September 11, 2018

For Immediate Release

Company name: Sumitomo Forestry Co., Ltd.
Representative: Akira Ichikawa, President & CEO
(Stock code: 1911 1st section, Tokyo Stock Exchange)
Inquiries: Yuichiro Ono, General Manager of Corporate Communications
(Tel: +81-3-3214-2270)

Notice of Issuance of Zero Coupon Convertible Bonds (Green CBs) Due 2023

Sumitomo Forestry Co., Ltd. (the “Company”) hereby provides notice that the Board of Directors adopted a resolution on September 11, 2018 to issue ¥10,000,000,000 in aggregate principal amount of Zero Coupon Convertible bonds Due 2023 (the Bonds with Stock Acquisition Rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*) with a total face value of 10 billion yen. The details are set forth below.
The Bonds with Stock Acquisition Rights will comply with the Green Bond Principles and will be the world’s first convertible corporate bonds with stock acquisition rights regarding which a second party opinion from a leading evaluation agency was secured (referred to as “Green CBs”*).
* For details, refer to the Background to Issuance of the Bonds with Stock Acquisition Rights and Qualification as Green CBs below.

Background to Issuance of the Bonds with Stock Acquisition Rights

The Sumitomo Forestry Group’s corporate philosophy is that we “utilize wood as a healthy and environmentally friendly natural resource to provide a diverse range of lifestyle-related services that contribute to the realization of a sustainable and prosperous society. All our efforts are based on Sumitomo’s Business Spirit, which places prime importance on fairness and integrity for the good of society.” Guided by this philosophy, management’s fundamental policy is the maximization of corporate value.
Under the Sumitomo Forestry Group 2018 Medium-Term Management Plan (the “Medium-Term Management Plan”), which covers the three fiscal years starting with the fiscal year ended March 2017, we are working to build business structures that will enable sustainable growth with “promoting change for a new stage” as our main theme.
The Medium-Term Management Plan has three basic policies: pursuing strategies that anticipate social environment changes, diversifying revenue sources in the global market, and transforming the value of wood. During the plan term, the Company acquired approximately 31,000 ha of timberland assets in Nelson, New Zealand (the “New Zealand Timberland Assets”) in 2016.[1]
The New Zealand Timberland Assets are made up of fast-growing radiata pine forests. Because of the stable supplies, uniform wood quality, versatility, and high cost competitiveness, steady income can be expected. More than half of the

world’s industrial timber is currently supplied from natural forests, but demand for lumber is expected to grow over the medium to long term, and concerns regarding climate change and the environment are rising. As a result, we believe that the value of sustainable plantation forests such as the New Zealand Timberland Assets will increase even further.
Under the Medium-Term Management Plan, the Sumitomo Forestry Group is actively making the investments necessary to pursue business growth including acquisition of the New Zealand Timberland Assets and has reformed its business portfolio and expanded the scope of business. As a result, the amount of working capital needed for acquisition of inventory assets in overseas business has increased substantially.
In light of these circumstances, the Board of Directors adopted a resolution to issue the Bonds with Stock Acquisition Rights in order to replenish working capital, which was depleted as a result of the use of cash on hand to pay a portion of the funds needed for acquisition of the New Zealand Timberland Assets, which was a major investment, as well as other investments, and to build solid financial foundations that can support the expansion of business and diversify means of capital procurement by raising long-term capital suited to the nature of our business during the current fiscal term, which is the final fiscal year of the Medium-Term Management Plan.
In addition, the Bonds with Stock Acquisition Rights will be issued in accordance with a framework pursuant to the Green Bond Principles.[2] To ensure the qualification and transparency of the Bonds with Stock Acquisition Rights, the Company acquired second party opinion[3] from France-based Vigeo Eiris, one of the world’s leading ESG evaluation agencies, as a third-party evaluator.
By issuing Green CBs, we will gain the understanding of a broad range of stakeholders regarding the Group’s active initiatives to invest in the environment, activate the ESG investment market and further expand its base in Japan and overseas.
In the more than 320 years since the Group’s foundation in 1691, we have conducted mountain and forest related business by making use of trees, a renewable resource, in Japan and other countries. In addition, our CSR measures are not limited to individual activities but are undertaken throughout business to lead to increased corporate value for the Group as a whole. Going forward, the Sumitomo Forestry Group will increase the value of forestry resources while developing global business that responds to climate change and contributes to the global environment.

[1] For details regarding the acquisition of the New Zealand Timberland Assets, refer to the Company’s July 5, 2016 news release entitled “Sumitomo Forestry Completes Purchase of Timberlands and Related Assets in New Zealand.”
[2] The Green Bond Principles are guidelines relating to the issuance of green bonds established by the Green Bond Principles Executive Committee, a private organization for which the International Capital Markets Association (ICMA) acts as secretariat.
[3] The second party opinion is the independent opinion of Vigeo Eiris, an ESG evaluation organization, to the effect that the Bonds with Stock Acquisition Rights were issued in accordance with the Green Bond Principles. In the second party opinion, Vigeo Eiris assess the compliance of the Bonds with the Green Bond Principles from the following four perspectives: (i) use of proceeds, (ii) process for project evaluation and selection, (iii) management of proceeds, and (iv) monitoring and reporting. Vigeo Eiris issued an opinion to the effect that the bonds are in compliance with the Green

Principles. Details regarding the second party opinion can be found on the following websites.
Original English version: https://sfc.jp/information/news/pdf/20180911_03.pdf
Japanese translation: https://sfc.jp/information/news/pdf/20180911_02.pdf

Use of Proceeds

The Company is expanding its business by actively investing in the Overseas Housing and Real Estate Business and Other Businesses in accordance with the Medium-Term Management Plan. In conjunction with this expansion, the Company's need for working capital and the balance of short-term interest-bearing liabilities are increasing.
Under these circumstances, the Company will refund cash on hand, which was depleted as a result of acquisition of the New Zealand Timberland Assets, a major investment under the Medium-Term Management Plan, using the proceeds from issuance of the Bonds with Stock Acquisition Rights. We plan to allocate the entire amount of the proceeds to repayment of short-term loans, which were borrowed for the purpose of securing working capital, by the end of December 2018.

As business environments in Japan and overseas undergo substantial changes, the Company is working to build business structures that can achieve sustainable growth. Under the Medium-Term Management Plan, we initially planned to invest a total of 150 billion yen. Overseas, we acquired the New Zealand Timberlands Assets and acquired equity stakes in home builder and other companies in the United States and Australia; in Japan, we formed business and capital partnerships and acquired the shares of private-pay elderly care facilities business companies. As a result, the actual investment amount exceeded the plan.
By raising capital through issuance of the Bonds with Stock Acquisition Rights, the Company will secure the working capital that it needs, reinforce its financial position, and establish the business structures that will support agile and active expansion of business in order to pursue business growth from a long-term perspective.

Qualification as Green CBs

For issuance of Green CBs, the Company made the New Zealand Timberland Assets, which were acquired in fiscal year 2016, a qualified project, established a green bond framework in accordance with the Green Bond Principles in relation to the Bonds with Stock Acquisition Rights to be issued to refinance a portion of the acquisition capital for those assets, and obtained a second party opinion from Vigeo Eiris.
The New Zealand Timberland Assets, which are a qualified project, were selected in consideration of their certification by the Forest Stewardship Council (FSC)[4] and other factors. In the second party opinion, these assets were determined to be intended to contribute to climate change mitigation through carbon sequestration and natural resource conservation and to be likely to contribute to two of the United Nations' Sustainable Development Goals (SDGs), namely goal 13: "Climate Action" and Goal 15: "Life on Land."

[4] The Forest Stewardship Council (FSC), established in 1993 under the leadership of the World Wildlife Fund for Nature (WWF), is an organization made up of representatives from environmental organizations, forestry businesses,

timber trading companies, indigenous peoples' organizations, regional forestry associations, and other organizations. It is the primary operator of a forestry certification program that follows principles and criteria including environmental preservation, local communities, and the rights of indigenous peoples. Certification can be acquired by undergoing examination by a certifying authority approved by the FSC.

Objectives of Issuing the Bonds with Stock Acquisition Rights

The Company decided to issue the Bonds with Stock Acquisition Rights as a means of raising capital that curtails dilution effects in consideration of current stockholders while procuring low-cost capital as the Company verifies its financial strategies, taking into consideration the expansion of business under the Medium-Term Management Plan.
The Bonds with Stock Acquisition Rights will be issued with zero coupons and at a pay-in price that exceeds the face value, and as a result, will raise capital with minimal interest expenses and reduced capital procurement costs. In addition, by setting the conversion price at a level that exceeds the market price, the bonds are expected to curtail the dilution of earnings per share (EPS) after issuance.
Also, capital will be raised from overseas markets, and the Company determined that this method will also contribute to the diversification of capital procurement methods.
Furthermore, the Bonds with Stock Acquisition Rights comply with the Green Bond Principles and will be the world's first convertible corporate bonds with stock acquisition rights regarding which a second party opinion from a leading evaluation agency was secured (Green CBs). We believe the bonds will contribute to raising understanding by investors of the Group's environment investment.

1.	Name of corporate bonds		Sumitomo Forestry Co., Ltd. Zero Coupon Convertible Bonds Due 2023 (the Bonds with Stock Acquisition Rights, *tenkanshasaigata shinkabu yoyakuken-tsuki shasai*; the bonds only are referred to as the "Bonds" and the stock acquisition rights only are referred to as the "Stock Acquisition Rights")
2.	Bond pay-in amount		101.0% of the Bond face value (the face value of each Bond is 10 million yen)
3.	Pay-in amount in exchange for the Stock Acquisition Rights		No pay-in of monies is required in exchange for the Stock Acquisition Rights
4.	Bond pay-in date and issuance date		September 27, 2018 (here and hereafter, unless otherwise specified, London time)
5.	Particulars of the offering		
	(1)	Response period	The bonds shall be offered on overseas markets, primarily in Europe and Asia (but excluding the United States) through underwriting and purchase of the aggregate amount of the Bonds with Stock Acquisition Rights with Daiwa Capital Markets Europe Limited as sole book runner and joint lead underwriter and SMBC Nikko Capital Markets Limited and Nomura International plc as joint lead underwriters (the "Lead Underwriters"); however, offers for sale shall be made until 8:00 a.m. (Japan time) the day after the day of execution of the underwriting agreement.
	(2)	Offer price of the Bonds with Stock Acquisition Rights (issue price)	103.5% of the face value of the Bonds
6.	Particulars of the Stock Acquisition Rights		
	(1)	Class and number of shares to be acquired upon exercise of the Stock Acquisition Rights	The class of shares to be acquired upon exercise of the Stock Acquisition Rights shall be the Company's common stock (one trading unit is 100 shares), and the number of shares to be acquired upon such exercise shall be determined by dividing the aggregate face value of the Bonds for which the Stock Acquisition Rights are exercised by the Conversion Price set forth in (4) below; provided, however, that fractional shares shall not be issued and no adjustment by means of cash payment shall be made.
	(2)	Aggregate number of Stock Acquisition Rights to be issued	The total of 1,000 units plus the number determined by dividing the aggregate face value of the Bonds relating to replacement certificates for Bonds with Stock Acquisition Rights by 10 million yen.
	(3)	Stock Acquisition Rights allocation date	September 27, 2018
	(4)	Particulars and amount of assets to be contributed upon exercise of the Stock Acquisition Rights	(a) Upon exercise of each Stock Acquisition Right, the Bonds relating to the relevant Stock Acquisition Right shall be contributed, and the value of the Bonds shall be the same as the face value. (b) The conversion price shall initially be determined by the Company's Representative Director pursuant to authorization by the Board of Directors, taking into consideration the status of demand by investors and other market trends; provided, however, that the initial

			conversion price shall not be less than the amount equal to the closing price for ordinary transactions of the Company's common stock on the Tokyo Stock Exchange on the day of execution of the underwriting agreement to be executed by the Company and the Lead Underwriters specified above in 5(1) in relation to the Bonds with Stock Acquisition Rights multiplied by 1.0. (c) After issuance of the Bonds with Stock Acquisition Rights, in the case where the Company issues common stock or disposes of treasury stock held by the Company with a pay-in price that is less than the market price at the time of issue of the common stock, the conversion price shall be adjusted according to the formula set forth below. In the following formula, the "Number of shares outstanding" means the aggregate number of shares issued by the Company (excluding treasury shares held by the Company). $\text{Adjusted conversion price} = \text{Conversion price before adjustment} \times \dfrac{\text{Number of shares outstanding} + \dfrac{\text{Number of shares issued or disposed of} \times \text{Pay-in price per share}}{\text{Market price}}}{\text{Number of shares outstanding} + \text{Number of shares issued or disposed of}}$ Further, the conversion price shall also be appropriately adjusted in the case where the Company implements a stock split or consolidation of its common stock, distributes certain surplus funds, or issues stock acquisition rights (including bonds with stock acquisition rights) that enable demands for allocation of the Company's common stock at a price below the market value of its common stock and in cases where certain other events occur.
	(5)	Additional capital and capital reserves in the case where stock is issued pursuant to the exercise of the Stock Acquisition Rights	The amount of additional capital in the case where stock is issued pursuant to the exercise of the Stock Acquisition Rights shall be the amount equal to the maximum capital, etc. increase calculated in accordance with Article 17 of the Corporate Accounting Rules multiplied by 0.5; fractional amounts of less than one yen resulting from the calculation shall be rounded up. The amount of additional capital reserves shall be the amount obtained by subtracting the increase in the amount of capital from the maximum capital, etc. increase.
	(6)	Stock Acquisition Rights exercise period	From October 11, 2018 to September 13, 2023 (local time at markets accepting exercise requests). Provided, however, that (i) in the case of early redemption of the Bonds specified below in 7(3)(b)1 to 5, until three business days in Tokyo prior to the redemption date (excluding Stock Acquisition Rights relating to Bonds regarding which early redemption shall not be accepted pursuant to 7(3)(b)2 below); (ii) in the case where the Bonds are purchased and extinguished as specified below in 7(3)(c), until the Bonds are extinguished, or (iii) in the case where the Bonds are accelerated as specified below in 7(3)(d), until the Bonds are accelerated. In all of the cases specified above, the Stock

			Acquisition Rights may not be exercised after September 13, 2023 (local time at markets accepting exercise requests). Notwithstanding the above, in the case where the Company reasonably determines that Reorganization etc. of the Company (defined below in 7(3)(b)3) is necessary, the Stock Acquisition Bonds may not be exercised during a period designated by the Company of no more than 30 days ending within 14 days from the day after the day that the Reorganization etc. takes effect. Further, in the case where the day that exercise of Stock Acquisition Rights takes effect (or in the case where such day is not a business day in Tokyo, the following business day in Tokyo) falls within the period from the day two Tokyo business days (or if such date is not a business day in Tokyo, then the day three Tokyo business days prior) before the record date or other such date designated by the Company for finalizing shareholders specified in Article 151, Paragraph 1 of the Act on Book Entry of Corporate Bonds and Shares (collectively referred to as the "Shareholder Record Date") until the relevant Shareholder Record Date (or if the relevant Shareholder Record Date is not a business day in Tokyo, then the following business day in Tokyo), the Stock Acquisition Rights may not be exercised; provided, however, that in the case of changes to laws and regulations or practices relating to the delivery of shares in conjunction with the exercise of stock acquisition rights through a book entry system pursuant to the Act on Book Entry of Corporate Bonds and Shares, the Company may modify the restrictions on the period when the Stack Acquisition Rights may be exercised pursuant to this paragraph to reflect those changes.
	(7)	Other conditions to the exercise of Stock Acquisition Rights	The Stock Acquisition Rights may not be exercised in part.
	(8)	Reason why pay-in of monies is not required in exchange for the Stock Acquisition Rights	Considering that the Stock Acquisition Rights are attached to convertible Bonds with Stock Acquisition Rights and cannot be separated from the Bonds for transfer, that upon exercise of the Stock Acquisition Rights, the Bonds will be contributed to the Company in relation to those Stock Acquisition Rights, and that there is a close mutual relationship between the Bonds and the Stock Acquisition Rights, and further taking into account the value of the Stock Acquisition Rights, the interest rate and pay-in amount of the Bonds, and the other economic value that the Company will gain from the other issuance conditions, the Company determined that payment of monies in exchange for the Stock Acquisition Rights is not necessary.
	(9)	Grant of Stock Acquisition Rights by the Successor Company etc. in the event of Reorganization etc. by the Company	(a) In the event of Reorganization etc., the Company will cause the Successor Company etc. (defined below) to assume its status as the primary obligor of the Bonds with Stock Acquisition Rights in accordance with the Terms of the Bonds with Stock Acquisition Rights and will make its best efforts to cause the Successor Company etc. to grant new stock acquisition rights in place of the Stock Acquisition Rights; provided, however, that such assumption and grant shall be conditioned on (i) that execution is possible under

applicable laws and regulations at that time, (ii) that a structure previously established for that purpose exists or establishing such a structure would be possible, and (iii) that execution is possible without the Company or the Successor Company etc. incurring unreasonable (to be determined by the Company) expenses (including taxes) from the perspective of the Reorganization etc. as a whole. In such case, the Company shall make its best efforts such that the Successor Company etc. is a listed company in Japan on the day that the Reorganization etc. takes effect. The Company's duty to make efforts specified in this Subsection (a) shall not apply in the case where the Company issues the certificates specified below in 7(3)(b)3(ii) to the financial agent.

The "Successor Company etc." means the counterparty in a Reorganization etc. that succeeds to the Company's duties relating to the Bonds with Stock Acquisition Rights and/or Stock Acquisition Rights.

(b) The particulars of the stock acquisition rights of the Successor Company etc. to be granted pursuant to (a) above shall be as set forth below.

1. Number of stock acquisition rights
   The same as the number of Stock Acquisition Rights relating to the Bonds with Stock Acquisition Rights in existence immediately prior to the day that the Reorganization etc. takes effect.
2. Class of shares to be acquired upon exercise of the stock acquisition rights
   Common stock of the Successor Company etc.
3. Number of shares to be acquired upon exercise of the stock acquisition rights
   The number of shares of common stock of the Successor Company etc. to be granted pursuant to exercise of the stock acquisition rights of the Successor Company etc. shall be determined taking into consideration the conditions and other terms of the Reorganization etc. and by making reference to the terms of the Bonds with Stock Acquisition Rights and shall comply with (i) or (ii) below. The conversion price show be adjusted in the manner set forth above in (4)(c).
   (i) In the case of merger, share exchange, or share transfer, the conversion price shall be set such that a holder of the number of shares of Company's common stock that would be received in the case where the Stock Acquisition Rights were exercised immediately before the effective date of the Reorganization etc. can receive the number of shares of common stock of the Successor Company received pursuant to the Reorganization etc. when exercising the stock acquisition rights of the Successor Company etc.

			immediately after the effective date of the Reorganization etc. If at the time of the Reorganization etc., securities other than the Successor Company's common stock or other assets are granted, a number of shares of common stock of the Successor Company equivalent to the number obtained by dividing the value of the securities or assets by the market value of the common stock of the Successor Company etc. may be received. (ii) In the case of Reorganization etc. other than as specified above, the conversion price shall be set such that economic benefit equivalent to the economic benefit that would be acquired by holders of the Bonds with Stock Acquisition Rights in the case where the Bonds with Stock Acquisition Rights were exercised immediately prior to the effective date of the Reorganization etc. can be obtained when exercising the stock acquisition rights of the Successor Company etc. immediately after the effective date of the Reorganization etc. 4. Particulars and amount of assets to be contributed upon exercise of stock acquisition rights Upon exercise of the stock acquisition rights of the Successor Company etc., the assumed Bonds shall be contributed, and the value of the Bonds shall be the same as the face value of the assumed Bonds. 5. Stock Acquisition rights exercise period From the effective date of the Reorganization etc. (in some instances, a day within 14 days after the effective date) to the expiration date of the exercise period of the Stock Acquisition Rights specified above in (6). 6. Other conditions to the exercise of stock acquisition rights The stock acquisition rights may not be exercised in part. 7. Additional capital and capital reserves in the case where stock is issued pursuant to the exercise of stock acquisition rights The amount of additional capital in the case where stock is issued pursuant to the exercise of the stock acquisition rights of the Successor Company etc. shall be the amount equal to the maximum capital, etc. increase calculated in accordance with Article 17 of the Corporate Accounting Rules multiplied by 0.5; fractional amounts of less than one yen resulting from the calculation shall be rounded up. The amount of additional capital reserves shall be the amount obtained by subtracting the increase in the amount of capital from the maximum capital, etc. increase. 8. In the case where a Reorganization etc. is implemented In the case where a Reorganization etc. is implemented with regard to the Successor Company etc., procedures shall be the

			same as those for the Bonds with Stock Acquisition Rights. 9. Other Fractional shares arising pursuant to exercise of the stock acquisition rights of the Successor Company etc. shall not be issued and no adjustment by means of cash payment shall be made. Stock acquisition rights of the Successor Company etc. cannot be separated from the Bonds for transfer. (c) In the case where the Company causes the Successor Company etc. to assume or succeed to the Company's duties pursuant to the Bonds in accordance with (a) above, the Company shall attach guarantees to certain situations specified in the Terms of the Bonds with Stock Acquisition Rights and shall comply with the Terms of the Bonds with Stock Acquisition Rights Terms.
7.	Particulars of the Bonds		
	(1)	Total amount of corporate bonds	The total of 10 billion yen plus the aggregate amount of the face value of Bonds relating to replacement certificates for Bonds with Stock Acquisition Rights
	(2)	Interest rate	The Bonds will not bear interest.
	(3)	Bond redemption method and period	(a) Redemption at maturity The Bonds shall be redeemed at 100% of the face value on September 27, 2023 (the maturity date). (b) Redemption prior to maturity 1. Early redemption pursuant to clean-up call provisions In the case where at any time prior to notice of early redemption specified in this item the aggregate face value of outstanding Bonds is 10% or less of the aggregate face value at the time of issuance of the Bonds, the Company may, following the provision of at least 30 days' and not more than 60 days' prior notice to holders of the Bonds with Stock Acquisition rights, redeem all of the outstanding Bonds (partial redemption shall not be permitted) at 100% of their face value. 2. Early redemption pursuant to changes in tax systems In the case where, as a result of changes in Japan's tax systems etc., the Company bears a duty to pay the additional amounts specified below in 8(a) and cannot avoid the duty to pay such additional amounts even by taking reasonable measures, the Company may, following the provision of at least 30 days' and not more than 60 days' prior notice to holders of the Bonds with Stock Acquisition rights, redeem all of the outstanding Bonds (partial redemption shall not be permitted) at 100% of their face value; provided, however, that such notice shall not be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts. Notwithstanding the above, if at the time such notice is provided, the aggregate face value of outstanding Bonds is 10% or more of the aggregate face value at the time of issuance of the Bonds, each holder of the Bonds with Stock Acquisition Rights shall have the right, upon

			the provision of notice to the Company at least 20 days prior to the relevant redemption date, to elect that its Bonds not be redeemed. In such case, the Company shall not be obligated to pay the additional amounts specified below in 8(a) with regard to the relevant Bonds with Stock Acquisition Rights after the relevant redemption date, and all payments made after the relevant redemption date shall be subject to withholding or deduction of the taxes and public charges set forth below in 8(a). 3. Early redemption pursuant to Reorganization etc. In the case where a Reorganization etc. occurred but (i) it is not possible to take the measures set forth above in 6(9)(a) or (ii) the Company issues to the Financial Agent a certificate to the effect that it does not anticipate that the Successor Company etc. will be a listed company in Japan on the day that the Reorganization etc. takes effect for any reason, the Company shall, upon the provision of notice to holders of the Bonds with Stock Acquisition Rights at least 14 Tokyo business days in advance, redeem all of the outstanding Bonds (partial redemption shall not be permitted) at the redemption price set forth below on the redemption date specified in the notice (in principle, the redemption date shall be a day before the relevant Reorganization etc. take effect). The redemption price applicable to the above redemption shall be calculated in accordance with a certain formula based on the redemption date and parity of the Bonds with Stock Acquisition Rights taking into consideration interest, the market price and volatility of the Company’s common stock, and other market trends so that the redemption price reflects the value of the Bonds with Stock Acquisition Rights at the time that the conversion price specified above in 6(4)(b). The minimum redemption price calculated in accordance with such formula shall be 100% of the face value of the Bonds, and the maximum redemption price shall be 170% of the face value of the Bonds (provided, however, that in the case where the redemption date falls in the period from September 14, 2023 to September 26, 2023, the redemption price shall be 100% of the face value of the Bonds). The particulars of the formula shall be determined by the Company’s Representative Director pursuant to authorization by the Board of Directors at the time of determination of the conversion price specified above in 6(4)(b). “Reorganization etc.” means the adoption of a resolution by the Company’s general shareholders meeting (if a resolution of the general shareholders meeting is not required, then by the Board of Directors) approving (i) merger by the Company with another company (here and hereafter, including merger involving the incorporation of a new company but excluding cases where the Company is the surviving company), (ii) transfer of assets (limited to cases of sale or transfer of all or substantially all of the Company’s

			assets where the Company's duties pursuant to the Bonds with Stock Acquisition Rights are transferred to the other company by the terms of the transfer), (iii) corporate division (including incorporation-type corporate split and absorption-type corporate split but limited to cases where the Company's duties pursuant to the Bonds with Stock Acquisition Rights are transferred to the counterparty to the corporate split), (iv) share exchange or share transfer (here and hereafter, limited to cases where the Company becomes a wholly-owned subsidiary of another company), or (v) any other corporate reorganization procedure under Japanese law where the Company's duties pursuant to the Bonds or the Bonds with Stock Acquisition Rights are assumed by another company. 4. Early redemption pursuant to delisting or shares, etc. In the case where (i) a tender offer is made by a person other than the Company (the "Tender Offeror") for the Company's common stock pursuant to the Financial Instruments and Exchange Act, (ii) the Company expresses an opinion supporting the offer in accordance with the Financial Instruments and Exchange Law, (iii) the Company or the Offeror announces or admits in the relevant tender offer registration statement or the like that the Company's common stock may be delisted as a result of the acquisition of the Company's common stock pursuant to the Tender Offer (excluding the case where Company or the Offeror publicly announces an intention to make its best efforts to continue listing the Company's common stock in Japan after the acquisition), and (iv) the Offeror acquires the Company's common stock pursuant to the tender offer, the Company shall, upon the provision of notice to holders of the Bonds with Stock Acquisition Rights as soon as practicably possible (but within 14 days from the day of acquisition of the Company's common stock pursuant to the tender offer) redeem all of the outstanding Bonds (partial redemption shall not be permitted) at the redemption price calculated by *mutatis mutandis* application of the case of redemption pursuant to (3) above (the minimum redemption price shall be 100% of the face value of the Bonds, and the maximum redemption price shall be 170% of the face value amount of the Bonds; provided, however, that in the case where the redemption date falls in the period from September 14, 2023 to September 26, 2023, the redemption price shall be 100% of the face value of the Bonds) on the date specified for redemption in the notice of redemption (the redemption date shall be a day falling between the 14th to 30th Tokyo business day after the day of the notice). Notwithstanding the above, if the Company or the Offeror publicly announces in the relevant tender offer registration statement or the like that it intends to implement a Reorganization etc. after the date of acquisition of the Company's common stock pursuant to the tender offer or that it plans to cause a Squeeze-Out Event (defined in (5) below) to occur, the Company's

			redemption duty under this Item 4 shall not apply; provided, however, that in the case where such Reorganization etc. or Squeeze-Out Event does not occur within 60 days after the acquisition date, the Company shall, upon the provision of notice to holders of the Bonds with Stock Acquisition Rights as soon as practicably possible (but within 14 days from the last day of the 60-day period) redeem all of the outstanding Bonds (partial redemption shall not be permitted) at the redemption price specified above on the date specified for redemption in the notice of redemption (the redemption date shall be a day falling between the 14th to 30th Tokyo business day after the day of the notice). If the Company becomes obligated to redeem the Bonds under both Item 4 above and either Item 3 above or Item 5 below, the procedures specified in 3 above or Item 5 below shall apply. 5. Early redemption pursuant to Squeeze-Out In the case where the Company's general shareholders meeting adopts a resolution for the acquisition of all of the Company's common stock following amendment of the Company's Articles of Incorporation to make the Company's common stock a class of stock subject to class-wide call, the case where the Company's general shareholders meeting adopts a resolution approving a demand for cash-out made by a special controlling shareholder of the Company made to the Company's other shareholders, or the case where the Company's general shareholders meeting adopts a resolution approving a consolidation of the Company's common stock in conjunction with delisting (a "Squeeze-Out Event"), the Company shall, upon the provision of notice to holders of the Bonds with Stock Acquisition Rights as soon as practicably possible (but within 14 days from the day of occurrence of the Squeeze-Out Event) redeem all of the outstanding Bonds (partial redemption shall not be permitted) at the redemption price calculated by *mutatis mutandis* application of the case of redemption pursuant to (3) above (the minimum redemption price shall be 100% of the face value of the Bonds, and the maximum redemption price shall be 170% of the face value amount of the Bonds; provided, however, that in the case where the redemption date falls in the period from September 14, 2023 to September 26, 2023, the redemption price shall be 100% of the face value of the Bonds) on the date specified for redemption in the notice of redemption (the redemption date shall be any day before the effective date of the relevant Squeeze-Out Event falling between the 14th to 30th Tokyo business day after the day of the relevant notice; provided, however, that in the case where the relevant effective date is a day before the 14th Tokyo business day from the date of the relevant notice, then the redemption date shall be moved up to a day before the relevant effective date). (c) Purchase and cancellation of the Bonds with Stock Acquisition Rights

			The Company may from time to time purchase the Bonds with Stock Acquisition Rights on public markets or by other means and hold or resell them or cancel the Bonds relating to the relevant Bonds with Stock Acquisition Rights. Further, the Company's subsidiaries may from time to time purchase the Bonds with Stock Acquisition Rights on public markets or by other means and hold or resell them or deliver them to the Company for cancellation of the Bonds relating to the relevant Bonds with Stock Acquisition Rights. (d) Acceleration In the case of default in the performance of or compliance with the terms of the Bonds or the occurrence of certain other events specified in the Terms of the Bonds with Stock Acquisition Rights, if a holder of the Bonds with Stock Acquisition Rights provides notice of acceleration to the Financial Agent specified below in (6) pursuant to the Terms of the Bonds with Stock Acquisition Rights, the Bonds shall be accelerated and the Company must immediately redeem all of the outstanding Bonds at face value plus accrued interest (if any). (e) Place of redemption Payment shall be made at the designated offices of the Financial Agent specified below in (6).
	(4)	Certificates of Bonds with Stock Acquisition Rights	Certificates representing the Bonds with Stock Acquisition Rights ("Certificates of Bonds with Stock Acquisition Rights") registered in accordance with the laws of England shall be issued.
	(5)	Restrictions on requests to convert Certificates of Bonds with Stock Acquisition Rights to bearer certificates	Requests may not be made to convert Certificates of Bonds with Stock Acquisition Rights to bearer certificates.
	(6)	Financial, payment, and transfer agent, and agent for receiving requests to exercise Stock Acquisition Rights	Mizuho Trust & Banking (Luxembourg) S.A. (Financial Agent)
	(7)	Administrator of the Bonds with Stock Acquisition Rights	Mizuho Trust & Banking (Luxembourg) S.A.
	(8)	Bond security or guarantees	The Bonds shall be issued with no security of guarantees.
8.	Special Covenants		(a) Additional payments In the case where any withholding or deduction of current or future taxes or public charges imposed by the government of Japan or any authority in Japan with the authority to impose taxes is required by law with respect to payments relating to the Bonds, the Company shall, with the exception of certain cases, pay additional amounts necessary such that the amounts paid to holders of the Bonds with Stock Acquisition Rights after such withholding or deduction or equal to the amounts which would have been received in the absence of such withholding or deduction. (b) Restrictions on creation of security interests As long as any of the Bonds with Stock Acquisition Rights remain

		outstanding, the Company and the Company's principal subsidiaries (defined in the Terms of Bonds with Stock Acquisition Rights) shall not create any mortgage, pledge, or other security interest and shall not allow any such security interest to continue to exist on the current or future property or assets of the Company or the Company's principal subsidiaries in whole or in part to the benefit of the holder of any Foreign Obligation (defined below) for the purpose of securing (i) payments relating to Foreign Obligations, (ii) payments pursuant to guarantees relating to Foreign Obligations, or (iii) payments pursuant to indemnities relating to Foreign Obligations or other comparable obligations; provided, however, that this shall not apply (a) in cases where the same security as the security attached to such Foreign Obligations, guarantee, indemnity, or other comparable obligation is simultaneously created for the Bonds with Stock Acquisition Rights or (b) in the case where other security or guarantee approved by an extraordinary resolution of the holders of the Bonds with Stock Acquisition Rights is simultaneously created for the Bonds with Stock Acquisition Rights. In this paragraph, "Foreign Obligation" means corporate bonds, debentures, notes, or other comparable securities with a maturity of more than one year which (i) are securities payable or that confer a right to receive payment in a currency other than yen or are denominated in yen and a majority of the aggregate principal amount is initially offered outside Japan by or with the authorization of the Company or a Principal Subsidiary of the Company, as the case may be and (ii) are or are intended to be quoted, listed, or regularly traded on any financial instruments exchange, over-the-counter market, or other comparable securities market outside Japan.
9.	Listing exchanges	Not applicable
10.	Other	No stabilization procedures will be implemented for the Company's common stock.

Reference

1. Use of Proceeds

(1) Use of Proceeds

The Company is expanding its business by actively investing in the Overseas Housing and Real Estate Business and Other Businesses in accordance with the Medium-Term Management Plan. In conjunction with this expansion, the Company's need for working capital and the balance of short-term interest-bearing liabilities are increasing.

Under these circumstances, the Company will refund cash on hand, which was depleted as a result of acquisition of the New Zealand Timberland Assets, a major investment under the Medium-Term Management Plan, using the proceeds from issuance of the Bonds with Stock Acquisition Rights. We plan to allocate the entire amount of the proceeds to repayment of short-term loans, which were borrowed for the purpose of securing working capital, by the end of December 2018.

As business environments in Japan and overseas undergo substantial changes, the Company is working to build business structures that can achieve sustainable growth. Under the Medium-Term Management Plan, we initially planned to invest a total of 150 billion yen. Overseas, we acquired the New Zealand Timberlands Assets and acquired equity stakes in home builder and other companies in the United States and Australia; in Japan, we formed business and capital partnerships and acquired the shares of private-pay elderly care companies. As a result, the actual investment amount exceeded the plan.

By raising capital through issuance of the Bonds with Stock Acquisition Rights, the Company will secure the working capital that it needs, reinforce its financial position, and establish the business structures that will support agile and active expansion of business in order to pursue business growth from a long-term perspective.

(2) Change in the use of proceeds from the fund raising by the previous transaction

Not applicable.

(3) Outlook for impact on operating results

There is no change to the outlook of operating results for the current fiscal term.

2. Distribution of Profits to Shareholders, etc.

(1) Basic policy on the distribution of profits

The Company regards shareholder returns as one of its highest priority, and its basic policy is to pay continuous and stable dividends.

With regard to the distribution of surplus, the Company is able to make distributions twice annually—an interim dividend and a year-end dividend. The decision-making bodies are the General Shareholders Meeting with regard to year-end dividends and the Board of Directors with regard to interim dividends. Further, the Company's Articles of Incorporation provide that an interim dividend may be paid pursuant to a resolution of the Board of Directors with September 30 of each year as the record date.

(2) Stance on the determination of dividends

The Company effectively uses internal reserves for effective investments and research and development activities that will contribute to enhancing corporate value over the long term and seeks to raise return on equity (ROE) and augment shareholders' equity while providing returns at suitable levels based on the status of profits, taking into general account the status of business foundations and finances, maintaining balance in cash flows, and other factors.

(3) Use of internal reserves

The Company effectively uses internal reserves to make effective investments and conduct research and development activities that will contribute to enhancing corporate value pursuant to long-term business plans.

(4) Dividends and other financial data for the past three fiscal years

	FY ended March 2016	FY ended March 2017	FY ending March 2018
Consolidated net income per share	¥54.92	¥194.95	¥168.49
Annual dividend per share (amount of interim dividend per share included in annual dividend)	¥24.00 (¥12.00)	¥35.00 (¥15.00)	¥40.00 (¥20.00)
Actual consolidated dividend payout ratio	43.7%	18.0%	23.7%
Consolidated return on equity	4.0%	13.3%	10.3%
Ratio of dividends to consolidated net assets	1.7%	2.4%	2.4%

Notes

1. Consolidated net income per share is calculated based on the weighted average number of shares during each fiscal period.
2. The actual consolidated dividend payout ratio is calculated by dividing annual dividends per share by consolidated net income per share.
3. Consolidated return on equity is calculated by dividing consolidated net income for the fiscal year attributable to owners of the parent at the end of the fiscal year by equity capital (the average of consolidated net assets after deducting stock acquisition rights and minority interests at the beginning of the fiscal year and consolidated net assets after deducting stock acquisition rights and minority interests the end of the fiscal year).
4. The ratio of dividends to consolidated net assets is calculated by dividing annual dividends per share by consolidated net assets per share (the average of consolidated net assets per share at the beginning of the fiscal year and consolidated net assets per share the end of the fiscal year).

3. Other

(1) Designated allottees

Not applicable.

(2) Information on dilution effects from potential shares

Since the conversion price has not yet been determined, dilution effects have not been calculated. Notice will be provided after the conversion price is determined.

(3) Status of equity financing conducted in the past three years

(i) Status of equity financing

・Issuance of new shares via private placement

(1)	Pay-in date	November 28, 2017
(2)	Number of shares issued	5,197,500 shares of Sumitomo Forestry common stock
(3)	Issue price (Pay-in amount)	1,924 yen per share
(4)	Total amount paid in	9,999,990,000 yen
(5)	Offer method (Intended allottee)	All shares shall be issued to the intended allottee (Kumagai Gumi Co., Ltd.) via private placement

・Issuance of new shares as stock-based remuneration with restrictions on transfer

(1)	Payment date	July 20, 2018
(2)	Class and number of shares to be issued	31,300 shares of common stock of the Company
(3)	Paid-in amount	1,687 yen per share
(4)	Total amount of issue	52,803,100 yen
(5)	Allottees	8 Directors (1*) 22,500 shares 12 Executive Officers (2*) 8,800 shares *1 Excluding Outside Directors *2 Excluding Executive Officers who concurrently serve as Directors

(ii) Stock price trends in the past three fiscal years and most recent stock price

	Fiscal Year Ended March 2016	Fiscal Year Ended March 2017	Fiscal Year Ended March 2018	Fiscal Year Ending March 2019
Opening price	1,301	1,288	1,685	1,707
High	1,742	1,787	2,059	1,868
Low	1,205	1,190	1,547	1,582
Closing price	1,293	1,690	1,706	1,815
Price-earnings ratio (consolidated)	23.5 times	8.7 times	10.1 times	—

Notes

1. Stock prices are the prices quotes on the First Section of the Tokyo Stock Exchange.
2. The price for the fiscal year ending March 2019 is the price as of September 10, 2018.
3. The price-earnings ratio (consolidated) is the figure obtained by dividing the stock price (closing price) as of the end of the fiscal year by net income per share at the end of the relevant fiscal year. Figures for the fiscal year ending March 2019 are undetermined, so the price-earnings ratio is not indicated.

(4) Lock-up

The Company has agreed that it will not issue shares of the Company's common stock, securities that can be converted into or exchanged for the Company's common stock, or securities representing rights to acquire or receive the Company's common stock (excluding the issuance of the Bonds with Stock Acquisition Rights, grants of the Company's common stock pursuant to the exercise of stock acquisition rights or stock options granted to the Company's directors and others, sale of the Company's common stock pursuant to demands for sale by holders of fractional share trading units, stock splits, sale of the Company's common stock in relation to shareholders whose whereabouts are unknown, and other cases where requests are made pursuant to the laws of Japan) during the period from the day of execution of the Underwriting Agreement relating to the Bonds with Stock Acquisition Rights until the lapse of 180 days after the pay-in date without obtaining the prior written approval of the Lead Underwriters.