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NIHON KOHDEN CORPORATION (6849)

Stock Exchange Listing: Prime Market, Tokyo Stock Exchange
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Announcement of Introduction of Performance-linked Post-delivery Restricted Stock Remuneration Plan

Nihon Kohden announced that it has decided to submit a proposal for the introduction of a Performance-linked Post-delivery Restricted Stock Remuneration Plan (“Plan”) at the 73rd Ordinary General Meeting of Shareholders to be held on June 26, 2024 for voting, following a meeting of the Board of Directors held today, which reviewed the Company’s executive remuneration plan and resolved to introduce the Plan.

1. Purpose and Conditions for Introduction of the Plan

(1) Purpose of Introduction of the Plan

The Company will introduce the Plan to provide incentives for Directors (excluding Directors serving as Audit & Supervisory Committee Members and Outside Directors; “Eligible Directors”) to strengthen its remuneration governance and further improve the Company’s corporate value to achieve its Three-year Business Plan, BEACON 2030 Phase II, starting from FY2024.

(2) Conditions for Introduction of the Plan

Because monetary compensation receivables are paid as remuneration to Eligible Directors to allot the number of shares of restricted stock (“Performance Stock”) in accordance with the degree of achievement of numerical targets for business performance during the relevant performance evaluation period, which is each fiscal year, the introduction of the Plan shall be subject to the approval of the Ordinary General Meeting of Shareholders with regard to the provision of such remuneration. It was previously approved at the Company’s 65th Ordinary General Meeting of Shareholders held on June 28, 2016 that the total amount of remuneration to Directors (excluding Directors serving as Audit & Supervisory Committee Members) be limited to within 400 million yen per year (including the maximum amount of Remuneration to Outside Directors, 30 million yen per year, not including the total amount of the Directors’ salaries as employees of the Company). It was also previously approved at the Company’s 69th Ordinary General Meeting of Shareholders held on June 25, 2020 that the maximum amount of monetary compensation receivables to be paid to Directors (excluding Directors serving as Audit & Supervisory Committee Members and Outside Directors) in respect of restricted

stock be limited to within 100 million yen per year. In addition to the above Director's remuneration and existing restricted stock remuneration, the Company plans to propose that the maximum amount of monetary compensation receivables that may be issued in respect of Performance Stock be set at 300 million yen for each period (as defined in 2 (1)), which the Company believes is reasonable in light of the purposes described above.

2. Overview of the Plan

(1) Allotment and Payment of Performance Stock

The Company will grant monetary compensation receivables to grant Performance Stock to Eligible Directors in accordance with the degree of achievement of numerical targets for business performance, which are determined by the Board of Directors of the Company in each fiscal year, the performance evaluation period ("period"). Each Eligible Director will receive Performance Stock by making an in-kind contribution of all monetary compensation receivables.

Therefore, at the beginning of the period, it is not determined whether or not monetary compensation receivables will be paid and the number of shares of Performance Stock to be allotted to each Eligible Director ("number of allotted shares") is also not determined.

The above monetary compensation receivables will be granted to Eligible Directors on the condition that they agree to the above in-kind contribution and that they have concluded with the Company an agreement on allotting Performance-linked Post-delivery Restricted Stock containing the terms stipulated in (6) below.

The initial period is the 74th fiscal year (April 1, 2024 to March 31, 2025) and each fiscal year thereafter shall be a new period for allotting Performance Stock.

(2) Total Number of Shares of Performance Stock

The maximum number of shares of Performance Stock to be allotted to Eligible Directors will be 150,000 shares per fiscal year.

However, if a share split of the Company's common stock (including allotment of the Company's common stock without contribution), a share consolidation of the Company's common stock, or any other event occurs that requires an adjustment of the total number of shares of Performance Stock to be allotted to Eligible Directors after the day of the resolution of this proposal, the Company may reasonably adjust the total number of shares of Performance Stock.

(3) Calculation Method of Number of Allotted Shares

The performance evaluation indicators such as numerical targets, which are necessary for calculating the specific number of shares of Performance Stock to be allotted, shall be determined by the Board of Directors of the Company based on indicators in its Three-year Business Plan. (As shown in Reference 1 below, in FY2024 to FY2026, it is planned that these will be the target of each indicator in its Three-year Business Plan, such as consolidated operating income margin, consolidated ROE, and relative TSR.)

In the specific calculation, the number of shares to be allotted to each Eligible Director shall be calculated based on the following formula (provided, however, that if a fraction of less than one share occurs, it shall be rounded down).

In the event that the total number of shares of Performance Stock to be allotted to each Eligible Director exceeds the above maximum number of shares to be allotted to Eligible Directors or the total amount of monetary compensation receivables to be granted to Eligible Directors by allotting shares of Performance Stock in accordance with the following formula, the number of shares to be allotted to each Eligible Director and the amount of monetary compensation receivables to be granted to each Eligible Director shall be adjusted to the extent that they do not exceed the total number of shares of Performance Stock to be allotted to Eligible Directors or the amount of monetary compensation receivables to be granted to Eligible Directors. Adjustments shall be made in a reasonable manner, such as proportional allotment, which is determined by the Board of Directors of the Company.

Number of shares allotted to each Eligible Director: number of stock points (*1) x payout ratio (*2)

*1 Determined by the Board of Directors of the Company according to the position and responsibilities of each Eligible Director.

*2 Determined by the Board of Directors of the Company in the range of 0 to 200% according to the achievement rate of each numerical target for each period.

(Reference 1)

The method of determining performance evaluation indicators and payout ratio for FY2024 to FY2026 in the event that the plan is introduced is as follows.

Provided, however, that if the consolidated operating income margin for the period is less than 10%, the payout ratio in the period will be 0%.

	Valuation weight	Performance evaluation indicators
Financial target evaluation	30%	Consolidated operating income margin
	30%	Consolidated ROE
Corporate value evaluation	40%	Relative TSR*

* (Total shareholder return of the Company at the end of the relevant fiscal year) ÷ (Average of total shareholder return of other companies in the same industry for the period corresponding to the calculation period of total shareholder return of the Company)

Payment ratio = (Coefficient linked to the degree of achievement of the consolidated operating income margin target x 30%) + (Coefficient linked to the degree of achievement of the consolidated ROE target x 30%) + (Coefficient linked to the degree of achievement of the relative TSR target x 40%)

(4) Requirements for Allotting of Performance Stock

In the event that the period expires, and that each Eligible Director meets the following grant requirements, the Company will grant monetary compensation receivables to each Eligible Director. Each Eligible Director will receive Performance Stock by making an in-kind contribution of all monetary compensation receivables.

The allotment of Performance Stock shall be made by the disposal of treasury shares of the Company.

The payment amount shall be determined at the Board of Directors of the Company to the extent that the amount is not particularly favorable value to each Eligible Director, based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the business day immediately preceding to the date of the resolution regarding the allotment of Performance Stock at the Board of Directors of the Company (or the closing price on the immediately preceding trading day if the transaction is not concluded on the same day).

Grant Requirements

- (a) The Eligible Director has continuously held the position of Director or Operating Officer of the Company for the entire period.
- (b) The Eligible Director has not conducted certain violations stipulated by the Board of Directors of the Company.
- (c) The Eligible Director has satisfied other requirements deemed necessary by the Board of Directors of the Company.

Provided, however, that notwithstanding (a) above, if there are any Eligible Directors newly appointed during the period, the number of shares to be allotted to each Eligible Director shall be adjusted as necessary.

If an Eligible Director retires from both the position of Director or Operating Officer of the Company due to the expiration of the term of office or any other reasons, such as death, deemed justifiable by the Board of Directors of the Company during the period, the amount of money reasonably calculated by the Board of Directors of the Company as an equivalent amount in lieu of the allotment of Performance Stock shall be within the range of 300 million yen for each period. Payments (including payments to heirs who will succeed in the event of death) may be made within a certain period from the date of such retirement.

(5) Treatment in the Event of Reorganization

Before the grant date of Performance Stock, if proposals relating to a merger agreement in which the Company is the dissolving company, share exchange agreement or share transfer plan in which the Company becomes a wholly-owned subsidiary, or other reorganization, are approved at a General Meeting of Shareholders of the Company (or if approval at a General Meeting of Shareholders of the Company is not required in relation to the reorganization in question, approval by the Board of Directors of the Company), before the date on which the reorganization becomes effective, the Company may pay an amount of money reasonably calculated by the Board of Directors of the Company based on the period served as a Director or Operating Officer as an equivalent amount in lieu of the allotment of Performance Stock within the range of 300 million yen for each period.

(6) Details of the Agreement on Allotting Performance-linked Post-delivery Restricted Stock

The agreement on allotting Performance-linked Post-delivery Restricted Stock to be concluded between the Company and Eligible Directors who receive an allotment of Performance Stock based on a resolution of the Board of Directors of the Company shall contain the following terms.

(a) Details of the restriction on the transfer of shares

Eligible Directors to whom Performance Stock is allotted may not transfer to a third-party, create a pledge or mortgage by transfer on, make an advancement, make a bequest, or otherwise dispose of Performance Stock allotted to them (“Allotted Stock”) during the period from the grant date of the Performance Stock to the date when the Eligible Director retires from the position of Director or Operating Officer of the Company (“Transfer Restriction Period”).

(b) Acquisition of Performance Stock without compensation

If an Eligible Director who receives an allotment of Performance Stock retires from both the position of Director and Operating Officer of the Company, all of his or her Allotted Stock will automatically be acquired by the Company without consideration except in the case that the Board of Directors of the Company deems that the reason for the resignation is valid.

The Company will automatically acquire all Allotted Stock without consideration if the restriction on transfer of the Allotted Stock has not been lifted at the expiration of the Transfer Restriction Period in (a) above based on the terms provided in (c) “Lifting of transfer restriction” below.

(c) Lifting of transfer restriction

The Company will lift the restriction on transfer of all of his or her Allotted Stock that an Eligible Director to whom Performance Stock was allotted holds at that time when the Transfer Restriction Period expires.

(d) Treatment in the event of reorganization

During the Transfer Restriction Period, if proposals relating to a merger agreement in which the Company is the dissolving company, share exchange agreement or share transfer plan in which the Company becomes a wholly-owned subsidiary, or other reorganization, are approved at a General Meeting of Shareholders of the Company (or if approval at a General Meeting of Shareholders of the Company is not required in relation to the reorganization in question, approval by the Board of Directors of the Company), the Company may lift the transfer restriction before the date on which the reorganization becomes effective for all of Eligible Directors’ Allotted Stock by the resolution of the Board of Directors of the Company.

(e) Malus and clawback clause

The Company will automatically acquire all or any part of the Allotted Stock allotted to an Eligible Director, or the Company’s common stock, for which the transfer restriction has been lifted, if the Board of Directors of the Company determines that the Eligible Director has violated laws and regulations or internal rules in a material respect during or after the Transfer Restriction Period, or if certain events including serious improper accounting or massive losses have occurred, as determined by the Board of Directors of the Company.

If these shares are disposed of, the Company will be able to claim payment of money from the Eligible Director equivalent to the value of the shares at the time of disposal.

(Reference 2)

The Company will also allot Performance Stock described above to Operating Officers of the Company.