

Revisions to remuneration plan for officers

Sumitomo Forestry Co., Ltd. (the “Company”) hereby announces that at the Board of Directors held on February 14, 2022, it resolved to revise its remuneration plan for the Company’s directors and executive officers (the “Officers”) as follows and submit a proposal for remuneration to directors to the 82nd Ordinary General Meeting of Shareholders to be held on March 29, 2022.

1. Purpose of the revision to remuneration plan for Officers

The Company decided to revise its remuneration plan in line 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.

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, has expressed its opinion that the substance of the revision to remuneration plan described in “2. Outline of the revision to the remuneration plan” is appropriate. The Board of Directors resolved to revise its remuneration plan for Officers based on the said committee's opinion in order to ensure the objectivity and transparency.

2. Outline of the revision to the remuneration plan

(1) Remuneration level

From the perspective of ensuring objectivity and appropriateness of the executive remuneration, the level of remuneration for directors and executive officers 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.

(2) Composition and composition ratio

The remuneration for directors (excluding outside directors; the “Subject Directors”) and executive officers 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 as before.

Remuneration composition ratio of Subject Director at the time of standard remuneration payment (image)

	(Fixed remuneration)		(Variable remuneration)
Current	Restricted stock remuneration (8%)	Monthly remuneration (72%)	Bonuses (20%)
Revised	Monthly remuneration (60%)		Bonuses (25%) Performance-based restricted stock remuneration (15%)

(Note)

The above composition ratio is based on the image at the time of standard remuneration payment (In the case where the vesting ratio is 100% for both annual performance-based bonuses (Bonuses) and performance-based restricted stock remuneration), and the ratio will change according to the Company's performance.

40%

(3) Fixed remuneration

The Company will pay fixed remuneration for each position on a monthly basis, of which amount is decided in accordance with their responsibilities and roles.

(4) Annual performance-based bonus (short-term incentive remuneration)

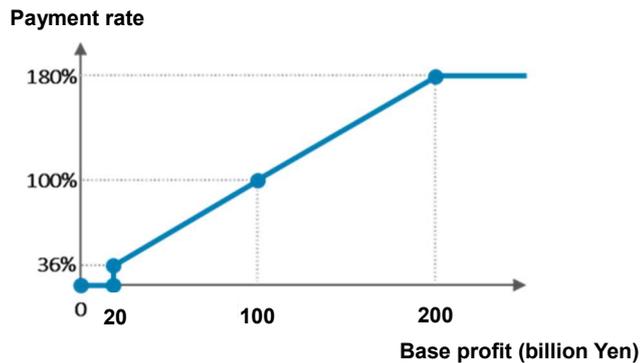
Annual performance-based bonus will be determined through comprehensive judgment based on the amount obtained by multiplying the standard bonus amount determined for each position by the payment rate which varies in proportion to the base profit for each business year (the amount obtained by deducting actuarial differences regarding employees' retirement benefit obligation (*), and net income attributable to non-controlling interests from consolidated recurring income for the fiscal year covered)

* 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.

<Calculation Formula>

Bonus amount = standard bonus amount by position × payment rate (*)

Incentive curb for annual performance-based Bonus



* The payment rate range will be from 0% (lower limit) to 180% (upper limit).

(5) Performance-based restricted stock remuneration (medium-to long-term incentive remuneration)

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.

i. Remuneration linked to the market capitalization growth rate

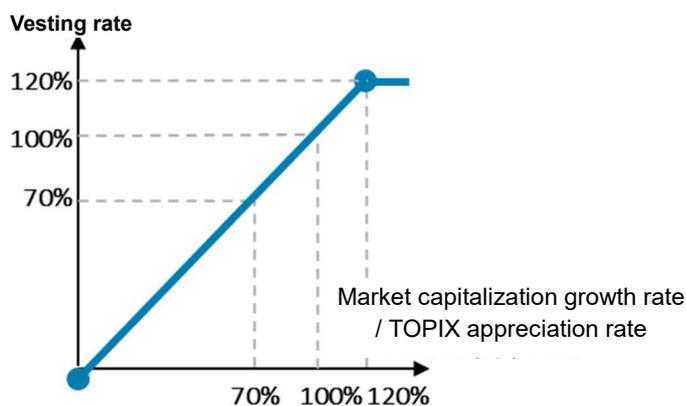
Remuneration linked to the market capitalization growth rate is designed to compare the Company's market capitalization growth rate with the TOPIX appreciation rate to objectively measure the Company's relative valuation in the stock market and reflect it in remuneration.

<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) (*)

Incentive curb for remuneration linked to the market capitalization growth rate



* The vesting rate range will be from 0% (lower limit) to 120% (upper limit).

ii. Remuneration linked to the sustainability index achievement rate

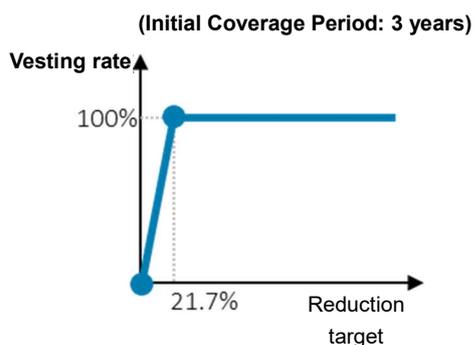
Since the maximum vesting rate is set at 100%, if the Company fails to achieve the emission reduction target (*1) that it has set based on the SBT (Science Based Targets *2), the amount of remuneration vested in proportion to the target achievement rate will be reduced accordingly from the standard stock remuneration amount by position, thereby providing a strong incentive to achieve the target.

<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)

Incentive curb for remuneration linked to the sustainability index achievement rate



*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.

*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).

*3 The vesting rate range will be from 0% (lower limit) to 100% (upper limit).

3. Proposal to the 82nd Ordinary General Meeting of Shareholders to be held on March 29, 2022

In order to realize the remuneration plan described in "2. Outline of the revision to the remuneration plan", the Company submit following proposal, in outline, to the 82nd Ordinary General Meeting of Shareholders to be held on March 29, 2022.

(1) Revision of the amount of remuneration for directors

In order to enable flexible operation of the director remuneration system, the Company seeks

shareholders' approval for the method of setting the amount of remuneration for directors be changed from setting the maximum monthly amount of fixed remuneration to setting the maximum annual amount of fixed remuneration plus Bonuses, and for the remuneration amount be revised from up to 40,000,000 yen per month (of which up to 5,000,000 yen per month is for outside directors) to up to 650,000,000 yen per year (of which up to 60,000,000 yen per year is for outside directors).

(2) Determination of the remuneration limit under the performance-based restricted stock remuneration plan for directors

In order to introduce a new performance-based restricted stock remuneration plan for the Subject Directors, the Company seeks shareholders' approval for the determination of the remuneration limit separately from (1) described above. Although the 78th Ordinary General Meeting of Shareholders held on June 22, 2018 approved the maximum amount of 100,000,000 yen per year in remuneration for the Subject Directors, if this Proposal is approved as proposed, the said stock remuneration plan will be abolished, and thereafter, no share will be delivered under the said stock remuneration plan and no monetary remuneration receivable will be vested for such delivery.

i. The maximum amount of monetary remuneration receivables to be vested and the maximum number of common shares to be delivered

Under the performance-based restricted stock remuneration plan, in order to allot restricted shares to the Subject Directors, the period covered by the Company's medium-term management plan (which will be no less than three years, with the initial term of such period being from January 1, 2022 to December 31, 2024) is designated as the evaluation period, and after the expiration of the evaluation period, the amount obtained by multiplying the standard stock remuneration amount by position by the vesting rate is vested in each Subject Director as monetary remuneration receivables. Then, by means of having the Subject Directors tender all of such monetary remuneration receivables to the Company as property contributed in kind, the Company will issue or dispose of common shares of the Company to the Subject Directors and have them hold such shares.

The amount of monetary remuneration receivables will be 100,000,000 yen or less per business year (However, the actual vesting of monetary remuneration receivables will, in principle, be made by adding up the monetary remuneration receivables for the evaluation period.). The number of shares to be delivered per business year will be 100,000 shares or less (However, the actual delivery of common shares will, in principle, be made adding up the common shares issued or disposed of for the evaluation period.).

the maximum number of shares to be delivered to the Subject Directors in a business year will be no more than 0.05% of the total number of issued shares (as of December 31, 2021).

ii. Time of delivery of shares

The issuance or disposition of common shares of the Company under the performance-based restricted stock remuneration plan will be effected after the expiration of the evaluation period, in principle. In issuing or disposing of such shares, the Company and each of the Subject Directors will enter into a share allotment agreement. In principle, the

date of the lifting of the restriction on transfer for a Subject Director shall be the date of his/her retirement.