

# Consolidated Balance Sheet

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
As of December 31, 2021 and 2020

Financial Section

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	December 31, 2021	December 31, 2020	December 31, 2021
<b>Current assets:</b>			
Cash and deposits (Notes 8, 12, 17)	¥ 139,957	¥ 85,850	\$ 1,216,803
Notes and accounts receivable - trade (Notes 8, 16, 17, 18)	140,075	119,687	1,217,835
Accounts receivable from completed construction contracts (Note 8)	49,496	45,095	430,326
Marketable securities (Notes 6, 12, 17)	3,303	3,204	28,718
Merchandise and finished goods	24,426	13,762	212,364
Work in process	1,483	1,312	12,897
Raw materials and supplies	9,696	8,080	84,299
Costs on construction contracts in progress (Note 8)	14,973	14,993	130,177
Real estate for sale (Note 8)	49,180	54,010	427,574
Real estate for sale in process (Note 8)	332,898	225,298	2,894,260
Short-term loans receivable (Note 12)	35,493	35,390	308,581
Accounts receivable - other (Note 8)	54,680	46,468	475,392
Other (Note 8)	36,600	25,208	318,207
Allowance for doubtful accounts	(348)	(396)	(3,029)
Total current assets	891,912	677,962	7,754,406
<b>Non-current assets:</b>			
Property, plant and equipment			
Buildings and structures (Notes 8, 20)	109,086	107,217	948,406
Accumulated depreciation	(50,736)	(45,620)	(441,105)
Buildings and structures, net	58,350	61,597	507,301
Machinery, equipment and vehicles (Note 8)	81,599	76,794	709,436
Accumulated depreciation	(58,569)	(53,123)	(509,204)
Machinery, equipment and vehicles, net	23,031	23,672	200,232
Land (Notes 8, 20)	41,516	40,725	360,944
Timber	38,331	35,753	333,257
Leased assets	12,578	11,850	109,358
Accumulated depreciation	(4,902)	(3,743)	(42,616)
Leased assets, net	7,677	8,106	66,742
Construction in progress (Note 8)	9,889	10,667	85,976
Other	20,112	18,338	174,861
Accumulated depreciation	(14,723)	(12,913)	(127,999)
Other, net	5,390	5,426	46,861
Total property, plant and equipment	184,183	185,948	1,601,313
Intangible assets			
Goodwill	4,559	6,556	39,638
Other	16,111	15,071	140,075
Total intangible assets	20,671	21,626	179,713
Investments and other assets			
Investment securities (Notes 6, 8, 17)	181,436	175,262	1,577,432
Long-term loans receivable	7,115	5,471	61,855
Retirement benefit asset (Note 19)	590	326	5,134
Deferred tax assets (Notes 8, 10)	7,773	6,835	67,580
Other (Note 8)	21,448	18,631	186,474
Allowance for doubtful accounts	(902)	(909)	(7,844)
Total investments and other assets	217,460	205,617	1,890,630
Total non-current assets	422,314	413,191	3,671,656
<b>Total assets</b>	<b>¥1,314,226</b>	<b>¥1,091,152</b>	<b>\$11,426,062</b>

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 4)
	December 31, 2021	December 31, 2020	December 31, 2021
<b>Current liabilities:</b>			
Notes and accounts payable - trade (Notes 6, 16, 17, 18)	¥ 134,065	¥ 111,612	\$ 1,165,578
Accounts payable for construction contracts (Note 17)	98,165	80,219	853,459
Short-term borrowings (Notes 7, 8, 18)	25,024	50,106	217,563
Current portion of bonds payable (Note 7)	12	—	104
Commercial papers (Note 7)	—	10,000	—
Lease obligations (Note 7)	825	1,005	7,171
Income taxes payable	6,248	1,937	54,323
Advances received on construction contracts in progress	40,101	32,956	348,642
Provision for bonuses	22,460	16,781	195,269
Provision for bonuses for directors (and other officers)	165	106	1,435
Provision for warranties for completed construction	7,492	6,175	65,136
Provision for loss on business liquidation	—	368	—
Asset retirement obligations (Note 25)	961	945	8,356
Other	85,485	68,082	743,222
Total current liabilities	421,003	380,293	3,660,256
<b>Long-term liabilities:</b>			
Bonds payable (Notes 7, 17)	90,152	90,000	783,794
Bonds with share acquisition rights (Note 7)	10,035	10,055	87,244
Long-term borrowings (Notes 7, 8, 17, 18)	168,278	133,255	1,463,031
Lease obligations (Note 7)	8,438	8,512	73,361
Deferred tax liabilities (Note 10)	23,044	18,578	200,347
Provision for retirement benefits for directors (and other officers)	332	111	2,886
Retirement benefit liability (Note 19)	17,148	18,700	149,089
Asset retirement obligation (Note 25)	1,778	1,544	15,455
Other	33,929	30,650	294,986
Total long-term liabilities	353,134	311,403	3,070,192
Total liabilities	774,136	691,696	6,730,448
<b>Net assets:</b>			
<b>Shareholders' equity (Note 13):</b>			
Common stock —			
Authorized: 400,000,000 shares			
Issued and outstanding: 201,200,936 shares in December 31, 2021 and 182,778,336 shares in December 31, 2020	50,064	32,803	435,261
Capital surplus	33,899	18,485	294,721
Retained earnings	359,641	283,416	3,126,766
Treasury shares: 1,338,269 shares in December 31, 2021 and 1,327,588 shares in December 31, 2020	(2,362)	(2,340)	(20,532)
Total shareholders' equity	441,241	332,363	3,836,215
<b>Accumulated other comprehensive income:</b>			
Valuation difference on available-for-sale securities	37,226	44,337	323,648
Deferred gains (losses) on hedges	3,403	1,762	29,586
Foreign currency translation adjustment	13,699	(11,098)	119,103
Remeasurements of defined benefit plans	42	96	367
Total accumulated other comprehensive income	54,370	35,098	472,704
Share acquisition rights	116	120	1,011
Non-controlling interests	44,361	31,875	385,683
Total net assets	540,089	399,456	4,695,613
<b>Total liabilities and net assets</b>	<b>¥1,314,226</b>	<b>¥1,091,152</b>	<b>\$11,426,062</b>

Per share of common stock:	Yen	U.S. dollars (Note 4)
	Net assets (Note 23)	¥2,479.76
		\$21.56

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net sales (Note 21)	¥1,385,930	¥839,881	\$12,049,473
Cost of sales	1,063,936	648,557	9,250,008
<b>Gross profit</b>	<b>321,994</b>	<b>191,323</b>	<b>2,799,465</b>
Selling, general and administrative expenses (Note 11)	208,344	143,862	1,811,369
<b>Operating income</b>	<b>113,651</b>	<b>47,462</b>	<b>988,096</b>
Non-operating income			
Interest income	393	232	3,419
Purchase discount	343	240	2,984
Dividend income	1,674	1,237	14,558
Share of profit of entities accounted for using equity method	17,782	3,318	154,602
Foreign exchange gains	747	—	6,492
Other	7,673	3,401	66,709
Total non-operating income	28,613	8,428	248,765
Non-operating expenses			
Interest expense	2,219	1,830	19,292
Sales discounts	613	440	5,329
Foreign exchange losses	—	271	—
Other	1,681	2,056	14,612
Total non-operating expenses	4,513	4,596	39,233
<b>Recurring income</b>	<b>137,751</b>	<b>51,293</b>	<b>1,197,627</b>
Extraordinary loss			
Loss on valuation of investment securities (Note 6)	—	1,082	—
Impairment loss (Note 9)	3,819	—	33,205
Total extraordinary loss	3,819	1,082	33,205
<b>Profit before income taxes</b>	<b>133,932</b>	<b>50,211</b>	<b>1,164,422</b>
Income taxes - current (Note 10)	23,765	9,940	206,616
Income taxes - deferred (Note 10)	5,651	110	49,134
Total income taxes	29,416	10,050	255,750
<b>Net income</b>	<b>104,516</b>	<b>40,161</b>	<b>908,673</b>
Net income attributable to non-controlling interests	17,341	9,763	150,763
<b>Net income attributable to shareholders of parent</b>	<b>¥ 87,175</b>	<b>¥ 30,398</b>	<b>\$ 757,910</b>
	Yen		U.S. dollars (Note 4)
<b>Per share of common stock:</b>			
Net income attributable to shareholders of parent (Note 23):			
Basic	¥457.69	¥167.54	\$3.98
Diluted	446.69	163.34	3.88
Cash dividends	80.00	35.00	0.70

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
<b>Net income</b>	<b>¥104,516</b>	<b>¥40,161</b>	<b>\$ 908,673</b>
<b>Other comprehensive income (Note 24):</b>			
Valuation difference on available-for-sale securities	(6,947)	27,575	(60,395)
Deferred gains (losses) on hedges	1,337	(534)	11,621
Foreign currency translation adjustment	24,955	(7,211)	216,960
Share of other comprehensive income of entities accounted for using equity method	5,017	(2,922)	43,614
Total other comprehensive income (loss)	24,361	16,908	211,800
<b>Comprehensive income</b>	<b>¥128,877</b>	<b>¥57,069</b>	<b>\$1,120,473</b>
Comprehensive income attributable to:			
Shareholders of parent	¥106,447	¥50,282	\$ 925,469
Non-controlling interests	22,429	6,788	195,004

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, 2021 and 2020

	Millions of yen				
	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2021	¥32,803	¥18,485	¥283,416	¥(2,340)	¥332,363
Changes during the period:					
Issuance of new shares	17,259	17,259			34,518
Issuance of new shares (exercise of share acquisition rights)	2	2			3
Dividends of surplus (¥80.00 per share)			(10,950)		(10,950)
Net income attributable to shareholders of parent			87,175		87,175
Purchase of treasury shares				(21)	(21)
Change in ownership interest of parent due to transactions with non-controlling interests		(1,847)			(1,847)
Net changes in items other than shareholders' equity					
Total changes during the period	17,261	15,414	76,225	(21)	108,878
Balance at December 31, 2021	¥50,064	¥33,899	¥359,641	¥(2,362)	¥441,241

	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 January 1, 2021	¥44,337	¥1,762	¥(11,098)	¥96	¥35,098	¥120	¥31,875	¥399,456
Changes during the period:								
Issuance of new shares								34,518
Issuance of new shares (exercise of share acquisition rights)								3
Dividends of surplus (¥80.00 per share)								(10,950)
Net income attributable to shareholders of parent								87,175
Purchase of treasury shares								(21)
Change in ownership interest of parent due to transactions with non-controlling interests								(1,847)
Net changes in items other than shareholders' equity	(7,111)	1,640	24,797	(54)	19,273	(3)	12,486	31,755
Total changes during the period	(7,111)	1,640	24,797	(54)	19,273	(3)	12,486	140,633
Balance at December 31, 2021	¥37,226	¥3,403	¥13,699	¥42	¥54,370	¥116	¥44,361	¥540,089

See accompanying notes to consolidated financial statements.

	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

## Consolidated Statement of Cash Flows

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
For the fiscal years ended December 31, 2021 and 2020

Financial Section

	Millions of yen						
	Accumulated other comprehensive income						Total net assets
	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
Balance at April 1, 2020	¥16,842	¥2,531	¥ (4,240)	¥82	¥15,215	¥120	¥34,448
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)
Total changes during the period	27,494	(768)	(6,857)	14	19,883	—	(2,573)
Balance at December 31, 2020	¥44,337	¥1,762	¥(11,098)	¥96	¥35,098	¥120	¥399,456

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 January 1, 2021	\$285,193	\$160,708	\$2,464,059	\$(20,346)	\$2,889,613
Changes during the period:					
Issuance of new shares	150,054	150,054			300,107
Issuance of new shares(exercise of share acquisition rights)	15	15			29
Dividends of surplus (\$0.70 per share)			(95,203)		(95,203)
Net income attributable to shareholders of parent			757,910		757,910
Purchase of treasury shares				(186)	(186)
Change in ownership interest of parent due to transactions with non-controlling interests		(16,055)			(16,055)
Net changes in items other than shareholders' equity					
Total changes during the period	150,068	134,013	662,707	(186)	946,601
Balance at December 31, 2021	\$435,261	\$294,721	\$3,126,766	\$(20,532)	\$3,836,215

	Thousands of U.S. dollars (Note 4)						
	Accumulated other comprehensive income						Total net assets
	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
Balance at January 1, 2021	\$385,469	\$15,323	\$(96,484)	\$836	\$305,144	\$1,040	\$277,129
Changes during the period:							
Issuance of new shares							300,107
Issuance of new shares (exercise of share acquisition rights)							29
Dividends of surplus(\$0.70 per share)							(95,203)
Net income attributable to shareholders of parent							757,910
Purchase of treasury shares							(186)
Change in ownership interest of parent due to transactions with non-controlling interests							(16,055)
Net changes in items other than shareholders' equity	(61,821)	14,263	215,587	(469)	167,560	(29)	108,555
Total changes during the period	(61,821)	14,263	215,587	(469)	167,560	(29)	108,555
Balance at December 31, 2021	\$323,648	\$29,586	\$119,103	\$367	\$472,704	\$1,011	\$385,683

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥133,932	¥50,211	\$1,164,422
Depreciation	16,491	11,503	143,378
Impairment loss	3,819	—	33,205
Amortization of goodwill	2,110	1,055	18,341
Increase (decrease) in allowance for doubtful accounts	(177)	7	(1,542)
Increase (decrease) in provision for bonuses	4,599	3,305	39,984
Increase (decrease) in provision for bonuses for directors (and other officers)	59	(37)	513
Increase (decrease) in provision for warranties for completed construction	1,085	963	9,435
Increase (decrease) in provision for loss on business liquidation	(368)	368	(3,199)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(8)	(14)	(69)
Increase (decrease) in retirement benefit liability	(2,760)	(4,052)	(23,992)
Interest and dividend income	(2,068)	(1,468)	(17,978)
Interest expenses	2,219	1,830	19,292
Share of loss (profit) of entities accounted for using equity method	(17,782)	(3,318)	(154,602)
Loss (gain) on valuation of short-term and long-term investment securities	—	1,082	—
Decrease (increase) in trade receivables	(21,582)	(5,803)	(187,636)
Decrease (increase) in inventories	(67,205)	(10,951)	(584,292)
Decrease (increase) in other current assets	(14,893)	(3,710)	(129,486)
Increase (decrease) in trade payables	46,023	1,106	400,127
Increase (decrease) in advances received	5,487	4,151	47,701
Increase (decrease) in advances received on construction contracts in progress	5,124	(2,564)	44,547
Increase (decrease) in accrued consumption taxes	3,332	1,478	28,968
Increase (decrease) in other current liabilities	(4,627)	6,907	(40,231)
Other, net	(419)	3,633	(3,642)
Subtotal	92,389	55,682	803,243
Interest and dividends received	25,093	8,473	218,158
Interest paid	(2,310)	(1,880)	(20,080)
Income taxes paid	(23,596)	(15,435)	(205,144)
Net cash provided by operating activities	91,576	46,840	796,178
<b>Cash flows from investment activities:</b>			
Payments into time deposits	(5,230)	(288)	(45,471)
Proceeds from withdrawal of time deposits	538	2,259	4,680
Decrease (increase) in short-term loans receivable	(78)	645	(681)
Proceeds from sales and redemption of securities	204	544	1,774
Purchase of property, plant and equipment	(20,614)	(25,390)	(179,221)
Proceeds from sales of property, plant and equipment	3,944	2,780	34,294
Purchase of intangible assets	(3,664)	(2,487)	(31,858)
Purchase of investment securities	(14,430)	(9,189)	(125,457)
Proceeds from sales and redemption of investment securities	3,312	267	28,799
Payments for acquisition of businesses (Note 12)	(3,513)	(13,960)	(30,542)
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 12)	2,098	—	18,243
Payments for long-term loans receivable	(2,207)	(1,524)	(19,190)
Collection of long-term loans receivable	688	43	5,980
Other payments	(3,161)	(2,435)	(27,482)
Other proceeds	1,859	4,100	16,163
Net cash used in investment activities	(40,254)	(44,635)	(349,971)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term borrowings	(1,399)	(13,806)	(12,159)
Net increase (decrease) in commercial papers	(10,000)	10,000	(86,941)
Repayments of finance lease obligations	(1,887)	(1,361)	(16,407)
Proceeds from long-term borrowings	52,447	41,616	455,981
Repayments of long-term borrowings	(54,174)	(23,631)	(470,999)
Redemption of bonds payable	(134)	—	(1,165)
Proceeds from issuance of shares	34,304	—	298,245
Proceeds from share issuance to non-controlling shareholders	119	103	1,038
Dividends paid	(10,950)	(5,474)	(95,203)
Dividends paid to non-controlling shareholders	(11,580)	(7,694)	(100,674)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2,578)	(5,491)	(22,416)
Net decrease (increase) in restricted deposits	(1,194)	(1,043)	(10,384)
Other proceeds	0	—	0
Other payments	(3)	(1)	(26)
Net cash provided by (used in) financing activities	(7,029)	(6,782)	(61,110)
Effect of exchange rate change on cash and cash equivalents	3,521	447	30,613
Net increase (decrease) in cash and cash equivalents	47,815	(4,129)	415,710
Cash and cash equivalents at the beginning of the year	122,220	112,565	1,062,602
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	615	—
Increase (decrease) in cash and cash equivalents due to change of fiscal year end	—	13,170	—
Cash and cash equivalents at the end of the year (Note 12)	¥170,035	¥122,220	\$1,478,312

Sumitomo Forestry Co., Ltd. and Consolidated Subsidiaries  
As of December 31, 2021 and 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 U.S. GAAP, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from 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 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, 2021, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 324 and 132 (267 and 107 as of December 31, 2020), respectively.

Cohnan Kensetsu Inc. and 82 other companies, whose shares were newly acquired, have been included in the scope of consolidation from the fiscal year ended December 31, 2021. On the other hand, Paragon Wood Product (Shanghai) Co., Ltd. and 12 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 sale of shares or the completion of liquidation. CRP/Crescent Harpeth Heights Venture, LLC and 12 other companies, which were included in the scope of consolidation in the previous fiscal year, have been included as equity-method affiliates due to the reduction in shares. HTSC Pearce LN LP and 31 other companies, whose shares were newly acquired, have been included as equity-method affiliates from the fiscal year ended December 31, 2021. On the other hand, Beijing BBMG Decoration Engineering Co., Ltd. and 19 other companies, which were included as equity-method affiliates in the previous fiscal year, have been excluded from the scope of equity-method application due to the sale of shares or the completion of liquidation.

Among the consolidated subsidiaries, the fiscal year end for 6 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 has been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

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

Unrecognized actuarial gains (losses) and unrecognized prior service cost are charged to income 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 ¥262 million (\$2,279 thousand) in

valuation loss on inventories in cost of sales for the fiscal year ended December 31, 2021.

### (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. For interest rate swaps accounted for the exceptional method, 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).

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)

The ASBJ issued "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) 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.

#### (z) Changes in presentation

(Application of Accounting Standard for Disclosure of Accounting Estimates)

The Company adopted "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31 of March 31, 2020) from the beginning of the fiscal year ended December 31, 2021. Accordingly, details about significant accounting estimates are presented as a part of the notes to the consolidated financial statements.

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

#### (aa) 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.

## 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 ¥115.02 =US \$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at the end of December 2021. This translation should not be construed as a representation that the yen amounts actually represent, have 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. Significant Accounting Judgments, Estimates and Assumptions

### Impairment of Non-Current Assets

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

	Millions of yen	Thousands of U.S. dollars
	As of / for the fiscal year ended December 31, 2021	As of / for the fiscal year ended December 31, 2021
Property, plant and equipment and intangible assets	¥204,854	\$1,781,026
Amount of impairment loss	3,819	33,205

(2) Other information that contributes to understanding of the content of estimates

#### i) Calculation method

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

#### ii) Major assumptions used in the calculation of the amounts

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

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

#### iii) Impact on the consolidated financial statements for the following fiscal year

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

## 6. Securities

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

	Millions of yen		
	December 31, 2021		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities whose fair value exceeds their carrying amount:			
Debt securities	¥709	¥716	¥7
Subtotal	709	716	7
Held-to-maturity securities whose fair value does not exceed their carrying amount :			
Debt securities	50	49	(1)
Subtotal	50	49	(1)
Total	¥759	¥766	¥6

	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

	Thousands of U.S. dollars		
	December 31, 2021		
	Carrying amount	Estimated fair value	Unrealized gain (loss)
Held-to-maturity securities whose fair value exceeds their carrying amount:			
Debt securities	\$6,168	\$6,227	\$59
Subtotal	6,168	6,227	59
Held-to-maturity securities whose fair value does not exceed their carrying amount:			
Debt securities	435	430	(5)
Subtotal	435	430	(5)
Total	\$6,602	\$6,657	\$54

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

	Millions of yen		
	December 31, 2021		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	¥75,800	¥21,169	¥54,630
Debt securities	—	—	—
Other	—	—	—
Subtotal	75,800	21,169	54,630
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	2,009	2,249	(240)
Debt securities	—	—	—
Other	3,000	3,000	—
Subtotal	5,009	5,249	(240)
Total	¥80,809	¥26,419	¥54,390

	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

	Thousands of U.S. dollars		
	December 31, 2021		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Available-for-sale securities whose carrying amount exceeds their acquisition cost:			
Equity securities	\$659,014	\$184,050	\$474,964
Debt securities	—	—	—
Other	—	—	—
Subtotal	659,014	184,050	474,964
Available-for-sale securities whose carrying amount does not exceed their acquisition cost:			
Equity securities	17,467	19,557	(2,089)
Debt securities	—	—	—
Other	26,082	26,082	—
Subtotal	43,550	45,639	(2,089)
Total	\$702,564	\$229,689	\$472,875

(c) Proceeds from sales of available-for-sale securities and the corresponding gross gains and losses for the fiscal years ended December 31, 2021 and 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Proceeds	¥933	¥247	\$8,111
Gross gains	781	142	6,792
Gross losses	0	—	0

(d) Impairment of securities

Impairment losses on available-for-sale securities for the fiscal years ended December 31, 2021 and 2020 were ¥45 million (\$389 thousand) and ¥1,082 million, respectively.

(e) Investments in affiliates included in "Investment securities" as of December 31, 2021 and 2020 were ¥99,928 million (\$868,788 thousand) and ¥83,953 million, respectively.

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

Short-term and long-term debt as of December 31, 2021 and 2020 were represented by short-term borrowings bearing interest of 0.90% and

0.81% per annum, current portion of long-term borrowings of 1.32% and 1.68%, and long-term borrowings of 2.33% and 2.04%, respectively. Long-term debt as of December 31, 2021 and 2020 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Long-term borrowings, principally from banks and insurance companies, due 2022 to 2035:			
Secured:			
Bonds payable	¥ 152	¥ —	\$ 1,322
Long-term borrowings	15,126	13,823	131,510
Unsecured:			
Bonds payable	90,000	90,000	782,473
Bonds with share acquisition rights	10,035	10,055	87,244
Long-term borrowings	153,152	119,432	1,331,521
Lease obligations	8,438	8,512	73,361
	¥276,903	¥241,822	\$2,407,430
Portion due within one year:			
Bonds Payable	12	—	104
Long-term borrowings	18,188	28,359	158,130
Lease obligations	825	1,005	7,171
Commercial paper	—	10,000	—
	¥ 19,025	¥ 39,364	\$ 165,405

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
2023	¥10,012	¥ 21,404	¥1,518	\$ 87,046	\$ 186,094	\$13,200
2024	10,012	117,979	1,181	87,046	1,025,723	10,268
2025	10,012	9,613	892	87,046	83,577	7,753
2026	20,012	10,312	733	173,987	89,655	6,374
	¥50,048	¥159,308	¥4,324	\$435,124	\$1,385,048	\$37,595

## 8. Pledged Assets and Secured Liabilities

(a) Pledged assets

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Cash and deposits	¥ 649	¥ 3,182	\$ 5,643
Notes and accounts receivable - trade	36	36	317
Accounts receivable from completed construction contracts	2,374	1,692	20,641
Costs on construction contracts in progress	334	602	2,905
Real estate for sale	1,238	2,135	10,763
Real estate for sale in process	6,230	7,606	54,166
Accounts receivable - other	4	12	34
Buildings and structures	7,237	12,256	62,917
Machinery, equipment and vehicles	12,086	13,332	105,075
Land	2,803	3,819	24,371
Construction in progress	1,958	3,058	17,021
Investment securities	19,714	16,112	171,394
Other	3,678	3,434	31,976
	¥58,341	¥67,274	\$507,222

(b) Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Short-term borrowings	¥ 3,197	¥ 9,771	\$27,793
Current portion of bonds payable	12	—	104
Bonds payable	152	—	1,322
Long-term borrowings	15,126	13,823	131,510
Other	250	—	2,170
	¥18,737	¥23,594	\$162,899

## 9. Loss on Impairment of Non-Current Assets

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

Location	Major use	Asset category	Thousands of U.S. dollars	
			Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2021
Kobe, Hyogo etc.	Private-pay elderly care facilities and elderly residence that combines living support service	Goodwill	¥2,316	\$20,139
		Other - intangible assets	919	7,990
		Buildings	181	1,574
		Total	¥3,416	\$29,702

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

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

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

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

## 10. Income Taxes

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

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

	Millions of yen						Total
	December 31, 2021						
	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	
Tax loss carryforwards*	¥310	¥129	¥425	¥257	¥273	¥4,064	¥5,458
Valuation allowance	(310)	(129)	(425)	(257)	(273)	(2,109)	(3,504)
Deferred tax assets	—	—	—	—	—	1,955	1,955

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020
Effective statutory tax rate	30.6%	30.6%
Non-deductible expenses for tax purposes	0.2	0.5
Non-taxable dividend income	(1.5)	(5.6)
Per capita portion of inhabitant tax	0.2	0.5
Amortization of goodwill	1.0	0.6
Equity in earnings of affiliates	(1.0)	(1.0)
Tax rate differences with overseas subsidiaries	(7.4)	(8.0)
Other	(0.2)	2.4
Effective income tax rate	22.0%	20.0%

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

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Deferred tax assets:			
Allowance for doubtful accounts	¥ 387	¥ 521	\$ 3,364
Provision for bonuses	3,941	3,652	34,265
Accrued legal welfare expense on employees' bonuses	594	554	5,163
Enterprise taxes	588	99	5,113
Devaluation of real estate for sale	162	406	1,405
Retirement benefit liability	4,927	5,433	42,836
Devaluation of non-current assets	804	732	6,986
Devaluation of financial instruments	1,336	1,886	11,618
Tax loss carryforwards	5,458	6,144	47,456
Impairment loss	1,676	1,771	14,574
Provision for warranties for completed construction	1,596	1,322	13,875
Unrealized gain on non-current assets	590	629	5,127
Other	7,300	7,929	63,468
Gross deferred tax assets	29,359	31,077	255,252
Valuation allowance for tax loss carryforwards	(3,504)	(3,570)	(30,462)
Valuation allowance for others	(4,674)	(5,408)	(40,635)
Valuation allowance	(8,178)	(8,978)	(71,097)
Total deferred tax assets	21,181	22,099	184,155
Deferred tax liabilities:			
Deferred gains on sales of non-current assets	(757)	(757)	(6,579)
Gain on securities contributed to employee retirement benefit trusts	(1,168)	(1,168)	(10,152)
Valuation difference on available-for-sale securities	(16,378)	(19,445)	(142,390)
Land revaluation differences	(814)	(847)	(7,080)
Taxes on undistributed earnings of subsidiaries	(5,323)	(3,606)	(46,276)
Other	(12,013)	(8,019)	(104,446)
Gross deferred tax liabilities	(36,452)	(33,841)	(316,922)
Net deferred tax assets (liabilities)	¥(15,271)	¥(11,742)	\$(132,768)

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

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

  

Thousands of U.S. dollars							
December 31, 2021							
	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*	\$2,699	\$1,125	\$3,696	\$2,234	\$2,371	\$35,332	\$47,456
Valuation allowance	(2,699)	(1,125)	(3,696)	(2,234)	(2,371)	(18,338)	(30,462)
Deferred tax assets	—	—	—	—	—	16,994	16,994

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

## 11. Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Salaries and allowances	¥73,905	¥49,954	\$642,543
Provision for bonuses	10,764	10,221	93,581
Provision for bonuses for directors (and other officers)	165	106	1,435
Retirement benefit expenses	242	(2,241)	2,106
Provision for retirement benefits for directors (and other officers)	17	13	145
Provision of allowance for doubtful accounts	113	(71)	987
Provision for warranties for completed construction	¥ 3,122	¥ 2,020	\$27,143

Research and development expenses charged to selling, general and administrative expenses for the fiscal years ended December 31, 2021 and 2020 were ¥2,488 million (\$21,628 thousand) and ¥1,883 million, respectively.

## 12. Cash and Cash Equivalents

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

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Cash and time deposits	¥139,957	¥ 85,850	\$1,216,803
Less: Deposits which mature or become due over three months after the date of acquisition	(5,108)	(223)	(44,407)
Cash equivalents included in marketable securities	3,000	3,000	26,082
Restricted deposits	(2,813)	(1,406)	(24,457)
Cash equivalents included in short-term loans receivable	35,000	34,999	304,291
Cash and cash equivalents	¥170,035	¥122,220	\$1,478,312

Assets acquired and liabilities assumed of newly consolidated subsidiaries due to the acquisition of shares as of the acquisition date, related acquisition cost and net gain on acquisition of shares for the year ended December 31, 2021 were mainly as follows:

Kouei Kousan K.K., Cohan Kensetsu Inc. and 3 other companies

	Millions of yen	Thousands of U.S. dollars
	December 31, 2021	December 31, 2021
Current assets	¥9,869	\$85,804
Non-current assets	5,503	47,842
Goodwill	2,101	18,270
Current liabilities	(7,571)	(65,825)
Long-term liabilities	(2,200)	(19,125)
Non-controlling interests	(2,502)	(21,756)
Acquisition cost	5,200	45,210
Cash and cash equivalents	(7,298)	(63,452)
Net gain on acquisition of shares	¥2,098	\$18,243

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 for the year ended December 31, 2020 were mainly as follows:

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

	Millions of yen
	December 31, 2020
Current assets	¥13,059
Non-current assets	60
Goodwill	1,470
Current liabilities	(6)
Acquisition cost	14,583
Cash and cash equivalents	—
Accounts payable	(623)
Net expenditure for business transfer	¥13,960

## 13. Shareholders' Equity

The Japanese Corporate Law ("the Law") enforced on May 1, 2006 provides that an amount equivalent to 10% of cash dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends. Legal reserve and additional paid-in capital may be reversed without limitation and no further appropriation is required when the sum of legal reserve and additional paid-in capital 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, 2021 and 2020, which were included in retained earnings in the accompanying consolidated balance sheets, were ¥2,857 million (\$24,840 thousand) and ¥2,857 million, respectively.

Year-end dividends are approved by shareholders at a meeting held

subsequent to the fiscal year to which the dividends are applicable. In addition, semi-annual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Law.

## 14. 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.

## 15. Contingent Liabilities

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

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Guarantee on loans from financial institutions:			
Customers using housing loans	¥28,516	¥19,776	\$247,921
Kanda Biomass Energy K.K.	19,155	12,298	166,535
Affiliated companies of Crescent Communities group	17,188	23,161	149,438
Morinomiyako Biomass Energy G.K.	4,004	2,066	34,807
DRSFA, LLC*	332	—	2,885
Kawasaki Biomass Electric Power Co., Ltd.	113	263	978

\*DRSFA, LLC, which was not disclosed in the previous fiscal year, is presented in above table from the current year due to increase in materiality.

## 16. 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 sheets as of December 31, 2021 and 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, 2021	December 31, 2020	December 31, 2021
Notes receivable	¥6,222	¥6,018	\$54,093
Notes payable	¥3,875	¥3,196	\$33,686

## 17. Financial Instruments

### (a) Policy for financial instruments

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

### (b) Details of financial instruments and related risk

Trade receivables are exposed to customers' credit risk. Short-term borrowings are mainly used for repurchase agreement that has a contract with a financial institution with a rating of more than a certain

level, and therefore credit 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		
	December 31, 2021		
	Carrying amount	Fair value	Difference
Cash and deposits	¥ 139,957	¥ 139,957	¥ —
Notes and accounts receivable – trade	140,075	140,075	—
Marketable securities and investment securities:			
Held-to-maturity	759	766	6
Shares in affiliates	41,608	36,285	(5,323)
Available-for-sale	80,809	80,809	-
Total	¥ 403,208	¥ 397,892	¥(5,316)
Notes and accounts payable – trade	¥(134,065)	¥(134,065)	¥ —
Accounts payable for construction contracts	(98,165)	(98,165)	—
Bonds payable**	(90,164)	(90,021)	(143)
Long-term borrowings***	(186,466)	(185,990)	(476)
Total	¥(508,859)	¥(508,241)	¥ (618)
Derivatives****:			
Hedge accounting not applied	¥ 62	¥ 62	¥ —
Hedge accounting applied	5,115	5,115	—
Total	¥ 5,177	¥ 5,177	¥ —

	Millions of yen		
	December 31, 2020		
	Carrying amount	Fair value	Difference
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	¥ —

	Thousands of U.S. dollars		
	December 31, 2021		
	Carrying amount	Fair value	Difference
Cash and deposits	\$ 1,216,803	\$ 1,216,803	\$ —
Notes and accounts receivable – trade	1,217,835	1,217,835	—
Marketable securities and investment securities:			
Held-to-maturity	6,602	6,657	54
Shares in affiliates	361,742	315,467	(46,275)
Available-for-sale	702,564	702,564	—
Total	\$ 3,505,547	\$ 3,459,326	\$(46,221)
Notes and accounts payable – trade	\$(1,165,578)	\$(1,165,578)	\$ —
Accounts payable for construction contracts	(853,459)	(853,459)	—
Bonds payable**	(783,898)	(782,657)	(1,241)
Long-term borrowings***	(1,621,160)	(1,617,026)	(4,134)
Total	\$(4,424,095)	\$(4,418,720)	\$ (5,376)
Derivatives****:			
Hedge accounting not applied	\$ 536	\$ 536	\$ —
Hedge accounting applied	44,474	44,474	—
Total	\$ 45,010	\$ 45,010	\$ —

\* Liabilities are shown in brackets.  
\*\* Bonds payable include the current portion.  
\*\*\* 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 mainly 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 18.

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

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Unlisted equity securities	¥ 3,243	¥2,839	\$ 28,196
Investment in affiliates	58,320	50,036	507,046

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

	Millions of yen			
	December 31, 2021			
	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	¥139,267	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	140,075	—	—	—
Marketable securities and investment securities:				
Government bonds	303	406	50	—
Other	3,000	—	—	—
Total	¥282,646	¥406	¥50	¥—

	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	¥—

	Thousands of U.S. dollars			
	December 31, 2021			
	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	\$1,210,811	\$ —	\$ —	\$ —
Notes and accounts receivable - trade	1,217,835	—	—	—
Marketable securities and investment securities:				
Government bonds	2,634	3,530	435	—
Other	26,082	—	—	—
Total	\$2,457,363	\$3,530	\$435	\$ —

## 18. Derivatives and Hedging Activities

Derivative transactions to which hedge accounting is not applied at December 31, 2021 and 2020 were as follows:

	Millions of yen			
	December 31, 2021			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	¥3,796	¥ —	¥62	¥62
Sell (U.S. dollar)	—	—	—	—
Total	¥3,796	¥ —	¥62	¥62

	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

	Thousands of U.S. dollars			
	December 31, 2021			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Forward foreign currency exchange contracts:				
Sell (Yen)	\$33,006	\$ —	\$536	\$536
Sell (U.S. dollar)	—	—	—	—
Total	\$33,006	\$ —	\$536	\$536

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, 2021 and 2020 were as follows:



Millions of yen				
December 31, 2021				
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	¥ 6,347	¥ —	¥ (71)
Sell (Euro)	Accounts payable - trade	5,943	—	(50)
Sell (Thai baht)	Accounts payable - trade	8,938	8,938	283
Buy (U.S. dollar)	Accounts payable - trade	29,861	15,732	4,888
Buy (Euro)	Accounts payable - trade	14,018	—	68
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable - trade	374	—	*
<b>Total</b>		<b>¥65,480</b>	<b>¥24,670</b>	<b>¥5,119</b>
Interest rate swap contracts:				
Accounted for by the deferred hedge method:				
Pay fixed / receive variable	Long-term borrowings	¥ 100	¥ 73	¥ (3)
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term borrowings	¥ 1,810	¥ 927	*
<b>Total</b>		<b>¥ 1,910</b>	<b>¥ 1,000</b>	<b>¥ (3)</b>
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	¥ —	¥ —	¥ —
<b>Total</b>		<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>

Thousands of U.S. dollars				
December 31, 2021				
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	\$ 55,178	\$ —	\$ (615)
Sell (Euro)	Accounts payable - trade	51,670	—	(435)
Sell (Thai baht)	Accounts payable - trade	77,707	77,707	2,462
Buy (U.S. dollar)	Accounts payable - trade	259,617	136,775	42,500
Buy (Euro)	Accounts payable - trade	121,872	—	591
Accounted for by the allocation method:				
Sell (U.S. dollar)	Accounts receivable - trade	3,250	—	*
<b>Total</b>		<b>\$569,294</b>	<b>\$214,482</b>	<b>\$44,503</b>
Interest rate swap contracts:				
Accounted for by the deferred hedge method:				
Pay fixed / receive variable	Long-term borrowings	\$ 869	\$ 633	\$ (29)
Accounted for by the exceptional method:				
Pay fixed / receive variable	Long-term borrowings	\$ 15,736	\$ 8,058	*
<b>Total</b>		<b>\$ 16,606</b>	<b>\$ 8,691</b>	<b>\$ (29)</b>
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	\$ —	\$ —	\$ —
<b>Total</b>		<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

\* 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.

### 19. 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, 2021 and 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, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance at the beginning of the year	¥79,813	¥79,127	\$693,908
Service cost	3,488	2,622	30,327
Interest cost	480	265	4,170
Actuarial gain and loss	(252)	(718)	(2,192)
Retirement benefits paid	(2,263)	(1,654)	(19,678)
Prior service cost	(7)	108	(58)
Decrease due to transition to defined contribution pension plan	(173)	—	(1,500)
Increase due to new consolidation	827	—	7,192
Other	160	63	1,389
<b>Balance at the end of the year</b>	<b>¥82,073</b>	<b>¥79,813</b>	<b>\$713,558</b>

The changes in plan assets for the fiscal years ended December 31, 2021 and 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, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance at the beginning of the year	¥62,727	¥57,932	\$545,361
Expected return on plan assets	1,192	826	10,362
Actuarial gain and loss	2,983	4,104	25,937
Contributions	1,768	1,341	15,370
Retirement benefits paid	(1,889)	(1,476)	(16,421)
<b>Balance at the end of the year</b>	<b>¥66,782</b>	<b>¥62,727</b>	<b>\$580,609</b>

The changes in the retirement benefit liabilities, which were calculated by the simplified method for the fiscal years ended December 31, 2021 and 2020, were as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance at the beginning of the year	¥1,288	¥1,287	\$11,198
Retirement benefit expense	268	143	2,331
Retirement benefits paid	(221)	(64)	(1,922)
Contributions	(71)	(71)	(614)
Other	1	(8)	12
<b>Balance at the end of the year</b>	<b>¥1,266</b>	<b>¥1,288</b>	<b>\$11,006</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, 2021 and 2020 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Funded retirement benefit obligation	¥75,519	¥74,748	\$656,569
Plan assets at fair value	(67,758)	(63,602)	(589,097)
	<b>7,761</b>	<b>11,146</b>	<b>67,471</b>
Unfunded retirement benefit obligation	8,797	7,227	76,483
Net retirement benefit liability in the balance sheet	16,558	18,374	143,955
Retirement benefit liability	17,148	18,700	149,088
Retirement benefit assets	(590)	(326)	(5,134)
Net retirement benefit liability in the balance sheet	<b>¥16,558</b>	<b>¥18,374</b>	<b>\$143,955</b>

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Service cost	¥3,488	¥2,622	\$30,327
Interest cost	480	265	4,170
Expected return on plan assets	(1,192)	(826)	(10,362)
Amortization of actuarial gain and loss	(3,260)	(4,823)	(28,339)
Amortization of prior service cost	(7)	108	(58)
Retirement benefit expense under the simplified method	268	143	2,331
Other	24	—	207
Retirement benefit expense	(198)	(2,509)	(1,724)
Gain on transition to defined contribution pension plan	¥ 5	¥ —	\$ 39

The fair value of plan assets, by major category, as a percentage of total plan assets at December 31, 2021 and 2020 were as follows:

	December 31, 2021	December 31, 2020
Bonds	43%	44%
Stocks	29%	28%
General account	12%	12%
Other	15%	16%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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, 2021	December 31, 2020
Discount rates	0.000%-0.770%	0.000%-0.729%
Expected rates of return plan assets	1.9%	1.9%
Expected rate of salary increase (point based plan)	5.0%	5.0%

Contributions to defined contribution plans (including multi-employer plans treated as defined contribution plans) of the Company and its consolidated subsidiaries were ¥1,604 million (\$13,943 thousand) and

¥1,080 million for the fiscal years ended December 31, 2021 and 2020, respectively.

## 20. 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 rental income from the investment properties (the income is recorded in net sales and the expense is principally charged to cost of sales) was ¥334 million for the fiscal year ended December 31, 2020. The net rental income from the investment properties (the income is recorded in net sales and the expense is principally charged to cost of sales) was ¥1,208 million (\$10,501 thousand) and gain on sales of non-current assets (recorded as extraordinary gains) was ¥231 million (\$2,009 thousand) for the fiscal year ended December 31, 2021. The amounts recognized in the consolidated balance sheets and fair values related to investment properties were as follows:

Millions of yen				Thousands of U.S. dollars	
December 31, 2021		December 31, 2020		December 31, 2021	
Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
¥28,509	¥27,834	¥32,786	¥31,406	\$247,861	\$241,990

The main components of net change in carrying amount above included an increase of ¥13,624 million (\$118,446 thousand) due to acquisitions of real estate, an increase of ¥1,106 million (\$9,618 thousand) due to business combinations and an increase of ¥1,875 million (\$16,298 thousand) due to exchange rate fluctuations and a decrease of ¥20,185 million (\$175,495 thousand) due to change in the holding purpose of properties to real estate for sale, a decrease of ¥385 million (\$3,343 thousand) due to sales of real estate and a decrease of ¥311 million (\$2,708 thousand) due to depreciation for the fiscal year ended December 31, 2021.

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

## 21. 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.

## 22. Segment Information

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

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

Housing and Construction: construction, maintenance and renovation of detached houses and apartment buildings, sale of spec homes, leasing, management, purchase and sale 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.

As of/Fiscal year ended December 31, 2021	Millions of yen								
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥195,800	¥510,627	¥643,740	¥20,987	¥1,371,155	¥14,181	¥1,385,336	¥ 594	¥1,385,930
Inter-segment transfers	21,058	312	832	1,312	23,514	9,762	33,277	(33,277)	—
Total	216,858	510,939	644,573	22,299	1,394,669	23,944	1,418,613	(32,683)	1,385,930
Segment profit (loss)	9,984	19,641	104,334	3,931	137,889	3,012	140,901	(3,150)	137,751
Segment assets	219,948	198,747	540,636	89,708	1,049,039	78,722	1,127,761	186,464	1,314,226
Other items:									
Depreciation and amortization	3,341	4,992	2,878	2,109	13,321	2,097	15,418	1,074	16,491
Amortization of goodwill	—	263	1,763	—	2,025	84	2,110	—	2,110
Interest income	29	11	328	14	382	0	382	12	393
Interest expense	515	461	2,416	566	3,958	226	4,184	(1,965)	2,219
Equity in earnings (losses) of affiliates	(19)	(53)	14,141	670	14,739	3,043	17,782	0	17,782
Investments in affiliates	8,566	570	46,959	4,611	60,707	39,214	99,921	7	99,928
Increase in property, plant and equipment and intangible assets	3,195	4,706	13,132	4,257	25,289	1,145	26,434	144	26,579

Notes: 1. Adjustments for sales and contract revenues on unaffiliated customers include ¥594 million (\$5,168 thousand) of administration department profit.  
2. Adjustments for segment profit and loss include ¥182 million (\$1,581 thousand) of elimination of inter-segment profit and loss, ¥3,260 million (\$28,339 thousand) of retirement benefits liability adjustments (gain) and ¥6,227 million (\$54,142 thousand) of corporate general administration expense, which are not allocable to the reportable segments.  
3. Adjustments for segment assets include ¥11,671 million (\$101,469 thousand) of inter-segment eliminations, ¥198,135 million (\$1,722,616 thousand) of corporate assets, which are not allocable to the reportable assets.

As of/Fiscal year ended December 31, 2020	Millions of yen								
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Subtotal	Other	Total	Adjustments	Consolidated
Sales and contract revenues:									
Unaffiliated customers	¥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 of administration department profit.  
2. Adjustments for segment profit and loss include ¥429 million of elimination of inter-segment profit and loss, ¥4,823 million of retirement benefits liability adjustments (gain), ¥6,422 million of adjustment (loss) to provision for bonuses associated with the change of fiscal year end, and ¥3,938 million of corporate general administration expense, which are not allocable to the reportable segments.  
3. Adjustments for segment assets include ¥8,986 million of inter-segment eliminations, ¥171,528 million of corporate assets, which are not allocable to the reportable assets.

As of/Fiscal year ended December 31, 2021	Thousands of U.S. dollars								
	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	\$1,702,314	\$4,439,462	\$5,596,768	\$182,467	\$11,921,011	\$123,294	\$12,044,305	\$ 5,168	\$12,049,473
Inter-segment transfers	183,082	2,716	7,238	11,403	204,438	84,876	289,314	(289,314)	—
Total	1,885,396	4,442,178	5,604,006	193,870	12,125,449	208,170	12,333,619	(284,146)	12,049,473
Segment profit (loss)	86,802	170,757	907,095	34,174	1,198,828	26,183	1,225,011	(27,384)	1,197,627
Segment assets	1,912,255	1,727,934	4,700,368	779,937	9,120,494	684,421	9,804,914	1,621,147	11,426,062
Other items:									
Depreciation and amortization	29,048	43,404	25,024	18,338	115,814	18,228	134,043	9,335	143,378
Amortization of goodwill	—	2,284	15,325	—	17,608	732	18,341	—	18,341
Interest income	250	95	2,850	124	3,318	0	3,318	101	3,419
Interest expense	4,474	4,005	21,008	4,922	34,408	1,967	36,375	(17,083)	19,292
Equity in earnings (losses) of affiliates	(165)	(461)	122,940	5,824	128,139	26,460	154,599	3	154,602
Investments in affiliates	74,474	4,957	408,270	40,092	527,793	340,934	868,727	61	868,788
Increase in property, plant and equipment and intangible assets	27,775	40,911	114,170	37,012	219,868	9,956	229,824	1,255	231,079

(Related information)

## (1) Products and services information

Fiscal year ended December 31, 2021	Millions of yen			
	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	¥202,600	¥1,154,367	¥28,964	¥1,385,930

  

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 December 31, 2021	Thousands of U.S. dollars			
	Timber and Building Materials	Housing	Other	Total
Sales and contract revenues to unaffiliated customers	\$1,761,429	\$10,036,230	\$251,814	\$12,049,473

## (2) Geographic area information

Sales information by geographic area was as follows:

Fiscal year ended December 31, 2021	Millions of yen			
	Japan	United States	Other Area	Total
	¥681,565	¥560,373	¥143,993	¥1,385,930

  

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 December 31, 2021	Thousands of U.S. dollars			
	Japan	United States	Other Area	Total
	\$5,925,620	\$4,871,958	\$1,251,894	\$12,049,473

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

Fiscal year ended December 31, 2021	Millions of yen				
	Japan	New Zealand	United States	Other Area	Total
	¥106,996	¥34,734	¥18,383	¥24,070	¥184,183

  

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 December 31, 2021	Thousands of U.S. dollars				
	Japan	New Zealand	United States	Other Area	Total
	\$930,242	\$301,978	\$159,828	\$209,265	\$1,601,313

## (3) Customer information

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

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

Fiscal year ended December 31, 2021	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	¥161	¥—	¥—	¥—	¥3,416	¥241	¥3,819

  

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 December 31, 2021	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	\$1,404	\$—	\$—	\$—	\$29,702	\$2,098	\$33,205

(Amortization and balance of goodwill)

As of/Fiscal year ended December 31, 2021	Millions of yen						
	Timber and Building Materials	Housing and Construction	Overseas Housing and Real Estate	Environment and Resources	Other	Elimination and/or Corporate	Total
Amortization of goodwill	¥—	¥ 263	¥1,763	¥—	¥84	¥—	¥2,110
Balance of goodwill	—	1,839	2,720	—	—	—	4,559

  

As of/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
Amortization of goodwill	¥—	¥—	¥ 848	¥80	¥ 126	¥—	¥1,055
Balance of goodwill	—	—	4,155	—	2,401	—	6,556

  

As of/Fiscal year ended December 31, 2021	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
Amortization of goodwill	\$—	\$ 2,284	\$15,325	\$—	\$732	\$—	\$18,341
Balance of goodwill	—	15,986	23,652	—	—	—	39,638

## 23. Amounts per Share

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

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

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Net income attributable to shareholders of parent per share—Basic:			
Net income attributable to shareholders of parent	¥ 87,175	¥ 30,398	\$757,910
Net income not attributable to shares of common stock	—	—	—
Net income attributable to shares of common stock	87,175	30,398	757,910
Weighted average number of shares issued	190,465,847	181,442,403	—
Net income attributable to shareholders of parent per share fully diluted—Diluted:			
Adjusted net income attributable to shareholders of parent	—	—	—
Common shares increase	4,689,918	4,662,581	—
(Bonds with share acquisition rights)	(4,591,346)	(4,562,044)	—
(Share acquisition rights)	(98,572)	(100,537)	—

(b) Net assets per share

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

	Millions of yen		Thousands of U.S. dollars
	December 31, 2021	December 31, 2020	December 31, 2021
Net assets per share:			
Total net assets	¥540,089	¥399,456	\$4,695,613
Amounts deducted from total net assets:			
(share acquisition rights)	(116)	(120)	(1,011)
(Non-controlling interests)	(44,361)	(31,875)	(385,683)
Net assets attributable to shares of common stock	495,612	367,461	4,308,919
The number of shares of common stock used for the calculation of net assets per share	199,862,667	181,450,748	—

## 24. Other Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Valuation difference on available-for-sale securities:			
Amount incurred during the year	¥ (9,770)	¥38,742	\$ (84,942)
Reclassification adjustments for gains and losses included in net income	(227)	839	(1,976)
Amount before tax effect	(9,997)	39,581	(86,918)
Tax effect	3,051	(12,006)	26,523
Valuation difference on available-for-sale securities	(6,947)	27,575	(60,395)
Deferred gains (losses) on hedges:			
Amount incurred during the year	1,958	(704)	17,027
Reclassification adjustments for gains and losses included in net income	0	(114)	2
Amount before tax effect	1,959	(818)	17,029
Tax effect	(622)	285	(5,409)
Deferred gains (losses) on hedges	1,337	(534)	11,621
Translation adjustments:			
Amount incurred during the year	24,967	(7,183)	217,066
Reclassification adjustments for gains and losses included in net income	(12)	(40)	(106)
Amount before tax effect	24,955	(7,223)	216,960
Tax effect	—	12	—
Translation adjustments	24,955	(7,211)	216,960
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount incurred during the year	5,080	(2,657)	44,168
Reclassification adjustments for gains and losses included in net income	(64)	(266)	(553)
Share of other comprehensive income of affiliates accounted for by the equity method	5,017	(2,922)	43,614
Total other comprehensive income	¥24,361	¥16,908	\$211,800

## 25. Asset Retirement Obligations

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

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

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance at beginning of the year	¥2,489	¥2,235	\$21,638
Liability incurred for assets acquired	116	81	1,011
Change in estimates	242	343	2,102
Accretion expense	10	8	91
Liabilities settled	(119)	(178)	(1,030)
Balance at end of the year	¥2,739	¥2,489	\$23,811

## 26. Related Party Transactions

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

### Fiscal year ended December 31, 2021

Name	Title	Transactions	Millions of yen		Thousands of U.S. dollars	
			Amounts (Note 3)	Balance at the end of the year	Amounts (Note 3)	Balance at the end of the year
Kanda Biomass Energy K.K.	Affiliate	Guarantee of indebtedness (Note 1)	¥19,155	¥—	\$166,535	\$—
Relative of Akira Ichikawa	Director's relative	Contracting for housing construction (Note 2)	¥38	¥—	\$330	\$—
		Sale of land (Note 2)	¥56	¥—	\$483	\$—

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

### Fiscal year ended December 31, 2020

Name	Title	Transactions	Millions of yen	
			Amounts (Note 3)	Balance at the end of the year (Note 3)
Kanda Biomass Energy K.K.	Affiliate	Guarantee of indebtedness (Note 1)	¥12,298	¥—
Relative of Toshiro Mitsuyoshi	Director's relative	Receipt of rent for private-pay elderly care facility (Note 2)	¥—	¥12

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

During the fiscal year ended December 31, 2021, amendments to the Air Pollution Control Act were enforced on April 1, 2021 and the range of building materials which contains asbestos and are therefore subjected to the act was expanded in order to prevent the dispersion of asbestos during demolition work of buildings. Estimates of necessary expenditure have accordingly been revised as new information was obtained regarding prevention measurements of the dispersion of asbestos such as quotation documents.

Consequently, the relevant asset retirement obligations have increased by ¥242 million (\$2,100 thousand) as a result of this change.

## 27. Business Combination

### (Business combination through acquisition)

#### 1. Summary of the business combination

- 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
- Main reason for implementing the business combination  
Kouei Kousan K.K. is the holding company that owns 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.
- Date of the business combination  
January 18, 2021
- Legal form of the business combination  
Acquisition of the shares for a cash consideration
- Name of company after business combination  
No change in name
- Ratio of voting rights acquired  
Kouei Kousan K.K.: 100%  
Cohnan Kensetsu Inc. and 3 other companies: 53.59%
- Main reasons for determining the acquirer  
The Company acquired the shares for a cash consideration

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

The period is from January 1, 2021 to December 31, 2021 as the deemed acquisition date was January 1, 2021.

#### 3. Breakdown of consideration for acquisition and type of consideration

Consideration for acquisition: Cash ¥5,200 million (\$45,210 thousand)  
Acquisition cost: ¥5,200 million (\$45,210 thousand)

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

#### 4. Description and amount of primary acquisition-related costs

Advisory fee: ¥141 million (\$1,230 thousand)

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

- Amount of goodwill  
¥2,101 million (\$18,270 thousand)
- Reason for recognition  
The acquisition cost exceeded the fair value of net assets acquired at the date of business combination.
- Amortization method and period  
Straight-line amortization over 8 years

#### 6. Assets acquired and liabilities assumed at the acquisition date

	Millions of yen	Thousands of U.S. dollars
Current assets	¥9,869	\$85,804
Non-current assets	5,503	47,842
Total assets	15,372	133,645
Current liabilities	(7,571)	(65,825)
Long-term liabilities	(2,200)	(19,125)
Total liabilities	¥(9,771)	\$(84,950)

## 28. Stock Option Plan

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

None.

### (b) Description of stock options

#### (1) Description of stock options

	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Individuals covered by the plan	Directors of the Company: 8 Executive officers of the Company: 11 Total: 19	Directors of the Company: 8 Executive officers of the Company: 13 Total: 21	Directors of the Company: 8 Executive officers of the Company: 12 Total: 20
Number of stock options granted by class of share (Note)	Common stock: 38,800 shares	Common stock: 41,400 shares	Common stock: 38,500 shares
Grant date	August 20, 2015	August 19, 2016	August 18, 2017
Vesting conditions	No provisions	No provisions	No provisions
Eligible service period	No provisions	No provisions	No provisions
Exercise period	From August 21, 2015 to August 20, 2035	From August 20, 2016 to August 19, 2036	From August 19, 2017 to August 18, 2037

Note: Converted into the number of equivalent shares.

#### (2) Volume and changes in stock options

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

## 1) Number of stock options

Fiscal Year ended December 31, 2021	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Unvested stock options			
As of December 31, 2020	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested as of December 31, 2021	—	—	—
Vested stock options			
As of December 31, 2020	29,600	36,800	34,200
Vested	—	—	—
Exercised	1,000	900	900
Forfeited	—	—	—
Unexercised as of December 31, 2021	28,600	35,900	33,300

## 2) Unit price information

Fiscal Year ended December 31, 2021	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price when exercised	2,175	2,038	2,038
Fair unit value on the grant date	¥1,233	¥1,092	¥1,256

Fiscal Year ended December 31, 2021	Sumitomo Forestry Co., Ltd. 2015 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2016 stock acquisition rights (stock-based compensation type)	Sumitomo Forestry Co., Ltd. 2017 stock acquisition rights (stock-based compensation type)
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01
Average stock price when exercised	18.91	17.72	17.72
Fair unit value on the grant date	\$10.72	\$ 9.49	\$10.92

## (c) Method for estimating a fair unit value for stock options

No stock options were granted in the fiscal year ended December 31, 2021.

## (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.

## 29. Additional Information

## (Effects of COVID-19 on Accounting Estimates)

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

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

## 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, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

## Basis for Opinion

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

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of goodwill and other non-current assets related to Sumirin Care Life Co., Ltd.	
Description of Key Audit Matter	Auditor's Response
<p>The Company recognized property, plant and equipment and intangible assets of ¥204,854 million (15.6% of total assets) as of the end of the current fiscal year in its consolidated balance sheet. As described in Note 9, "Loss on Impairment of Non-Current Assets," the Company recognized impairment loss for the fiscal year of ¥3,416 million on such goodwill and other non-current assets related to Sumirin Care Life Co., Ltd., which operates private-pay elderly care facilities and elderly residence that combines living support service.</p> <p>Whenever indications of impairment exist for an asset or an asset group, the Company determines whether or not the recognition of impairment loss is necessary. When the Company determines that an impairment loss should be recognized, the Company reduces the carrying amount of an asset to the recoverable amount and the difference is recognized as an impairment loss. The recoverable amount is measured by either the net realizable value or value in use whichever is higher.</p> <p>The Company revised Sumirin Care Life's business plan considering the business environment due to the impact of the Covid-19 pandemic. As a result, the recoverable amount was less than the book value based on the revised business plan, and the Company recognized the impairment loss for goodwill and other non-current assets as stated above related to the business.</p> <p>The Company calculates value in use as the discounted present value of the future cash flows, and the net realizable value based on the appraisal value. Future cash flows are based on business plans reported to the Management Committee and other bodies held in the fiscal year.</p> <p>As described in the note 5, "Significant Accounting Judgments, Estimates and Assumptions", significant assumptions in estimating the value in use include the number of new residents, the number of residents who have left and discount rate, which serve as the basis of the business plan.</p> <p>Given that the significant assumptions used to estimate the recoverable amount involve uncertainty and require management judgement, we determined impairment of goodwill and other non-current assets related to Sumirin Care Life Co., Ltd. to be a key audit matter.</p>	<p>The audit procedures we performed to assess impairment loss on goodwill and other non-current assets related to Sumirin Care Life include the following, among others:</p> <ul style="list-style-type: none"> <li>• We compared the Company's business plan, which the Company prepared when acquiring the target company, to evaluate goodwill and other non-current assets for prior years with actual results to assess the effectiveness of management's estimation process.</li> <li>• We considered the consistency between the future cash flows used in the calculation of value in use and the business plan reported to the Management Committee and other bodies, which is the basis for the calculation of future cash flows.</li> <li>• We compared the cash flow projection period with the remaining goodwill amortization period.</li> <li>• To understand the significant assumptions in the estimation of future cash flows, including the impact of Covid-19, we inquired with the management of Sumirin Care Life and the personnel of the Company who are responsible for the business department.</li> <li>• With regard to the number of new residents and residents who have left, which are significant assumptions, we performed the following procedures for facilities that have been open for a certain period of time.             <ul style="list-style-type: none"> <li>-We compared the occupancy ratio estimated by the Company with past fiscal year's actual occupancy ratio.</li> <li>-We compared the turnover ratio estimated by the Company, which is a significant assumption, with external data.</li> <li>-We compared the number of new residents estimated by the Company with the number of new residents independently calculated by the auditor using the number of residents at the end of the previous fiscal year and external data.</li> </ul> </li> <li>• With regard to the number of new residents and residents who have left, which are significant assumptions, we performed the following procedures for those facilities that have only been operating for relatively short periods of time following their establishment.             <ul style="list-style-type: none"> <li>-We compared the past fiscal year's actual occupancy ratio calculated based on the number of new residents at the opening of the existing facilities under the same brand name, with the Company estimated future fiscal year's occupancy ratio calculated based on the estimated number of new residents.</li> <li>-We compared the turnover ratio estimated by the Company with external data.</li> <li>-We compared the number of new residents estimated by the Company with 1) the number of new residents at the time of opening of the existing facilities under the same brand name, for a period until occupancy was almost full, and 2) the number of new residents calculated by the auditor using the number of residents at the end of the previous fiscal year and external data, for periods after that.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>• We assessed the discount rate which is a significant assumption by comparing the calculation component index with the available external data.</li> <li>• With regard to the net realizable value of the facilities held by Sumirin Care Life, we engaged the valuation specialists of our network firm.</li> </ul>
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**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.

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

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

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

#### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan

March 29, 2022

/S/ Tatsuya Chiba

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Tatsuya Chiba  
Designated Engagement Partner  
Certified Public Accountant

/S/ Yoshikatsu Nakahara

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Designated Engagement Partner  
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Designated Engagement Partner  
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