



May 11, 2023

Company Name: USHIO INC.
Name and Title of Representative:
Koji Naito, President and Chief Executive Office
(Code Number: 6925,
the Prime Market of the Tokyo Stock Exchange)
Name and Title of Contact Person:
Hideaki Takizawa, General Manager,
Accounting & Finance Department
(TEL +81-3-5657-1000(from overseas))

Notice Regarding Revision of the Remuneration System for Directors and Continuation and Partial Revision of the Stock Compensation for Directors

At a meeting of its Board of Directors held today, the Company decided to: i) revise the remuneration system for its Directors (excluding Directors who were Audit & Supervisory Committee Members and excluding Outside Directors) and Executive Officers who had entered into a delegation agreement with the Company (collectively, “Directors, etc.”) ; and thus submit to the 60th Annual General Meeting of Shareholders to be held on June 29, 2023 a proposal to partially revise the stock compensation that has been in place since 2015 for Directors of the Company (excluding Directors who were Audit & Supervisory Committee Members and excluding Outside Directors) and Executive Officers (excluding non-residents of Japan) (collectively, “Eligible Directors, etc.”) (the “Compensation”), as described below.

1. Proposed Revision of the Remuneration System

(1) Background to the proposed revision

In order to realize the Vision for 2030, in April 2023, we launched the 2nd Medium-Term Management Plan (from the fiscal year ending March 2024 to the fiscal year ending March 2026) (the “Medium-Term Management Plan”), which focuses on establishing a structure to provide optical solutions, business portfolio transformation, and expanding (strengthening) strategic investments. At the same time, our Company shifted to an evaluation and remuneration system linked more closely to the Medium-Term Management Plan. To ensure objectivity and transparency in our processes for determining compensation, we established the Nomination and Remuneration Advisory Committee as a voluntary advisory body to the Board of Directors, which is chaired by an outside director and the majority of the members of which consist of outside directors. The system was revised by obtaining recommendations from the committee.

(2) Basic policy on compensation

- Things that motivate us to realize the Vision for 2030 and the Medium-Term Management Plan that begins in fiscal 2023
- Things that lead us to continue to deliver improved business performance and higher corporate value over the medium- to long-term
- Things that are closely linked to our Company's performance and corporate value and are highly transparent and objective
- Considering the companies listed on the Tokyo Stock Exchange Prime Market and companies similar in size and in the same sector, our compensation levels should enable management to secure and retain diverse and highly-skilled human resources.
- Decide on compensation through a transparent process to earn the trust and support of stakeholders

(3) Policy on our compensation structure and composition ratio

Compensation for Directors, etc. of our Company consists of fixed monetary compensation, short-term performance-linked monetary compensation and medium- to long-term performance-linked stock compensation.

Compensation levels and compensation ratios for our Company's Directors, etc. are determined through deliberations by the Nomination and Remuneration Advisory Committee following an objective comparative verification using executive compensation data from an external research organization in accordance with the basic policy. The percentages of fixed monetary compensation, short-term performance-linked monetary compensation, and medium- to long-term performance-linked stock compensation, which are each set for Directors, etc. according to their position, are set approximately at the levels shown in the table below for when a target standard is achieved.

Post	Fixed monetary compensation	Short-term performance-linked monetary compensation	Medium- to long-term performance-linked stock compensation
Representative Director	50%	25%	25%
Director	55%	25%	20%
Executive Officer	60%	25%	15%

(4) Policy on short-term performance-linked monetary compensation

We will decide on short-term performance-linked monetary compensation in accordance with one's position and degree of achievement of the performance targets (evaluation of consolidated performance and the performance of the unit that each Director is in charge of) for a given fiscal year in order to further increase the motivation of Directors, etc. to contribute to the improvement of our corporate value and to encourage them to implement the Medium-Term Management Plan steadily under the basic policy. Evaluation indicators are linked to key indicators of the Medium-Term Management Plan, and the relevant indicators, ratios and target values have been set as shown in the table below.

This type of compensation is paid in a lump sum after the end of a fiscal year in an amount determined by multiplying the base amount set for each position by a factor set in accordance with the degree of achievement of each evaluation indicator. Short-term performance-linked monetary compensation varies in value in a range between 0% and 200%.

	Directors portion	Executive Officers portion	
Indicator	ROE (*)	Consolidated EBITDA	Target achievement rate for the unit the Director is in charge of
Percentage	100%	50%	50%
Target	Linked to fiscal year consolidated performance targets		Linked to fiscal year consolidated performance targets of the unit the Director is in charge of

(*) Our ROE targets are calculated by excluding new amortization of goodwill.

(5) Policy on medium- to long-term performance-linked stock compensation

We will decide on medium- to long-term performance-linked stock compensation in accordance with one's position and degree of achievement of the performance targets and ESG targets for a given fiscal year in order to further increase the motivation of the Eligible Directors, etc. toward the Compensation to contribute to the improvement of our corporate value and to encourage them to implement the Medium-Term Management Plan steadily under the basic policy. Evaluation indicators are linked to key indicators of the Medium-Term Management Plan, and the relevant indicators, ratios and target values have been set as shown in the table below.

The stock points for medium- to long-term performance-linked stock compensation, which are granted to Eligible Directors, etc. at certain times each year (* 1), are calculated by multiplying the base stock points set for each position (* 2) by a factor set in accordance with the degree of achievement of each evaluation indicator and vary within a range between 0% and 200%. When a director resigns, our Company shares will be given to him/her in the number determined by multiplying the cumulative number of stock points granted to him/her during his/her tenure by one share per point.

	Directors portion	Executive Officers portion		
Indicator	ROE (* 3)	Consolidated EBITDA	Engagement Score (* 4)	ESG Evaluation Score (※5)
Percentage	100%	70%	18%	12%
Target	Linked to fiscal year consolidated performance targets		Linked to ESG targets	

(* 1) In order to encourage steady execution of the medium-term management plan, the base number of stock points set for different positions is weighted toward the final year of the medium-term management plan period. Accordingly, the maximum limit on the total number of stock points that can be granted to an Eligible Director, etc. per year is 165,000 points for the final fiscal year of an evaluation period and 127,500 points for other fiscal years subject to evaluation.

(* 2) The base stock compensation points linked to medium- to long-term performance were calculated by dividing the preset amount of medium- to long-term performance-linked stock compensation for each position by the average closing price of our Company stock during the period from January 4, 2023 to March 31, 2023.

(* 3) Our ROE targets are calculated by excluding new amortization of goodwill.

(* 4) Our Company defines engagement as "a state in which executives and officers find value in their relationships with their colleagues in the company and office and want to contribute actively," and we use as an engagement score the percentage of employees who have given an affirmative answer to a question

indicating such state.

(* 5) FTSE Russell ESG Ratings are used as an indicator.

2. Continuation and Partial Revision of the Compensation

(1) Outline of the Compensation

The Compensation is stock compensation whereby Company shares are acquired through the trust (created with the Company as trustor; “Trust”) using money equivalent to the remuneration for Eligible Directors, etc. contributed by the Company, and the delivery and payment (“Delivery, etc.”) of Company shares and cash equivalent to the conversion value of said shares (“Company Shares, etc.”) are made to Eligible Directors, etc. based on their position and the degree of achievement of business performance targets, etc. shown in the medium-term management plan.

(2) Purpose and details of the revision of the Compensation

The purpose of the revision of the Compensation is to link it to periods covered by the Company’s Medium-Term Management Plan and medium-term management plans to be formulated by the Company in the future, and to further increase the motivation of the Eligible Directors, etc. to contribute to the improvement of our corporate value and to encourage them to implement the medium-term management plan steadily in accordance with the basic policy.

The current Compensation covers the period up to the fiscal year ending March 2024, and while the period of the established Trust will expire in August 2024, the Trust will cover the period up to the fiscal year ending March 2026, which is the final fiscal year of the period covered by the Medium-Term Management Plan, and the period of the Trust will be extended by 2 years to the end of August 2026. Thereafter, periods covered by the Compensation will be the fiscal years covered by the medium-term management plans to be formulated in the future.

In addition, evaluation indicators forming the basis for the number of stock points granted to Eligible Directors, etc. will be linked to important indicators and targets in the medium-term management plan, and the ratio of compensation under the Compensation to the compensation of Eligible Directors, etc. will be increased, and the maximum amount of trust money contributed for the Compensation as well as the maximum number of annual stock points granted to Eligible Directors, etc. will be revised, as described below.

	Before revision	After revision
Maximum amount of money to be contributed by the Company	• <u>620</u> million yen for three fiscal years	• <u>1,140</u> million yen for three fiscal years
Maximum number of stock points to be granted to Eligible Directors, etc.	• A total of <u>110,000</u> stock points for one fiscal year • A total of <u>330,000</u> stock points for three fiscal years	• A total of <u>165,000</u> stock points for one fiscal year • A total of <u>420,000</u> stock points for three fiscal years
Details of Performance Achievement Requirements	• <u>Consolidated operating income and ROE</u> for a covered period	• <u>Performance targets and ESG targets</u> for a covered period (Performance targets and ESG targets for the period covered by the Medium-Term Management Plan are as shown in 1(5) above)

No other change will be made to the details of the Compensation. For the details of the existing Compensation, please refer to the Notice Regarding Introduction of Stock Compensation for Directors dated May 11, 2015.

(Reference)

Details of the trust contract after revision

- (1) Trust type: A money trust other than a specified separate investment money trust (third-party-benefit trust)
- (2) Trust purpose: To pay medium- to long-term performance-linked stock compensation to Eligible Directors, etc.
- (3) Trustor: The Company
- (4) Trustee: Mitsubishi UFJ Trust and Banking Corporation
(Co-trustee: The Master Trust Bank of Japan, Ltd.)
- (5) Beneficiaries: Directors, etc. who meet the beneficiary requirements among Eligible Directors, etc.
- (6) Trust Caretaker: A third-party specialist without relationship with the Company
- (7) Date of Amendment of Trust Contract: August 8, 2023 (planned)
- (8) Trust Period: From August 4, 2015 to August 31, 2026 (to be extended due to the above revision)
- (9) Exercise of voting rights: No exercise of voting rights
- (10) Type of acquired shares: Company's ordinary shares
- (11) Upper Limit of Trust Money: 1,140 million yen (including trust remuneration/trust expenses)
- (12) Period of acquiring shares: September 1, 2023 (planned) to September 15, 2023 (planned)
- (13) Method of acquiring shares: To be acquired from the stock market
- (14) Holder of a vested right: The Company
- (15) Residual assets: Residual assets that can be received by the Company, which is a holder of a vested right, shall be within the limit of the trust expense reserve calculated by deducting the cost for acquiring the shares from the Trust from trust money.