

[TRANSLATION]

The following is an unofficial English translation of “Notice of Convocation of the 83rd Ordinary General Meeting of Shareholders” (“Notice”) by Sumitomo Forestry Co., Ltd. (“Company”). The Company provides this English translation for your reference and convenience only and without any warranty as to its accuracy or otherwise. The Japanese original is the sole official version and shall prevail in the event of any discrepancy between it and this English translation.

(Securities Code 1911)

March 7, 2023

(Measures for electronic provision have commenced on March 1, 2023)

To Our Shareholders

Toshiro Mitsuyoshi

President/Director

Sumitomo Forestry Co., Ltd.

1-3-2, Otemachi, Chiyoda-ku, Tokyo

NOTICE OF CONVOCAION OF THE 83rd ORDINARY GENERAL MEETING OF SHAREHOLDERS

We would like to express our appreciation for your courtesies always shown to us.

You are hereby notified of our 83rd Ordinary General Meeting of Shareholders (“Meeting”) to be held as described hereunder.

From the viewpoint of preventing further spread of COVID-19, we kindly request that you exercise your voting rights prior to the Meeting in writing or by electronic means (the Internet, etc.).

Please refer to “Reference Documents for the General Meeting of Shareholders” and exercise your voting rights in accordance with “Guidance Notes on Exercise of Voting Rights”(see page 3).

To convene this Meeting, information contained in reference documents and other materials for the Meeting will be provided electronically (Matters Related to Electronic Provision Measures). Matters Related to Electronic Provision Measures are posted on the Company’s website in the section, “Notice of Convocation of the 83rd Ordinary General Meeting of Shareholders.” Please access the Company’s website indicated below to confirm.

The Company’s website:

<https://sfc.jp/information/ir/stockholder/information/202212.html>

In addition to the above-mentioned website, Matters Related to Electronic Provision Measures can be accessed using the Tokyo Stock Exchange, Inc. (TSE) website (Listed Company Search) by entering “Sumitomo Forestry” or “1911” in the issue name (company name) or securities code field, selecting “Basic information,” “Documents for public inspection/PR information,” and “Notice of Convocation of the Ordinary General Meeting of Shareholders/General Meeting of Shareholders Information.”

TSE website (Listed Company Search)

<https://www2.jpx.co.jp/tseHpFront/JJK010010Action.do?Show=Show>

1. **Date and Time:** Thursday, March 30, 2023 at 10:00 a.m.
2. **Place:** International Conference Hall, 2nd Floor, Keidanren Kaikan
1-3-2, Otemachi, Chiyoda-ku, Tokyo
3. **Agenda:**
Matters to be reported:
 - Item No. 1:** Reports on the Business Report, the Consolidated Financial Statements, and the Non-Consolidated Financial Statements for the 83rd business term (from January 1, 2022 to December 31, 2022)
 - Item No. 2:** Report on the Results of Audits of the Consolidated Financial Statements for the 83rd business term by the Accounting Auditor and the Board of Statutory Auditors

Proposals to be resolved:

Proposal No. 1: Appropriation of Surplus

Proposal No. 2: Partial Amendments to the Articles of Incorporation

Proposal No. 3: Election of Nine (9) Directors

Proposal No. 4: Election of One (1) Statutory Auditor

【Guidance Notes on Exercise of Voting Rights】

We recommend you to exercise your voting rights prior to the Meeting by any of the following methods:

(A) Exercise of voting rights in writing

Please indicate your approval or disapproval of each proposal on the enclosed voting form, and return it and ensure it is received by our Administrator of Share Registry no later than the deadline noted below.

Deadline for exercise of voting rights: 5:30 p.m. on Wednesday, March 29, 2023 (Japan Standard Time).

(B) Exercise of voting rights by “Smart Voting”

By using your smartphone or tablet device to scan the “Smartphone use voting right exercise website login QR code” on the lower right of the enclosed voting form, you can exercise your voting rights via the website without entering your voting code and password.

***You can only vote by “Smart Voting” once.** If you intend to make a correction to the content of your vote after you exercised your voting rights, you are required to scan the QR code again and enter your voting code and password written on the enclosed voting form.

Deadline for exercise of voting rights: 5:30 p.m. on Wednesday, March 29, 2023 (Japan Standard Time).

(C) Exercise of voting rights via the Internet

Please use a personal computer, smartphone or cellular phone to access the Online Voting Site (<https://www.web54.net> (Japanese only)) and register your approval or disapproval of each proposal by using your voting code and password written on the enclosed voting form.

Deadline for exercise of voting rights: 5:30 p.m. on Wednesday, March 29, 2023 (Japan Standard Time).

If you choose to attend the Meeting, please submit the enclosed voting form to our receptionists at the Meeting and bring this Notice with you.

Matters of Exercising Voting Rights

- (1) If neither approval nor disapproval of each proposal is indicated on the voting form, it shall be deemed a vote of approval for the Company proposals.
- (2) If you exercise your voting rights more than once by electronic means (the Internet, etc.), we will only accept the last exercise of your voting rights as valid.
- (3) If you exercise your voting rights both in writing and by electronic means (the Internet, etc.), we will only accept the vote registered by electronic means (the Internet, etc.) as valid.

*Any access fees to internet service providers and any communication fees (including, but not limited to telephone fees) for the usage of the voting website for voting shall be borne by the shareholders.

*Please be aware that exercising voting rights by personal computer or smart phone may not be possible in certain internet user environments. In addition, exercising voting rights by cellular phone may not be possible with certain types of cellular phones.

Please contact the following numbers if you have any questions.

Administrator of Share Registry

Sumitomo Mitsui Trust & Banking Co., Ltd. (Help Desk)

• **Inquiries about exercising voting rights: 0120-652-031**

(AM9:00~PM9:00, Japan Standard Time) (Japanese only)

• **Other inquiries: 0120-782-031**

(weekdays AM9:00~PM5:00, Japan Standard Time)

Reference Documents for the General Meeting of Shareholders

Proposal No. 1: Appropriation of Surplus

In light of a comprehensive consideration of the balance of our base of operations, financial position and cash flow, the Company hereby proposes to appropriate the surplus in the following manner.

1. Year-end dividend

With regard to the dividend of retained earnings at the end of the fiscal year under review, we intend to pay the following year-end dividend based on our basic policy of continuously and stably returning profits to shareholders. Taking into consideration our business performance for the fiscal year under review and other factors comprehensively, the year-end dividend will increase by 20 yen per share compared to the previous fiscal year. The sum of the interim dividend and the year-end dividend will be 125 yen per share.

(1) Type of dividend assets

Cash

(2) Allocation of dividend assets to shareholders and the total amount thereof

- 65 yen per ordinary share of the Company

- Total amount: 13,060,390,005 yen

(3) Effective date of the dividend payment:

March 31, 2023

2. Appropriation of other surplus

For the purpose of securing flexibility in capital policy, we intend to transfer a part of the general reserve to retained earnings brought forward as follows:

(1) The item of surplus to be increased and the amount thereof

Retained earnings brought forward	30,866,000,000 yen
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(2) The item of surplus to be decreased and the amount thereof

General reserve	30,866,000,000 yen
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Proposal No. 2: Partial Amendments to the Articles of Incorporation

1. Reason for the proposal

In response to the current business conditions of the Company and its subsidiaries, for the purpose of clarifying the content of the business and preparing for future business developments, the Company proposes to make the below necessary amendments to Article 2 (Business Purposes) of the Articles of Incorporation.

2. Details of Amendments

Details of the amendments are as follows:

(Underlines indicate the amended portions.)

Current Articles of Incorporation	Proposed Amendment
Article 2. (Business Purposes) The business purposes of the Company shall be as follows:	Article 2. (Business Purposes) The business purposes of the Company shall be as follows:
1. Management, sale and purchase of <u>forest</u> and timber lands;	1. Management, sale and purchase of <u>mountainous forests</u> and timber lands;
2 to 18 (Omitted)	2 to 18 (Unchanged)
(Newly Added)	<u>19. Type II financial instruments business and investment advisory and agency business</u>
<u>19</u> to <u>23</u> (Omitted)	<u>20</u> to <u>24</u> (Unchanged)
(Newly Added)	<u>25. Sale and purchase of greenhouse gas emission rights</u>
<u>24</u> to <u>25</u> (Omitted)	<u>26</u> to <u>27</u> (Unchanged)

Proposal No. 3: Election of Nine (9) Directors

At the conclusion of this Meeting, the term of office of all directors (nine) will expire, and we would like to ask for the election of nine directors.

The nomination of each candidate was decided after consulting with the Nomination and Remuneration Advisory Committee, a voluntary committee chaired by an Outside Director, in which outside officers constitute a majority of its members.

Candidates for Directors are as follows:

Candidate No.	Name	Present Positions	
1	Akira Ichikawa	Representative Director, Chairman of the Board	Re-election
2	Toshiro Mitsuyoshi	Representative Director, President / Director, President and Executive Officer	Re-election
3	Tatsuru Satoh	Representative Director, Executive Vice President and Executive Officer	Re-election
4	Tatsumi Kawata	Director, Senior Managing Executive Officer	Re-election
5	Atsushi Kawamura	Director, Senior Managing Executive Officer	Re-election
6	Ikuro Takahashi	Director, Managing Executive Officer	Re-election
7	Izumi Yamashita	Director	Re-election Outside Director Independent Officer
8	Mitsue Kurihara	Director	Re-election Outside Director Independent Officer
9	Yuko Toyoda		New-election Outside Director Independent Officer

1	<p>Akira Ichikawa (Born November 12, 1954)</p> <p><u>Re-election</u></p> <p>Number of shares in the Company owned: 76,800 shares</p> <p>Attendance at Board of Directors: 15/15 meetings</p>	<p>Career summary, positions and responsibilities in the Company, and significant concurrent positions</p> <table border="1"> <tr> <td>April</td> <td>1978</td> <td>Joined the Company</td> </tr> <tr> <td>June</td> <td>2007</td> <td>Executive Officer</td> </tr> <tr> <td>June</td> <td>2008</td> <td>Director Managing Executive Officer</td> </tr> <tr> <td>April</td> <td>2010</td> <td>Representative Director (Current Position) President / Director President and Executive Officer</td> </tr> <tr> <td>April</td> <td>2020</td> <td>Chairman of the Board (Current Position)</td> </tr> </table>	April	1978	Joined the Company	June	2007	Executive Officer	June	2008	Director Managing Executive Officer	April	2010	Representative Director (Current Position) President / Director President and Executive Officer	April	2020	Chairman of the Board (Current Position)			
	April	1978	Joined the Company																	
June	2007	Executive Officer																		
June	2008	Director Managing Executive Officer																		
April	2010	Representative Director (Current Position) President / Director President and Executive Officer																		
April	2020	Chairman of the Board (Current Position)																		
<p>[Significant concurrent positions] Outside Director of Konica Minolta, Inc. Outside Director of Sumitomo Chemical Co., Ltd.</p>																				
<p>[Reasons for nominating a candidate to be Director] The Company requests shareholders to re-elect Mr. Ichikawa as Director because the Company believes that he is capable of executing his duty as Director appropriately, based on his abundant experience and achievement in corporate management which he developed during his career as President/Director and Chairman of the Board.</p>																				
2	<p>Toshiro Mitsuyoshi (Born May 23, 1962)</p> <p><u>Re-election</u></p> <p>Number of shares in the Company owned: 20,300 shares</p> <p>Attendance at Board of Directors: 15/15 meetings</p>	<p>Career summary, positions and responsibilities in the Company, and significant concurrent positions</p> <table border="1"> <tr> <td>April</td> <td>1985</td> <td>Joined the Company</td> </tr> <tr> <td>June</td> <td>2010</td> <td>Executive Officer</td> </tr> <tr> <td>April</td> <td>2011</td> <td>Managing Executive Officer</td> </tr> <tr> <td>June</td> <td>2014</td> <td>Director</td> </tr> <tr> <td>April</td> <td>2018</td> <td>Senior Managing Executive Officer</td> </tr> <tr> <td>April</td> <td>2020</td> <td>Representative Director (Current Position) President / Director (Current Position) President and Executive Officer (Current Position)</td> </tr> </table>	April	1985	Joined the Company	June	2010	Executive Officer	April	2011	Managing Executive Officer	June	2014	Director	April	2018	Senior Managing Executive Officer	April	2020	Representative Director (Current Position) President / Director (Current Position) President and Executive Officer (Current Position)
	April	1985	Joined the Company																	
June	2010	Executive Officer																		
April	2011	Managing Executive Officer																		
June	2014	Director																		
April	2018	Senior Managing Executive Officer																		
April	2020	Representative Director (Current Position) President / Director (Current Position) President and Executive Officer (Current Position)																		
<p>[Reasons for nominating a candidate to be Director] The Company requests shareholders to re-elect Mr. Mitsuyoshi as Director because the Company believes that, as he has been engaged in management of the Sumitomo Forestry Group (“Group”) as President / Director since April, 2020, he is capable of executing his duty as Director appropriately, based on his abundant experience and achievement in the Group’s business.</p>																				

3	<p>Tatsuru Satoh (Born December 14, 1955)</p> <p><u>Re-election</u></p> <p>Number of shares in the Company owned: 39,100 shares</p>	<p>Career summary, positions and responsibilities in the Company, and significant concurrent positions</p> <table border="1"> <tr> <td>April</td> <td>1978</td> <td>Joined the Company</td> </tr> <tr> <td>June</td> <td>2012</td> <td>Executive Officer</td> </tr> <tr> <td>April</td> <td>2013</td> <td>Managing Executive Officer</td> </tr> <tr> <td>June</td> <td>2013</td> <td>Director</td> </tr> <tr> <td>April</td> <td>2016</td> <td>Senior Managing Executive Officer</td> </tr> <tr> <td>April</td> <td>2018</td> <td>Representative Director (Current Position) Executive Vice President and Executive Officer (Current Position)</td> </tr> </table>	April	1978	Joined the Company	June	2012	Executive Officer	April	2013	Managing Executive Officer	June	2013	Director	April	2016	Senior Managing Executive Officer	April	2018	Representative Director (Current Position) Executive Vice President and Executive Officer (Current Position)
	April	1978	Joined the Company																	
	June	2012	Executive Officer																	
April	2013	Managing Executive Officer																		
June	2013	Director																		
April	2016	Senior Managing Executive Officer																		
April	2018	Representative Director (Current Position) Executive Vice President and Executive Officer (Current Position)																		
<p>Attendance at Board of Directors: 15/15 meetings</p>	<p>[Responsibilities in the Company] Administering Lifestyle Service Division In charge of General Administration, Legal, Secretary, External Relations, Human Resources Development/D&I, IT Solutions, and Internal Audit</p> <p>[Significant concurrent position] Director of Kumagai Gumi Co., Ltd.</p>																			
<p>[Reasons for nominating a candidate to be Director] The Company requests shareholders to re-elect Mr. Satoh as Director because the Company believes that, as he has been Director since 2013, has served as Executive Officer in charge of General Administration, Personnel, IT Solutions, among other roles, and currently is Executive Vice President and Executive Officer, he is capable of executing his duty as Director appropriately, based on his abundant experience and achievement in the Group's business and management.</p>																				
4	<p>Tatsumi Kawata (Born October 4, 1962)</p> <p><u>Re-election</u></p> <p>Number of shares in the Company owned: 12,200 shares</p>	<p>Career summary, positions and responsibilities in the Company, and significant concurrent positions</p> <table border="1"> <tr> <td>April</td> <td>1986</td> <td>Joined the Company</td> </tr> <tr> <td>June</td> <td>2016</td> <td>Executive Officer</td> </tr> <tr> <td>April</td> <td>2017</td> <td>Managing Executive Officer</td> </tr> <tr> <td>June</td> <td>2018</td> <td>Director (Current Position)</td> </tr> <tr> <td>January</td> <td>2022</td> <td>Senior Managing Executive Officer (Current Position)</td> </tr> </table>	April	1986	Joined the Company	June	2016	Executive Officer	April	2017	Managing Executive Officer	June	2018	Director (Current Position)	January	2022	Senior Managing Executive Officer (Current Position)			
	April	1986	Joined the Company																	
	June	2016	Executive Officer																	
April	2017	Managing Executive Officer																		
June	2018	Director (Current Position)																		
January	2022	Senior Managing Executive Officer (Current Position)																		
<p>Attendance at Board of Directors: 15/15 meetings</p>	<p>[Responsibilities in the Company] Administering Environment and Resources Division In charge of Corporate Planning, Finance, Corporate Communications, and Sustainability</p>																			
<p>[Reasons for nominating a candidate to be Director] The Company requests shareholders to re-elect Mr. Kawata as Director because the Company believes that, as he has served as General Manager of Personnel Department and Corporate Planning Department, among other roles, has been Director since 2018, and currently is Senior Managing Executive Officer, he is capable of executing his duty as Director appropriately, based on his abundant experience in the Group's business.</p>																				

5	<p>Atsushi Kawamura (Born February 24, 1965)</p> <p><u>Re-election</u></p> <p>Number of shares in the Company owned: 17,800 shares</p> <p>Attendance at Board of Directors: 15/15 meetings</p>	<p>Career summary, positions and responsibilities in the Company, and significant concurrent positions</p> <table border="0"> <tr> <td style="padding-right: 10px;">April</td> <td style="padding-right: 10px;">1987</td> <td>Joined the Company</td> </tr> <tr> <td>June</td> <td>2016</td> <td>Executive Officer</td> </tr> <tr> <td>April</td> <td>2017</td> <td>Managing Executive Officer</td> </tr> <tr> <td>April</td> <td>2018</td> <td>Deputy Divisional Manager of Overseas Housing and Real Estate Division</td> </tr> <tr> <td>April</td> <td>2020</td> <td>Divisional Manager of Overseas Housing and Real Estate Division</td> </tr> <tr> <td>June</td> <td>2020</td> <td>Director (Current Position)</td> </tr> <tr> <td>January</td> <td>2023</td> <td>Senior Managing Executive Officer (Current Position) Divisional Manager of Global Housing, Construction and Real Estate Division (Current Position)</td> </tr> </table>	April	1987	Joined the Company	June	2016	Executive Officer	April	2017	Managing Executive Officer	April	2018	Deputy Divisional Manager of Overseas Housing and Real Estate Division	April	2020	Divisional Manager of Overseas Housing and Real Estate Division	June	2020	Director (Current Position)	January	2023	Senior Managing Executive Officer (Current Position) Divisional Manager of Global Housing, Construction and Real Estate Division (Current Position)
	April	1987	Joined the Company																				
	June	2016	Executive Officer																				
April	2017	Managing Executive Officer																					
April	2018	Deputy Divisional Manager of Overseas Housing and Real Estate Division																					
April	2020	Divisional Manager of Overseas Housing and Real Estate Division																					
June	2020	Director (Current Position)																					
January	2023	Senior Managing Executive Officer (Current Position) Divisional Manager of Global Housing, Construction and Real Estate Division (Current Position)																					
	<p>[Responsibilities in the Company] Administering Timber and Building Materials Division In charge of Tsukuba Research Institute</p>																						
<p>[Reasons for nominating a candidate to be Director] The Company requests shareholders to re-elect Mr. Kawamura as Director because the Company believes that, as he has served as General Manager of Overseas Housing and Real Estate Department, Deputy Divisional Manager of Overseas Business, has been Director since 2020, and currently is Senior Managing Executive Officer and Divisional Manager of Global Housing, Construction and Real Estate Division, he is capable of executing his duty as Director appropriately, based on his abundant experience in the Group's business.</p>																							
6	<p>Ikuro Takahashi (Born October 4, 1959)</p> <p><u>Re-election</u></p> <p>Number of shares in the Company owned: 12,500 shares</p> <p>Attendance at Board of Directors: 12/12 meetings (since appointed Director on March 29, 2022)</p>	<p>Career summary, positions and responsibilities in the Company, and significant concurrent positions</p> <table border="0"> <tr> <td style="padding-right: 10px;">April</td> <td style="padding-right: 10px;">1984</td> <td>Joined the Company</td> </tr> <tr> <td>October</td> <td>2017</td> <td>Deputy Divisional Manager of Housing Division</td> </tr> <tr> <td>June</td> <td>2018</td> <td>Executive Officer Deputy Divisional Manager of Housing and Construction Division</td> </tr> <tr> <td>April</td> <td>2020</td> <td>Managing Executive Officer (Current Position) Divisional Manager of Housing and Construction Division</td> </tr> <tr> <td>March</td> <td>2022</td> <td>Director (Current Position)</td> </tr> <tr> <td>January</td> <td>2023</td> <td>Divisional Manager of Housing Division (Current Position)</td> </tr> </table>	April	1984	Joined the Company	October	2017	Deputy Divisional Manager of Housing Division	June	2018	Executive Officer Deputy Divisional Manager of Housing and Construction Division	April	2020	Managing Executive Officer (Current Position) Divisional Manager of Housing and Construction Division	March	2022	Director (Current Position)	January	2023	Divisional Manager of Housing Division (Current Position)			
	April	1984	Joined the Company																				
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April	2020	Managing Executive Officer (Current Position) Divisional Manager of Housing and Construction Division																					
March	2022	Director (Current Position)																					
January	2023	Divisional Manager of Housing Division (Current Position)																					
	<p>[Reasons for nominating a candidate to be Director] The Company requests shareholders to re-elect Mr. Takahashi as Director because the Company believes that, as he has served as General Manager of Engineering Department of the Housing Division, Deputy Divisional Manager of Housing Division, has been Director since 2022, and currently is Managing Executive Officer and Divisional Manager of Housing Division, he is capable of executing his duty as Director appropriately, based on his abundant experience in the Group's business.</p>																						

<p>Izumi Yamashita (Born February 1, 1948)</p> <p>[Re-election]</p> <p>[Outside Director]</p> <p>[Independent Officer]</p> <p>Number of shares in the Company owned: 0 shares</p> <p>Attendance at Board of Directors: 15/15 meetings</p>	<p>Career summary, positions and responsibilities in the Company, and significant concurrent positions</p> <table border="1"> <tr> <td>July</td> <td>1971</td> <td>Joined the Bank of Japan</td> </tr> <tr> <td>April</td> <td>1998</td> <td>Director-General of Financial Markets Department, Bank of Japan</td> </tr> <tr> <td>March</td> <td>2002</td> <td>General Manager of Financial Marketing Division, Accenture Japan Ltd.</td> </tr> <tr> <td>April</td> <td>2003</td> <td>Executive Director of Japan Post</td> </tr> <tr> <td>April</td> <td>2005</td> <td>Deputy Governor of Japan Post</td> </tr> <tr> <td>October</td> <td>2007</td> <td>President, CEO, Representative Executive Officer of Japan Post Insurance Co., Ltd.</td> </tr> <tr> <td>June</td> <td>2012</td> <td>Chairman, Representative Executive Officer of Japan Post Insurance Co., Ltd.</td> </tr> <tr> <td>June</td> <td>2013</td> <td>Resigned from Chairman, Representative Executive Officer of Japan Post Insurance Co., Ltd.</td> </tr> <tr> <td>June</td> <td>2016</td> <td>Outside Director of the Company (Current Position)</td> </tr> </table> <p>[Significant concurrent position] Outside Director of AEON Bank, Ltd.</p>	July	1971	Joined the Bank of Japan	April	1998	Director-General of Financial Markets Department, Bank of Japan	March	2002	General Manager of Financial Marketing Division, Accenture Japan Ltd.	April	2003	Executive Director of Japan Post	April	2005	Deputy Governor of Japan Post	October	2007	President, CEO, Representative Executive Officer of Japan Post Insurance Co., Ltd.	June	2012	Chairman, Representative Executive Officer of Japan Post Insurance Co., Ltd.	June	2013	Resigned from Chairman, Representative Executive Officer of Japan Post Insurance Co., Ltd.	June	2016	Outside Director of the Company (Current Position)
July	1971	Joined the Bank of Japan																										
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June	2012	Chairman, Representative Executive Officer of Japan Post Insurance Co., Ltd.																										
June	2013	Resigned from Chairman, Representative Executive Officer of Japan Post Insurance Co., Ltd.																										
June	2016	Outside Director of the Company (Current Position)																										
7	<p>[Reasons for nominating a candidate to be Outside Director and expected roles]</p> <p>The Company requests shareholders to re-elect Mr. Yamashita as Outside Director because the Company believes that he is playing an appropriate role for the enhancement of our corporate governance, based on his abundant experience in the financial industry and deep insight as a business manager. The Company expects that he will contribute to the strengthening of the supervisory function of management by making recommendations to general management based on his experience and insight.</p>																											
	<p>■Special notes related to a candidate for Outside Director</p> <ol style="list-style-type: none"> Mr. Yamashita is a candidate for Outside Director as set forth in Article 2, Paragraph 3, item 7 of the Ordinance for Enforcement of the Companies Act. The Company has notified Tokyo Stock Exchange, Inc. of the designation of Mr. Yamashita as Independent Officer as required by its regulations. On March 24, 2020, AEON Bank, Ltd., for which Mr. Yamashita serves as an outside director, received a cease and desist order from the Consumer Affairs Agency for misrepresentation as provided in Article 5, item 2 of the Act against Unjustifiable Premiums and Misleading Representations in regard to its new card membership promotion program. Mr. Yamashita, who was unaware of the fact until the case was brought to light, regularly provided comments and opinions from the viewpoint of legal compliance. In addition, after the case came to light, Mr. Yamashita has actively given suggestions for furtherance of compliance with laws and regulations as well as establishment of a recurrence prevention measures, thus fulfilling his duties as an outside director. Mr. Yamashita currently serves as Outside Director of the Company, and his term of office as Outside Director will have been six (6) years and nine (9) months at the closing of the Meeting. Pursuant to Article 427, Paragraph 1 of the Companies Act, the Company concluded an agreement with Mr. Yamashita to limit his liability under Article 423, Paragraph 1 of said Act. Total liability for damages under such agreement shall be limited to the aggregate sum of the amounts stipulated in each item of Article 425, Paragraph 1 of said Act. The Company is to enter into an agreement of the same nature and content with Mr. Yamashita subject to approval of his re-election. 																											

8	<p>Mitsue Kurihara (Born April 7, 1964)</p> <p>Re-election</p> <p>Outside Director</p> <p>Independent Officer</p> <p>Number of shares in the Company owned: 0 shares</p> <p>Attendance at Board of Directors: 15/15 meetings</p>	<p>Career summary, positions and responsibilities in the Company, and significant concurrent positions</p>																							
	<table border="0"> <tr> <td style="padding-right: 10px;">April</td> <td style="padding-right: 10px;">1987</td> <td>Joined the Japan Development Bank (Currently the Development Bank of Japan Inc.)</td> </tr> <tr> <td>June</td> <td>2008</td> <td>Visiting Fellow at the International Policy Research Institute of Stanford University</td> </tr> <tr> <td>June</td> <td>2010</td> <td>Deputy Manager of Financial Department, Development Bank of Japan Inc.</td> </tr> <tr> <td>May</td> <td>2011</td> <td>General Manager of medical/living office, Corporate Finance Department Division 4, Development Bank of Japan Inc.</td> </tr> <tr> <td>April</td> <td>2013</td> <td>General Manager of Corporate Finance Department Division 6, Development Bank of Japan Inc.</td> </tr> <tr> <td>February</td> <td>2015</td> <td>Statutory Auditor of Development Bank of Japan Inc.</td> </tr> <tr> <td>June</td> <td>2020</td> <td>Chairman of the Board of Value Management Institute, Inc. (Current Position)</td> </tr> <tr> <td>March</td> <td>2021</td> <td>Outside Director of the Company (Current Position)</td> </tr> </table>	April	1987	Joined the Japan Development Bank (Currently the Development Bank of Japan Inc.)	June	2008	Visiting Fellow at the International Policy Research Institute of Stanford University	June	2010	Deputy Manager of Financial Department, Development Bank of Japan Inc.	May	2011	General Manager of medical/living office, Corporate Finance Department Division 4, Development Bank of Japan Inc.	April	2013	General Manager of Corporate Finance Department Division 6, Development Bank of Japan Inc.	February	2015	Statutory Auditor of Development Bank of Japan Inc.	June	2020	Chairman of the Board of Value Management Institute, Inc. (Current Position)	March	2021	Outside Director of the Company (Current Position)
	April	1987	Joined the Japan Development Bank (Currently the Development Bank of Japan Inc.)																						
	June	2008	Visiting Fellow at the International Policy Research Institute of Stanford University																						
June	2010	Deputy Manager of Financial Department, Development Bank of Japan Inc.																							
May	2011	General Manager of medical/living office, Corporate Finance Department Division 4, Development Bank of Japan Inc.																							
April	2013	General Manager of Corporate Finance Department Division 6, Development Bank of Japan Inc.																							
February	2015	Statutory Auditor of Development Bank of Japan Inc.																							
June	2020	Chairman of the Board of Value Management Institute, Inc. (Current Position)																							
March	2021	Outside Director of the Company (Current Position)																							
<p>[Significant concurrent positions]</p> <p>Chairman of the Board of Value Management Institute, Inc.</p> <p>Outside Director of Chubu Electric Power Co., Inc.</p> <p>Outside Director of Japan Finance Corporation</p>																									
<p>[Reasons for nominating a candidate to be Outside Director and expected roles]</p> <p>The Company requests shareholders to re-elect Ms. Kurihara as Outside Director because the Company believes that she is playing an appropriate role for the enhancement of our corporate governance based on her deep insight and abundant experience in finance. The Company expects that she will contribute to the strengthening of the supervisory function of management by making recommendations to general management based on her insight and experience.</p>																									
<p>■Special notes related to a candidate for Outside Director</p> <ol style="list-style-type: none"> 1. Ms. Kurihara is a candidate for Outside Director as set forth in Article 2, Paragraph 3, item 7 of the Ordinance for Enforcement of the Companies Act. 2. The Company has notified Tokyo Stock Exchange, Inc. of the designation of Ms. Kurihara as Independent Officer as required by its regulations. 3. Ms. Kurihara currently serves as Outside Director of the Company, and her term of office as Outside Director will have been two (2) year at the closing of the Meeting. 4. Pursuant to Article 427, Paragraph 1 of the Companies Act, the Company concluded an agreement with Ms. Kurihara to limit her liability under Article 423, Paragraph 1 of said Act. Total liability for damages under such agreement shall be limited to the aggregate sum of the amounts stipulated in each item of Article 425, Paragraph 1 of said Act. The Company is to enter into an agreement of the same nature and content with Ms. Kurihara subject to approval of her re-election. 																									

<p>Yuko Toyoda (Born August 21, 1970)</p> <p>[New-election]</p> <p>[Outside Director]</p> <p>[Independent Officer]</p> <p>Number of shares in the Company owned: 0 shares</p>	Career summary, positions and responsibilities in the Company, and significant concurrent positions	
	<p>October 2000</p> <p>June 2002</p> <p>April 2006</p> <p>April 2011</p> <p>December 2014</p> <p>September 2015</p> <p>January 2023</p>	<p>Registered as Attorney at Law admitted in Japan Nishimura Law Office (Currently Nishimura & Asahi)</p> <p>Civil Affairs Bureau, The Ministry of Justice</p> <p>Nishimura Tokiwa Law Office (Currently Nishimura & Asahi)</p> <p>Deputy General Manager of Legal Department, Nomura Holdings, Inc.</p> <p>General Manager of Control Room, Compliance Department, Barclays Securities Japan Limited</p> <p>Special Counsel of City-Yuwa Partners</p> <p>Partner of City-Yuwa Partners (Current Position)</p>
	[Significant concurrent position] Attorney at Law	
9	<p>[Reasons for nominating a candidate to be Outside Director and expected roles]</p> <p>Ms. Yuko Toyoda is an attorney with extensive experience in corporate legal matters. The Company requests shareholders to elect Ms. Toyoda as Outside Director because the Company believes that she will be able to play an appropriate role for the enhancement of our corporate governance based on her experience and insight. The Company expects that she will contribute to the strengthening of the supervisory function of management by making recommendations to general management based on her professional perspective. Although she has not been involved in corporate management, for the reasons stated above, we believe she will be able to appropriately perform the duties of Outside Director.</p> <p>■Special notes related to a candidate for Outside Director</p> <ol style="list-style-type: none"> 1. Ms. Toyoda is a candidate for Outside Director as set forth in Article 2, Paragraph 3, item 7 of the Ordinance for Enforcement of the Companies Act. 2. The Company has notified Tokyo Stock Exchange, Inc. of the designation of Ms. Toyoda as Independent Officer as required by its regulations. 3. Pursuant to Article 427, Paragraph 1 of the Companies Act, the Company is to enter into an agreement with Ms. Toyoda to limit her liability under Article 423, Paragraph 1 of said Act. Total liability for damages under such agreement shall be limited to the aggregate sum of the amounts stipulated in each item of Article 425, Paragraph 1 of said Act. 	

- Notes: 1. None of the candidates above has any special conflicts of interest with the Company.
2. The number of shares in the Company owned by each candidate stated above is as of December 31, 2022.
3. The Company has concluded an officers liability insurance contract with an insurance company. This insurance contract covers compensation for damages arising as a result of the responsibilities assumed by insured officers in their execution of duties, or any claims made against them with regard to these responsibilities. If the election of each candidate for Director is approved, they shall be insured under this insurance contract. The insured officers will not pay for the insurance premiums. The Company intends to renew this insurance contract with the same content at the next renewal date.

Proposal No. 4: Election of One (1) Statutory Auditor

At the conclusion of this Meeting, the term of office of Statutory Auditor, Mr. Noriaki Toi, will expire, and we would like to ask for the election of one Statutory Auditor.

The nomination of a candidate was decided after consulting with the Nomination and Remuneration Advisory Committee, a voluntary committee chaired by an Outside Director, in which outside officers constitute a majority of its members. The Company has obtained approval for this proposal from the Board of Statutory Auditors.

The candidate for the Statutory Auditor is as follows:

<p>Toshio Kakumoto (Born April 7, 1964)</p> <p><u>New-election</u></p> <p>Number of shares in the Company owned: 2,500 shares</p>	Career summary, positions in the Company, and significant concurrent positions	
	<p>April 1988</p> <p>April 2017</p> <p>June 2020</p> <p>January 2023</p>	<p>Joined the Company</p> <p>General Manager of General Administration Department</p> <p>Supervisory Officer (Current Position)</p> <p>General Manager of General Administration Department</p> <p>Assistant to Officer in Charge of Internal Audits (Current Position)</p>
<p>[Reasons for nominating a candidate to be Statutory Auditor]</p> <p>The Company requests shareholders to elect Mr. Kakumoto as Statutory Auditor because the Company believes that, as he served as president of Sumitomo Forestry Australia Pty Ltd., a subsidiary of the Company, before being appointed general manager of the General Administration Department in 2017, he will adequately fulfill the role of Statutory Auditor in the effective auditing of our Group based of his extensive practical experience in legal affairs and risk management and compliance.</p>		

- Notes: 1. The candidate does not have any special conflicts of interest with the Company.
2. The number of shares in the Company owned by the candidate stated above is as of December 31, 2022.
3. The Company has concluded an officers liability insurance contract with an insurance company. This insurance contract covers compensation for damages arising as a result of the responsibilities assumed by insured officers in their execution of duties, or any claims made against them with regard to these responsibilities. If the election of a candidate for Statutory Auditor is approved, he shall be insured under this insurance contract. The insured officers will not pay for the insurance premiums. The Company intends to renew this insurance contract with the same content at the next renewal date.

(Reference 1) Constitution of the Board of Directors and Selection Policy of Candidates for Directors and Statutory Auditors

As outlined below and as stipulated in Sumitomo Forestry Basic Policy on Corporate Governance, the Company selects candidates for Directors and Statutory Auditors based on the constitution of the Board of Directors and the thinking regarding qualifications and others of candidates for Directors and Statutory Auditors.

1. Constitution of the Board of Directors

The Board of Directors is constituted by not more than seventeen (17) members. In order to effectively discharge the Board of Directors' roles and responsibilities, consideration will be given to the diversity of its members in terms of gender, nationality or otherwise. The board members should also be comprised of persons with professional and diverse knowledge, experience and capability, including:

- (i) those with extensive experience and track record regarding the Group's business;
- (ii) those with extensive experience and track record in corporate management, industries, policies or the like; and Term
- (iii) those with expertise in law, accounting or the like.

2. Eligibility, and Nomination Policies of Candidates for Directors and Statutory Auditors

The Board of Directors determines the candidates for Directors and Statutory Auditors from among persons of upstanding character and insight who are valuable to the management of the Company, taking into consideration the opinions from the Nomination and Remuneration Advisory Committee.

(Reference 2) Expertise and experience of Directors and Statutory Auditors

The table below outlines the skills (expertise, experience) that the Company takes into special consideration for each of the Directors and Statutory Auditors (assuming each of the candidates for Directors and Statutory Auditors is appointed at this Meeting).

		Title	Corporate management	Resources/Environment	Construction/Real estate development	Global	Finance/Accounting	Human resource development/D&I	Legal affairs/Risk management	IT・DX	Industrial policy
Directors	Akira Ichikawa	Representative Director, Chairman of the Board	●			●	●	●	●	●	●
	Toshiro Mitsuyoshi	Representative Director, President/Director, Corporate Officer	●	●	●	●					
	Tatsuru Satoh	Representative Director, Executive Vice President and Executive Officer	●	●			●	●	●	●	
	Tatsumi Kawata	Director, Senior Managing Executive Officer	●	●		●	●	●			
	Atsushi Kawamura	Director, Senior Managing Executive Officer	●	●	●	●					
	Ikuro Takahashi	Director, Managing Executive Officer	●		●						
	Izumi Yamashita	Outside Director	●			●	●			●	●
	Mitsue Kurihara	Outside Director	●	●		●	●				●
	Yuko Toyoda	Outside Director				●			●		
Statutory Auditors	Akihisa Fukuda	Senior Statutory Auditor	●		●	●	●			●	
	Toshio Kakumoto	Statutory Auditor				●			●		
	Yoshitsugu Minagawa	Outside Statutory Auditor		●				●			●
	Yoshimasa Tetsu	Outside Statutory Auditor					●				
	Makoto Matsuo	Outside Statutory Auditor				●			●		

Reasons for selection of the skills

Corporate management	To achieve further growth of existing businesses, which cover a wide variety of aspects of people’s lifestyles, such as forestry management, timber and building materials distribution and manufacturing, housing construction, etc. and to fulfill our Long-Term Vision amidst a global movement toward decarbonization, the Company needs board members who have experience in corporate management.
Resources/Environment	In our Long-Term Vision, we have set out to enhance the value of “forests” and “trees” through sustainable forestry management and to pursue the value of forests as a carbon sink through the development of new businesses. To conduct scenario analyses and ongoing financial disclosure based on recommendations made by TCFD (Task Force on Climate-related Financial Disclosure) and to steadily implement initiatives to achieve our SBT-based greenhouse gas emissions reduction targets, the Company needs board members who have expertise and experience in resources and the environment.
Construction/Real estate development	To expand our medium- and large-scale wooden construction operations as stated in our Long-Term Vision and Medium-Term Management Plan, and to nurture and reinforce our real estate development operations into a new pillar of profit, the Company needs board members who have expertise and experience in construction and real estate development.
Global	“Advancing globalization” is one of the business policies of our Long-Term Vision. To promote the expansion of the business areas and scale of our overseas group operations, the Company needs board members who have global experience.
Finance/Accounting	To improve capital efficiency, enhance shareholders’ equity, and make sustainable growth investments that raise corporate value, the Company needs board members who have expertise and experience in finance and accounting.
Human resource development/D&I	In our Long-Term Vision, we have set out to enhance “Value for people and society”. To reinforce our ability to continually retain and nurture human resources who can respond to the diversification of our businesses, to improve engagement with our employees, to promote transformation in work styles, and to implement initiatives related to D&I (diversity and inclusion), the Company needs board members who have expertise and experience in human resource development and D&I.
Legal affairs/Risk management	To create a corporate governance structure for sustainable growth and mid- and long-term improvement of corporate value, and to build a risk management system for the global growth of our business operations and other, the Company needs board members who have expertise and experience in legal affairs and risk management.
IT/DX	In our Long-Term Vision, we have set out to enhance “Value for the market economy”. To promote digital transformation (DX) throughout the company and to enhance productivity through the development of an IT infrastructure and others, the Company needs board members who have expertise and experience in IT and DX.
Industrial policy	In our Long-Term Vision, we have set out to enhance “Value for the market economy”. To develop businesses related to carbon credits of forests, which are a carbon sink, the Company must create policy frameworks in relation to society and hence needs board members who have knowledge of industrial policy.

Business Report

(from January 1, 2022 to December 31, 2022);

1. Overview of Results of Operations, etc.

(1) Overview of Results of Operations

During the fiscal year under review, the global economy continued a modest recovery as the impact of COVID-19 subsided. However, soaring prices of energy and other commodities brought about by the prolonged invasion of Ukraine by Russia along with other factors such as monetary tightening in Europe and the United States put downward pressure on the economy. Although affected by rising prices brought about by sharp depreciation of the yen and higher resource prices, the Japanese economy has also shown a modest recovery as economic activities—especially consumer spending and capital investment—have been returning to normal owing to the easing of movement restrictions associated with COVID-19 among other factors.

In regard to the housing market, the number of new housing starts in Japan increased owing primarily to strong demand for rental housing, despite a decrease in the number of owner-occupied housing starts from the previous year due to a decline in consumer confidence brought about by rising prices and other such factors. In the United States, the market had remained strong from the previous fiscal year through the beginning of the current fiscal year, but the orders received environment began deteriorating in the second half as motivation to buy declined, mainly due to a significant rise in mortgage interest rates. In Australia, the Group was faced with harsh market conditions against a backdrop of rising mortgage interest rates and construction costs.

Under this business environment, the Group launched its three-year Medium-Term Management Plan called “Mission TREEING 2030 Phase 1,” which started in the fiscal year under review. The targets for FY12/24, the final year of the plan, are net sales of ¥1,770.0 billion, recurring income of ¥173.0 billion (excluding actuarial differences for retirement benefit accounting), profit for the year attributable to owners of the parent of ¥116.0 billion, and ROE of at least 15%. In addition, as the basic policy of the Medium-Term Management Plan, we have come up with five basic themes of pursuing decarbonization through the utilization of timber resources, promoting a more robust revenue base, accelerating global expansion, strengthening the management foundation for sustainable growth, and further integrating business operations and ESG initiatives in order to achieve the goals of the plan. During the fiscal year under review, we focused on expanding orders for environmentally friendly housing products, including the launch of Life Cycle Carbon Minus (LCCM) homes in Japan, as well as on further promoting the detached housing and real estate development businesses in the United States, thereby promoting further growth of the Group.

As a result, net sales came to ¥1,669.77 billion (up 20.5% year on year), operating income to ¥158.253 billion (up 39.2%), recurring income to ¥194.994 billion (up 41.6%), and profit for the year attributable to owners of the parent to ¥108.672 billion (up 24.7%). The actuarial difference for retirement benefit accounting was ¥7.968 billion, so when excluding actuarial differences, recurring income came to ¥187.027 billion.

An overview of conditions for each business segment is as follows. Note that net sales for each segment include intersegment internal sales.

● **Timber and Building Materials Business**

In the distribution business, we worked to ensure a stable supply by focusing on strengthening collaboration with our partners as timber prices remained high. We also continued to focus on expanding the volume of wood fuels for biomass power generation and utilizing domestic materials while working to expand sales of plywood and construction materials made from sustainable plantation timber. The business performed well as a result.

Results were strong in the manufacturing business owing primarily to a review of our sales strategy and the effects of reducing costs via labor-saving lines in Japan. Overseas, results were sluggish due to a decrease in the sales volume against a backdrop of economic slowdowns in the main export destinations of the Indonesian plywood and construction materials business. In New Zealand, results were strong owing to an increase in the medium density fiberboard (MDF) and laminated veneer lumber (LVL) sales volumes.

Furthermore, last August, we launched the Japanese language edition of One Click LCA, software that is capable of calculating CO₂ emissions related to construction from raw material procurement to processing, transport, construction, repairs, and demolition, as we worked to support decarbonization of the construction industry.

As a result, net sales in the Timber and Building Materials Business came to ¥273.733 billion (up 26.2% year on year), and recurring income came to ¥14.878 billion (up 49.0%).

● Housing and Construction Business

In the custom-built detached housing business, we continued to focus on strengthening online marketing. In addition, last April, we launched Life Cycle Carbon Minus (LCCM) homes, which reduce CO₂ emissions during construction, occupancy, and demolition and also generate renewable energy from solar power generation and other sources, thereby creating a negative CO₂ balance over the homes' entire life cycle. We also worked to expand orders for net zero energy homes (ZEH). Net sales increased as a result of higher unit selling prices, but the higher costs associated with soaring material prices resulted in a decrease in income.

In the apartment business, we promoted sales activities via Town Square in which visitors are able to get hands-on with properties rented from owners of apartments built by Sumitomo Forestry as model rooms. We also promoted conversion of all Forest Maison apartment buildings to net zero energy house and condominium (ZEH-M) specifications with higher energy savings. However, results were sluggish due to rising costs associated with soaring material prices.

Results were strong in the spec homes business owing primarily to successful procurement of excellent land.

Results remained strong in the renovation business as we focused on uncovering demand from owners of Sumitomo Forestry homes.

In addition, in the medium- to large-scale wooden construction business, last May, we completed the three-story wooden fireproof Building No. 15, which we designed and constructed on the Yotsuya Campus at Sophia University. Last June, we started construction of a 10-story wooden fireproof building with a basement through a joint venture with Kumagai Gumi Co., Ltd. in Sapporo City. In these and other ways, we promoted the adoption of wood construction and material in medium- to large-scale buildings to contribute to the realization of a decarbonized society.

As a result of the above, net sales in the Housing and Construction Business came to ¥533.506 billion (up 4.4% year on year), and recurring income came to ¥15.899 billion (down 19.1%).

● Overseas Housing and Real Estate Business

In the single family homes business in the United States, the number of units sold was down from the previous year in areas where the Group engages in business, including Washington, Utah, Texas, and Maryland, due mainly to rising mortgage interest rates. However, the results were favorable owing to higher unit selling prices. Results were strong in the real estate development business owing to higher selling prices and selling some properties earlier than planned. In addition, in December last year, we participated in the development of a seven-story wooden ESG-conscious office building near Dallas, Texas together with IINO KAIUN KAISHA, LTD. and Kumagai Gumi Co., Ltd. as we worked to promote development projects that contribute to decarbonization through the reduction of CO₂ emissions during construction and the carbon-fixing effects of wood.

Results were sluggish in the single family homes business in Australia as the number of units sold was down from the previous year against a backdrop of higher mortgage interest rates and construction costs. Last April, we made Regal Innovations Pty Ltd (headquartered in New South Wales, Australia), which designs and constructs commercial and public facility exteriors, green belts, and parks, a consolidated subsidiary, thereby entering the public space landscaping business overseas.

In Southeast Asia, we completed construction of a high-rise condominium in Thailand and began delivering landed houses and condominiums in Vietnam and Indonesia in earnest as well.

As a result of the above, net sales in the Overseas Housing and Real Estate Business came to ¥848.724 billion (up 31.7% year on year), and recurring income came to ¥161.317 billion (up 54.6%).

● Environment and Resources Business

Results were sluggish in the biomass power generation business due to higher fuel procurement costs despite stable operations at wood biomass power plants in five locations across Japan, including Mombetsu City, Hokkaido.

Results were also sluggish in the forestry business due to decreased sales volume in New Zealand arising from lackluster demand for logs in China, which is the main destination.

Last October, we established Eastwood Forests, LLC (headquartered in North Carolina, USA), a forest asset management company that manages forest assets, in the United States to promote a cyclical forest management business as part of our efforts to realize a decarbonized society. Going forward, we will contribute to society-wide carbon offsetting through the formation of an environmental forestry fund via Eastwood Forests.

As a result of the above, net sales in the Environment and Resources Business came to ¥21.871 billion (down 1.9% year on year), and recurring income came to ¥1.392 billion (down 64.6%).

● Other Businesses

Besides the aforementioned businesses, the Sumitomo Forestry Group is engaged in a wide range of service businesses, including management of private-pay elderly care facilities/assisted living facilities and non-life insurance agency services for residential customers. This also includes the share of profit of entities accounted for using equity method associated with Kumagai Gumi Co., Ltd.

Net sales in other businesses came to ¥24.553 billion (up 2.5% year on year), and recurring income came to ¥1.938 billion (down 35.7%).

(2) Capital investments

Total capital investments were 35.939 billion yen. Major capital investments included the development of Multi-Family and Commercial Mix Use in the United States, new construction or reconstruction of housing exhibition halls in Japan and overseas, and software development.

(3) Fundraising

No noteworthy fundraising took place.

In addition, to secure stable fundraising methods and to enhance our ability to meet future need for funds, the Company continues to have a commitment line of credit (specified commitment line contract) totaling 22.0 billion yen with several financial institutions.

(4) Future Outlook

The global economy is slowing due to such factors as the prolonged invasion of Ukraine by Russia and the serious energy crisis affecting Europe in particular. There is increasing uncertainty over the future, including monetary tightening moves to control inflation in major developed countries and the impact of economic deceleration in China. We must continue to pay attention to the risk of an economic downswing caused by rising interest rates and prices while also keeping an eye on geopolitical risks.

(Future outlook by business segment)

The Sumitomo Forestry Group will continue to engage in business as laid out below to achieve its targets in the fiscal year ending December 2023, the second year of Medium-Term Management Plan “Mission TREEING 2030 Phase 1”.

In the Timber and Building Materials Business, we will continue to focus on expanding the supply of wood fuels for biomass power generation and using domestic materials in the distribution business. In the manufacturing business, we will work on establishing a circular material supply system centered on the timber industry complex. We will also strive to spread and expand One Click LCA to promote carbon neutral design, which aims to reduce CO₂ emissions when constructing buildings.

As for the housing business, we will continue to work on promoting orders via online marketing in the custom-built detached housing business while also focusing on improving profitability by streamlining production and enhancing the construction system. In the apartments business, we will continue to focus on marketing via Town Square. In the spec homes business, we will highlight our unique Sumitomo Forestry style residential property development, including our efforts to spread the Forest Garden brand by acquiring environmental certification. In the renovation business, we will work on strengthening sales activities, especially online, and focus on landing orders for environmentally conscious renovations, including thermal insulation and earthquake resistance proposals.

In the global housing, construction, and real estate businesses, we completed the restructuring of our organization on January 1, 2023 to promote the medium- to large-scale wooden construction business and the real estate development business in an integrated manner in Japan and overseas. Going forward, we will work on promoting a global real estate development business that includes Japan. In the single family homes business in the United States, we have found ourselves in an adjustment phase since the middle of last year where orders have fallen rapidly in response to rising interest rates. However, in preparation for a recovery in demand, we will work on reinforcing our business base by streamlining our production system, including by promoting integrated design, manufacturing, delivery, and installation of wall panels and other housing products. In the real estate development business in the United States, we will work on expanding new investment projects such as development of medium- to large-scale wooden offices to secure stable revenue while closely monitoring the market and will focus on establishing new revenue streams such as by expanding the detached house rental business. In the single family homes business in Australia, we will work on shortening construction periods and reducing costs by streamlining production. In regard to overseas real estate investment risk, we will continue to monitor the situation based on internal rules, including regularly checking the inventory status of real estate for sale and measuring the value of real estate holdings as we work on further efforts to develop a system that allows us to respond flexibly to market conditions.

In the environment and resources business, we will work on ensuring stable operations at each power plant in the renewable energy business through stable procurement of fuel while focusing on launching

operations at new power plants according to plan. Finally, in the forest resources business, we will establish highly accurate technology for measuring CO₂ absorption and fixation by forest resources and promote a business that provides value as a carbon sink through such means as the formation of a forestry fund.

(Climate change initiatives and contribution to achievement of the SDGs)

In our long-term vision Mission TREEING 2030: Making our planet safer and more secure for future generations, the Sumitomo Forestry Group has identified nine key issues and established individual indicators linked to the respective SDGs so that through our business activities, we can provide society with the foundational value for our planet as well as the derivative value for people and society and value for the market economy. One of the basic policies of Medium-Term Management Plan Mission TREEING 2030 Phase 1 is further integrating business operations and ESG initiatives, and we are steadily promoting initiatives to achieve RE100 and Science Based Targets (SBT). For SBT Scopes 1* and 2**, the Group aims to reduce greenhouse gas emissions by 54.5% compared to 2017 by 2030.

* Scope 1 refers to direct greenhouse gas emissions from the use of fuels within the Group. (E.g. CO₂ emissions from the use of gasoline in company cars)

** Scope 2 refers to indirect greenhouse gas emissions from purchased electric power and heat. (E.g. CO₂ emissions from the use of electric power at offices)

In addition to the aforementioned efforts, the Sumitomo Forestry Group will anticipate social changes and further improve our corporate value by such means as enhancing corporate governance and strengthening our efforts related to environmental responsibility, improving customer satisfaction, respecting human rights and diversity, risk management and legal compliance as we accepts feedback from our shareholders and other stakeholders.

Nine material issues and related SDGs

 Value for our planet	To enhance the value of forests and wood through sustainable forest management	Nurturing forests to enhance and harness the value of wood and other forest resources.	 
	To realize carbon neutrality by leveraging forests and wood resources	Contributing to the decarbonization of society by reducing our own GHG emissions, by offering timber and wood products that sequester carbon, and by providing low-carbon/carbon-free products and services.	 
	To realize a circular bioeconomy by leveraging forests and wood resources	Realizing a circular society by making the most of wood, a renewable and natural resource from the forest ecosystem.	 
 Value for people and society	To provide comfortable and secure spaces for society at large	Providing safe, comfortable and secure spaces to society at large.	  
	To improve the livelihood of the local communities where we operate	Creating jobs through our businesses and contributing to the development of local communities.	  
	To create a vibrant environment for all workers	Creating a work environment where everyone throughout the supply chain is safe, healthy and motivated.	  
 Value for the market economy	To create new markets with forests and wood	Creating new markets that enrich the economy through the resourceful use of forests and wood.	 
	To transform markets through DX and innovation	Enhancing economic efficiency and added value through business transformation brought about by DX and innovation.	
	To establish a robust business structure	Contributing to a stable economy by continuously providing value with a structure that is resilient to contingent circumstances.	

(5) Changes in assets and profit and loss

Classification	80 th term (2019/4~2020/3)	81 st term (2020/4~2020/12)	82 nd term (2021/1~2021/12)	83 rd term (2022/1~2022/12)
Net sales (¥ million)	1,104,094	839,881	1,385,930	1,669,707
Operating income (¥ million)	51,377	47,462	113,651	158,253
Recurring income (¥ million)	58,824	51,293	137,751	194,994
Net income attributable to shareholders of parent (¥ million)	27,853	30,398	87,175	108,672
Net income per share (¥)	153.54	167.54	457.69	543.80
Total assets (¥ million)	1,004,768	1,091,152	1,314,226	1,537,598
Net assets (¥ million)	357,064	399,456	540,089	682,554

(Note) 1. Net income per share is calculated using the average number of shares outstanding (excluding treasury stock) during the term.

2. The 81st term is the nine months from April 1, 2020, to December 31, 2020, due to a change in the fiscal year.

(6) Principal business activities (as of December 31, 2022)

With a foundation in forestry business, the Group is engaged in the following business activities in Japan and overseas.

Division	Major business activities
Timber and Building Materials Division	The purchase, manufacture, processing and sales, etc., of timber (logs, chips, lumber and laminated wood, etc.) and building materials (plywood, fiberboard, processed woody building materials, ceramic building materials, metal building materials and housing equipment, etc.).
Housing and Construction Division	The construction, maintenance and renovation of detached houses and apartment buildings, the sale of spec homes; the 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 Division	The sale of spec homes and other, construction of detached houses, development of Multi-Family and Commercial Mix Use, etc. in overseas markets
Environment and Resources Division	Biomass power generation business, forestry business, etc.
Other businesses	The private-pay elderly care facilities/elderly residents that combines living support services management business, non-life insurance agency business, and civil engineering/construction, etc.

(7) Principal offices and important subsidiaries (as of December 31, 2022)

i. Sumitomo Forestry Co., Ltd.

Headquarters: Chiyoda Ward, Tokyo

Branches, etc.	Division	Offices
	Timber and Building Materials Division	Tokyo Branch, Osaka Branch, Chubu Branch (Nagoya), Hokkaido, Tohoku (Sendai), Chugoku (Hiroshima), Shikoku (Takamatsu), Kyushu (Fukuoka), and eight other Sales Offices
	Housing and Construction Division	Tokyo Branch, Kansai Branch, Tokai Branch, Ikebukuro, Tokyo Higashi, Jyonan, Tokyo Chuo, Tokyo Nishi, Tama, Tokyo Minami, Yokohama, Yokohama Kita, Kanagawa Nishi, Shonan, Chiba, Kashiwa, Narita, Saitama, Saitama Higashi, Saitama Nishi, Gunma, Utsunomiya, Mito, Tsukuba, Kofu, Shinshu, Niigata, Sendai, Morioka, Yamagata, Fukushima, Sapporo, Osaka, Osaka Kita, Osaka Minami, Kyoto, Shiga, Wakayama, Nara, Kobe, Himeji, Hiroshima, Fukuyama, Okayama, Yamaguchi, Matsuyama, Takamatsu, Fukuoka, Nishi Kyushu, Oita, Kumamoto, Kagoshima, Nagoya, Nagoya Chuo, Nagoya Minami, Okazaki, Toyohashi, Shizuoka, Shizuoka Higashi, Hamamatsu, Mie, Gifu, Hokuriku, Toyama, Fukui, Architectural Design Center, and 26 other Sales Offices

Research centers, etc.: Tsukuba Research Institute, Niihama Office (Ehime), and four other offices.

ii. Important subsidiaries

Company name	Office		Capital	Investment ratio	Main business activities
Sumitomo Forestry Wood Products Co., Ltd.	HQ	Shinjuku Ward, Tokyo	100	100.0	Purchase and sale of logs, chips, wooden products
Sumitomo Forestry Home Engineering Co., Ltd.	HQ	Shinjuku Ward, Tokyo	75	100.0	Contracting for the construction of Sumitomo Forestry homes
Sumitomo Forestry Home Tech Co., Ltd.	HQ	Chiyoda Ward, Tokyo	100	100.0	Renovation of detached houses, multi-unit residential, etc., maintenance of Sumitomo Forestry homes
Sumitomo Forestry Residential Co., Ltd.	HQ	Shinjuku Ward, Tokyo	150	100.0	Management of condominiums and apartments
Henley Arch Unit Trust	HQ	Victoria, Australia	(A\$ thousand) 42,315	69.3 (69.3)	Contracting for the construction of detached houses, sale of spec homes
Henley Arch Pty Ltd.			(A\$ thousand) 10	69.3 (69.3)	
Bloomfield Homes, L.P.	HQ	Texas, USA	—	65.0 (65.0)	Sale of spec homes
Crescent Communities, LLC	HQ	North Carolina, USA	(US\$ thousand) 225,414	100.0 (100.0)	Development of multi-family housing development commercial complex development
DRB Enterprises, LLC	HQ	Maryland, USA	(US\$ thousand) 98,106	92.4 (92.4)	Sale of spec homes
Edge Utah HoldCo, LLC	HQ	Utah, USA	(US\$ thousand) 27,525	80.0 (80.0)	Sale of spec homes
Gehan Homes, Ltd.	HQ	Texas, USA	(US\$ thousand) 1	100.0 (100.0)	Sale of spec homes
MainVue Homes LLC	HQ	Washington, USA	US\$ thousand) 21,224	63.2 (63.2)	Sale of spec homes
Mark III Properties, LLC	HQ	South Carolina, USA	(US\$ thousand) 295	65.0 (65.0)	Property development for spec homes

(Note)

- Investment ratio figures are rounded down.
- Investment ratio figures in parentheses () indicate the investment ratios of the Company's subsidiaries.
- Henley Arch Unit Trust and Henley Arch Pty Ltd. operate as a single entity under Australian law.
- Bloomfield Homes, L.P. is a limited partnership under US law, and as such, has a different definition of capital. Hence, the Company does not indicate capital.
- Two companies, Sumitomo Forestry Crest Co., Ltd. and Sumitomo Forestry Landscaping Co., Ltd. were excluded from important subsidiaries as of this fiscal year.
- Gehan Homes, Ltd. was capitalized at US\$ 75,001 thousand due to the capital increase on January 10, 2023 and January 12, 2023 (U.S. time, respectively).

(8) Employees (as of December 31, 2022)

i. Employees of the corporate group

Division	Number of employees	Change from the previous fiscal year
Timber and Building Materials Division	6,209	△111
Housing and Construction Division	9,564	148
Overseas Housing and Real Estate Division	3,489	494
Environment and Resources Division	1,110	162
Other businesses	1,204	△14
Corporate (common)	372	15
Total	21,948	694

(Note)

1. The number of employees includes all employed staff (excluding Group employees who have been dispatched to companies outside the Group but including individuals who have been dispatched to the Group from companies outside the Group, contract and commissioned employees) but does not include temporary employees (part-time workers, dispatched employees, etc.).
2. The number of corporate (common) employees is the total number of employees belonging to administrative departments, etc., that cannot be classified into specific divisions.

ii. Company employees

Number of employees	Change from the previous fiscal year	Average age	Average years of employment
5,139	48	43.8 years	16.1 years

(Note) The number of employees includes all employed staff (excluding Company employees who have been dispatched to outside companies but including individuals who have been dispatched from outside companies, contract and commissioned employees) but does not include temporary employees (part-time workers, dispatched employees, etc.).

(9) Major lenders (as of December 31, 2022)

Lenders	Amount borrowed
Sumitomo Mitsui Banking Corporation	30,544 ¥ million
Sumitomo Mitsui Trust Bank	17,940
Mizuho Bank, Ltd.	14,880
MUFJ Bank, Ltd.	8,733
The Norinchukin Bank	8,134
The Iyo Bank, Ltd.	5,965
Wells Fargo Bank, National Association	4,976
Japan Finance Corporation	4,707
The Hyakujyushi Bank, Ltd.	4,440
Hokkaido	4,297

(Note) 1. The amount borrowed above includes the borrowings from the overseas subsidiaries of each lender.

2. In addition to the above, the Company has a 39,391 million yen syndicated loan underwritten by Fifth Third Bank, National Association, a 21,231 million yen syndicated loan underwritten by Texas Capital Bank, and a 19,594 million yen syndicated loan underwritten by Wells Fargo Bank, National Association.

3. Borrowings in foreign currencies are converted into Japanese yen at the exchange rate at the time of aggregation.

2. Matters concerning the Company's shares (as of December 31, 2022)

(1) Total number of authorized shares: 400,000,000 shares

(2) Total number of shares issued: 201,218,236 (including 289,159 shares of treasury stock)

(Note) The total number of shares issued increased by 17,300 shares due to the exercise of Stock Acquisition Rights as Stock-based Compensation Type.

(3) Number of shareholders 63,921 (a 41,342 increase compared to the end of the previous fiscal year)

(4) Major shareholders (top 10)

Shareholder name	Number of shares held	Shareholding ratio
The Master Trust Bank of Japan, Ltd. (trust account)	24,454 <small>thousands of shares</small>	12.1 %
Sumitomo Metal Mining Co., Ltd.	10,110	5.0
The Iyo Bank, Ltd.	5,849	2.9
Custody Bank of Japan (trust account)	5,710	2.8
Kumagai Gumi Co., Ltd.	5,197	2.5
SMBC Nikko Securities Inc.	4,648	2.3
Sumitomo Corporation	4,383	2.1
Sumitomo Life Insurance Company	4,227	2.1
The Hyakujyushi Bank, Ltd.	4,197	2.0
Sumitomo Mitsui Banking Corporation	3,536	1.7

- (Note) 1. Number of shares held and shareholding ratios are rounded down to the nearest thousand shares.
 2. The shareholding ratios were calculated by excluding the number of treasury stock from the total number of shares issued.

3. Matters concerning Company officers

(1) Directors and Statutory Auditors (as of December 31, 2022)

Position	Name	Responsibilities or significant concurrent positions
※ Chairman of the Board	Akira Ichikawa	Outside Director, Konica Minolta, Inc., Outside Director, Sumitomo Chemical Company, Limited
※ President/Director, President and Executive Officer	Toshiro Mitsuyoshi	
※ Director (Executive Vice President and Executive Officer)	Tatsuru Satoh	Administering Lifestyle Service Division, In charge of General Administration, Secretary, External Relations, Personnel, IT Solutions, Intellectual Property and Internal Audit, Outside Director, Kumagai Gumi Co., Ltd.
Director (Senior Managing Executive Officer)	Tatsumi Kawata	Administering Environment and Resources Division, In charge of Corporate Planning, Finance, Corporate Communications and Sustainability
Director (Managing Executive Officer)	Atsushi Kawamura	Administering Timber and Building Materials Division, In charge of Tsukuba Research Institute, Divisional Manager of Overseas Housing and Real Estate Division
Director (Managing Executive Officer)	Ikuro Takahashi	Divisional Manager of Housing and Construction Division
Director	Junko Hirakawa	Attorney, Outside Director, Tokyo Financial Exchange Inc.
Director	Izumi Yamashita	Outside Director, AEON Bank, Ltd.
Director	Mitsue Kurihara	Chairman, Representative Director, Value Management Institute, Inc., Outside Director, Chubu Electric Power Co., Ltd., Outside Director, Japan Finance Corporation
* Senior Statutory Auditor	Akihisa Fukuda	
* Statutory Auditor	Noriaki Toi	
Statutory Auditor	Yoshitsugu Minagawa	Chief Counselor, Norinchukin Research Institute Co., Ltd., Supervisory Committee, The Norinchukin Bank
Statutory Auditor	Yoshimasa Tetsu	Certified public accountant, Outside Statutory Auditor, Daiwa Motor Transportation Co., Ltd.
Statutory Auditor	Makoto Matsuo	Attorney, External Director, Capcom Co., Ltd. (member of the Audit and Supervisory Committee), Outside Director, Solasia Pharma K.K., Outside Statutory Auditor, Taisho Pharmaceutical Holdings Co., Ltd.

- (Note) 1. ※ indicates Representative Director. In addition, * indicates full-time Statutory Auditor.
2. Directors Junko Hirakawa, Izumi Yamashita, and Mitsue Kurihara are Outside Directors as stipulated in Article 2, Item 15 of the Companies Act.
3. Auditors Yoshitsugu Minagawa, Yoshimasa Tetsu and Makoto Matsuo are Outside Statutory Auditors as stipulated in Article 2, Item 16 of the Companies Act.
4. The Company has registered Directors Junko Hirakawa, Izumi Yamashita, and Mitsue Kurihara and Statutory Auditors Yoshitsugu Minagawa, Yoshimasa Tetsu, and Makoto Matsuo as independent directors as stipulated by the Tokyo Stock Exchange.
5. Statutory Auditor Yoshimasa Tetsu is a certified public accountant and has extensive knowledge in finance and accounting.
6. There is no special relationship between the Company and the companies where each of the Outside Directors and Outside Statutory Auditors holds significant concurrent positions.

《Reference》 Directors, Statutory Auditors, and Executive Officers as of January 1, 2023

Position	Name	Responsibilities or significant concurrent positions	
		As of December 31, 2022	As of January 1, 2023
※ Chairman of the Board	Akira Ichikawa	Outside Director, Konica Minolta, Inc. Outside Director, Sumitomo Chemical Company, Limited	same as left
※ President/Director, President and Executive Officer	Toshiro Mitsuyoshi	—	—
※ Director, Executive Vice President and Executive Officer	Tatsuru Satoh	Administering Lifestyle Service Division, In charge of General Administration, Secretary, External Relations, Personnel, IT Solutions, Intellectual Property, Internal Audit, Outside Director, Kumagai Gumi Co., Ltd.	Administering Lifestyle Service Division, In charge of General Administration, Legal, Secretary, External Relations, Human Resource Development/D&I, IT Solutions, Internal Audit, Outside Director, Kumagai Gumi Co., Ltd.
Director, Senior Managing Executive Officer	Tatsumi Kawata	Administering Environment and Resources Division, In charge of Corporate Planning, Finance, Corporate Communications, Sustainability	same as left
Director, Senior Managing Executive Officer	Atsushi Kawamura	Administering Timber and Building Materials Division, In charge of Tsukuba Research Institute, Divisional Manager of Overseas Housing and Real Estate Division	Administering Timber and Building Materials Division, In charge of Tsukuba Research Institute, Divisional Manager of Global Housing, Construction and Real Estate Division
Director, Managing Executive Officer	Ikuro Takahashi	Divisional Manager of Housing and Construction Division	Divisional Manager of Housing Division
Director	Junko Hirakawa	Attorney, Outside Director, Tokyo Financial Exchange Inc.	same as left
Director	Izumi Yamashita	Outside Director, AEON Bank, Ltd.	same as left
Director	Mitsue Kurihara	Chairman, Representative Director, Value Management Institute, Inc., Outside Director, Chubu Electric Power Co., Ltd., Outside Director, Japan Finance Corporation	same as left
* Senior Statutory Auditor	Akihisa Fukuda	—	—
* Statutory Auditor	Noriaki Toi	—	—
Statutory Auditor	Yoshitsugu Minagawa	Chief Counselor, Norinchukin Research Institute Co., Ltd., Supervisory Committee, The Norinchukin Bank	same as left
Statutory Auditor	Yoshimasa Tetsu	Certified public accountant, Outside Statutory Auditor, Daiwa Motor Transportation Co., Ltd.	same as left
Statutory Auditor	Makoto Matsuo	Attorney, External Director, Capcom Co., Ltd. (member of the Audit and Supervisory Committee), Outside Director, Solasia Pharma K.K., Outside Statutory Auditor, Taisho Pharmaceutical Holdings Co., Ltd.	same as left

(Note) ※ indicates Representative Director. In addition, * indicates full-time Statutory Auditor.

Position	Name	Responsibilities or significant concurrent positions	
		As of December 31, 2022	As of January 1, 2023
Managing Executive Officer	Kanpei Tokunaga	President and Representative Director of Sumitomo Forestry Home Engineering Co., Ltd.	same as left
Managing Executive Officer	Takahisa Higaki	Deputy Divisional Manager of Housing and Construction Division (Overseeing Customer Relations, Construction Process Innovation and Construction Materials Development)	Deputy Divisional Manager of Housing Division (Overseeing Innovation Strategy and Construction Materials Development)
Managing Executive Officer	Koji Tanaka	Divisional Manager of Timber and Building Materials Division	same as left
Managing Executive Officer	Masanobu Nishikawa	Divisional Manager of Environment and Resources Division	same as left
Managing Executive Officer	Atsushi Iwasaki	Deputy Divisional Manager of Overseas Housing and Real Estate Division (In charge of North American Business), Sumitomo Forestry America, Inc. (President and General Manager of Housing Department)	Deputy Divisional Manager of Global Housing, Construction and Real Estate Division (In charge of North American Business), Sumitomo Forestry America, Inc. (President and General Manager of Housing Department)
Executive Officer	Kunihiko Takagiri	Divisional Manager of Lifestyle Service Division	Assistant to the Officer in charge of Internal Audit
Executive Officer	Junko Saishu	In charge of Empowerment of Women and Diversity, General Manager of Intellectual Property Department	General Manager of Legal Department and Intellectual Property Department of Legal Department
Executive Officer	Kazutaka Horita	President and Representative Director of Sumitomo Forestry Crest Co., Ltd.	same as left
Executive Officer	Yoichi Hosoya	Deputy Divisional Manager of Timber and Building Materials Division (Overseeing New Business Planning)	same as left
Executive Officer	Yutaka Kamiya	President and Representative Director of Sumitomo Forestry Landscaping Co., Ltd.	same as left
Executive Officer	Takumi Shimahara	President and Representative Director of Sumitomo Forestry Home Tech Co., Ltd.	same as left
Executive Officer	Tomio Tozaki	General Manager of IT Solutions Department	same as left
Executive Officer	Nobuyuki Otani	General Manager of Corporate Planning Department and Productivity Enhancement Department of Corporate Planning Department	same as left
Executive Officer	Yuko Iizuka	General Manager of Sustainability Department	same as left
Executive Officer	Kenji Inui	Deputy Divisional Manager of Overseas Housing and Real Estate Division(Overseeing Design and Construction), General Manager of Asia and Oceania Business Department	Deputy Divisional Manager of Global Housing, Construction and Real Estate Division (Overseeing Design and Construction), General Manager of Asia and Oceania Business Department

(2) The Director who retired during this Business Period

Name	Date of retirement	Reason of retirement	Position at the time of retirement
Shigeru Sasabe	March 29, 2022	Expiration	Director (Executive Officer)

(3) Summary of contracts for limitation of liability

In accordance with the Companies Act, Article 427, Chapter 1, the Company has concluded a contract with each outside director and each outside statutory auditor that limits liability for damages as indicated in the Companies Act, Article 423, Chapter 1. The maximum liability for damages based on this contract is the total sum specified in the Companies Act, Article 425, Chapter 1.

(4) Summary of directors and officers liability insurance

The Company has made a contact with an insurance company directors and officers liability insurance. This liability insurance is to cover damages that may arise if the insured, in the execution of duties, is deemed liable or is being held accountable. The insured parties in this liability insurance are directors, statutory auditors and executive officers of the Company (including subsidiaries of the Company), and the insured does not pay insurance premiums. In addition, as a measure to ensure that the appropriateness of the insured's execution of duties is not compromised, the liability insurance does not cover damages caused by illegally obtained personal gains or favors, or by criminal or other acts that are in violation of laws or regulations committed by the insured person with the knowledge that such acts are in violation of laws or regulations.

(5) Remuneration and other of Directors and Statutory Auditors

i. Matters concerning the policy for determining remuneration and other of individual directors

a. Method of determining the policy for determining remuneration and other of individual directors

The policy for determining remuneration and other of individual directors was resolved at the Board of Directors meeting held on February 14, 2022, after considering discussion and the views of the Nomination and Remuneration Advisory Committee.

b. Summary of policy for determining remuneration and other of individual directors and method of calculating the performance-based remuneration

(a) Basic policies

The remuneration of directors of the Company is designed in accordance with the following policies:

- (i) The remuneration plan should be highly linked not only to short-term performance but also to medium- to long-term performance and improvement of corporate value;
- (ii) The plan should be linked to the value to be newly created and provided in the course of promoting the ESG integrated management;
- (iii) The plan should be designed to be linked to the shareholder value of the Company;
- (iv) The remuneration level should be such that the Company can secure and maintain the human resources necessary to achieve its long-term vision; and
- (v) The plan should ensure transparency and objectivity in the remuneration determination process.

(b) Remuneration level

From the perspective of ensuring objectivity and appropriateness of the executive remuneration, the level of remuneration for directors of the Company will be set with reference to the levels of other companies as surveyed by outside professional organizations, with the aim of achieving the mid-to-high level of remuneration in companies of similar size. The Company will revise the remuneration levels as necessary in response to changes in the external environment.

(c) Composition of remuneration

The remuneration for directors of the Company comprises (i) fixed remuneration commensurate with the director's responsibilities and roles, (ii) annual performance-based Bonus as a short-term incentive, and (iii) performance-based restricted stock remuneration as a medium- to long-term incentive. Thus, the remuneration plan is designed to encourage management efforts from a short-term, and medium- to long-term perspective and to appropriately reward the results of such efforts.

The remuneration for outside directors, who are responsible for management supervision from an independent standpoint and not in a position to execute business, is composed solely of fixed remuneration.

The outline of each type of remuneration is as shown in the following table.

Type of Remuneration	Outline
Fixed remuneration	<p>i. The Company will determine the amount of fixed remuneration for each position of directors in accordance with their responsibilities and roles. The fixed remuneration will be on a monthly basis, and a fixed monthly amount will be paid in cash on a fixed date of each month.</p> <p>ii. The amount of remuneration for outside directors, consisting only of monthly remuneration as fixed remuneration, will be determined in accordance with their responsibilities and roles.</p>
Annual performance-based Bonus	<p>i. The amount of annual performance-based Bonus is determined through comprehensive judgment based on the amount obtained by multiplying the standard Bonus amount determined for each position by the payment rate (The payment rate range will be from 0% (lower limit) to 180% (upper limit)) which varies in proportion to the base profit for each business year (the amount obtained by deducting actuarial differences regarding employees' retirement benefit obligation, and net income attributable to non-controlling interests from consolidated recurring income for the fiscal year covered).</p> <p>ii. The Company adopts the method of amortizing actuarial differences regarding employees' retirement benefit obligation in a lump sum in a single business year. Accordingly, any significant fluctuation in such actuarial differences due to stock price fluctuations, interest rate conditions, or otherwise at the end of the business year will have a significant impact on the business performance. Therefore, for the calculation of the base profit, the Company uses the consolidated recurring income after deducting actuarial differences regarding employees' retirement benefit obligation.</p> <p>iii. The payment of annual performance-based Bonus will be determined by the Board of Directors based on the view of the Nomination and Remuneration Advisory Committee chaired by an Outside Director, in which outside officers constitute a majority of its members.</p>
Performance-based restricted stock remuneration	<p>i. The performance-based restricted stock remuneration is structured to reflect the Company's performance during each period (three years) of the medium-term management plan in the level of vesting. The standard stock remuneration amount prescribed for each position consists of i) a portion linked to the growth rate of the Company's market capitalization relative to TOPIX (two-thirds of the Standard Stock Remuneration Amount by Position), and ii) a portion linked to the achievement rate of the greenhouse gas emission reduction target based on SBT (Science Based Targets) (one-third of the Standard Stock Remuneration Amount by Position), each during the subject period.</p> <p>Under the plan for performance-based restricted stock remuneration as a medium- to long-term incentive remuneration, in order to promote management that emphasizes medium- to long-term enhancement of shareholder value, restricted shares in a number corresponding to the achievement status of the medium-term management plan are granted to the subject directors after the end of the final business year of the three-year medium-term management plan period as an incentive for improving the Company's corporate value during the medium-term management plan period. The initial period covered by this plan will be three years from January 1, 2022 to December 31, 2024 (the "Initial Coverage Period").</p> <p>The amount of performance-based restricted stock remuneration to be vested is calculated using two indicators. The calculation formulas are as follows:</p> <p>i) Remuneration linked to the market capitalization growth rate Remuneration linked to the market capitalization growth rate is designed to compare the Company's market capitalization growth rate with the TOPIX appreciation rate to objectively measure the Company's relative valuation in the stock market and reflect it in remuneration.</p> <p><Calculation Formula> Remuneration linked to the market capitalization growth rate = amount equivalent to two-thirds of the Standard Stock Remuneration Amount by Position × vesting rate (the Company's market capitalization growth rate during the medium-term management plan period / TOPIX appreciation rate during the same period) (*)</p>

	<p>* The vesting rate range will be from 0% (lower limit) to 120% (upper limit).</p> <p>ii) Remuneration linked to the sustainability index achievement rate Since the maximum vesting rate is set at 100%, if the Company fails to achieve the emission reduction target (*1) that it has set based on the SBT (Science Based Targets *2), the amount of remuneration vested in proportion to the target achievement rate will be reduced accordingly from the Standard Stock Remuneration Amount by Position, thereby providing a strong incentive to achieve the target.</p> <p><Calculation Formula> Remuneration linked to the sustainability index achievement rate = amount equivalent to one-third of the Standard Stock Remuneration Amount by Position × vesting rate (achievement rate of the SBT-based emission reduction target under the medium-term management plan) (*3)</p> <p>*1 The emission reduction target for the Initial Coverage Period has been set at -21.7% compared to the Company's figures in FY 2017.</p> <p>*2 "SBT" refers to the emission reduction targets set by companies and to be achieved in five to fifteen years in consistency with the level required by the Paris Agreement that was adopted at the 21st Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) and took effect in 2016 (which sets a goal of limiting global temperature increase to well below 2°C above pre-industrial levels and pursuing efforts to limit the increase to 1.5°C).</p> <p>*3 The vesting rate range will be from 0% (lower limit) to 100% (upper limit).</p> <p>ii. The stock remuneration amount to be vested in each subject director will be determined by the board of directors after the end of the subject period by calculating the cumulative amount of stock remuneration during the subject period based on the actual value of each evaluation index, taking into account the views of the Nomination and Remuneration Advisory Committee.</p>
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(d) Remuneration composition ratio

The plan has been designed so that the ratio of fixed remuneration to variable remuneration for directors should be 60 to 40 when the base profit is 100 billion yen. Specifically, fixed remuneration accounts for 60%, annual performance-based Bonus (variable) accounts for 25%, and performance-based restricted stock remuneration (variable) accounts for 15% of the total remuneration, respectively. The remuneration for outside directors consists solely of fixed remuneration.

(e) Remuneration governance

The matters regarding executive remuneration, such as the amount of individual remuneration for directors, will be determined at the Board of Directors meeting taking into account the views of the Nomination and Remuneration Advisory Committee chaired by an outside director, in which outside officers (three outside directors and three outside statutory auditors) constitute a majority of its eight members.

(f) Forfeiture of remuneration

In the event that the Board of Directors confirms any illegal or wrongful action or other misconduct by a subject director, the Company may demand restriction of the vesting of remuneration in such subject director, or return of the remuneration paid to such subject director.

c. Reasons why it has been concluded that the Board of Directors' decision on individual remuneration and other of directors for the current fiscal year is in line with the policy for determining remuneration and other of individual directors

Details of individual remuneration and other of directors for the current fiscal year were discussed by the Nomination and Remuneration Advisory Committee, which is chaired by an outside director and is comprised of a majority of outside directors, in accordance with the policy for determining remuneration and other of individual directors. Remuneration is decided upon by the Board of Directors considering the views of the Committee. Given that objectivity and transparency of that determination have been secured, it has been concluded that the Board of Directors' decision on individual remuneration and other of directors for the current fiscal year is in line with the above-mentioned policy.

ii. Matters concerning the General Meeting of Shareholders' resolution regarding remuneration and other for directors and statutory auditors

The amount of remuneration for directors (total amount of fixed remuneration and annual performance-based Bonus) was approved by a resolution at the 82nd General Meeting of Shareholders held on March 29, 2022 as not more than 650 million yen per year (of which up to 60 million yen per year is for outside directors). At the close of the said General Meeting of Shareholders, the number of directors was nine (including three outside directors).

These were approved by a resolution at the 82nd General Meeting of Shareholders held on March 29, 2022 that the total amount of the monetary remuneration receivables to be vested in directors (excluding outside directors) for the grant of performance-based restricted shares will be up to 100 million yen per business year, and that the total number of common shares to be issued or disposed of as a result of subject directors tendering all of the monetary remuneration receivables as property contributed in kind shall not exceed 100 thousand shares per business year. At the close of the said General Meeting of Shareholders, the number of directors was six (excluding outside directors).

The maximum amount of monthly remuneration for statutory auditors was approved by a resolutions at the 74th General Meeting of Shareholders held on June 20, 2014 not more than 8 million yen per month . At the close of the said General Meeting of Shareholders, the number of statutory auditors was five (including three outside statutory auditors).

iii. Total amount and other of remuneration and other for directors and statutory auditors

Classification	Total amount of remuneration and other	Monthly remuneration	Performance-based remuneration (bonus)	Non-monetary remuneration		Number of eligible directors
				Old Plan (Before March 2022)	New Plan (After March 2022)	
				Restricted stock remuneration	Performance-based restricted stock remuneration	
Directors (excluding Outside Directors)	¥ million 489	¥ million 267	¥ million 163	¥ million 8	¥ million 51	7
Statutory Auditors (excluding Outside Statutory Auditors)	50	50	—	—	—	2
Outside Directors	41	41	—	—	—	3
Outside Statutory Auditors	33	33	—	—	—	3

- (Note) 1. The above number of eligible directors of remuneration includes a director who retired at the close of the 82nd Ordinary General Meeting of Shareholders
2. The performance indicator selected as the basis of calculating the bonus, which is performance-based remuneration, is the base profit (outline of the base profit is stated on page 29 of this document). The actual amount of the base profit for the current fiscal year was 160.5 billion yen.
3. The above non-monetary remuneration amounts respectively represent i) 8 million yen in expenses for the current fiscal year related to the allotment of restricted stock to six directors (excluding outside directors) based on old plan (restricted stock remuneration before March 2022) and ii) 51 million yen in expenses for the current fiscal year based on the calculation of the estimated amount of monetary remuneration receivables in accordance with the estimated number of shares to be delivered after the three-year evaluation period under the new plan (performance-based restricted stock remuneration from March 2022).
4. With respect to restricted stock remuneration which is the old plan, the maximum amount to be paid as the restricted stock remuneration for directors (excluding outside directors) was approved by a resolution at the 78th General Meeting of Shareholders held on June 22, 2018 as not more than 100 million yen or less based on a resolution. (At the close of the said General Meeting of Shareholders, the number of directors (excluding outside directors) was eight). Restricted stock remuneration is paid to directors (excluding outside directors) based on 10% of the basic remuneration determined in accordance with their roles and responsibilities for each position of directors (excluding outside directors), and the monetary remuneration receivables are paid as remuneration for allotting restricted stocks and each of subject directors receives an allotment of restricted stock by tendering all of the monetary remuneration receivables by way of contribution in kind. The old plan is abolished with the introduction of the new plan and no share is delivered and no monetary remuneration receivable is vested for such delivery under the old plan.
5. Outline of the performance-based restricted stock remuneration which is the new plan is stated on page 29~30 of this document.

(6) Main activities of outside officers

Classification	Name	Main activities
Director	Junko Hirakawa	Attended all 15 Board of Directors during the current fiscal year under review and made appropriate comments based on her experience and insight regarding corporate legal affairs and other matters both in Japan and overseas. In addition, as chairman of the Nomination and Remuneration Advisory Committee, made appropriate comments regarding candidates of directors and statutory auditors and decisions related to remuneration and other for directors. Based on these and other activities, contributes to the strengthening of the supervisory function of management.
Director	Izumi Yamashita	Attended all 15 Board of Directors during the current fiscal year under review and made appropriate comments based on his experience and insight regarding corporate management, finance, IT/DX and other matters. In addition, as a member of the Nomination and Remuneration Advisory Committee, made appropriate comments regarding candidates of directors and statutory auditors and decisions related to remuneration and other for directors. Based on these and other activities, contributes to the strengthening of the supervisory function of management.
Director	Mitsue Kurihara	Attended all 15 Board of Directors during the current fiscal year under review and made appropriate comments based on her experience and insight regarding corporate management, finance, industrial policy and other matters. In addition, as a member of the Nomination and Remuneration Advisory Committee, made appropriate comments regarding candidates of directors and statutory auditors and decisions related to remuneration and other for directors. Based on these and other activities, contributes to the strengthening of the supervisory function of management.
Statutory Auditor	Yoshitsugu Minagawa	Attended 14 out of 15 Board of Directors and 13 out of 14 Board of Statutory Auditors meetings during the current fiscal year under review and made appropriate comments based on his wealth of administrative experience in the areas of agriculture, forestry and fisheries. In addition, as a member of the Nomination and Remuneration Advisory Committee, made appropriate comments regarding candidates of directors and statutory auditors and decisions related to remuneration and other for directors.
Statutory Auditor	Yoshimasa Tetsu	Attended all 15 Board of Directors and all 14 Board of Statutory Auditors meetings during the current fiscal year under review and made appropriate comments primarily as a specialist in accounting. In addition, as a member of the Nomination and Remuneration Advisory Committee, made appropriate comments regarding candidates of directors and statutory auditors and decisions related to remuneration and other for directors.
Statutory Auditor	Makoto Matsuo	Attended all 15 Board of Directors and all 14 Board of Statutory Auditors meetings during the current fiscal year under review and made appropriate comments primarily as a specialist in law. In addition, as a member of the Nomination and Remuneration Advisory Committee, made appropriate comments regarding candidates of directors and statutory auditors and decisions related to remuneration and other for directors.

(Figures in the above Business Report that are less than the indicated unit have been rounded off) unless otherwise noted.

CONSOLIDATED BALANCE SHEET

As of December 31, 2022

(Million yen)

ASSETS**Current assets:**

Cash and deposits	¥	128,752
Notes and accounts receivable-trade		112,487
Electronically recorded monetary claims		41,974
Accounts receivable from completed construction contracts and contract assets		57,946
Marketable securities		3,177
Merchandise and finished goods		24,576
Work in process		2,050
Raw materials and supplies		11,385
Costs on construction contracts in progress		16,098
Real estate for sale		106,436
Real estate for sale in process		434,028
Short-term loans receivable		28,107
Accounts receivable-other		56,920
Other		49,349
Allowance for doubtful accounts		(521)

Total current assets **1,072,763****Non-current assets:****Property, plant and equipment:**

Buildings and structures		57,265
Machinery, equipment and vehicles		22,986
Land		46,328
Timber		40,247
Leased assets		12,203
Construction in progress		13,459
Other		6,314

Total property, plant and equipment **198,802****Intangible assets:**

Goodwill		5,911
Other		16,964

Total intangible assets **22,876****Investments and other assets:**

Investment securities		203,572
Long-term loans receivable		8,938
Retirement benefit assets		710
Deferred tax assets		7,736
Other		23,211
Allowance for doubtful accounts		(1,010)

Total investments and other assets **243,158****Total non-current assets** **464,835****Total assets** **¥ 1,537,598**

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CONSOLIDATED BALANCE SHEET
As of December 31, 2022

(Million yen)

LIABILITIES

Current liabilities:

Notes and accounts payable-trade	¥	105,540
Electronically recorded payables		30,662
Accounts payable for construction contracts		103,566
Short-term borrowings		45,966
Corporate bonds redeemable within 1 year		12
Corporate bonds with subscription rights		10,015
Lease obligations		2,120
Income taxes payable		5,137
Contract liabilities		80,095
Provision for bonuses		24,210
Provision for bonuses for directors (and other officers)		163
Provision for warranties for completed construction		7,415
Asset retirement obligations		234
Other		78,975

Total current liabilities **494,110**

Long-term liabilities:

Bonds payable	90,140
Long-term borrowings	187,807
Lease obligations	12,263
Deferred tax liabilities	35,406
Provision for retirement benefits for directors (and other officers)	313
Retirement benefit liability	11,792
Asset retirement obligations	3,608
Other	19,604

Total long-term liabilities **360,934**

Total liabilities **855,045**

NET ASSETS

Shareholders' equity:

Capital stock	50,074
Capital surplus	31,493
Retained earnings	447,216
Treasury shares	(2,465)
Total shareholders' equity	526,318

Accumulated other comprehensive income:

Valuation difference on available-for-sale securities	36,926
Deferred gains or losses on hedges	3,775
Foreign currency translation adjustment	60,443
Remeasurements of defined benefit plans	49
Total accumulated other comprehensive income	101,192

Share acquisition rights **96**

Non-controlling interests **54,948**

Total net assets **682,554**

Total liabilities and net assets **¥ 1,537,598**

CONSOLIDATED STATEMENTS OF INCOME

For the year ended December 31, 2022

		(Million yen)
Net sales	¥	1,669,707
Cost of sales		1,276,737
<u>Gross profit</u>		<u>392,970</u>
Selling, general and administrative expenses		234,717
<u>Operating income</u>		<u>158,253</u>
Non-operating income:		
Interest income		808
Purchase discounts		358
Dividends income		2,089
Share of profit of entities accounted for using equity method		25,753
Foreign exchange profit		897
Gain on sales of investment securities		6,970
Other		5,924
Total non-operating income		42,799
Non-operating expenses:		
Interest expenses		3,124
Other		2,934
Total non-operating expenses		6,058
<u>Recurring income</u>		<u>194,994</u>
Extraordinary loss:		
Impairment loss		6,609
Total extraordinary loss		6,609
<u>Profit before income taxes</u>		<u>188,385</u>
Income taxes-current		41,517
Income taxes-deferred		11,714
<u>Net income</u>		<u>135,155</u>
Net income attributable to non-controlling interests		26,483
<u>Net income attributable to shareholders of parent</u>	¥	<u>108,672</u>

NON-CONSOLIDATED BALANCE SHEET

As of December 31, 2022

(Million yen)

ASSETS**Current assets:**

Cash and deposits	¥	55,461
Notes receivable-trade		17,673
Electronically recorded monetary claims		36,401
Accounts receivable-trade		77,500
Accounts receivable from completed construction contracts and contract assets		40,870
Marketable securities		3,177
Merchandise and finished goods		15,884
Costs on construction contracts in progress		7,997
Real estate for sale		19,442
Real estate for sale in process		9,821
Advance payments		672
Prepaid expenses		1,245
Short-term loans receivable		25,000
Short-term loans receivable from subsidiaries and affiliates		9,207
Accounts receivable-other		74,467
Other		2,083
Allowance for doubtful accounts		(2,256)

Total current assets**394,645****Non-current assets:****Property, plant and equipment:**

Buildings		14,290
Structures		999
Machinery and equipment		763
Vehicles		3
Tools, furniture and fixtures		956
Land		10,582
Timber		9,000
Leased assets		2,953
Construction in progress		948

Total property, plant and equipment**40,495****Intangible assets:**

Telephone subscription rights		176
Right of utilization on forest road		57
Right of using facilities		1
Industrial property rights		8
Software		9,126

Total intangible assets**9,368****Investments and other assets:**

Investment securities		79,207
Stocks of subsidiaries and affiliates		281,001
Investments in other securities of subsidiaries and affiliates		3,902
Long-term loans receivable		204
Long-term loans receivable from employees		36
Long-term loans receivable from subsidiaries and affiliates		14,155
Claims provable in bankruptcy, claims provable in rehabilitation and other		786
Long-term prepaid expenses		1,313
Other		11,126
Allowance for doubtful accounts		(8,009)

Total investments and other assets**383,724****Total non-current assets****433,587****Total assets**¥ **828,231**

NON-CONSOLIDATED BALANCE SHEET

As of December 31, 2022

(Million yen)

LIABILITIES**Current liabilities:**

Electronically recorded payables	¥	24,801
Accounts payable-trade		88,679
Accounts payable for construction contracts		101,317
Corporate bonds with subscription rights		10,015
Long-term loans payable due within 1 year		9,920
Lease obligations		616
Accounts payable-other		10,465
Income taxes payable		553
Accrued consumption taxes		247
Accrued expenses		1,400
Contract liabilities		45,164
Advances received		47,513
Advances received on uncompleted construction contracts		244
Provision for employees' bonuses		7,900
Provision for directors' bonuses		163
Provision for warranties for completed construction		1,767
Asset retirement obligation		216
Other		344

Total current liabilities**351,322****Long-term liabilities:**

Bonds payable		90,000
Long-term borrowings		63,910
Guarantee deposited		4,875
Lease obligations		2,685
Deferred tax liabilities		16,972
Provision for retirement benefits		1,006
Provision for loss on business of subsidiaries and affiliates		2,095
Asset retirement obligation		3,288
Other		1,049

Total long-term liabilities**185,880****Total liabilities****537,202****NET ASSETS****Shareholders' equity:**

Capital stock		50,074
Capital surplus:		
Legal capital surplus		49,014
Other capital surplus		259
<u>Total capital surplus</u>		<u>49,273</u>
Retained earnings:		
Legal retained earnings		2,857
Other retained earnings		
Reserve for reduction entry		1,715
General reserve		139,319
Retained earnings brought forward		7,311
Total other retained earnings		148,346
<u>Total retained earnings</u>		<u>151,203</u>
Treasury stock		(293)
Total shareholder's equity		250,257

Valuation and translation adjustments:

Valuation difference on available-for-sale securities		37,265
Deferred gains or losses on hedges		3,412

Total valuation and translation adjustments**40,677****Share acquisition rights****96****Total net assets****291,030****Total liabilities and net assets**¥ **828,231**

NON-CONSOLIDATED STATEMENTS OF INCOME

For the year ended December 31, 2022

	(Million yen)
Net sales:	
Net sales of goods	¥ 160,308
Completed contracts	370,239
Total net sales	530,547
Cost of sales:	
Cost of goods sold	137,515
Cost of completed contracts	300,644
Total cost of sales	438,159
<u>Gross profit</u>	<u>92,388</u>
Selling, general and administrative expenses:	90,077
<u>Operating income</u>	<u>2,311</u>
Non-operating income:	
Interest income	149
Interest on securities	4
Purchase discounts	259
Dividends income	13,589
Other	1,800
Total non-operating income	15,802
Non-operating expenses:	
Interest expenses	232
Bond interest expenses	327
Other	926
Total non-operating expenses	1,485
<u>Recurring income</u>	<u>16,627</u>
Extraordinary loss:	
Impairment loss	4,949
Total extraordinary loss	4,949
<u>Profit before income taxes</u>	<u>11,678</u>
Income taxes-current	266
Income taxes-deferred	8,120
<u>Net income</u>	¥ <u>3,292</u>

(Amounts less than one (1) million yen in the Consolidated Financial Statements and the Non-Consolidated Financial Statements are rounded to the nearest million yen.)

Independent Auditor's Report

February 16, 2023

To the Board of Directors of Sumitomo Forestry Co., Ltd.:

Ernst & Young ShinNihon LLC
Tokyo Office

Tatsuya Chiba
Designated and Engagement Partner
Certified Public Accountant

Yoshikatsu Nakahara
Designated and Engagement Partner
Certified Public Accountant

Natsuki Saiki
Designated and Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the Consolidated Financial Statements, which comprise the Consolidated Balance Sheet, the Consolidated Statements of Income, the Consolidated Statements of Changes in Net Assets, and Notes to the Consolidated Financial Statements of Sumitomo Forestry Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), for the consolidated fiscal year from January 1, 2022 to December 31, 2022.

In our opinion, the Consolidated Financial Statements referred to above present fairly, in all material respects, the consolidated financial position and the results of operations of the Group for the period, for which the Consolidated Financial Statements were prepared, 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 "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements". 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.

Other Information

The other information comprises the Business Report and its supplementary schedules. Management is responsible for the preparation and disclosure of the other information. Statutory Auditors and the Board of Statutory Auditors are responsible for supervising the Directors' performance of their duties with regard to designing and operating the reporting process for the other information.

Our opinion on the Consolidated Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained in the audit, and to give attention to whether there are any other indications of material errors in the other information aside from such material inconsistency.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report with respect to the other information.

Responsibilities of Management, Statutory Auditors and the Board of Statutory Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 and fair presentation 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 whether it is appropriate to prepare the Consolidated Financial Statements in accordance with the going concern assumption, and for disclosing, matters related to going concern when it is required to do so in accordance

with accounting principles generally accepted in Japan.

Statutory Auditors and the Board of Statutory Auditors are responsible for supervising the Directors' performance of their duties with regard to designing, and operating 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 on the Consolidated Financial Statements from an independent standpoint, based on our audit. 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 our 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, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained 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 objective of the audit of the Consolidated Financial Statements is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies and the method of their application adopted and the reasonableness of accounting estimates and the adequacy of related notes made by management.
- Determine whether it is appropriate for management to prepare the Consolidated Financial Statements on the going concern assumption and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If there is a significant uncertainty concerning the going concern assumption, the auditor is required to call attention to the related notes in the Consolidated Financial Statements in the audit report, or if the related notes in the Consolidated Financial Statements pertaining to the significant uncertainty are inappropriate, issue a modified opinion on the Consolidated Financial Statements. 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 whether the presentation and disclosures in the Consolidated Financial Statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the Consolidated Financial Statements, including the related notes, and whether the Consolidated Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the audit of the Consolidated Financial Statements. We remain solely responsible for our audit opinion.

We communicate with Statutory Auditors and the Board of Statutory Auditors regarding the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and other matters required under the auditing standards.

We also provide Statutory Auditors and the Board of Statutory Auditors with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and any safeguards that are in place to reduce or eliminate obstacles.

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.

Independent Auditor's Report

February 16, 2023

To the Board of Directors of Sumitomo Forestry Co., Ltd.:

Ernst & Young ShinNihon LLC
Tokyo Office

Tatsuya Chiba
Designated and Engagement Partner
Certified Public Accountant

Yoshikatsu Nakahara
Designated and Engagement Partner
Certified Public Accountant

Natsuki Saiki
Designated and Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the Financial Statements, which comprise the Non-Consolidated Balance Sheet, the Non-Consolidated Statements of Income, the Non-Consolidated Statements of Changes in Net Assets, and Notes to the Non-Consolidated Financial Statements of Sumitomo Forestry Co., Ltd. ("the Company") as at December 31, 2022 and for the 83rd fiscal year from January 1, 2022 to December 31, 2022.

In our opinion, the Financial Statements and the accompanying supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations of the Company for the period, for which the Financial Statements and the accompanying supplementary schedules were prepared, 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 Financial Statements and the Accompanying Supplementary Schedules". We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the 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.

Other Information

The other information comprises the Business Report and its supplementary schedules. Management is responsible for the preparation and disclosure of the other information. Statutory Auditors and the Board of Statutory Auditors are responsible for supervising the Directors' performance of their duties with regard to designing and operating the reporting process for the other information.

Our opinion on the Financial Statements and the accompanying supplementary schedules does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements and the accompanying supplementary schedules, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements and the accompanying supplementary schedules or our knowledge obtained in the audit, and to give attention to whether there are any other indications of material errors in the other information aside from such material inconsistency.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report with respect to the other information.

Responsibilities of Management, Statutory Auditors and the Board of Statutory Auditors for the Financial Statements and the Accompanying Supplementary Schedules

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

In preparing the Financial Statements and the accompanying supplementary schedules, management is responsible for assessing whether it is appropriate to prepare the Financial Statements and the accompanying supplementary schedules in accordance with the going concern assumption, and for disclosing matters related to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

Statutory Auditors and the Board of Statutory Auditors are responsible for supervising the Directors' performance of their duties with regard to the designing and operating the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements and the Accompanying Supplementary Schedules

Our objectives are to obtain reasonable assurance about whether the Financial Statements and the accompanying supplementary schedules 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 on the Financial Statements and the accompanying supplementary schedules from an independent standpoint, based on our audit. 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 Financial Statements and the accompanying supplementary schedules.

As part of our 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, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained 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 objective of the audit of the Financial Statements and the accompanying supplementary schedules is not to express an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies and the method of their application adopted and the reasonableness of accounting estimates and the adequacy of related notes made by management.
- Determine whether it is appropriate for management to prepare the Financial Statements and the accompanying supplementary schedules on the going concern assumption and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If there is a significant uncertainty concerning the going concern assumption, the auditor is required to call attention to the related notes in the Financial Statements and the accompanying supplementary schedules in the audit report, or if the related notes in the Financial Statements and the accompanying supplementary schedules pertaining to the significant uncertainty are inappropriate, issue a modified opinion on the Financial Statements and the accompanying supplementary schedules. 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 Company to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the Financial Statements and the accompanying supplementary schedules are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the Financial Statements and the accompanying supplementary schedules, including the related notes, and whether the Financial Statements and the accompanying supplementary schedules represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Statutory Auditors and the Board of Statutory Auditors regarding the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit, and the other matters required under the auditing standards.

We also provide Statutory Auditors and the Board of Statutory Auditors with a statement that we have complied with relevant ethical requirements in Japan regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and any safeguards that are in place to reduce or eliminate obstacles.

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 Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Audit Report by the Board of Statutory Auditors

Audit Report

The Board of Statutory Auditors, prepared this audit report based on audit reports prepared by each Board of Statutory Auditors Member upon deliberation with respect to execution duties by Directors for the 83rd fiscal year from January 1, 2022 to December 31, 2022 and report as follows:

1. Method and Contents of the Audit by Each Board of Statutory Auditors Member and the Board of Statutory Auditors

- (1) The Board of Statutory Auditors has established the policies of audit, the manner of dividing roles, etc., and in addition to receiving reports on the status of audit and its results from each Board of Statutory Auditors Member, we received reports from the Directors, etc. and the Accounting Auditor regarding the execution of their duties, and asked them for explanations as necessary.
- (2) In conformity with the standard of audit established by the Board of Statutory Auditors, and in accordance with the policies of audit and the manner of dividing roles, each Board of Statutory Auditors Member promoted communications with the Directors, Internal Auditing Department, other employees, etc., strove to collect information and to enhance the environment for auditing, and conducted the audit by the following methods:
 - i. Each Board of Statutory Auditors Member attended important meetings such as the Board of Directors meeting, received reports from Directors and employees, etc. regarding the execution of their duties, asked them for explanations as necessary, inspected important internal authorization documents and examined the status of operations and the financial status of the head office and important operating locations. As for subsidiaries, each Board of Statutory Auditors Member promoted communication and exchange of information with Directors and Board of Statutory Auditors members, etc. of the subsidiaries, and received reports on the subsidiaries' business as necessary.
 - ii. With regard to the contents of the Board of Directors' resolutions regarding the development and maintenance of the system to ensure that the Directors' execution of their duties complies with all laws, regulations and the Articles of Incorporation of the Company, and other systems prescribed in Article 100, Paragraphs 1 and 3 of the Regulation for Enforcement of the Companies Act as systems necessary for ensuring the appropriateness of the business operations of a group of enterprises consisting of a stock company and its subsidiaries, and the system (internal control system) developed based on such resolutions, Board of Statutory Auditors Members regularly received reports from Directors and employees, etc. on the status of their construction and implementation, requested explanations as necessary and represented opinion. As for the internal control over financial reporting, each Board of Statutory Auditors Member received reports from the Directors, etc. and Ernst & Young ShinNihon LLC regarding the status of discussions between them, and the assessment and the status of audit on such the internal control, and requested explanations as necessary.
 - iii. Each Board of Statutory Auditors Member monitored and followed up on whether the Accounting Auditor has retained its independent standpoint and has conducted its audit in an adequate manner, and received reports from the Accounting Auditor regarding the execution of its duties, and asked the Accounting Auditor for explanations as necessary. In addition, each Board of Statutory Auditors Member received notice from the Accounting Auditor that they have in place the "System to Ensure the Execution of Duties is Conducted in an Appropriate Manner (the matters set forth in each item of Article 131 of the Enforcement Regulations Regarding Accounting promulgated under the Companies Act)" in accordance with "Quality Control Standard Regarding Audit (by the Business Accounting Council, October 28, 2005)," and asked the Accounting Auditor for explanations as necessary.

By the methods set forth above, we inspected this fiscal year's Business Report and its supporting schedules, Non-Consolidated Financial Statements (Non-Consolidated Balance Sheet, Non-Consolidated Statement of Income, Non-Consolidated Statement of Changes in Shareholders' Equity and Notes to the Non-Consolidated Financial Statements) and their supporting schedules, and the Consolidated Financial Statements (Consolidated Balance Sheet, Consolidated Statements of Income, Consolidated Statements of Changes in Net Assets and Notes to the Consolidated Financial Statements).

2. Results of Our Audit

(1) Results of the Audit regarding the Business Report, etc.

- i. We consider that the Business Report and its supporting schedules comply with the applicable laws and regulations and with the Articles of Incorporation of the Company and that they present fairly the status of the Company.
- ii. There is no serious violation of any applicable laws and regulations or of the Articles of Incorporation of the Company concerning the Directors' execution of their duties.
- iii. We consider the Board of Director's resolution regarding the Internal Control System to be proper. Furthermore, we do not find any aspects to be pointed out for the contents in the Business Report and the Directors' execution of their duties concerning the Internal Control System including the internal control over financial reporting.

(2) Results of the Audit regarding the Non-consolidated Financial Statements and their Supporting Schedules

We consider the method and results of the audit conducted by the Accounting Auditor, Ernst & Young ShinNihon LLC, to be proper.

(3) Results of the Audit regarding the Consolidated Financial Statements

We consider the method and results of the audit conducted by the Accounting Auditor, Ernst & Young ShinNihon LLC, to be proper.

February 16, 2023

Board of Statutory Auditors
Sumitomo Forestry Co., Ltd.

Akihisa Fukuda (Seal)
Senior Statutory Auditor(full-time)

Noriaki Toi (Seal)
Statutory Auditor(full-time)

Yoshitsugu Minagawa (Seal)
Statutory Auditor

Yoshimasa Tetsu (Seal)
Statutory Auditor

Makoto Matsuo (Seal)
Statutory Auditor

Note: Messrs. Yoshitsugu Minagawa, Yoshimasa Tetsu and Makoto Matsuo, are Outside Statutory Auditors set forth in, Article 2, Item 16 of the Companies Act.

– End –

**The 83rd Ordinary General Meeting of Shareholders
Other Matters Related to Electronic Provision Measures
(Matters Omitted from the Delivery Document)**

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(January 1, 2022, to December 31, 2022)

Sumitomo Forestry Co., Ltd.

Matters concerning stock acquisition rights and other of the Company

(1) Stock acquisition rights held by directors as of the end of the current fiscal year

Name	Allotment date	Number of share acquisition rights	Type and number of shares to be issued	Issue price	Exercise price	Exercise date	Number of people holding
Sumitomo Forestry Co., Ltd. 2015 Stock Acquisition Rights (Stock-based Compensation Type)	August 20, 2015	80	Common stock of the Company 8,000 shares	¥1,233/share	¥1/share	August 21, 2015, to August 20, 2035	2 (excluding outside directors)
Sumitomo Forestry Co., Ltd. 2016 Stock Acquisition Rights (Stock-based Compensation Type)	August 19, 2016	127	Common stock of the Company 12,700 shares	¥1,092/share	¥1/share	August 20, 2016, to August 19, 2036	5 (excluding outside directors)
Sumitomo Forestry Co., Ltd. 2017 Stock Acquisition Rights (Stock-based Compensation Type)	August 18, 2017	111	Common stock of the Company 11,100 shares	¥1,256/share	¥1/share	August 19, 2017, to August 18, 2037	4 (excluding outside directors)

(Note) A portion of stock acquisition rights held by directors include those allotted during their tenure as executive officers.

(2) Stock acquisition rights held by statutory auditors as of the end of the current fiscal year

Name	Allotment date	Number of share acquisition rights	Type and number of shares to be issued	Issue price	Exercise price	Exercise date	Number of people holding
Sumitomo Forestry Co., Ltd. 2017 Stock Acquisition Rights (Stock-based Compensation Type)	August 18, 2017	24	Common stock of the Company 2,400 shares	¥1,256/share	¥1/share	August 19, 2017, to August 18, 2037	1 (excluding outside statutory auditors)

(Note) Stock acquisition rights held by statutory auditors are those allotted during their tenure as directors.

(3) Important matters concerning other stock acquisition rights

A summary of Zero Coupon Convertible Bonds Due 2023 issued by the Company on September 27, 2018, is as follows.

Number of Stock Acquisition Rights	Type and number of shares to be issued	Conversion price	Exercise period	Number of Stock Acquisition Rights as of December 31, 2022
1,000	Common stock of the Company 4,684,498 shares	¥2,134.7/share	October 11, 2018, to September 13, 2023	1,000

Matters concerning Accounting Auditor

(1) Name of the Accounting Auditor

Ernst & Young ShinNihon LLC

(2) Amount of remuneration and other of the Accounting Auditor

Item	Amount paid
i. Amount of remuneration and other to be paid by the Company to the Accounting Auditor for services related to Article 2, Paragraph 1 a of the Certified Public Accountants Act (auditing or certification services)	¥ million 98
ii. Total amount of money and other financial benefits to be paid by the Company and its subsidiaries to the Accounting Auditor	146

- (Note) 1. The Board of Statutory Auditors has confirmed and reviewed the details of the audit plan of the Accounting Auditor, the status of execution of the duties of the accounting audit, and the basis for calculation of the estimate of remuneration by obtaining the necessary materials and hearing reports from directors, relevant internal departments, and the Accounting Auditor. As a result, the Board of Statutory Auditors has determined that the amount of remuneration and other paid to the Accounting Auditor is appropriate.
2. In the audit contract between the Company and the Accounting Auditor, the amount of remuneration for the audit based on the Companies Act and for the audit based on the Financial Instruments and Exchange Act are not and cannot be separated practically. Hence, the amount in item ① indicates the sum of these amounts.
3. The Company has engaged the Accounting Auditor to perform services other than those stipulated in Article 2, Paragraph 1 of the Certified Public Accountants Act (non-audit services) and has paid compensation for these services, including advisory services for the development and operation of an internal control system over financial reporting.
4. Of the Company's major subsidiaries, Henley Arch Unit Trust, Bloomfield Homes, L.P., Crescent Communities, LLC, DRB Enterprises, LLC, Edge Utah HoldCo, LLC, Gehan Homes, Ltd., MainVue Homes LLC, and Mark III Properties, LLC are audited by auditors other than the Company's Accounting Auditors.

(3) Policy on the dismissal or non-reappointment of the Accounting Auditor

The Board of Statutory Auditors shall dismiss the Accounting Auditor upon the consent of all Statutory Auditors in the event that it is determined that any item under Article 340, Paragraph 1 of the Companies Act applies to the Accounting Auditor.

In addition, if it is determined that the Accounting Auditor is unable to appropriately perform its duties, following a decision by the Board of Statutory Auditors, the Board of Directors will submit a resolution for the dismissal or non-reappointment of the Accounting Auditor at the General Meeting of Shareholders.

System to ensure the appropriateness of business operations and outline of the operational status of such system

<The system to ensure the appropriateness of business operations>

(1) Basic Policy for Execution of Duties

- i. Since its establishment in the Genroku Era (1688-1704), the Sumitomo Business Spirit, as exemplified by such phrases as “placing prime importance on integrity and sound management” and “under no circumstances shall Sumitomo pursue easy gains or act imprudently,” has been the core of our management. Along with our philosophy of “national gratitude” where we aim to be a corporate entity that is truly essential to nations and society, our business stance to create “sustainable forestry” where we nurture and manage forests continuously in an environmentally conscious manner, and the “Sumitomo Business Spirit” where we benefit society by placing emphasis on fairness and integrity, the Company aims to contribute to a sustainable and prosperous society through all types of lifestyle-related services that utilize healthy and environmentally friendly wood. To realize these goals, the following five Action Guidelines have been set:
 - We provide high-quality products and services that bring joy to our customers.
 - With a fresh perspective, we create new jobs that lead to happiness for generations to come.
 - We promote a free and open corporate culture that respects diversity.
 - We set and strive to achieve ambitious goals through ongoing effort.
 - We do work that wins us the trust of society with fair and honest conduct.
- ii. The Company’s ethics guidelines and values, which all Group executives and employees must observe and which we are sincerely striving to fulfill, have been set forth as the Group Code of Conduct and other rules.
- iii. Maintaining an uncompromising stance against anti-social activities is part of the Group’s basic policy and one that we adhere to.

(2) System to Ensure Compliance by Executives and Employees to Laws, Regulations and the Articles of Incorporation

- i. The Company, as part of the Group’s basic policy, has positioned the promotion of compliance as an important management issue and is working to implement the systems and environment to secure this.
- ii. For the complete and thorough management of compliance, the Company has formulated relevant regulations and established a Company-wide compliance system with the aim to reinforce internal control functions and enhance remedial capacity across the entire Group on an ongoing basis. It has done so by creating a horizontal, Group-wide compliance promotion committee and an internal reporting system (compliance counter) that can be used by the Group’s and subcontractor’s executives and employees, which reports to an outside law firm and the general manager of the General Administration Department.
- iii. For a system to adequately and appropriately protect financial and accounting statements and other information, the Company will formulate documents with relevant rules and the standardization of operational procedures. The Company has created a system where major departments verify the appropriateness of the financial reporting process and the effectiveness of internal control systems, which is then evaluated by the Internal Audit Department. The Company continues to work to improve the quality of internal control-related functions associated with the appropriateness of financial reporting.

(3) System for the Storing and Maintaining Information Related to Director Duties

- i. The Company, in accordance with regulations regarding the storage and maintenance of documents and information, appropriately records and stores important documents, such as minutes of the General Meeting of Shareholders, minutes of the Board of Directors meetings and other legal documents, and other important documents related to decision making, such as requests for management approval.
- ii. The Company will work to improve the storage, viewing and sharing functions of information using IT.

- (4) Regulations Concerning the Management of the Risk of Loss or Other Relevant Risk Management System at the Company and its Subsidiaries
- i. With the aim to establish unified internal control and risk management systems, the Company has formulated regulations regarding risk management and at the same time, has created a committee on risk management, which grasps and assesses Group risks and formulates countermeasures. In such ways, the Company puts into place and reinforces in an ongoing manner the Group's risk management system.
 - ii. The committee on risk management monitors the progress of countermeasures to various risk scenarios and makes regular reports to the Company's Board of Directors and statutory auditors.
 - iii. For serious emergency situations that occur within the Group, Group employees must strive to appropriately apply the "two-hour rule" and report to Company top management in a timely manner. The Company works in an ongoing manner to reinforce the ability to avoid or reduce risk.
 - iv. In preparation for large-scale disasters, pandemics and other emergencies, the Company promotes business continuity management (BCM) including the formulation of business continuity planning (BCP) to mitigate losses from continuing business operations and thus creates a structure to handle emergency situations. Furthermore, the Company is providing the necessary guidance and advice on promoting BCM to subsidiaries.
- (5) System to Ensure the Effective Execution of Business Duties of Company Directors, Subsidiary Directors and Others
- i. With the implementation of the executive officer system, the Company has separated decision-making and supervisory functions from operational functions, and with the Board of Directors made up of a small number of members, has created a structure that allows for speedy decision making. Each of the Executive Officers, as the person in charge of the execution of operations, must effectively perform the duties of the operation he/she is responsible for under the guidance and supervision of the Board of Directors.
 - ii. To enable speedy decision making in response to changes in the operating environment and the optimal assignment of authority, the Company reevaluates in an appropriate manner the Board of Directors agenda criteria, administrative authority regulations and other.
 - iii. Based on the Group's long-term management plan, the Company formulates a medium term management plan as well as annual fiscal budget goals and concrete strategies for each business segment and strives to optimally and effectively allocate management resources to fulfill them.
 - iv. In compliance with internal regulations, the Company assigns a department with primary responsibility for each of the individual subsidiaries. The Company has officers and employees of the departments with primary responsibility assume the position of director at the subsidiaries and so on to appropriately manage the progress of management measures and policies and to effectively promote the execution of business duties at the subsidiaries.
- (6) System Regarding the Reporting by Directors and Others of the Subsidiaries on the Execution of Duties and System to Ensure the Appropriateness of Operations of the Corporate Entity Comprising of the Company and its Subsidiaries
- i. The Company, through the primary departments in charge, requires important subsidiary management issues to be brought up and the execution of duties to be reported to the Board of Directors, and in doing so, exercises a system of control, checks and balances for the entire corporate entity.
 - ii. The Company, to ensure effective internal controls of the entire corporate entity, formulates regulations for each of the subsidiaries. In addition, taking into account each company's situation, the Company puts in place an internal audit department and other efforts to promote an environment for autonomous, internal control at each company.
 - iii. The Company, through the Internal Audit Department, the primary departments in charge, etc., reinforces the checks and balances system and strives in an ongoing manner to raise the quality of oversight and supervision functions, including enhancing compliance systems, of each of the subsidiaries.

- (7) In Situations Where the Company's Statutory Auditors Request Support Staff to Aid in Their Duties, Matters Concerning Support Staff to Statutory Auditors, the Independence of Support Staff from the Directors and Ensuring the Effectiveness of Statutory Auditors' Instructions to Support Staff.
- i. The Company's representative directors and directors, upon discussion with the statutory auditors, may assign appropriate personnel as support staff to the statutory auditors, and in the event of a transfer, assessment or disciplinary action of such personnel, will seek the approval of the statutory auditors.
 - ii. As needed, the Company's statutory auditors will conduct audit work by directing support staff.
 - iii. The Company's statutory auditors, to ensure that the support staff's independence is not unfairly controlled, will make any necessary requests to the Company's representative directors or the Board of Directors. The representative directors or the Board of Directors will take the necessary measures in regard to these requests.
- (8) System for Reporting to Statutory Auditors by the Company's Directors and Support Staff, the Company's Subsidiary Directors and Others, Auditors, Staff and People Who Receive Reports from Them, and Other Systems Related to Reporting to Statutory Auditors.
- i. The Company's statutory auditors, to grasp the decision-making process of important items and the execution of duties by directors, attend the Company's Board of Directors meetings and as needed, Executive Committee meetings and other important meetings.
 - ii. The Company's executives and employees, when requested by the statutory auditors to report on items related to their execution of duties, will do so in a timely manner. In addition, the Company's executives and employees, in the event they become aware of a situation that could cause grave damage to the Company, unethical behavior or a serious incident that is in violation of laws or regulations, must report to the Company's statutory auditors.
 - iii. The Company's statutory auditors receive regular reports from the Company's Internal Audit Department and others regarding the Group's compliance, status of risk management activities and internal audit results, and supervise and verify that they are all functioning effectively.
 - iv. The Company's representative directors regularly exchange opinions with the Company's statutory auditors and at the same time, work to secure an audit environment that ensures the effectiveness of audits.
 - v. The Company appoints appropriate personnel as statutory auditors for the major subsidiaries and regularly holds Group Board of Auditor meetings to improve the effectiveness of audits at each company and to exchange information.
- (9) System to Ensure that People Who Have Made Reports Under the Provisions Listed Above Are Not Subjected to Disadvantageous Treatment
The Company, in the event that an executive or employee makes a report to the statutory auditors under the provisions listed above, will formulate rules and systems to ensure that the reporter is not subjected to disadvantageous treatment and in addition, will create a strict information management system for that reporter and the content of the report, and will ensure the full understanding of this to the subsidiaries.
- (10) Matters Concerning Policy on Procedures for Prepayment or Refund of Expenses Arising in Relation to Performance of Duties as Statutory Auditors and Processing of Expenses or Obligations Arising in Relation to the Performance of Other Duties
The Company's Board of Statutory Auditors will accommodate for expenses required by statutory auditors for the execution of duties in the Company's budget. In addition, for emergency or extraordinary expenditures required by the Company's statutory auditors in the execution of duties, the statutory auditor may request a reimbursement from the Company after the fact. The representative directors or the Board of Directors will take the necessary measures in regard to these requests.
- (11) Other Relevant Systems to Ensure the Proper Functioning of Audits
- i. The Company's Board of Statutory Auditors will strive to ensure the effectiveness of audits by exchanging information and closely coordinating with the Company's Board of Directors during the process of important decision making.
 - ii. The Company's Board of Statutory Auditors will regularly exchange information with Accounting Auditors to ensure more effective audits.

<Outline of the operational status of the system to ensure the appropriateness of business operations>

(1) Risk Management and Compliance System

- i. At the Company, the Risk Management Committee meets once every three months and each Executive Officer who is a member of the committee shares and discusses risks to be managed, risk analyses, and countermeasure plans. Under the Risk Management Committee, the Company has the Compliance Subcommittee and the Business Continuity Management (BCM) Subcommittee, which enhance the effectiveness of risk management pertaining to Group-wide compliance risks and business interruption risks. The details of these activities are reported to the Board of Directors, and the findings are reflected in the execution of business, such as by the performance of management reviews. During the current fiscal year, the Risk Management Committee met four times, the Compliance Subcommittee met twice, and the BCM Subcommittee met twice, and reports to the Board of Directors were made four times.
- ii. To enhance compliance, the Compliance Subcommittee improved the compliance system on an ongoing basis by inspecting legal requirements important for business continuity and other efforts. In addition, the Compliance Counter, the internal reporting contact division, responded appropriately to all reports.
- iii. To promote BCM, the Company conducted one safety confirmation and information communication drill and one simulated first response drill. In addition, the Company implemented ongoing measures to prevent the spread of infection in response to COVID-19 pandemic conditions and national and local government trends.
- iv. With regard to internal control related to the appropriateness of financial reporting, the Internal Audit Department constantly evaluates each division and subsidiary it oversees in accordance with Company rules and regulations related to financial reporting internal control.

(2) System to Ensure the Efficiency of the Execution of Business Duties by Directors

- i. The Company has implemented an executive officer system. In terms of decision-making and supervisory functions, the Board of Directors (held 15 times during the current fiscal year) confirmed important matters related to decision making, progress on the medium-term management plan and the annual budget, financial results, and other matters, and worked to enhance the supervisory function of business execution. In terms of business execution functions, the Board of Executive Officers (held 12 times during the current fiscal year) reported on the progress of business execution and received instructions regarding policies for business execution and other matters from the president.
- ii. By appointing officers and employees of the primary departments in charge to serve as officers of subsidiaries, the Company monitored the progress of management initiatives and promoted the efficient execution of business at the subsidiaries.

(3) Systems to Ensure the Appropriateness of Business Operations within the Corporate Group

- i. In accordance with the Board of Directors agenda criteria and the affiliated company management regulations, the Company, through the primary departments in charge, discussed important management matters of the subsidiaries and received reports on the execution of business operations at Board of Directors.
- ii. In accordance with the affiliated company management regulations, the Internal Audit Department periodically audited subsidiaries and provided guidance and confirmation of improvements when there were matters requiring attention.

(4) Audit system of the statutory auditors

- i. The Company has assigned full-time employees to assist Statutory Auditors in their audit duties and auditing inspectors who concurrently hold positions of senior management of major departments and the auditing inspectors' meeting is held once a month. At the auditing inspectors' meeting, Statutory Auditors received reports on the status of business inspections from the auditing inspectors and performed their auditing duties.
- ii. Statutory Auditors attended important meetings such as the Board of Directors meetings and Executive Committee meetings, and are able to obtain accurate information regarding the managerial decision-making process at appropriate times. To enhance the effectiveness of audits, the Statutory Auditors strive to cooperate with the Accounting Auditor as well as the Internal Audit Department. They also received reports regularly from the departments responsible for risk management and compliance, accounting and labor, and monitor and verified that internal controls were functioning effectively. Furthermore, Group Board of Statutory Auditors, attended by Statutory Auditors of the major subsidiaries as members, were held five times during the current fiscal year to reinforce the oversight functions of status of Group management activities.
- iii. In line with monthly Board of Statutory Auditors, Executive Officers in charge of agenda items of Executive Committee are provided the opportunity to give explanations to and exchange opinions with Statutory Auditors and Outside Directors. In addition, Statutory Auditors also exchange opinions with representative Directors, generally, every half year.

(Figures in the above Business Report that are less than the indicated unit have been rounded off) unless otherwise noted.

Consolidated Financial Statements

Consolidated Statements of Changes in Net Assets (January 1, 2022 to December 31, 2022)

(Unit: million yen)

	Shareholders' equity					Accumulated other comprehensive income					Share acquisition rights	Non-controlling interests	Total net assets
	Capital Stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	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			
Balance at the beginning of the current period	50,064	33,899	359,641	△2,362	441,241	37,226	3,403	13,699	42	54,370	116	44,361	540,089
Changes during the consolidated period													
Issuance of new shares					—								—
Issuance of new shares (exercise of share acquisition rights)	10	10			20								20
Dividends of surplus			△21,096		△21,096								△21,096
Net income attributable to shareholders of parent			108,672		108,672								108,672
Purchase of treasury shares				△103	△103								△103
Disposal of treasury stock		0		0	0								0
Changes in ownership interest of parent due to transactions with non-controlling interests		△2,416			△2,416								△2,416
Changes in items other than shareholders' equity (net amount)						△300	372	46,744	6	46,822	△20	10,586	57,388
Total changes during the consolidated period	10	△2,406	87,576	△103	85,076	△300	372	46,744	6	46,822	△20	10,586	142,464
Balance at the end of the current period	50,074	31,493	447,216	△2,465	526,318	36,926	3,775	60,443	49	101,192	96	54,948	682,554

Notes to The Consolidated Financial Statements

Important Fundamental Items and Other Related to the Preparation of the Consolidated Financial Statements

1. Scope of consolidation

There are 348 consolidated subsidiaries. The major consolidated subsidiaries are Sumitomo Forestry Wood Products Co., Ltd., Sumitomo Forestry Home Engineering Co., Ltd., Sumitomo Forestry Home Tech Co., Ltd., Sumitomo Forestry Residential Co., Ltd., Henley Arch Unit Trust, Henley Arch Pty Ltd., Bloomfield Homes, L.P., Crescent Communities, LLC, DRB Enterprises, LLC, Edge Utah HoldCo, LLC, Gehan Homes, Ltd., MainVue Homes LLC and Mark III Properties, LLC.

Beginning the consolidated fiscal year under review, Structural HoldCo, LLC, and 41 other companies, whose shares were newly acquired, are included in the scope of consolidation.

On the other hand, Daiichisansho Co., Ltd. and 9 other companies, which were consolidated subsidiaries in the previous consolidated fiscal year, are excluded from the scope of consolidation, due to the sale of shares or the completion of liquidation. Additionally, CC Independence Park, L.P. and 7 other companies, which were consolidated subsidiaries in the previous consolidated fiscal year, are excluded from the scope of consolidation and have been included as equity-method affiliates due to the reduction in shares.

2. Accounting periods of consolidated subsidiaries

The settlement date for 6 domestic consolidated subsidiaries and 1 overseas consolidated subsidiary is March 31, so when preparing the consolidated financial statements for the consolidated fiscal year under review, the financial statements based on a provisional settlement of accounts conducted as of the consolidated settlement date were used. Additionally, the settlement date for other consolidated subsidiaries is the same as the consolidated settlement date.

3. Application of equity method

(1) There are 164 affiliates that are accounted for by the equity method. The major equity-method affiliate is Kumagai Gumi Co., Ltd..

Beginning the consolidated fiscal year under review, Jefferson Centerpointe Manager, LLC and 30 other companies, in which shares were newly acquired, are included as equity-method affiliates.

On the other hand, Crescent Bellevue Joint Venture, LLC and 6 other companies which were equity-method affiliates in the previous consolidated fiscal year, are excluded from the scope of equity method application, due to the sale of shares or the completion of liquidation.

Additionally, CC Independence Park, L.P. and 7 other companies, which were consolidated subsidiaries in the previous consolidated fiscal year, are excluded from the scope of consolidation and have been included as equity-method affiliates due to the reduction in shares.

(2) For equity-method affiliates that have a fiscal year end that differs from the Company's fiscal year end, financial statements for these different fiscal years are used.

4. Significant Accounting Policies

(1) Valuation standards and methods for important assets

i. Securities

Held-to-maturity securities

Amortized cost method (Straight-line method)

Other securities:

Items other than stocks and other with no market price

Value method based on the market price on the settlement date (unrealized gains and losses are reported in the shareholders' equity section. Sales cost of securities is determined by the moving-average method.)

Stocks and other with no market price

Cost method based on the moving-average method

ii. Derivatives

Market value method

iii. Inventories

Merchandise, finished goods, work in progress, raw materials and supplies are stated at cost, which is mainly determined by the moving average method. Costs on uncompleted construction works, real estate for sale, and real estate for sale in process are stated at cost, determined by the specific cost method. The balance sheet amount is calculated using the book value devaluation method in accordance with a decline in profitability.

(2) Method of depreciating significant assets

i. Property, plant and equipment (excluding leased assets)

The Company and domestic consolidated subsidiaries primarily use the fixed-percentage method. However, the straight-line method is used for buildings (excluding accessory equipment) acquired on or after April 1, 1998, and for accessory equipment and structures acquired on or after April 1, 2016. Overseas consolidated subsidiaries primarily use the straight-line method.

ii. Intangible assets (excluding leased assets)

The straight-line method is used. The straight-line method is used for amortization of software used internally based on the estimated internal use period (five years).

iii. Leased assets

Leased assets in non-ownership-transfer finance lease transactions are depreciated to a residual value of zero over the useful lives using the straight-line method.

(3) Accounting standards for significant allowances

i. Allowance for doubtful accounts

To prepare for possible losses from bad debts, the estimated recoverable amounts are recorded based on historical default ratios for general claims and based on individual recoverability for specific claims, including doubtful accounts.

ii. Provision for bonuses

To prepare for bonus payments to employees, the estimated amount of bonus payments to be borne by the Company in the current fiscal year is recorded.

iii. Provision for director bonuses

To prepare for bonus payments to directors, the estimated amount of bonus payments to be borne by the Company in the current fiscal year is recorded.

iv. Provision for warranties for completed construction

To prepare for repair costs that may be required on completed construction, a provision is recorded based on historical costs and future estimates.

v. Provision for directors' retirement benefits

To prepare for retirement benefits to directors, at certain consolidated subsidiaries, the amount to be paid at the end of the period is recorded in accordance with internal regulations.

(4) Accounting process method of retirement benefits

i. Attribution period method for projected retirement benefits

When calculating retirement benefit obligations, the method of attributing projected retirement benefits to the period up to the end of the consolidated fiscal year under review is used according to the benefit formula standard.

ii. Method of accounting for actuarial differences and past service liabilities

Actuarial differences and past service liabilities are accounted for collectively in the fiscal year in which they occur.

(5) Basis for recording revenues and expenses

The main performance obligations of our primary businesses related to revenue from contracts with the Group's customers and the usual time in which these performance obligations are satisfied (the usual time in which revenue is recognized) are as follows.

i. Sales of products

The Timber and Building Materials Business and the Environment and Resources Business are involved in the sale of timber and building materials, and the Housing and Construction Business and Overseas Housing and Real Estate Business conduct mainly house sales. For these sales, revenue is recognized at the time of delivery to the customer when legal ownership, physical possession, significant risks associated with the ownership of the goods and economic value are transferred, and the right to receive payment is confirmed.

In mainly the Timber and Building Materials Business, for transactions in which the Group provides goods to customers as a sales agent, the Group recognizes revenue as the net amount of the compensation received from the customer, minus the amount paid to the supplier of the goods and other items. Compensation for the transaction is received promptly after delivery. Because the time between the fulfillment of the performance obligation and receipt of the compensation is usually less than 1 year, it is not a significant financial factor.

ii. Construction contracts and other

The Housing and Construction Business and Overseas Housing and Real Estate Business are contracted for the construction of single-family homes and apartment buildings. For these construction and other contracts, revenue is recognized over a specific period of time as performance obligations are fulfilled, the asset is created, and the customer gains control over said asset. Furthermore, the

method for estimating the rate of progress as related to the fulfillment of performance obligations is primarily based on the input method based on costs incurred.

However, for construction contracts with a very short period from the date the contract commences to the date performance obligations are due, revenue is not recognized for a certain period of time.

Instead, revenue is recognized at the time of delivery when it is deemed that the performance obligation has been fulfilled.

Compensation for transactions is generally received in stages according to the progress of the performance obligation in accordance with the terms of the contract. Because the time between the fulfillment of the performance obligation and receipt of the compensation is usually less than 1 year, it is not a significant financial factor.

(6) Important hedge accounting methods

i. Hedge accounting method

The deferral hedge accounting method is applied. The allocation method is applied to foreign hedging transactions, etc. The exceptional method is used for interest rate swaps if they satisfy the requirements for the exceptional method.

ii. Hedge 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. Hedge scope

In accordance with policies stipulated in the management regulations, some foreign exchange transactions, including planned transactions, and borrowings exposed to interest rate risks are hedged.

iv. Hedge effectiveness evaluation method

Foreign exchange forward contracts and foreign currency swaps are recognized to be highly effective hedging instruments, and hence, an evaluation of their effectiveness has been omitted. An evaluation of the effectiveness of the exceptional accounting method for interest rate swaps has been omitted.

(7) Amortization method and period of goodwill

Goodwill is amortized by the straight-line method over a period of up to 20 years. However, goodwill that is insignificant in amount is amortized in the year in which it is incurred.

Notes on Changes in Accounting Policies

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter, the Accounting Standard for Fair Value Measurement) and others are applied from the beginning of the current fiscal year, and in accordance with the transitional treatment as prescribed in section 19 of the Accounting Standard for Fair Value Measurement and section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policies prescribed by the Accounting Standard for Fair Value Measurement and others will be applied in the future. This has no impact on the consolidated financial statements.

Furthermore, in the Notes on Financial Instruments, the Company has decided to provide notes on such matters as a breakdown of the fair values of financial products by level.

Notes regarding Changes in Presentation Methods

(Consolidated Balance Sheet)

In the previous consolidated fiscal year, “Electronically recorded monetary claims”, which were included in “Notes and accounts receivable-trade” under “Current assets,” and “Electronically recorded payables,” which were included in “Notes and accounts payable-trade” under “Current liabilities” became significant in terms of amount and are therefore separately presented in the current consolidated fiscal year.

(Consolidated Statements of Income)

In the previous consolidated fiscal year, “Gain on sales of investment securities”, which were included in “Other” under “Non-operating income” became significant in terms of amount and are therefore separately presented in the current consolidated fiscal year.

(Application of Accounting Standard for Revenue Recognition, etc.)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter, the Accounting Standard for Revenue Recognition) and others are applied from the beginning of the current fiscal year. For this reason, “Accounts receivable from completed construction contracts” under “Current assets” in the consolidated balance sheet of the previous consolidated fiscal year is now included as “Accounts receivable from completed construction and contract assets” and a portion of “Advances received on uncompleted construction contracts” and “Other” under “Current liabilities” as well as a portion of “Other”

under “Long-term liabilities” are now included as “Contract liabilities.”

Notes regarding Significant Accounting Estimates

Impairment of non-current assets

- (1) Amounts recorded in the consolidated financial statements for the current fiscal year
(Unit: million yen)

	Current consolidated fiscal year
Property, plant, equipment and intangible assets	221,678
Amount of impairment loss	6,609

- (2) Information regarding significant accounting estimates for identified items

i. Calculation method

For assets or asset groups that have indicators of impairment, if the sum of the undiscounted future cash flows from such assets or asset groups 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 the impairment loss and the recoverable amounts.

ii. Major assumptions used in the calculation of 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 must 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 medium-to long-term business plans, as well as the weighted average cost of capital.

iii. Impact on the consolidated financial statements for the following fiscal year

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

Recoverability of deferred tax assets

- (1) Amounts recorded in the consolidated financial statements for the current fiscal year
(Unit: million yen)

	Current consolidated fiscal year
Deferred tax assets (after offsetting)	7,736
Deferred tax liabilities (after offsetting)	35,406

- (2) Information regarding significant accounting estimates for identified items

i. Calculation method

Deferred tax assets are recorded for future taxable income based on future benefit plans that provide sufficient assurance of recoverability as determined by an assessment of future deductible temporary differences.

ii. Key assumptions used in the calculation of amounts

To estimate the recoverability of deferred tax assets, the Company considers sales and operating income forecasts based on budgets and medium-to long-term business plans approved by the Board of Directors, as well as the scheduling of future deductible temporary differences.

iii. Impact on the consolidated financial statements of the next fiscal year

The recoverability of deferred tax assets is dependent on the estimation of future taxable income and the scheduling of future deductible temporary differences. Therefore, if there are changes in the conditions and assumptions underlying these estimates, adjustments to deferred tax assets may be recorded as either income or expenses in the consolidated financial statements for the following fiscal year.

Notes to the Consolidated Balance Sheet

1. Balance of contract assets and contract liabilities

The amounts of accounts receivable from completed construction contracts and contract assets arising from

contracts with customers are shown in the consolidated financial statements in the “Notes to the Consolidated Financial Statements, Notes regarding Revenue Recognition, 3. (1) Balance of contract assets and contract liabilities, etc.” and hence are omitted.

2. Pledged assets and secured liabilities

(1) Pledged assets

Cash and deposits	1,107 (Unit: million yen)
Notes and accounts receivable-trade	1,362
Accounts receivable from completed construction contracts and contract assets	8,164
Costs on construction contracts in progress	325
Real estate for sale	23,996
Real estate for sale in process	18,668
Accounts receivable-other	48
Buildings and structures	12,023
Machinery, equipment and vehicles	10,965
Land	7,595
Construction in progress	2,964
Investment securities	23,296
Other	7,282
Total	117,794

※ Other than the above, the following pledged assets are offset due to consolidated adjustments.

Subsidiary shares	6 (Unit: million yen)
Affiliate borrowings	5,744

(2) Secured liabilities

Short-term borrowings	11,739 (Unit: Million Yen)
Corporate bonds redeemable within 1 year	12
Bonds payable	140
Long-term borrowings	14,889
Contract Liabilities	321
Total	27,102

3. Cumulative depreciation of property, plant and equipment 143,723 (Unit: Million Yen)

4. Guaranteed liabilities, etc.

Guarantee on loans, etc. from financial institutions	
Purchasers with housing loans applied	26,356 (Unit: Million Yen)
Crescent Communities Group affiliates	25,846
Kanda Biomass Energy K.K.	17,426
DRSFA, LLC	731
Grand Star Co., Ltd.	598
Morinomiya Biomass Energy G.K.	345
Kawasaki Biomass Electric Power Co., Ltd.	74
Total	71,376

5. Matured notes, etc. at the end of the fiscal year

Matured notes, etc. at the end of the fiscal year are settled on the notes exchange date or at the date of note clearing. As the last day of the current consolidated fiscal year was a bank holiday, the following matured notes at the end of the fiscal year are included in the balance at the end of the current consolidated fiscal year.

Notes receivable	2,459 (Unit: Million Yen)
Electronically recorded monetary claims	4,793
Notes payable	20
Electronically recorded payables	3,997

Notes to the Consolidated Statements of Changes in Net Assets

1. The number of issued shares as of the end date of the consolidated fiscal year
 Ordinary shares 201,218,236

2. The number of treasury stock as of the end date of the consolidated fiscal year
 Ordinary shares 1,390,509

3. Items related to dividends

(1) Dividend payment

Resolution	Share type	Total dividends (million yen)	Per share dividends (yen)	Base date	Effective date
March 29, 2022, Ordinary General Meeting of Shareholders	Ordinary shares	9,041	45.00	December 31, 2021	March 30, 2022
August 9, 2022, Board of Directors' meeting	Ordinary shares	12,055	60.00	June 30, 2022	September 8, 2022

(2) Dividends for which the base date falls in the consolidated fiscal year but the effective date falls after the end of the consolidated fiscal year

The following are due to be resolved

Resolution	Share type	Total dividends (million yen)	Dividend source	Per share dividends (yen)	Base date	Effective date
March 30, 2023, Ordinary General Meeting of Shareholders	Ordinary shares	13,060	Retained earnings	65.00	December 31, 2022	March 31, 2023

4. Type and number of shares subject to subscription rights to shares as of the last day of the consolidated fiscal year under review (excluding those for which the execution period has not yet come)

Ordinary shares 4,764,998

Notes regarding Financial Instruments

1. Matters regarding the status of financial instruments

(1) Policy for financial instruments

The Company and its consolidated subsidiaries (“Group”) invest temporary surplus funds in highly safe and secure financial instruments, and use bank loans and bond issues as the primary means of raising capital.

Derivative transactions are used to hedge exchange fluctuation risks of foreign currency denominated transactions and interest rate fluctuation risks of loans payable, not for speculative purposes.

(2) Details and risk of financial instruments

Operating receivables, notes and accounts receivable-trade, electronically recorded monetary claims and accounts receivable-other are exposed to customer credit risks. Short-term loans are primarily repurchase agreement transactions for investment of short-term funds with financial institutions that have a credit rating above a certain level, thus the credit risk is minor. Securities are primarily negotiable certificates of deposit subject to settlement in the short term. Investment securities are primarily held-to-maturity bonds and shares related to our business, and they are exposed to market price fluctuation risks.

Most operating payables, such as notes and accounts payable, electronically recorded payables and construction accounts payables, are due and payable within one year.

Borrowings and corporate bonds are mainly used to procure funds for working capital and capital investments. To hedge interest rate fluctuation risks, the company uses derivative transactions (interest rate swaps) for some borrowings with floating interest rates.

Derivative transactions represent forward exchange contracts and currency swaps to hedge foreign currency exchange rate fluctuation risks, and interest swaps to hedge interest rate fluctuation risks.

(3) Risk management for financial instruments

i. Management of credit risk (risks related to the nonperformance of counterparties)

In accordance with the Group's credit management guidelines, the Company reviews due dates and outstanding balances by corporate customers, and also monitors their credit standing at least once a year.

ii. Management of market risk (fluctuation risk of currency rates, interest rates, etc.)

For investment securities, the Company regularly monitors the market value and financial conditions and other aspects of the issuers (corporate customers), and for except for held-to-maturity bonds, the Company constantly reviews its holdings in consideration of market conditions and its relationships with issuers.

The execution and management of derivative transactions are conducted by the relevant department of each company, within the prescribed limit and in accordance with certain rules outlined in the internal regulations, and the implementation status is regularly reported to the Board of Directors.

Additionally, these transactions are diversified and conducted with domestic and overseas financial institutions with high credit; hence, the default risk is considered to be extremely low.

iii. Management of liquidity risk concerning capital procurement (risk of failure to make payments when due)

The Group manages liquidity risk by having the Finance Department prepare and update funding plans based on reports from each department and consolidated subsidiary.

(4) Supplemental explanation on the market value of financial instruments

Given that variable factors are incorporated into calculations of the fair values of financial instruments, such values are subject to change with the adoption of different assumptions and other factors.

2. Matters regarding the fair value of financial instruments

Consolidated balance sheet amounts, market values, and the differences between them are as follows.

(Unit: million yen)

	Amount stated in consolidated balance sheets* ¹	Market value* ¹	Difference
(1) Marketable securities and investment securities* ³			
i Held-to-maturity securities	456	445	△11
ii Affiliates shares	42,670	29,901	△12,769
iii Other securities	77,035	77,035	—
Total assets	120,161	107,381	△12,780
(1) Corporate bonds* ⁴	(90,152)	(87,346)	△2,806
(2) Long-term loans payable* ⁵	(211,970)	(209,108)	△2,862
Total liabilities	(302,122)	(296,454)	△5,668
Derivative transactions* ⁶			
i Hedge accounting not applied	58	58	—
ii Hedge accounting applied	5,402	5,402	—
Total derivatives	5,460	5,460	—

*1 Amounts stated under liabilities are shown in parentheses ().

*2 Cash and cash equivalents are omitted from the notes, and deposits, notes and accounts receivable-trade, securities that are negotiable certificates of deposit, notes and accounts payable-trade, and accounts payable-construction are stated at their carrying amounts as they are settled in a short period of time therefore are omitted from the notes. In addition, items of insignificant amount are also omitted.

*3 Investments in shares and other with no market value and in partnerships and other similar entities that are recorded on the consolidated balance sheet at cost equivalent to the net amount of the share of equity are not included in “(1) Marketable securities and investment Securities.” The recorded amounts of such financial instruments in the consolidated balance sheet are as follows.

(Unit: Million Yen)

Classification	Current consolidated fiscal year
Unlisted shares	2,668
Affiliate shares	79,674
Union funds, etc.	1,246

*4 Amount of corporate bonds Includes corporate bonds redeemable within 1 year.

*5 Amount of long-term loan payables includes long-term loans payable due within 1 year.

*6 Assets and liabilities from derivative transactions are shown in the net amount. If the total is a negative figure, the amount is show in parentheses ().

3. Matters concerning a breakdown of the fair values of financial products by level, etc.

The fair values of financial instruments are classified into the following three levels based on the observability and materiality of the input used to calculate fair values.

Level 1: Among the input used to calculate observable fair values, fair values are calculated based on the quoted market prices for the assets or liabilities in an active market.

Level 2: Among the input used to calculate observable fair values, fair values are calculated using input other than Level 1 input.

Level 3: Fair values calculated using input that is not observable.

When multiple forms of input having significant impact on the calculation of fair values are used, fair values are classified at the lowest level of input used to calculate fair values.

(1) Financial instruments recorded on the consolidated balance sheet at fair values

(Unit: Million Yen)

Classification	Fair values			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Other marketable securities				
Stocks	77,035	—	—	77,035
Derivative transactions				
Currency related	—	5,800	—	5,800
Total assets	77,035	5,800	—	82,835
Derivative transactions				
Currency related	—	340	—	340
Interest related	—	0	—	0
Total liabilities	—	340	—	340

(2) Financial instruments other than financial instruments recorded on the consolidated balance sheet at fair values

(Unit: Million Yen)

Classification	Fair values			
	Level 1	Level 2	Level 3	Total
Marketable securities and investment securities				
Held-to-maturity debt securities				
Government bonds, municipal bonds, etc.	445	—	—	445
Affiliate shares	29,901	—	—	29,901
Total assets	30,346	—	—	30,346
Bonds payable	—	87,346	—	87,346
Long-term borrowings	—	209,108	—	209,108
Total liabilities	—	296,454	—	296,454

(Note) Explanation of valuation techniques to calculate fair values and input used to calculate fair values

Marketable securities and investment securities

Listed stocks, government bonds and municipal bonds are valued using market prices. As these are traded in active markets, their fair values are classified as Level 1 fair value.

Derivative transactions

As over-the-counter transactions have no published quoted market price, fair values are calculated based on prices and other factors provided by financial institutions that handle them and are classified as Level 2 fair value.

Corporate bonds

The fair values of bonds are calculated using the discounted current value method based on the total amount of principal and interest and an interest rate, taking into account the remaining term of the

bond and credit risk. They are classified as Level 2 fair value.

Long-term borrowings

The fair values of long-term borrowings with floating interest rates are based on book value because the interest rate of long-term borrowings reflects market interest rates quickly and the Company's credit standing has not changed significantly since implementing the loans. The fair values of long-term borrowings with floating interest rates are classified as Level 2 fair value.

The fair values of long-term borrowings with fixed interest rates are based on the present value of the total principal and interest(*) of the relevant long-term borrowings classified by certain periods of time and discounted by the interest rate for similar borrowings. The fair values of long-term borrowings with fixed interest rates are classified as Level 2 fair value.

(*) For long-term borrowings that qualify for extraordinary treatment of interest rate swaps, the fair values are based on the sum of the principal and interest rate of the interest rate swap.

Notes regarding Investment and Rental Property

1. Matters related to leased and other real estate

The Company and some of its consolidated subsidiaries own rental houses, etc. in areas like Tokyo, and overseas (primarily the United States).

2. Matters related to the market value of leased and other real estate

(Unit: million yen)

Consolidated balance sheet amount	Market value
39,383	38,513

(Note)

1. The amount stated on the consolidated balance sheet is the acquisition cost less the accumulated depreciation.

2. The market value at the end of the term is as follows.

- (1) Figures used for major real estate in Japan are based on appraisal values by real estate appraisers, and for other real estate, are based on indices deemed to appropriately reflect market prices.
- (2) Figures used for overseas real estate are based primarily on appraisal values by local appraisers.

Notes regarding Per Share Information

Net assets per share	¥3,140.26
Net income per share	¥543.80

Notes on Significant Subsequent Events

(Business combinations through acquisitions)

Through its wholly owned subsidiary Gehan Homes, Ltd., the Company acquired an 80% share of SI HoldCo, LLC, the holding company of the US company Southern Impression Homes Group, on January 13, 2023 (US time) and made it a consolidated subsidiary.

1. Outline of business combination

(1) Name of acquired company and business description

Name of acquired company: SI HoldCo, LLC, and 11 companies

Business description: Holding company of Southern Impression Homes Group, which conducts residential land development, construction, sales and rental property management of single-family rental homes

(2) Main reasons for implementing the business combination

Southern Impression Homes Group carries out residential land development, construction, sales and rental property management of single-family rental homes primarily in Florida for investors. With SI Hold Co, LLC becoming a consolidated subsidiary, our company will enter the single-family home business in Florida, one of the leading markets in the United States, to further expand its existing business in the U.S. and enter into the rental management business.

(3) Date of the business combination

January 13, 2023 (US time)

(4) Legal form of the business combination

Acquisition of equity for cash

- (5) Ratio of voting rights acquired
80%
- (6) Main reasons for deciding on the acquired company
The Company's consolidated subsidiary, Gehan Homes, Ltd., acquired the shares for a cash consideration.
2. Acquisition cost of the acquired company and breakdown by type of consideration

Consideration for acquisition	Cash	11,520 million yen
Acquisition cost		11,520 million yen

 (Note) The acquisition consideration does not include the contingent acquisition consideration.
3. Description and amount of primary acquisition-related costs
None confirmed at this time.
4. Amount of goodwill, reason for recognition, and amortization method and period
None confirmed at this time.
5. Assets acquired and liabilities assumed at the acquisition date
None confirmed at this time.
6. Conditional Acquisition Consideration stipulated in the Business Combination Agreement and Accounting Policies for the Current and Subsequent Fiscal Years
In accordance with the agreement, additional payments will be made based on the degree of achievement of future performance indicators of the acquired company. The variable portion of the conditional acquisition consideration will be recognized in accordance with U.S. GAAP.

Notes regarding Revenue Recognition

1. Breakdown information about revenue arising from contracts with customers

(Unit: Million Yen)

		Major regional markets (Note) 1	Current consolidated fiscal year
Reporting segment	Timber and Building Materials Business	Japan	193,545
		Other	59,651
		Subtotal	253,196
	Housing and Construction Business	Japan	505,240
		Overseas Housing and Real Estate Business	USA
		Australia	103,281
		Other	85
		Subtotal	847,827
	Environment and Resources Business	Japan	15,478
		New Zealand	2,012
		Indonesia	1,493
		Other	1,484
		Subtotal	20,467
Other	Japan	9,529	
Revenue from contracts with customers			1,636,259
Other revenue (Note) 2			33,448
Sales to external customers			1,669,707

(Note)

- Classification is based on the location of the customer.
 - Other revenue includes rental income based on the Accounting Standard for Lease Transactions (ASBJ Statement No. 13).
2. Basic information to understand revenue arising from contracts with customers
Notes are omitted because the same information is presented in the Consolidated Financial Statements in the section, "Notes to the Consolidated Financial Statements, Important Fundamental Items and Other Related to the Preparation of the Consolidated Financial Statements, 4. Significant Accounting Policies (5) Basis for recording revenues and expenses."

3. Information about the relationship between the fulfillment of performance obligations based on contracts with customers and cash flows from such contracts, and the amount and timing of revenue expected to be recognized in the next consolidated fiscal year based on contracts with customers that exist for the current consolidated fiscal year

(1) Balance of contract assets and contract liabilities, etc.

(Unit: Million Yen)

Classification	Beginning of current fiscal year	End of current fiscal year
Liabilities arising from contracts with customers	142,417	162,335
Contract assets (Note) 1	47,154	50,073
Contract liabilities (Note) 2	75,145	80,095

(Note) 1. Contract assets are primarily unbilled accounts receivable for revenues recognized according to the level of progress in construction and other contracts and are included in the consolidated balance sheets as “Current assets” under “Accounts receivable from completed construction contracts and contract assets.” When construction work is completed with the customer’s inspection and when the rights of the Company and its consolidated subsidiaries become unconditional, the amount is transferred to receivables.

2. Contract liabilities are primarily advances received from customers for construction contracts, real estate transactions, etc. Performance obligations are fulfilled in line with the level of progress in construction and services provided, and contract liabilities are transferred as revenues. Furthermore, the balance of contract liabilities at the beginning of the consolidated fiscal year is generally recognized as revenue in the current fiscal year. Changes in the balances of contract assets and contract liabilities and the amount of revenue recognized from performance obligations that were fulfilled in prior periods were not material in the current fiscal year.

(2) Transaction prices allocated to remaining performance obligations

For transaction prices allocated to remaining performance obligations, because there are no material contracts with an initially expected contract period of more than a year, the Group applies the practical expedient method and has omitted them from the notes.

Notes regarding Additional Information

(The effect of COVID-19 on accounting estimates)

Although it is extremely difficult to predict the future spread of COVID-19 and when it will become endemic, there has been no significant impact on our Group despite a limited effect on the financial results of the consolidated financial year under review.

Hence, to determine the recoverability of deferred tax assets and the recognition of impairment losses, the Company has made its best estimate as of the end of the current fiscal year based on information available at the time of preparation of the consolidated financial statements and with the assumption that the impact of future COVID infections will continue to be minor. However, if there is a change in the conditions or assumptions underlying these estimates, there is a possibility that there will be an impact on the consolidated statements for the following fiscal year.

Non-consolidated Financial Statements

Non-consolidated Statements of Changes in Net Assets (January 1, 2022, to December 31, 2022)

(Unit: million yen)

	Shareholders' equity								Valuation and translation adjustments		Subscription rights to shares	Total net assets	
	Capital stock	Capital surplus		Retained earnings			Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges			
		Legal capital surplus	Other capital surplus	Legal retained earnings	Other retained earnings								
					Reserve for reduction entry	General reserve							Retained earnings brought forward
Balance at the beginning of the current period	50,064	49,004	259	2,857	1,715	154,722	9,712	△291	268,043	37,645	3,356	116	309,160
Changes during the period													
Issuance of new shares									—				—
Issuance of new shares (exercise of subscription rights to shares)	10	10							20				20
Provision of general reserve						△15,403	15,403		—				—
Dividends from surplus							△21,096		△21,096				△21,096
Net income							3,292		3,292				3,292
Purchase of treasury stock								△2	△2				△2
Disposal of treasury stock			0					0	0				0
Net changes in items other than shareholders' equity (net amount)										△380	56	△20	△345
Total changes during the period	10	10	0	—	—	△15,403	△2,401	△2	△17,785	△380	56	△20	△18,130
Balance at end of current period	50,074	49,014	259	2,857	1,715	139,319	7,311	△293	250,257	37,265	3,412	96	291,030

Notes to Non-Consolidated Financial Statements

Summary of Significant Accounting Policies

1. Valuation standards and method for securities

(1) Held-to-maturity securities

Amortized cost method (Straight-line method)

(2) Shares held in subsidiaries and affiliates

Cost method based on the moving-average method

(3) Other securities:

Items other than stocks and other with no market price

Value method based on the market price on the closing date (unrealized gains and losses are reported in the shareholders' equity section. Sales cost of securities is determined by the moving-average method.)

Stocks and other with no market price

Cost method based on the moving-average method

2. Valuation standards and method for inventories

Merchandise is stated at cost determined by the moving average method. Costs of uncompleted construction contracts, real estate for sale, and real estate for sale in process are stated at cost determined by the specific cost method. Balance sheet values are calculated using the method of book value devaluation based on a decline in profitability.

3. Method of depreciation and amortization of non-current assets

(1) Property, plant and equipment (excluding leased assets)

The declining-balance method of depreciation is used. However, the straight-line method is used for buildings (excluding accessory equipment) acquired on or after April 1, 1998, and for accessory equipment and structures acquired on or after April 1, 2016.

(2) Intangible assets (excluding leased assets)

The straight-line method is used. Software for internal use is amortized using the straight-line method over the estimated useful life (5 years)

(3) Leased assets

Finance leases that do not transfer ownership of the leased assets are depreciated using the straight-line method, with the lease period being the useful life and the residual value being zero.

4. Standards for allowance

(1) Allowance for doubtful accounts

To prepare for possible losses from bad debts, the estimated recoverable amounts are recorded based on historical default ratios for general claims and based on individual recoverability for specific claims, including doubtful accounts.

(2) Provision for bonuses

To prepare for bonus payments to employees, the estimated amount of bonus payments to be borne by the Company in the current fiscal year is recorded.

(3) Provision for director bonuses

To prepare for bonus payments to directors, the estimated amount of bonus payments to be borne by the Company in the current fiscal year is recorded.

(4) Provision for warranties for completed construction

To prepare for repair costs that may be required on completed construction, a provision is recorded based on historical costs and future estimates.

(5) Provision for retirement benefits

To prepare for retirement benefits to employees, the Company records the amount to be paid based on projected benefit obligations and pensions assets at the end of the current fiscal year. If the estimated amount of pension assets exceeds the estimated amount of retirement benefit obligations at the end of the fiscal year, the excess amount is recorded as prepaid pension cost.

i. Attribution period method for projected retirement benefits

When calculating retirement benefit obligations, the method of attributing projected retirement benefits to the period up to the end of the consolidated fiscal year under review is used according to the benefit formula standard.

ii. Method of accounting for actuarial differences and past service liabilities

Actuarial differences and past service liabilities are accounted for collectively in the fiscal year in which they occur.

(6) Allowance for subsidiary and affiliate business losses

To prepare for possible losses related to the business of subsidiaries and affiliates, the Company records estimated losses considering the financial conditions of such companies.

5. Basis for recording revenues and expenses

The main performance obligations of our primary businesses related to revenue from contracts with the Company's customers and the usual time in which these performance obligations are satisfied (the usual time revenue is recognized) are as follows.

i. Sales of products

The Timber and Building Materials Business is involved in the sale of timber and building materials, and the Housing and Construction Business conducts mainly house sales. For these sales, revenue is recognized at the time of delivery to the customer when legal ownership, physical possession, significant risks associated with the ownership of the goods and economic value are transferred and the right to receive payment is confirmed.

In mainly the Timber and Building Materials Business, for transactions in which the Company provides goods to customers as a sales agent, the Group recognizes revenue as the net amount of the compensation received from the customer, minus the amount paid to the supplier of the goods and other items. Compensation for the transaction is received promptly after delivery. Because the time between the fulfillment of the performance obligation and receipt of the compensation is usually less than 1 year, it is not a significant financial factor.

ii. Construction contracts and other

The Housing and Construction Business is contracted for the construction of single-family homes and apartment buildings. For these construction and other contracts, revenue is recognized over a specific period of time as performance obligations are fulfilled, the asset is created and the customer gains control over said asset. Furthermore, the method for estimating the rate of progress as related to the fulfillment of performance obligations is primarily based on the input method based on costs incurred. However, for construction contracts with a very short period from the date the contract commences to the date performance obligations are due, revenue is not recognized for a certain period of time.

Instead, revenue is recognized at the time of delivery when it is deemed that the performance obligation has been fulfilled.

Compensation for transactions is generally received in stages according to the progress of the performance obligation in accordance with the terms of the contract. Because the time between the fulfillment of the performance obligation and receipt of the compensation is usually less than 1 year, it is not a significant financial factor.

6. Hedge accounting methods

(1) Hedge accounting method

The deferral hedge accounting method is applied. The allocation method is applied to foreign hedging transactions, etc. The exceptional method is used for interest rate swaps if they satisfy the requirements for the exceptional method.

(2) Hedge 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.

(3) Hedge scope

In accordance with policies stipulated in the management regulations, some foreign exchange transactions, including planned transactions, and borrowings exposed to interest rate risks are hedged.

(4) Hedge effectiveness evaluation method

Foreign exchange forward contracts and foreign currency swaps are recognized to be highly effective hedging instruments, and hence, an evaluation of their effectiveness has been omitted. An evaluation of the effectiveness of the exceptional accounting method for interest rate swaps has been omitted.

Notes on Changes in Accounting Policies

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019; hereinafter, the Accounting Standard for Fair Value Measurement) and others are applied from the beginning of the current fiscal year, and in accordance with the transitional treatment as prescribed in section 19 of the Accounting Standard for Fair Value Measurement and section 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policies prescribed by the Accounting Standard for Fair Value Measurement and others will be applied in the future. This has no impact on the non-consolidated financial statements.

Notes regarding Changes in Presentation Methods

(Non-consolidated Balance Sheet)

In the previous fiscal year, “Electronically recorded monetary claims”, which were included in “Notes receivable-trade” under “Current assets,” and “Electronically recorded payables,” which were included in “Notes payable-trade” under “Current liabilities” became significant in terms of amount and are therefore separately presented in the current fiscal year.

(Non-consolidated Statements of Income)

In the previous fiscal year, the “Gain on sales of investment securities,” which were included in “Other” under “Non-operating income” became significant in terms of amount and are therefore separately presented in the current fiscal year.

(Application of Accounting Standard for Revenue Recognition, etc.)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020; hereinafter, the Accounting Standard for Revenue Recognition) and others are applied from the beginning of the current fiscal year. For this reason, “Accounts receivable from completed construction contracts” under “Current assets” in the balance sheet of the previous fiscal year is now included as “Accounts receivable for completed construction and contract assets” and a portion of “Advances received on uncompleted construction contracts” and “Other” under “Current liabilities” as well as a portion of “Other” under “Long-term liabilities” are now included as “Contract liabilities.”

Notes on Important Accounting Estimates

Impairment of fixed assets

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

(Unit: Million Yen)

	Current fiscal year
Property, plant, equipment and intangible assets	49,863
Amount of impairment costs	4,949

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

The notes are omitted because “Notes to the Consolidated Financial Statements, Notes Regarding Significant Accounting Estimates” in the Consolidated Financial Statements contain the same information.

Recoverability of deferred tax assets

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

(Unit: Million Yen)

	Current fiscal year
Deferred tax assets (after offsetting)	—
Deferred tax liabilities (after offsetting)	16,972

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

The notes are omitted because “Notes to the Consolidated Financial Statements, Notes Regarding Significant Accounting Estimates” in the Consolidated Financial Statements contain the same information.

Notes to the Non-consolidated Balance Sheet

1. Pledged assets and secured liabilities

Pledged assets

Investment securities	17,403 (Unit: million yen)
Stocks of subsidiaries and affiliates	3,377
Long-term loans receivable from subsidiaries and affiliates	122
Other	2,065
Total	22,967

There are no liabilities corresponding to the above assets.

2. Accumulated depreciation on property, plant and equipment 28,936 (Unit: million yen)

3. Accumulated advanced depreciation on property, plant and equipment	1,369 (Unit: million yen)
4. Guaranteed liabilities, etc.	
(1) Guarantee on loans, etc. of subsidiaries and affiliates from financial institutions	
Sumitomo Forestry America, Inc.	17,536 (Unit: million yen)
Kanda Biomass Energy K.K.	17,426
Sumitomo Forestry Australia Pty Ltd.	2,826
Hachinohe Biomass Electric Power Co., Ltd.	2,114
PT. Kutai Timber Indonesia	1,991
Vina Eco Board Co., Ltd.	1,472
Grand Star Co., Ltd.	598
Sumitomo Forestry (Singapore) Ltd.	540
Morinomiya Biomass Energy G.K.	345
PT. AST Indonesia	199
Michinoku Bio Energy Co., Ltd.	111
Kawasaki Biomass Electric Power Co., Ltd.	74
Sumikyo Co., Ltd.	36
Sumikyo Wintec Co., Ltd.	6
Total	45,275
(2) Guarantee on other loans from financial institutions	
Purchasers with housing loans applied	25,821 (Unit: million yen)
(3) Guarantee on lease transactions	
Builder Solutions Group North Carolina, LLC	2,392 (Unit: million yen)
5. Monetary receivables from and monetary payables to subsidiaries and affiliates (excluding amounts disclosed under separate classifications)	
Short-term monetary receivable	43,676 (Unit: million yen)
Short-term monetary payable	83,457
Long-term monetary payable	1,429
6. Matured notes, etc. at the end of the fiscal year	
Matured notes, etc. that matured at the end of the fiscal year that are settled on the notes exchange date or at the date of note clearing. As the last day of the current fiscal year was a bank holiday, the following matured notes, etc. at the end of the fiscal year were included in the balance at the end of the current fiscal year.	
Notes receivable	2,452 (Unit: million yen)
Electronically recorded monetary claims	4,188
Electronically recorded payables	3,787

Notes to the Non-consolidated Statements of Income

1. Transactions with subsidiaries and affiliates	
Net sales	19,541 (Unit: million yen)
Purchase of goods	147,123
Non-operating income	
Interest income	141
Dividends income	11,513
Other	211
Non-operating expenses	46

Notes to Non-consolidated Statements of Changes in Net Assets

The number of treasury stock as of the end of the reporting fiscal year	
Ordinary shares	289,159

Notes on Tax Effect Accounting

1. Details of the main reason for occurrence of deferred tax assets and liabilities

Deferred tax assets	
Allowance for doubtful accounts	3,143 (Unit: million yen)
Provision for bonuses	2,469
Loss on devaluation of developed land and housing for sale etc.	192
Provision for retirement benefits	308
Provision for loss on business of subsidiaries and affiliates	641
Loss on devaluation of securities of subsidiaries and affiliates	6,636
Loss on devaluation of investment securities and golf club memberships	1,307
Provision for warranties for completed construction	541
Other	9,846
Subtotal deferred tax assets	25,083
Valuation reserve	△19,563
Total deferred tax assets	5,519
Deferred tax liabilities	
Reserve for advanced depreciation on noncurrent assets	757 (Unit: million yen)
Gain on establishment of a retirement benefit trust	1,168
Valuation difference on available-for-sale securities	16,137
Other	4,431
Total deferred tax liabilities	22,492
Deferred tax liabilities in net	△16,972 (Unit: million yen)

2. Breakdown of major items giving rise to material differences between the statutory effective tax rate and the effective tax rate after the application of tax effect accounting

Statutory effective tax rate	30.6%
(Adjustment)	
Non-deductible expenses such as entertainment expenses	2.7%
Non-taxable income such as dividends received	△30.0%
Inhabitants' tax-per capital levy	1.7%
Valuation allowance	62.2%
Other	4.6%
Effective rate of corporate and other income taxes after application of tax effect accounting	71.8%

Notes on Transactions with Related Parties

Subsidiaries and affiliates, etc.

(Unit: million yen)

Type	Name of company	Share of voting rights owned by the Company	Relationship	Transaction description	Transaction amount	Accounting item	Year-end balance
Subsidiary	Sumitomo Forestry Home Engineering Co., Ltd.	Direct 100.0%	Supply of paid materials, Construction of ordered housing, Concurrent directors	Construction of housing ordered by the company (*1)	93,674	Accounts receivable-other Accounts payable for construction contracts	27,906 31,080
Subsidiary	Sumitomo Forestry Home Tech Co., Ltd.	Direct 100.0%	After maintenance of housing, Concurrent directors	Deposit of surplus funds (*2)	—	Deposits received	18,592

Subsidiary	Sumitomo Forestry America, Inc.	Direct 100.0%	Concurrent directors	Underwriting of capital increase Debt guarantees (*3)	35,951 17,536	—	—
Affiliate	Kanda Biomass Energy K.K.	Direct 41.5%	Concurrent directors	Debt guarantees (*3)	17,426	—	—

(*1) Transaction terms and the policies for determining transaction terms are the same as for general transaction terms.

(*2) Transaction amounts are not shown because the transactions are conducted repeatedly and the purpose of the transactions are to centrally manage funds within the Group.

(*3) The Company guarantees borrowings from financial institutions.

Notes on Per-Share Information

	¥1,447.94
Net assets per share	
Net income per share	¥16.38

Notes on Revenue Recognition

The same content is stated in “Notes to Consolidated Financial Statements, Notes Regarding Revenue Recognition” in the consolidated financial statements, and thus the notes are omitted.

Notes on Additional Information

(The effect of COVID-19 on accounting estimates)

Although it is extremely difficult to predict the future spread of COVID-19 and when it will become endemic, there has been no significant impact on the Company despite a limited effect on the financial results of the fiscal year under review.

Hence, to determine the recoverability of deferred tax assets and the recognition of impairment losses, the Company has made its best estimate as of the end of the current fiscal year based on information available at the time of preparation of the financial statements and with the assumption that the impact of future COVID infections will continue to be minor. However, if there is a change in the conditions or assumptions underlying these estimates are based change, there is a possibility that there will be an impact on the non-consolidated statements