



February 25, 2021

Company name: Modalis Therapeutics Corporation
Stock exchange listing: Tokyo Stock Exchange
Code number: 4883
URL: <https://www.modalistx.com/en/>
Representative: Haruhiko Morita

Notice regarding the introduction of a post-delivery type compensation system

At the Board of Directors meeting held on February 25, 2021, Modalis Therapeutics Corporation (hereinafter the "Company") reviewed the executive compensation system, resolved to introduce a post-delivery type stock compensation system (hereinafter referred to as the "system"), and resolved to submit the proposal at the 5th Ordinary General Meeting of Shareholders of the Company (hereinafter referred to as the "General Meeting of Shareholders") scheduled to be held on March 30, 2021.

1. Purpose of introduction of this system, etc.

(1) Purpose of introducing this system

Under this system, the directors of the Company (excluding the directors who are Audit and Supervisory Committee members; hereinafter referred to as the "target directors") strive to continuously improve the corporate value of the Company over the medium to long term, and further work with shareholders for improving corporate value. To promote sharing of the value of the Company, we will introduce a new compensation system in which the Company's common stock (hereinafter referred to as "the Company's stock") and money will be distributed to the target directors after a certain period of time.

(2) Conditions for introducing this system

Under this system, compensation for the allocation of the Company's shares and monetary compensation will be awarded to the target directors. Therefore, this system will be introduced to shareholders and will be subject to approval by shareholders at the General Meeting of Shareholders. At the Extraordinary General Meeting of Shareholders held on August 15, 2018, the maximum amount of remuneration, etc. for the directors of the Company (excluding directors who are Audit and Supervisory Committee members) was approved as 200,000 thousand yen or less per year. However, at this General Meeting of Shareholders, in consideration of various matters such as the contribution of directors to the Company, the Company's shares to be paid to the Target Directors will be awarded separately from the aforementioned limit of compensation for Directors. The total amount of compensation for the allocation of the Company's shares and monetary compensation receivables will be set at 100,000 thousand yen or less (including outside directors 81,400 thousand yen or less) for each service provision period (defined in 2. (1) below) We plan to ask our shareholders for approval.

2. Contents of this system

(1) Outline of this system

This system applies to the target directors for the period specified by the Board of Directors of the Company (hereinafter referred to as the " Designated Period "). The initial Designated Period will be four (4) years beginning from the 5th Ordinary General Meeting of Shareholders scheduled to be held on March 30, 2021. This system will continue to apply after the Ordinary General Meeting of Shareholders scheduled to be held in March 2022. The number of the Company's shares and monetary compensation specified in advance by the Board of Directors of the Company shall be awarded during the service provision period (from the start date of the Designated Period), provided that the system continues to be used during the period of service (the system will be continued within the period approved at the General Meeting of Shareholders). This is a stock compensation system that is paid after the end of the applicable period as compensation, etc. for the period up to the day before the date of the first general meeting of shareholders of the Company.

(2) Mechanism of this system

The specific mechanism of this system is as follows.

(1) The Company's Board of Directors will determine the standard amount and the number of units to be granted to each Target Director according to the size of the responsibilities of each Target Director. (One unit shall be equivalent to one share of the Company.).

(2) After the expiration of the Designated Period, the Company's Board of Directors will determine the number of Company shares and the amount of money to be paid to each Target Director based on the number of units granted to each Target Director.

(3) The Company will pay each Target Director in kind according to the number of shares of the Company to be granted to each Target Director as determined in (2) above, and each Target Director will be received for the monetary compensation claim. Each target director will receive an allotment of the Company's shares by paying all of them by the method of in-kind contribution. The amount to be paid in for the Company's shares shall be the closing price of the Company's common stock on the Tokyo Stock Exchange on the trading day prior to the resolution of the Board of Directors regarding its issuance or disposal (if the transaction is not completed on the same day, the closing price on the most recent trading day).

(4) In addition to the monetary compensation receivables paid in (3) above, the Company will pay the amount of money determined in (2) above to each Target Director. However, if there is a risk that the amount of monetary compensation receivables and the amount of money to be paid to the Target Directors for the allocation of the Company's shares will exceed the above total amount in 1. (2), the number of shares of the Company to be paid and the monetary compensation will be reduced proportionally or by some other rational method so it is within the range not exceeding the maximum allowable amount.

(3) Calculation method of the number of shares of the Company and the amount of compensation to be paid to each Target Director based on this system

The Company calculates the number of the Company's shares and the amount of compensation to be paid to each Target Director based on the following formula.

① Number of units to be given to each Target Director

Standard amount ¹ ÷ stock price at the time of grant ²

Fractional units resulting from the calculation are rounded at the first decimal place.

② Number of shares of the Company to be paid to each Target Director

Number of units to be granted as calculated in ① above x 75%

The number of shares less than 100 units generated as a result of calculation will be rounded up to 100 shares.

③ Amount of money to be paid to each Target Director

(Number of units to be granted calculated in ② above - Number of shares of the Company calculated in ② above) x Stock price at delivery ³

Fractions less than 1 yen generated as a result of calculation will be rounded up to the nearest 1 yen.

* 1 The standard amount is determined for each target director by the Board of Directors of the Company according to the size of the responsibilities of each Target Director.

* 2 The stock price at the time of grant shall be the average closing price of the Company's common stock on the Tokyo Stock Exchange for the month preceding the day before the date of the Ordinary General Meeting of Shareholders in the year in which the unit is granted.

* 3 The stock price at the time of delivery is the closing price of the Company's common stock on the Tokyo Stock Exchange on the trading day prior to the date of the resolution of the Board of Directors regarding the issuance or disposal of the Company's shares to be paid under this system (transactions were completed on the same day). If not, the closing price on the most recent trading day prior to that).

The total number of shares of the Company to be distributed to the Target Directors is 8,600 (including 7,000 the shares of Outside Directors), which is the upper limit of the number of Shares of the Company to be paid for each service provision period. However, if the total number of issued shares of the Company increases or decreases due to a reverse stock split, stock split, free allotment of shares, etc. after the date of the resolution at the General Meeting of Shareholders, the total amount of monetary compensation receivables and monetary amount to be paid to each Target Director and the total number of Company shares to be paid to each Target Director shall be reasonably adjusted according to the ratio.

(4) Requirements for payment of the Company's shares and money to the Target Directors

Under this system, when the Designated Period ends and the following requirements are met, the Company's shares and money will be paid to each Target Director. When the Company pays the Company's shares, the Company issues shares or disposes of treasury stock, and the Target Directors who are eligible to pay the Company's shares and the offering items related to the issuance of the shares or the disposal of treasury stock will be decided later at the Meeting of the Board of Directors of the Company following the Designated Period.

- (1) The Target Director continued to be a director of the Company during the Designated Period.
- (2) There was no determination of illegal acts carried out by the Board of Directors of the Company
- (3) Other requirements set by the Board of Directors of the Company as necessary to achieve the purpose of this system are satisfied

(5) Handling at the time of retirement

If the Target Director loses the position as a Director of the Company during the Designated Period, the number of the Company's shares and the amount of money will be adjusted using a rational method specified by the Board of Directors of the Company based on the term of office until the loss of status during the Designated Period and paid within a reasonable amount of time pending approval from the Board of Directors of the Company.

(6) Handling of organizational restructuring, etc.

During the Designated Period, if organizational restructuring measures are at the General Meeting Shareholders of the Company about the Company propose a merger agreement in which the Company will become an extinguished company, a share exchange agreement in which the Company become a wholly owned subsidiary, a share transfer plan, or other reorganization of the Company (however, regarding the reorganization, etc. If approval is not required at the General Meeting of Shareholders of the Company, it will be the approved by the Board of Directors of the Company), the Company will pay the specified amount of money to the Target Director prior to the effective date of the organizational restructuring, etc. based on a reasonably determined number of the Company's shares and a reasonably determined amount of money.

(Reference)

After the conclusion of the General Meeting of Shareholders, the Company plans to pay the Company's shares and money based on the same system as above to the employees of the Company and its subsidiaries. The Company plans to introduce it to employees of the Company subsidiaries in accordance with US law, taxation, accounting, etc.