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For immediate release

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Notice of issue of Stock Options

The Board of Directors of Ultrafabrics Holdings Co., Ltd. decided on February 24, 2023, to present a motion at the 58th General Meeting of Shareholders scheduled for March 28, 2023, requesting authorization for the Board of Directors to decide the subscription criteria for stock options for the directors and employees of Ultrafabrics Holdings (excluding members of the Audit & Supervisory Committee) and its subsidiaries, based on the provisions of Articles 236, 238, and 239 of the Companies Act. The details are as follows.

The stock option scheme is intended to reflect positive contributions to longer-term earnings in the compensation provided to directors and employees, thereby raising the incentive to improve corporate value. The scheme is also intended to provide an alternative for directors and employees to retirement benefits, which do not currently exist. The stock options will in principle vest over three years. The scheme was already approved at the 55th General Meeting of Shareholders, held on March 27, 2020, and this proposal serves as a means to consult with shareholders over the issuance of stock options now that three years have elapsed since the original resolution was passed.

The granting of stock options to the company directors comes under the scope of compensation as defined in Paragraph 1 of Article 361 of the Companies Act. The 52nd General Meeting of Shareholders held on June 22, 2017, authorized compensation to directors (excluding members of the Audit & Supervisory Committee) of up to ¥300mn per year (not including amount paid as employee salary), which has continued to apply until the present. However, this time the directors request the approval of a separate annual amount of up to ¥100mn to grant stock options to the directors (excluding members of the Audit & Supervisory Committee).

1. The rationale for issuing stock options with particularly favorable conditions

The company directors (excluding members of the Audit & Supervisory Committee) and employees do not have retirement benefits. The issue of stock options is intended to ensure the directors and employees of the company and its subsidiaries have a longer-term commitment to the group, and to give management a greater focus on improving earnings, increasing corporate value, and prioritizing shareholders.

2. Amount to be paid in for stock options

No payment will be required.

3. Allotment date for stock options.

The Board of Directors will be authorized to set the allotment date.

4. Details of the stock options

(1) Class and number of shares underlying the stock options

The number of shares underlying each stock option is 100 shares, and the maximum number of common shares to be issued is 450,000.

In the event that the Company carries out a share split or reverse share split, the following formula will be used to adjust either: the maximum number of shares, in the case that the stock options have not been issued at the time of the share split; or the number of shares underlying the stock options that have not yet been exercised, in the case that the share options have been issued at the time. The number of shares will be rounded down to the nearest whole number.

Adjusted number of shares = unadjusted number of shares × split/reverse-split ratio

In the event of a merger, company split, share exchange, or share transfer ("merger"), or in the event of an allotment of share without contribution, or any other event requiring an adjustment to equity, the number of shares can be adjusted rationally taking account of the terms of the merger or allotment without contribution.

(2) Total number of stock options

The total number of stock options will be capped at 4,500.

The number of stock options granted to the company directors (excluding members of the Audit & Supervisory Committee) will be capped at 3,000, but the total number of all stock options including those awarded to the employees of the company and the directors and employees of its subsidiaries shall not exceed 4,500.

(3) The value of assets to be contributed when stock options are exercised

The exercise of the stock option will require a monetary contribution. The total value of the contribution will be the product of the contribution per share to be paid in upon exercise of the stock option ("exercise price") and the total number of underlying shares.

The exercise price will be 1.05 times the average close price for ordinary transactions on the Tokyo Stock Exchange for every day of the month prior to the month that contains the allotment date ("allotment date") for the stock options, excluding those days on which no transactions were made ("close price"), rounded up to the nearest whole yen. However, in the event that the exercise price is less than the close price on the allotment date (or the most recent close price prior to the allotment date if there is no close price on the allotment date), the exercise price will be equal to the close price on the allotment date.

If the company carries out a stock split or reverse stock split for common stock after the allotment date, the above exercise price shall be adjusted according to the following formula in accordance with the stock split or reverse stock split ratio, rounded up to the nearest whole yen.

$$\text{Adjusted exercise price} = \text{Unadjusted exercise price} \times \frac{1}{\text{Split/reverse-split ratio}}$$

In addition, the above exercise price shall be adjusted by the following formula, and rounded up to the nearest whole yen, in the event that (a) the Company issues new common stocks or disposes of treasury stocks at a price below the market price (excluding the transfer of treasury stocks in accordance with Article 194 of Companies Act [Demand for Sale to Holder of Shares Less than One Unit] or the conversion or exercise of securities that can be converted into common stocks or of stock options (including bonds with stock acquisition right) that permit the holder to demand the transfer of common stocks); or (b) the Company solicits share options, bonds with stock acquisition right, shares with ~~a~~ put option, or shares subject to call with a paid-in value per ordinary share to be offered in exchange for the acquisition that is lower than the exercise price ("acquisition shares"); or (c) Ultrafabrics grants stock options (including bonds with stock acquisition right) that would have a paid-in amount per common stock issued when exercised that is below the exercise price.

$$\text{Adjusted exercise price} = \text{Unadjusted exercise price} \times \frac{\text{Already issued shares} + \dfrac{\text{Newly issued shares} \times \text{Paid-in value per share}}{\text{Market price}}}{\text{Already issued shares + newly issued shares}}$$

In the above formula, "already issued shares" denotes the total number of issued common stocks less the number of common stocks held by the Company (i.e., treasury stocks). "Newly issued shares" denotes the number of common stocks stipulated in sections (a) through (c) above or the number of common stocks to be issued due to the exercise or acquisition of stock options. In the event of a disposal from treasury shares, "newly issued shares" can be read as "number of treasury stocks to be disposed of".

Moreover, in the event that the Company carries out a reverse share split, an allotment of share without contribution, or other events that would require an adjustment to the above exercise price, the exercise price can be adjusted rationally in consideration of the terms of the reverse share split or allotment without contribution.

(4) The period during which the stock options can be exercised

The stock options can be exercised for a period starting on the day three years from the day following the allotment date for the stock options, and ending on June 30, 2029. However, if the final day of the exercise period is not a business day for the Company, the final day shall be the immediately preceding business day.

(5) Matters regarding the capital and capital reserves that will increase in the event that shares are issued as a result of the exercise of the stock options

(i) The increase in capital caused by the issue of new shares resulting from the exercise of the stock options will be capped at one half of the maximum increase in capital calculated based on the Regulations on Company Accounting, Article 17, Paragraph 1, rounded up to the nearest whole yen.

(ii) The increase in capital reserves caused by the issue of new shares resulting from the exercise of the stock options will be maximum increase in capital outlined in (1) above less the increase in capital outlined therein.

(6) Conditions for the exercise of the stock options

(i) No partial exercise of the stock option~~s~~ is permitted

(ii) The rights shall be forfeited immediately if circumstances arise that mean the exercise of the stock options would be contrary to their intended purpose, including the following: if the holder of the stock option is a director who is dismissed from his/her post; if the holder of the stock option is a director who resigns for personal reasons (excluding resignations related to illness or disability); if the holder is sentenced to imprisonment or more serious criminal punishment; or if the holder is appointed as a director or adviser of a company in a competitive relationship with the Company or its subsidiaries.

(iii) Any other conditions decided by the Board of Directors.

(7) Conditions for the acquisition of the share options

(i) The Company can acquire the stock options without compensation if the conditions for the exercise of the stock options laid out in section (6) above are no longer met.

(ii) The Company can acquire the stock options without compensation in the following cases: if a meeting of the shareholders passes a resolution approving a merger agreement in which the company ceases to exist as a separate entity; or if a meeting of the shareholders passes a resolution approving an share exchange agreement or an share transfer plan in which the Company becomes a wholly owned subsidiary.

(8) Restrictions on acquisition of the stock options by transfer

Acquisition of the stock options by transfer must be approved by resolution of the Board of Directors.

(9) Treatment of the stock options in the event of an organizational restructuring

If in the process of organizational restructuring, an agreement or restructuring plan sets out the granting of stock options in the stock companies to be defined below, the stock options of the stock company defined below will be awarded in accordance with the ratio of the organizational restructuring.

However, this shall not apply if otherwise stipulated in the agreement or plan.

(i) A merger in which the Company ceases to exist as a separate entity

The stock company that continues to exist after the merger, or the stock company established by the merger.

(ii) An absorption-type split

The stock company that succeeds to all or part of the rights and obligations related to the operations of the stock company making the absorption-type split.

(iii) An incorporation-type company split

The stock company established by the incorporation-type company split.

(iv) Share exchange

The stock company that acquires the entirety of the equity issued by the stock company that conducts the share exchange.

(v) Share transfer

The stock company established by the share transfer.

(10) The rounding down of fractional shares arising from the exercise of the stock options

Any fractional shares less than one whole share that arise from the exercise of the stock options shall be rounded down to the nearest whole number.

(11) The non-issuance of certificates for the stock options

The Company will not issue any stock option certificates related to the stock options.

(12) Other particulars related to the stock options

Any other particulars related to the stock options will be decided together with the other subscription requirements at a future meeting of the Board of Directors to be held regarding the issue of the stock options.