

## Eleven-year consolidated financial summary

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

\*1 Working capital = Current assets - Current liabilities

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

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

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

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

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

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

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

Regarding change in fiscal year end

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

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

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

Market overview

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

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

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

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

Consolidated operating results

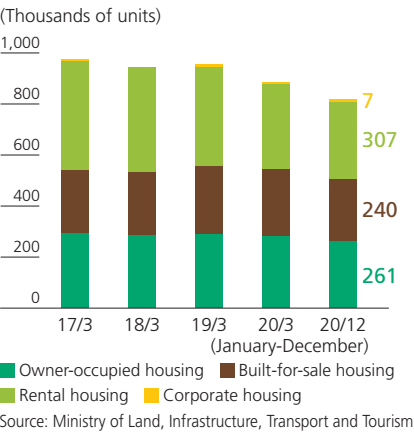
Net sales were ¥839,881 million (up 4.6% compared to the same period of the previous fiscal year), operating income was ¥47,462 million (up 24.0%), recurring income was ¥51,293 million (up 19.1%), and net income for the period attributable to shareholders of parent was ¥30,398 million (up 34.4%). Actuarial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

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

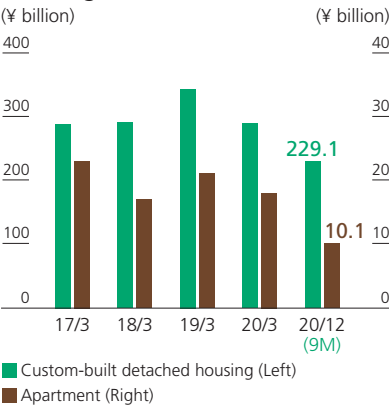
Operating results for the fiscal year

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

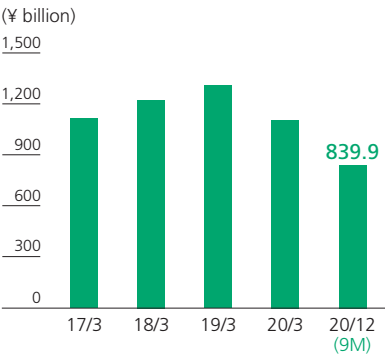
Number of new housing starts in Japan



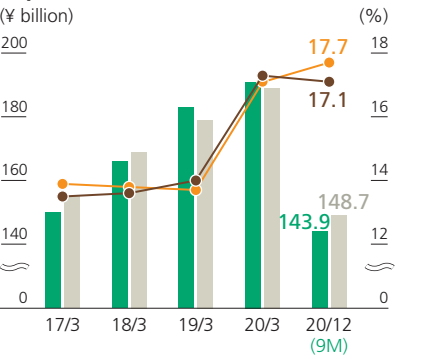
Amount of orders received in Japan (Housing and construction business)



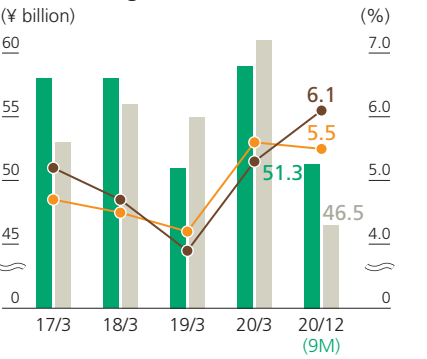
Net sales



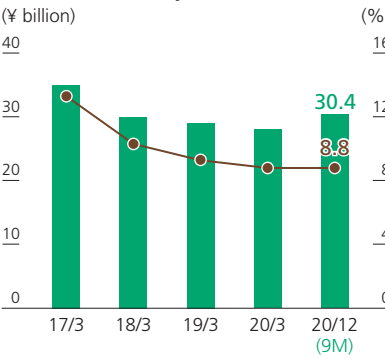
SG&A expenses and SG&A expenses ratio



Recurring income and recurring income margin



Net income attributable to shareholders of parent and ROE



Segment Performance Highlights

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

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

Housing and construction business

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

Net sales and recurring income of main subsidiaries

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

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

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

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

Financial position

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

Cash flows

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

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

Cash flows from operating activities

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

Cash flows from investment activities

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

Cash flows from financing activities

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

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

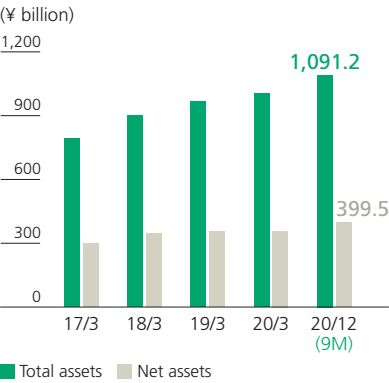
risks in fund procurement, such as maintaining business relationships with financial institutions, diversifying fund-raising sources, and setting up commitment lines with a number of financial institutions. As of the end of the fiscal year under review, interest-bearing debt totaled ¥302,933 million,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

Capital expenditures (Capital investment)

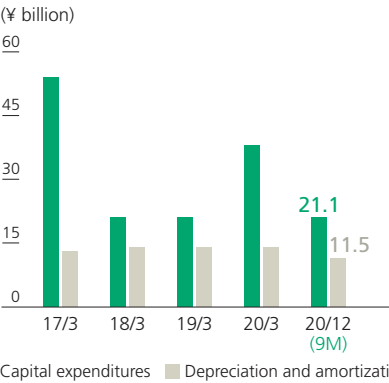
The Sumitomo Forestry Group (Sumitomo Forestry and its consolidated subsidiaries) spent ¥21,090 million on capital expenditures. In the Timber and Building Materials Business, capital expenditures amounted to ¥3,027 million, including for the construction of a building materials manufacturing plant and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

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

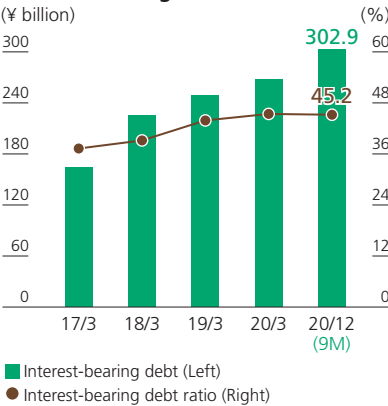
Total assets and net assets



Capital expenditures and depreciation and amortization



Interest-bearing debt and interest-bearing debt ratio



Business risk

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

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

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

Consolidated Balance Sheet

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

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

See accompanying notes to consolidated financial statements.



Consolidated Statement of Income

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

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

See accompanying notes to consolidated financial statements.

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

See accompanying notes to consolidated financial statements

Consolidated Statement of Comprehensive Income

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

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

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

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

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

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

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

Notes to Consolidated Financial Statements

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

1. Nature of Operations

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

2. Basis of Presenting Consolidated Financial Statements

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

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

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

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

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

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

3. Summary of Significant Accounting Policies

(a) Basis of consolidation and investments in affiliates

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

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

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

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

(b) Translation of foreign currency transactions and accounts

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

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

(c) Statement of cash flows

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

(d) Allowance for doubtful accounts

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

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

(e) Provision for bonuses

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



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

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

**(g) Provision for warranties for completed construction**

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

**(h) Provision for loss on business liquidation**

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

**(i) Retirement benefit liability or retirement benefit assets**

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

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

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

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

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

**(k) Marketable securities and investment securities**

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

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

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

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

**(l) Derivatives**

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

**(m) Inventories**

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

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

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

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

**(n) Property, plant and equipment**

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

**(o) Intangible assets**

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

**(p) Impairment of non-current assets**

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

**(q) Hedge accounting**

i) Hedge accounting method

The deferred hedge accounting method is applied.

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

ii) Hedging method

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

iii) Scope of hedging

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

iv) Hedge effectiveness evaluation method

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

**(r) Amortization method and period of goodwill**

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

**(s) Revenue recognition**

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

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

**(t) Income taxes**

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

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

**(u) Consumption taxes**

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

**(v) Appropriations of retained earnings**

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

**(w) Earnings per share of common stock**

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

**(x) Finalization of provisional accounting treatment of business combinations**

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

**(y) Accounting standards issued but not yet effective**

(Accounting Standard and Implementation Guidance on Revenue Recognition)

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

i) Overview

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

ii) Scheduled date of adoption

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

(Accounting Standards for Fair Value Measurement)

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

i) Overview

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

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

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

ii) Scheduled date of adoption

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

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

(Accounting Standard for Disclosure of Accounting Estimates)

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

i) Overview

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

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

ii) Scheduled date of adoption

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

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

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

i) Overview

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

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

ii) Scheduled date of adoption

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

**(z) Change of Fiscal Year End**

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



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

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

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

## 4. U.S. Dollar Amounts

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

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

## 5. Securities

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

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

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

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

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

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

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

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

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

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

(d) Impairment of securities

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

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

## 6. Short-Term and Long-Term Debt

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

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

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

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

## 7. Pledged Assets and Secured Liabilities

(a) Pledged assets

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

(b) Secured liabilities

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

## 8. Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 10. Selling, General and Administrative Expenses

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

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

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

## 11. Cash and Cash Equivalents

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

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

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

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

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

## 12. Shareholders' Equity

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

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

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

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

13. Finance Leases

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

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

14. Contingent Liabilities

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

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

15. Matured notes at the end of the fiscal year

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

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

16. Financial Instruments

(a) Policy for financial instruments

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

(b) Details of financial instruments and related risk

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

(c) Risk management for financial instruments

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

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

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

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

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

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

(e) Fair value of financial instruments

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

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

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

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

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

Notes:

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

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

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

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

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

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

(3) Derivative transactions  
See Note 17.



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

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

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

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

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

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

17. Derivatives and Hedging Activities

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

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

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

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

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

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

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

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

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

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

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

18. Employees’ Retirement Benefits and Pension Plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19. Investment Property

The Company and some of its consolidated subsidiaries hold some rental properties such as rental condominiums in Tokyo and other areas and overseas (mainly in the United States). The net income from the investment properties for the fiscal years ended December 31, 2020 and March 31, 2020 was ¥334 million (\$3,223 thousand) and ¥714 million, respectively. The income is recognized in net sales and the expense is principally charged to cost of sales. The amounts recognized in the consolidated balance sheets and fair values related to investment properties were as follows:

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

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

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

20. Revenue Recognition

Revenue from contracts with customers is recognized based on the following five-step approach, at the amount of consideration for which the Company expects to be entitled in exchange for goods or services when the control of the promised goods or services is transferred to the customer.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies the performance obligation

(1) Revenue from sales of goods

Revenue from the sales of goods mainly includes the sales of timber and building materials through wholesale, retail, manufacturing and processing, and the sales of real estate for sale. At the time of delivery, the performance obligation is satisfied with the customer having control over the goods, and the Company recognizes revenue at that time.

(2) Revenue from construction contracts

Revenue from construction contracts mainly includes construction of detached houses and development of multi-family homes. Revenue is recognized over a certain period of time as the performance obligation is satisfied. The method of estimating the progress on the performance obligations satisfied over time is mainly the input method based on costs incurred.

However, for construction contracts for which the period from the commencement date of the contract to the date when it is expected that the performance obligation will be fully satisfied is very short, revenue is

not recognized over a certain period of time, and the performance obligation is judged to be satisfied at the time of delivery, and revenue is recognized at that time.

(3) Revenue from services and other sales

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

21. Segment Information

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

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

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

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

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

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

	Millions of yen								
As of/Fiscal year ended December 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥131,112	¥332,007	¥351,842	¥14,233	¥829,193	¥10,239	¥839,432	¥ 449	¥839,881
Inter-segment transfers	13,541	309	529	825	15,204	8,163	23,367	(23,367)	—
Total	144,652	332,316	352,371	15,058	844,397	18,402	862,798	(22,918)	839,881
Segment profit (loss)	2,334	8,454	44,032	1,683	56,503	757	57,259	(5,966)	51,293
Segment assets	187,331	182,111	378,772	99,435	847,649	80,961	928,610	162,542	1,091,152
Other items:									
Depreciation and amortization	2,302	3,487	1,945	1,533	9,267	1,559	10,826	677	11,503
Amortization of goodwill	—	—	848	80	928	126	1,055	—	1,055
Interest income	24	14	131	50	219	0	219	12	232
Interest expense	418	363	1,921	315	3,017	142	3,159	(1,329)	1,830
Equity in earnings (losses) of affiliates	(738)	(702)	3,484	(5)	2,039	1,279	3,318	0	3,318
Investments in affiliates	6,427	623	37,590	1,978	46,618	37,328	83,946	7	83,953
Increase in property, plant and equipment and intangible assets	3,027	3,962	9,345	1,837	18,171	1,150	19,321	1,770	21,090

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥449 million (\$4,337 thousand) of administration department profit.  
2. Adjustments for segment profit and loss include ¥429 million (\$4,143 thousand) of elimination of inter-segment profit and loss, ¥4,823 million (\$46,595 thousand) of retirement benefits liability adjustments (gain), ¥6,422 million (\$62,046 thousand) of adjustment (loss) to provision for bonuses associated with the change of fiscal year end, and ¥3,938 million (\$38,050 thousand) of corporate general administration expense, which are not allocable to the reportable segments.  
3. Adjustments for segment assets include ¥8,986 million (\$86,818 thousand) of inter-segment eliminations, ¥171,528 million (\$1,657,276 thousand) of corporate assets, which are not allocable to the reportable assets.

	Millions of yen								
As of/Fiscal year ended March 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥202,525	¥473,151	¥398,780	¥16,248	¥1,090,705	¥12,765	¥1,103,470	¥ 625	¥1,104,094
Inter-segment transfers	21,102	852	579	3,015	25,548	10,661	36,209	(36,209)	—
Total	223,627	474,003	399,360	19,263	1,116,253	23,425	1,139,678	(35,584)	1,104,094
Segment profit (loss)	6,095	22,570	34,541	3,551	66,758	1,484	68,243	(9,419)	58,824
Segment assets	195,591	181,789	336,580	75,900	789,860	77,146	867,007	137,761	1,004,768
Other items:									
Depreciation and amortization	2,987	4,632	2,449	2,022	12,090	1,649	13,739	649	14,388
Amortization of goodwill	—	—	5,975	—	5,975	168	6,143	—	6,143
Interest income	73	45	187	123	428	0	428	23	451
Interest expense	777	560	3,098	516	4,951	207	5,158	(2,453)	2,706
Equity in earnings (losses) of affiliates	(559)	7	6,535	391	6,374	1,722	8,096	0	8,097
Investments in affiliates	7,827	1,337	37,928	1,932	49,024	34,132	83,156	8	83,164
Increase in property, plant and equipment and intangible assets	4,061	3,399	13,962	1,677	23,098	10,705	33,804	4,099	37,903

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥625 million of administration department profit.  
2. Adjustments for segment profit and loss include ¥482 million of elimination of inter-segment profit and loss, ¥2,572 million of retirement benefits liability adjustments (loss), and ¥6,365 million of corporate general administration expense, which are not allocable to the reportable segments.  
3. Adjustments for segment assets include ¥8,314 million of inter-segment eliminations, ¥146,075 million of corporate assets, which are not allocable to the reportable assets.

	Thousands of U.S. dollars								
As of/Fiscal year ended December 31, 2020	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	\$1,266,778	\$3,207,796	\$3,399,438	\$137,515	\$8,011,526	\$98,925	\$8,110,451	\$4,337	\$8,114,788
Inter-segment transfers	130,826	2,983	5,113	7,974	146,897	78,869	225,765	(225,765)	—
Total	1,397,605	3,210,778	3,404,551	145,489	8,158,423	177,794	8,336,216	(221,429)	8,114,788
Segment profit (loss)	22,549	81,680	425,428	16,264	545,920	7,309	553,229	(57,644)	495,585
Segment assets	1,809,963	1,759,524	3,659,630	960,725	8,189,841	782,236	8,972,077	1,570,458	10,542,536
Other items:									
Depreciation and amortization	22,242	33,693	18,795	14,807	89,536	15,066	104,603	6,537	111,140
Amortization of goodwill	—	—	8,194	777	8,971	1,221	10,192	—	10,192
Interest income	228	140	1,265	485	2,118	2	2,120	117	2,237
Interest expense	4,041	3,506	18,562	3,039	29,148	1,373	30,521	(12,841)	17,680
Equity in earnings (losses) of affiliates	(7,132)	(6,781)	33,660	(48)	19,699	12,357	32,056	3	32,059
Investments in affiliates	62,095	6,021	363,186	19,109	450,412	360,659	811,070	72	811,142
Increase in property, plant and equipment and intangible assets	29,243	38,277	90,293	17,751	175,564	11,109	186,673	17,097	203,770

(Related information)

(1) Products and services information

Fiscal year ended December 31, 2020	Millions of yen			
	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥134,135	¥683,849	¥21,896	¥839,881

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

Fiscal year ended December 31, 2020	Thousands of U.S. dollars			
	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$1,295,994	\$6,607,233	\$211,560	\$8,114,788

(2) Geographic area information

Sales information by geographic area was as follows:

Fiscal year ended December 31, 2020	Millions of yen			
	Japan	United States	Other Area	Total
	¥459,790	¥295,290	¥84,801	¥839,881

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

Fiscal year ended December 31, 2020	Thousands of U.S. dollars			
	Japan	United States	Other Area	Total
	\$4,442,419	\$2,853,040	\$819,329	\$8,114,788

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

Fiscal year ended December 31, 2020	Millions of yen				
	Japan	New Zealand	United States	Other Area	Total
	¥105,530	¥33,381	¥24,172	¥22,865	¥185,948

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

Fiscal year ended December 31, 2020	Thousands of U.S. dollars				
	Japan	New Zealand	United States	Other Area	Total
	\$1,019,611	\$322,518	\$233,548	\$220,918	\$1,796,595

(3) Customer information

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

(Information on loss on impairment of non-current assets)

Fiscal year ended December 31, 2020	Millions of yen						
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Loss on impairment of non-current assets	¥—	¥—	¥—	¥—	¥ 98	¥—	¥ 98

Fiscal year ended March 31, 2020	Millions of yen						
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Loss on impairment of non-current assets	¥—	¥249	¥—	¥—	¥140	¥—	¥389

Fiscal year ended December 31, 2020	Thousands of U.S. dollars						
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Loss on impairment of non-current assets	\$—	\$—	\$—	\$—	\$944	\$—	\$944



(Amortization and balance of goodwill)

As of/Fiscal year ended December 31, 2020	Millions of yen						Total
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	
Amortization of goodwill	¥—	¥—	¥ 848	¥80	¥ 126	¥—	¥1,055
Balance of goodwill	—	—	4,155	—	2,401	—	6,556

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

As of/Fiscal year ended December 31, 2020	Thousands of U.S. dollars						Total
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	
Amortization of goodwill	\$—	\$—	\$ 8,194	\$777	\$ 1,221	\$—	\$10,192
Balance of goodwill	—	—	40,146	—	23,194	—	63,340

## 22. Amounts per Share

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

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

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Net income attributable to shareholders of parent per share—Basic:			
Net income attributable to shareholders of parent	¥ 30,398	¥ 27,853	\$293,705
Net income not attributable to shares of common stock	—	—	—
Net income attributable to shares of common stock	30,398	27,853	293,705
Weighted average number of shares issued	181,442,403	181,406,905	—
Net income attributable to shareholders of parent per share fully diluted—Diluted:			
Adjusted net income attributable to shareholders of parent	—	—	—
Common shares increase	4,662,581	4,671,111	—
(Bonds with share acquisition rights)	(4,562,044)	(4,562,044)	—
(Share acquisition rights)	(100,537)	(109,067)	—

(b) Net assets per share

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

	Millions of yen		Thousands of U.S. dollars
	December 31, 2020	March 31, 2020	December 31, 2020
Net assets per share:			
Total net assets	¥399,456	¥357,064	\$3,859,479
Amounts deducted from total net assets:			
(share acquisition rights)	31,995	34,568	309,130
(Non-controlling interests)	(120)	(120)	(1,156)
	(31,875)	(34,448)	(307,975)
Net assets attributable to shares of common stock	367,461	322,496	3,550,348
The number of shares of common stock used for the calculation of net assets per share	181,450,748	181,425,138	—

## 23. Other Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Valuation difference on available-for-sale securities:			
Amount incurred during the year	¥38,742	¥(11,898)	\$374,316
Reclassification adjustments for gains and losses included in net income	839	209	8,111
Amount before tax effect	39,581	(11,688)	382,427
Tax effect	(12,006)	3,560	(116,000)
Valuation difference on available-for-sale securities	27,575	(8,128)	266,427
Deferred gains (losses) on hedges:			
Amount incurred during the year	(704)	2,701	(6,806)
Reclassification adjustments for gains and losses included in net income	(114)	(108)	(1,102)
Amount before tax effect	(818)	2,593	(7,908)
Tax effect	285	(815)	2,749
Deferred gains (losses) on hedges	(534)	1,778	(5,159)
Translation adjustments:			
Amount incurred during the year	(7,183)	(2,876)	(69,399)
Reclassification adjustments for gains and losses included in net income	(40)	(165)	(390)
Amount before tax effect	(7,223)	(3,041)	(69,789)
Tax effect	12	50	119
Translation adjustments	(7,211)	(2,990)	(69,670)
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	(2,657)	(249)	(25,669)
Reclassification adjustments for gains and losses included in net income	(266)	(37)	(2,566)
Share of other comprehensive income of affiliates accounted for by the equity method	(2,922)	(286)	(28,235)
Total other comprehensive income	¥16,908	¥ (9,626)	\$163,363

## 24. Asset Retirement Obligations

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

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

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2020	Fiscal year ended March 31, 2020	Fiscal year ended December 31, 2020
Balance at beginning of the year	¥2,235	¥2,010	\$21,597
Liability incurred for assets acquired	81	217	787
Change in estimates	343	80	3,313
Accretion expense	8	10	74
Liabilities settled	(178)	(81)	(1,724)
Balance at end of the year	¥2,489	¥2,235	\$24,047

## 25. Related Party Transactions

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

Fiscal year ended December 31, 2020			Millions of yen		Thousands of U.S. dollars	
Name	Title	Transactions	Amounts	Balance at the end of the year	Amounts	Balance at the end of the year
Kanda Biomass Energy K.K.	Affiliate	Guarantee of indebtedness	¥12,298	¥—	\$118,821	\$—

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

Fiscal year ended December 31, 2020			Millions of yen		Thousands of U.S. dollars	
Name	Title	Transactions	Amounts	Balance at the end of the year	Amounts	Balance at the end of the year
Relative of Toshiro Mitsuyoshi	Director's relative	Receipt of rent for private-pay elderly care facility	¥—	¥12	\$—	\$116

Notes: 1. The terms and conditions of the transactions were determined using the same methods as third party transactions.  
2. Balance at the end of the year does not include consumption tax.

Fiscal year ended March 31, 2020			Millions of yen	
Name	Title	Transactions	Amounts	Balance at the end of the year
Kanda Biomass Energy K.K.	Affiliate	Guarantees of indebtedness	¥10,578	¥—

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

Fiscal year ended March 31, 2020			Millions of yen	
Name	Title	Transactions	Amounts	Balance at the end of the year
Relative of Toshiro Mitsuyoshi	Director's relative	Receipt of rent for private-pay elderly care facility	¥18	¥14

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

26. Business Combination

(Business Transfer by Consolidated Subsidiary)

1. Summary of the business combination

- (1) Name of the acquiree and business description  
Name of the acquiree: Builders Professional Group, LLC  
Description of business: Construction and sales of spec homes
- (2) Main reason for implementing the business combination  
The Company is taking over the business from Builders Professional Group, LLC, which is engaged in the spec homes business under the brand Knight Homes in the Atlanta, Georgia area, the third largest housing market in the United States, in order to enter that market.
- (3) Date of the business combination  
December 1, 2020 (U.S. date)
- (4) Legal form of the business combination  
Cash-based business transfer
- (5) Name of company after business combination  
DRB Group (DRB Group Georgia, LLC and DRB Group Alabama, LLC)
- (6) Main reasons for determining the acquirer  
Our consolidated subsidiary, DRB Group, is the acquiring company because it is paying cash for the business transfer.

2. Period for which the business results of the acquiree are included in the consolidated financial statements of the Company

From December 1, 2020 to December 31, 2020.

3. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisitions:	¥14,583 million (\$140,899 thousand)
Acquisition cost:	¥14,583 million (\$140,899 thousand)

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

4. Description and amount of primary acquisition-related costs

Advisory fee: ¥245 million (\$2,371 thousand)

5. Amount of goodwill, reason for recognition, and amortization method and period

- (1) Amount of goodwill  
¥1,470 million (\$14,204 thousand)

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

6. Assets acquired and liabilities assumed at the acquisition date

	Millions of yen	Thousands of U.S. dollars
Current assets	¥13,059	\$126,175
Non-current assets	60	577
Total assets	13,119	126,752
Current liabilities	(6)	(57)
Non-current liabilities	—	—
Total liabilities	¥ (6)	\$ (57)

7. Contents of the contingent consideration and their future accounting treatment

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

8. Estimated impact on the consolidated statement of income in the fiscal year ended December 31, 2020, assuming that the business combination was concluded at the beginning of the fiscal year, and the method of calculation.

Sales	¥15,353 million (\$148,338 thousand)
Recurring income	¥ 2,197 million (\$ 21,223 thousand)
Net income attributable to shareholders of parent	¥ 1,383 million (\$ 13,365 thousand)

(Method by which estimated amounts were calculated)  
The estimated amounts were calculated based on the difference between financial information on sales and income calculated on the assumption that the business combination was concluded at the beginning of the fiscal year ended December 31, 2020 and financial information on sales and income contained in the consolidated statement of income of the acquiring company.

The estimated amounts of the impact have not been audited.

1) Number of stock options

	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Fiscal Year ended December 31, 2020			
Unvested stock options			
As of March 31, 2020	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested as of December 31, 2020	—	—	—
Vested stock options			
As of March 31, 2020	29,600	36,800	34,200
Vested	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Unexercised as of December 31, 2020	29,600	36,800	34,200

2) Unit price information

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

	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Fiscal Year ended December 31, 2020			
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01
Average stock price when exercised	—	—	—
Fair unit value on the grant date	\$11.91	\$10.55	\$12.14

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

No stock options were granted in the fiscal year ended December 31, 2020.

(d) Method for estimating the number of vested stock options

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been forfeited is reflected.

28. Additional Information

(Effect of COVID-19 on Accounting Estimates)

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

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

However, in the event it is determined that there are major changes in circumstances upon which the estimates were formed, a reversal of deferred tax assets may occur and estimates may be revised considering any changes in the subsequent fiscal year.

29. Subsequent Events

(Business combination through acquisition)

On January 18, 2021, the Company acquired shares of Kouei Kousan K.K., and made Kouei Kousan K.K., Cohnan Kensetsu Inc. and 3 other companies its consolidated subsidiaries.

1. Summary of the business combination

- (1) Name of the acquiree and business description

Name of the acquiree: Kouei Kousan K.K., Cohnan Kensetsu Inc. and

3 other companies

Description of business: Construction and related business

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

- (3) Date of the business combination  
January 18, 2021
- (4) Legal form of the business combination  
Acquisition of the shares for a cash consideration
- (5) Ratio of voting rights acquired  
Kouei Kousan K.K.: 100%  
Cohnan Kensetsu Inc. and 3 other companies: 53.59%
- (6) Main reasons for determining the acquirer  
The Company acquired the shares for a cash consideration

2. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisition:	Cash	¥5,200 million (\$50,242 thousand)
Acquisition cost:		¥5,200 million (\$50,242 thousand)

3. Description and amount of primary acquisition-related costs

Advisory fee: ¥141 million (\$1,362 thousand)

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

5. Assets acquired and liabilities assumed at the acquisition date  
Not yet determined.

## Independent Auditor's Report

The Board of Directors  
Sumitomo Forestry Co., Ltd.

### Opinion

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

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

### Basis for Opinion

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

### Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

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

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

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

### Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



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

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

### **Convenience Translation**

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

Ernst & Young ShinNihon LLC  
Tokyo, Japan

March 30, 2021

/S/ Tatsuya Chiba

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Tatsuya Chiba  
Designated Engagement Partner  
Certified Public Accountant

/S/ Yoshikatsu Nakahara

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Yoshikatsu Nakahara  
Designated Engagement Partner  
Certified Public Accountant

/S/ Natsuki Saiki

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Natsuki Saiki  
Designated Engagement Partner  
Certified Public Accountant