>
</tbody>
</table>

The components of retirement benefit expense for the fiscal years ended December 31, 2021 and 2020 were as follows:

- Service cost
- Interest cost
- Amortization of actuarial gain and loss
- Amortization of prior service cost
- Retirement benefit expense under the simplified method
- Other
- Total

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category. The assumptions used in accounting for the above plans were as follows:

- Discount rates
- Expected rates of return plan assets
- Expected rate of salary increases (point based plan)

Contributions to defined contribution plans (including multi-employer plans treated as defined contribution plans) of the Company and its consolidated subsidiaries were ¥1,604 million ($13,943 thousand) and ¥1,378 million ($11,319 thousand) in fiscal years 2021 and 2020, respectively.
recognize over a certain period of time as the performance obligation is satisfied. The method of estimating the progress on the performance obligations satisfied over time is mainly the input method based on costs incurred.

However, for construction contracts for which the period from the commencement date of the contract to the date when it is expected that the performance obligation will be fully satisfied is very short, revenue is not recognized over a certain period of time, and the performance obligation is judged to be satisfied at the time of delivery, and revenue is recognized at that time.

(3) Revenue from services and other sales

Revenue from services and other sales mainly includes commissions related to agency transactions for timber and building materials, commissions related to guarantee services for detached houses and multi-family housing, and commissions related to the management and brokerage of real estate. Revenue from these transactions is recognized when the performance obligation is satisfied when the contractual terms of the contracts are fulfilled. For transactions that satisfy the performance obligation over a certain period of time, revenue is recognized based on the degree of progress in satisfying the performance obligation.

### 22. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance. The Group's operations are based on the comprehensive strategies for products and services planned by each division. Accordingly, the Group is classified into four segments (Timber and Building Materials, Housing and Construction, Overseas Housing and Real Estate, and Environment and Resources) based on division and identified by products, services and geographical areas.

Timber and Building Materials: procurement, manufacture, processing and sale of timber and building materials, etc.

Housing and Construction: construction, maintenance and renovation of detached houses and apartment buildings, sale of spec homes, leasing, management, purchase and sale of brokerage of real estate, house exterior fixtures, landscaping works, urban greening works, CAD, site surveys, etc.

Overseas Housing and Real Estate: sale of spec homes, and construction of detached houses, development of multi-family housing and commercial complexes in overseas markets, etc.

Environment and Resources: biomass power generation business and translation, etc.

Other: private pay-elderly care facilities and elderly residence that combines living support service business, insurance agency business, and civil engineering and construction work, etc.

### 23. Financial Section

#### Financial Section

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<thead>
<tr>
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(Related information)

(1) Products and services information

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2021</th>
<th>Millions of yen</th>
<th>Fiscal year ended December 31, 2020</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and contract revenues to unaffiliated customers</td>
<td>$202,600,000</td>
<td>$194,333,990</td>
<td>$29,702,000</td>
</tr>
<tr>
<td></td>
<td>(1) Products and services information</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Building Materials</td>
<td>Housing and Construction</td>
<td>Environment and Resources</td>
</tr>
<tr>
<td></td>
<td>¥3,163,000,000</td>
<td>¥31,154,367</td>
<td>¥34,588,990</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2020</th>
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<tr>
<td>Sales and contract revenues to unaffiliated customers</td>
<td>$194,333,990</td>
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</table>

(2) Geographic information

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

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2021</th>
<th>Millions of yen</th>
<th>Fiscal year ended December 31, 2020</th>
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<tbody>
<tr>
<td>Sales and contract revenues to unaffiliated customers</td>
<td>$134,135,000,000</td>
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<td>$839,881,000,000</td>
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<td></td>
<td>(2) Geographic area information</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Japan</td>
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<td>United States</td>
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<tr>
<td></td>
<td>¥106,996,000,000</td>
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<td>¥24,070,000,000</td>
</tr>
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</table>

Information of loss on impairment of non-current assets

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

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

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<tr>
<th>Fiscal year ended December 31, 2021</th>
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<tr>
<td></td>
<td>¥184,183,000,000</td>
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(2) Geographic area information

Sales information by geographic area was as follows:

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<td></td>
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<td>¥184,183,000,000</td>
</tr>
</tbody>
</table>

23. 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, 2021 and 2020 are as follows:

(b) Net assets per share

Details on the computation of net assets per share as of December 31, 2021 and 2020 were as follows:

24. Other Comprehensive Income

Reclassifications and income tax effects attributable to other comprehensive income for the fiscal years ended December 31, 2021 and 2020 were as follows:

Financial Section
25. Asset Retirement Obligations

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

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

The changes in the asset retirement obligations for the fiscal years ended December 31, 2021 and 2020 were summarized as follows:

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2021</th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of the year</td>
<td>¥2,247</td>
<td>$17,608</td>
</tr>
<tr>
<td>Liabilities incurred for assets</td>
<td>116</td>
<td>1,011</td>
</tr>
<tr>
<td>Change in estimates</td>
<td>242</td>
<td>2,102</td>
</tr>
<tr>
<td>Acquisition expense</td>
<td>10</td>
<td>91</td>
</tr>
<tr>
<td>Liabilities settled</td>
<td>(119)</td>
<td>(1,035)</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>¥2,356</td>
<td>$18,747</td>
</tr>
</tbody>
</table>

26. Related Party Transactions

Principal transactions between the Company, its consolidated subsidiaries and their related parties for the fiscal years ended December 31, 2021 and 2020 were summarized as follows:

<table>
<thead>
<tr>
<th>Fiscal year ended December 31, 2021</th>
<th>Name of the acquiree</th>
<th>Business description</th>
<th>Transactions Amounts (Note 3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Balance at the end of the year</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Note 3)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>¥19,155</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>¥38</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>¥16</td>
</tr>
</tbody>
</table>

Note: 1. The Company provided guarantees of indebtedness as the requests of lending banks.
2. The terms and conditions of the transactions were determined using the same methods as third-party transactions.
3. Transaction amounts do not include consumption tax, etc.

27. Business Combination

(4) Legal form of the business combination

(5) Name of company after business combination

(6) Ratio of voting rights acquired

28. Stock Option Plan

(a) Stock option expenses per accounts for the fiscal years ended December 31, 2021 and 2020

(b) Description of stock options

(1) Description of stock options

(2) Volume and changes in stock options

The number of stock options is converted into the number of equivalent shares.
29. Additional Information

(Effects of COVID-19 on Accounting Estimates)

In the fiscal year under review, in light of the prolonged effect of COVID-19, the Company reviewed its business plan for the operation of fee-based nursing homes and serviced elderly housing, and as a result recorded an impairment loss related to this business. Although it is extremely difficult to predict the future spread of COVID-19 or when it will end, there has been no significant effect on the Group, while there was a certain effect on the results for the fiscal year under review.

Therefore, to determine the recoverability of deferred tax assets and the recognition of impairment loss, the Company makes the best estimates assuming that the impact of COVID-19 will continue to be minor, based on information available at the time of preparation of the consolidated financial statements. However, if the conditions or assumptions on which these estimates were made changes, reversal of deferred tax assets or additional recognition of impairment loss on the consolidated financial statements may be required in the following fiscal year.
### Impairment of goodwill and other non-current assets related to Sumirin Care Life Co., Ltd.

<table>
<thead>
<tr>
<th>Description of Key Audit Matter</th>
<th>Auditor’s Response</th>
</tr>
</thead>
</table>
| The Company recognized property, plant and equipment and intangible assets of ¥204,854 million (15.6% of total assets) as of the end of the current fiscal year in its consolidated balance sheet. As described in Note 9, “Loss on Impairment of Non-Current Assets,” the Company recognized impairment loss for the fiscal year of ¥9,415 million on such goodwill and other non-current assets related to Sumirin Care Life Co., Ltd., which operates private-pay elderly care facilities and elderly residences that combines being support service. | The audit procedures we performed to assess impairment loss on goodwill and other non-current assets related to Sumirin Care Life include the following, among others:  
- We compared the Company’s business plan, which the Company prepared when acquiring the target company, to evaluate goodwill and other non-current assets for prior years with actual results to assess the effectiveness of management’s estimation process.  
- We assessed the discount rate which is a significant assumption by comparing the calculation component index with the available external data.  
- With regard to the net realizable value of the facilities held by Sumirin Care Life, we engaged the valuation specialists of our network firm. |
| Wherever indications of impairment exist for an asset or an asset group, the Company determines whether or not the recognition of impairment loss is necessary. When the Company determines that an impairment loss should be recognized, the Company reduces the carrying amount of an asset to the recoverable amount and the difference is recognized as an impairment loss. The recoverable amount is measured by either the net realizable value or value in use whichever is higher. |  
- We compared the Company’s business plan, which is the basis for the calculation of future cash flows, including the impact of Covid-19, which are significant assumptions, with external data.  
- We compared the turnover ratio estimated by the Company, which is a significant assumption, with external data.  
- We compared the number of new residents estimated by the auditor using the number of residents at the end of the previous fiscal year and external data. |
| The Company revised Sumirin Care Life’s business plan considering the business environment due to the impact of the Covid-19 pandemic. As a result, the recoverable amount was less than the book value based on the revised business plan, and the Company estimated the impairment loss for goodwill and other non-current assets as stated above related to the business. |  
- We compared the number of new residents who have left, which are significant assumptions, with actual results to assess the effectiveness of management’s estimation process.  
- We assessed the discount rate which is a significant assumption by comparing the calculation component index with the available external data.  
- With regard to the net realizable value of the facilities held by Sumirin Care Life, we engaged the valuation specialists of our network firm. |
| The Company calculates value in use as the discounted present value of the future cash flows, and the net realizable value based on the appraisal value. Future cash flows are based on business plans reported to the Management Committee and other bodies held in the fiscal year. | We assessed the discount rate which is a significant assumption by comparing the calculation component index with the available external data.  
- We compared the turnover ratio estimated by the Company, which is a significant assumption, with external data.  
- We compared the number of new residents estimated by the auditor using the number of residents at the end of the previous fiscal year and external data. |
| As described in the note 5, “Significant Accounting Judgments, Estimates and Assumptions,” significant assumptions in estimating the value in use include the number of new residents, the number of residents who have left and discount rate, which serve as the basis of the business plan. |  
- We compared the number of new residents who have left, which are significant assumptions, with actual results to assess the effectiveness of management’s estimation process.  
- We assessed the discount rate which is a significant assumption by comparing the calculation component index with the available external data.  
- With regard to the net realizable value of the facilities held by Sumirin Care Life, we engaged the valuation specialists of our network firm. |
| Given that the significant assumptions used to estimate the recoverable amount involve uncertainty and require management judgment, we determined impairment of goodwill and other non-current assets related to Sumirin Care Life Co., Ltd. to be a key audit matter. |  
- We compared the number of new residents estimated by the auditor using the number of residents at the end of the previous fiscal year and external data, for periods after that. |

### 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

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Financial Section
based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

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

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2021 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 29, 2022

/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
Organization chart (As of January 1, 2022)

Corporate profile (as of December 31, 2021)

Corporate profile

Company name: Sumitomo Forestry Co., Ltd.

Founded: 1691

Incorporated: 1948

Paid-in capital: ¥39,064 million

Head office: Kanbanen Kaikan, 3-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100-8270, Japan

Consolidated subsidiaries: 324 (Overseas 286)

Affiliated companies: 132 (Overseas 122)

Number of employees (consolidated): 21,254

Homepage: https://sfc.jp/english/

Accounting auditor: Ernst & Young ShinNihon LLC

Contacts: Sumitomo Forestry Co., Ltd.

Corporate Communications Department

Tel: 81-3-3214-2270

Fax: 81-3-3214-2272

IR Group

Corporate Communications Department

IR contact: https://inquire.sfc.jp/sfc/m/contact/english/

Shareholders & Stock Information

Stock exchange listing: Tokyo

Total number of authorized shares: 400,000,000

Total number of shares issued: 201,200,936

Ordinary General Meeting of Shareholders: March

Number of shareholders: 23,579

Breakdown of Shareholders

Domestic corporations: 20.3%

Foreign investors: 24.3%

Individuals and other: 12.9%

Financial institutions: 37.4%

Treasury stock: 0.1%

Securities firms: 4.9%

Percentages in breakdown of shareholders are rounded down.

Major shareholders

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>Number of shares held (thousand shares)</th>
<th>Shareholding ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (trust account)</td>
<td>23,411</td>
<td>11.6</td>
</tr>
<tr>
<td>Sumitomo Metal Mining Co., Ltd.</td>
<td>10,110</td>
<td>5.0</td>
</tr>
<tr>
<td>Custody Bank of Japan, Ltd. (trust account)</td>
<td>9,727</td>
<td>4.8</td>
</tr>
<tr>
<td>The Iyo Bank, Ltd.</td>
<td>5,849</td>
<td>2.9</td>
</tr>
<tr>
<td>Kumagai Gumi Co., Ltd.</td>
<td>5,172</td>
<td>2.5</td>
</tr>
<tr>
<td>Sumitomo Corporation</td>
<td>4,383</td>
<td>2.1</td>
</tr>
<tr>
<td>Sumitomo Life Insurance Company</td>
<td>4,227</td>
<td>2.1</td>
</tr>
<tr>
<td>The Hyakushiki Bank, Ltd.</td>
<td>4,197</td>
<td>2.0</td>
</tr>
<tr>
<td>SMBC Nikko Securities Inc.</td>
<td>4,076</td>
<td>2.0</td>
</tr>
<tr>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>3,536</td>
<td>1.7</td>
</tr>
</tbody>
</table>

(Thousand shares)

Number of shares held and shareholding ratio are rounded down. Shareholding ratio is calculated by subtracting treasury stock from the total number of outstanding shares.

Note: Number of shares held and shareholding ratio are rounded down. Shareholding ratio is calculated by subtracting treasury stock from the total number of outstanding shares.