

July 29, 2016

To Whom It May Concern,

Company Name: Sumitomo Forestry Co., Ltd.
(First Section of TSE: Code 1911)
Representative: Akira Ichikawa
President and Representative Director
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Corporate Communications Department
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Notice Concerning Issuance of Stock Options (Stock Acquisition Rights)

Sumitomo Forestry Co., Ltd. (the “Company”) hereby announces that at the meeting of its board of directors (the “Board of Directors”) held today, it determined the terms and conditions of the offering of stock acquisition rights to be issued as stock-based compensation stock options (the “Stock Acquisition Rights”) to the directors (excluding outside directors; hereinafter the same) and executive officers of the Company for the primary purpose of raising their morale and motivation to enhance the mid- to long-term corporate value of the Company, and resolved, among others, to solicit subscribers to the Stock Acquisition Rights, as follows:

1. Name of Stock Acquisition Rights

Sumitomo Forestry Co., Ltd. 2016 Stock Acquisition Rights (Stock-based Compensation Type)

2. Total Number of Stock Acquisition Rights

414.

The above is the total number expected to be allotted. If the total number of the Stock Acquisition Rights to be allotted is reduced due to undersubscription or otherwise, the total number of the Stock Acquisition Rights to be issued shall be the same as the total number of the Stock Acquisition Rights to be allotted.

3. Class and Number of Shares Underlying Stock Acquisition Rights

The class of the shares underlying the Stock Acquisition Rights shall be common stock of the Company, and the number of shares underlying each Stock Acquisition Right (the “Number of Granted Shares”) shall be one hundred (100). Provided, however, that if the Company effects a stock split (including gratis allotment; hereinafter the same shall apply when referring to stock

splits) or a reverse stock split of its common stock on or after the date of allotment of the Stock Acquisition Rights (the “Allotment Date”), the number of shares granted shall be adjusted according to the following formula, and any fraction less than one (1) share resulting from the adjustment shall be rounded down.

$$\begin{array}{rcccl} \text{Number of Granted Shares} & & \text{Number of Granted Shares} & & \text{Ratio of stock split or} \\ \text{after adjustment} & = & \text{before adjustment} & \times & \text{reverse stock split} \end{array}$$

The Number of Granted Shares after adjustment shall be applied, in the case of a stock split, on and after the day following the record date for the relevant stock split (or if no record date is fixed, the effective date of the relevant stock split), and in the case of a reverse stock split, on and after the effective date of the relevant reverse stock split. Provided, however, that in the case where a stock split is subject to the condition that a proposal to increase the stated capital or reserves by reducing the amount of surpluses is approved at a general meeting of shareholders of the Company (the “General Shareholders Meeting”), and the record date for the stock split is on or prior to the date of conclusion of such General Shareholders Meeting, the Number of Granted Shares after adjustment shall be applied retrospectively to the day following such record date, on and after the day following the date of conclusion of such General Shareholders Meeting.

In addition, if on or after the Allotment Date, the Company effects a merger, a company split or a share exchange or an adjustment of the Number of Granted Shares is similarly required, the Company may appropriately adjust the Number of Granted Shares to a reasonable extent. When adjusting the Number of Granted Shares, the Company shall notify each holder of the Stock Acquisition Rights recorded in the registry of the Stock Acquisition Rights (the “Stock Acquisition Right Holder”) or give public notice of necessary matters no later than the day preceding the date of application of the Number of Granted Shares after adjustment; provided, however, that if such notification or public notice cannot be given on or before the day preceding the relevant application date, the Company shall promptly thereafter give such notification or public notice.

4. Value of Properties Contributed upon Exercise of Stock Acquisition Rights

The value of properties to be contributed upon exercise of each Stock Acquisition Right shall be the amount obtained by multiplying (i) the exercise price of one yen (JPY 1) per share for the stock deliverable upon exercise of each Stock Acquisition Right by (ii) the Number of Granted Shares.

5. Period during which Stock Acquisition Rights may be Exercised

From August 20, 2016 to August 19, 2036

6. Matters concerning Stated Capital and Capital Reserves to be Increased upon Issuance of Shares by Exercise of Stock Acquisition Rights

- (1) The amount of the stated capital to be increased upon the issuance of shares by exercise of the Stock Acquisition Rights shall be one-half (1/2) of the maximum amount of increase in the stated capital, etc. as calculated pursuant to Article 17, Paragraph 1 of the Ordinance on Accounting of Companies, and any fraction less than one yen (JPY 1) resulting from the calculation shall be rounded up.
- (2) The amount of the capital reserves to be increased upon the issuance of shares by exercise of the Stock Acquisition Rights shall be the amount obtained by subtracting the amount of the stated capital to be increased as provided in (1) above from the maximum amount of increase in the stated capital, etc. mentioned in (1) above.

7. Restrictions on Acquisition of Stock Acquisition Rights by Way of Transfer

Any acquisition of Stock Acquisition Rights by way of transfer shall be subject to approval by resolution of the Board of Directors.

8. Provisions for Acquisition of Stock Acquisition Rights

If any of the proposals set out in (1) through (5) below is approved at a General Shareholders Meeting (or by resolution of the Board of Directors in the case where no approval of the General Shareholders Meeting is required), the Company may acquire the Stock Acquisition Rights without consideration on the date to be separately determined by the Board of Directors.

- (1) A proposal for approval of a merger agreement under which the Company shall become a disappearing company;
- (2) A proposal for approval of a company split agreement or a company split plan under which the Company shall become a splitting company;
- (3) A proposal for approval of a share exchange agreement or share transfer plan under which the Company shall become a wholly-owned subsidiary;
- (4) A proposal for approval of an amendment to the Company's articles of incorporation to include a provision stipulating that the acquisition by way of transfer of any shares issued by the Company shall require the Company's approval; or
- (5) A proposal for approval of an amendment to the Company's articles of incorporation to include a provision stipulating that the acquisition by way of transfer of the class of shares underlying the Stock Acquisition Rights shall require the Company's approval or that the Company may acquire such class of shares in whole by resolution of the General Shareholders Meeting.

9. Determination Policy for Delivery of Stock Acquisition Rights of Reorganized Company upon Reorganization

If the Company effects a merger (limited to the case in which the Company disappears due to the merger), an absorption-type company split or an incorporation-type company split (both limited to the case in which the Company becomes a splitting company), or a share exchange or a share transfer (both limited to the case in which the Company becomes a wholly-owned subsidiary) (collectively, the “Reorganization”), the Company shall, in each of the above cases, deliver stock acquisition rights of the relevant company from among those listed in (a) through (e) of Article 236, Paragraph 1, Item 8 of the Companies Act (the “Reorganized Company”) to each Stock Acquisition Right Holder of the Stock Acquisition Rights remaining unexercised immediately before the effective date of the Reorganization (the “Outstanding Stock Acquisition Rights”) (the “effective date of the Reorganization” means, in the case of an absorption-type merger, the date on which such merger becomes effective; in the case of a consolidation-type merger, the date of formation of the company by such merger; in the case of an absorption-type company split, the date on which such company split becomes effective; in the case of an incorporation-type company split, the date of formation of the company by such company split; in the case of a share exchange, the date on which such share exchange becomes effective; and in the case of a share transfer, the date of formation of the wholly-owning parent company by such share transfer; hereinafter the same). Provided, however, that the foregoing shall be on condition that the delivery of stock acquisition rights of the Reorganized Company in accordance with the following items is provided for in the relevant absorption-type merger agreement, consolidation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan:

- (1) Number of stock acquisition rights of the Reorganized Company to be delivered:
The same number of stock acquisition rights as the Outstanding Stock Acquisition Rights held by each Stock Acquisition Right Holder shall be delivered to it.
- (2) Class of shares in the Reorganized Company underlying the stock acquisition rights:
Common stock of the Reorganized Company
- (3) Number of shares in the Reorganized Company underlying the stock acquisition rights:
To be determined in accordance with 3. above, taking into account, among other factors, the conditions of the Reorganization.
- (4) Value of properties contributed upon exercise of stock acquisition rights:
The value of properties to be contributed upon exercise of each stock acquisition right to be delivered shall be the amount calculated by multiplying (i) the post-reorganization exercise price as set forth below by (ii) the number of shares in the Reorganized Company underlying the stock acquisition right that will be determined pursuant to (3) above. The post-reorganization exercise price shall be one yen (JPY 1) per share for the stock of the

Reorganized Company deliverable upon exercise of each stock acquisition right to be delivered.

- (5) Period during which stock acquisition rights may be exercised:

The exercise period shall commence on the later of (i) the commencement date of the exercise period for the Stock Acquisition Rights as set forth in 5. above and (ii) the effective date of the Reorganization, and end on the expiration date of the exercise period for the Stock Acquisition Rights as set forth in 5. above.

- (6) Matters concerning stated capital and capital reserves to be increased upon issuance of shares by exercise of stock acquisition rights:

To be determined in accordance with 6. above.

- (7) Restrictions on acquisition of stock acquisition rights by way of transfer:

Any acquisition of stock acquisition rights by way of transfer shall be subject to approval by resolution of the board of directors of the Reorganized Company.

- (8) Provisions for acquisition of stock acquisition rights:

To be determined in accordance with 8. above.

- (9) Other conditions for exercise of stock acquisition rights:

To be determined in accordance with 11. below.

10. Handling of Fractions Less than One Share Resulting from Exercise of Stock Acquisition Rights

If the number of shares deliverable to any Stock Acquisition Right Holder who has exercised the Stock Acquisition Rights includes any fraction less than one (1) share, such fraction shall be rounded down.

11. Other Conditions for Exercise of Stock Acquisition Rights

- (1) Each Stock Acquisition Right Holder may exercise the Stock Acquisition Rights within the period specified in 5. above, from the earlier of (i) August 20, 2019 and (ii) the day following the date on which such holder loses the status as a director and/or an executive officer of the Company (in the case of a director concurrently serving as an executive officer, the day following the date of loss of both of these statuses; hereinafter the same) due to retirement upon expiration of the term of office or otherwise.
- (2) The Stock Acquisition Right Holders may not exercise the Stock Acquisition Rights on or after the day following the day on which five (5) years have elapsed since the day following the date on which such holder loses the status as a director and/or an executive officer of the Company.
- (3) Notwithstanding (1) above, in the case where a proposal for approval of a merger agreement under which the Company becomes a disappearing company, or a proposal for approval of a share exchange agreement or a share transfer plan under which the Company becomes a

wholly-owned subsidiary is approved by a General Shareholders Meeting (or by resolution of the Board of Directors in the case where no approval of the General Shareholders Meeting is required), the Stock Acquisition Right Holder may exercise the Stock Acquisition Rights only within thirty (30) days from the day following the date of the relevant approval, but within the period specified in 5. above. The foregoing shall not apply in the case where the delivery of stock acquisition rights of the Reorganized Company to the Stock Acquisition Right Holders in accordance with 9. above is provided for in the relevant merger agreement, share exchange agreement or share transfer plan.

- (4) Inheritance of Stock Acquisition Rights is permitted solely where only one of the legal heirs of the deceased Stock Acquisition Right Holder succeeds to the Stock Acquisition Rights (hereinafter such heir is referred to as the “Successor”). The Successor may exercise the Stock Acquisition Rights until the earliest of the following days:
- (i) The day on which three (3) years have elapsed since the day following the date on which the inheritance of the Stock Acquisition Rights by the Successor is finally determined;
 - (ii) The day on which five (5) years have elapsed since the day following the date of the relevant Stock Acquisition Right Holder’s death;
 - (iii) The expiration day of the period during which the Stock Acquisition Rights may be exercised as specified in 5. above; and
 - (iv) The day on which five (5) years have elapsed since the day following the date on which the relevant Stock Acquisition Right Holder lost the status as a director and/or an executive officer of the Company.
- (5) If the Stock Acquisition Right Holder has waived his or her Stock Acquisition Rights, the relevant Stock Acquisition Rights may not be exercised.

12. Method of Calculation of Amount to be Paid in for Stock Acquisition Rights

The amount to be paid in for each Stock Acquisition Right shall be the amount obtained by multiplying (i) the option price per share calculated by the following formula derived from the Black-Scholes model using the basic values set forth in (2) through (7) below (any fraction less than one yen (JPY 1) shall be rounded to the nearest whole yen) by (ii) the Number of Granted Shares.

$$C = Se^{-qT} N(d) - Xe^{-rT} N(d - \sigma\sqrt{T})$$

Where

$$d = \frac{\ln\left(\frac{S}{X}\right) + \left(r - q + \frac{\sigma^2}{2}\right)T}{\sigma\sqrt{T}}$$

- (1) Option price per share (C)

- (2) Stock price (S): Closing price of the regular trading of the shares of common stock of the Company on the Tokyo Stock Exchange, Inc. (the “TSE”) on August 19, 2016 (if there is no such closing price, the base price of the next trading day)
- (3) Exercise price (X): One yen (JPY 1)
- (4) Expected remaining time to maturity (T): 11.5 years
- (5) Volatility (σ): Stock price fluctuation rate calculated based on the closing price of the regular trading of the shares of common stock of the Company on the TSE on each trading day during a 11.5 year-period (from February 19, 2005 to August 19, 2016)
- (6) Risk-free interest rate (r): Interest rate of the Japanese government bonds whose remaining years to maturity correspond to the expected remaining time to maturity
- (7) Dividend yield (q): Dividend per share (the actual dividend for the year ended March 31, 2016 divided by the stock price set forth in (2) above)
- (8) Cumulative distribution function of the standard normal distribution ($N(\cdot)$)

The amount obtained by the above calculation is the fair value of the Stock Acquisition Rights, and the issuance of the Stock Acquisition Rights does not constitute an issuance at favorable terms. Each person to whom the Stock Acquisition Rights are allotted shall offset his or her compensation claims to the Company against his or her obligation to pay the paid-in amount for the relevant Stock Acquisition Rights.

13. Date of Allotment of Stock Acquisition Rights

August 19, 2016

14. Due Date for Payment in Exchange for Stock Acquisition Rights

August 19, 2016

15. Any other necessary matters concerning the Stock Acquisition Rights shall be left to the discretion of the Representative Directors.

16. Eligible Persons for Allotment of Stock Acquisition Rights, Number of Such Persons and Number of Stock Acquisition Rights to be Allotted

Eligible Persons for Allotment	Number of Persons	Number of Stock Acquisition Rights to be Allotted
Directors of the Company	8	295
Executive officers of the Company	13	119