

These documents have been translated from Japanese originals for reference purposes only. In the event of any discrepancy between these translated documents and the Japanese originals, the originals shall prevail. RaQualia Pharma Inc. assumes no responsibility for these translations or for direct, indirect or any other forms of damages arising from the translations.

Securities Code 4579
March 9, 2022

Hirobumi Takeuchi
Representative Director
RaQualia Pharma Inc.
1-21-19 Meieki Minami,
Nakamura-ku, Nagoya, Japan

CONVOCAATION NOTICE OF THE 14TH ORDINARY GENERAL MEETING OF SHAREHOLDERS

Dear Shareholders:

We are pleased to announce the 14th Ordinary General Meeting of Shareholders (the “Meeting”) of RaQualia Pharma Inc. (the “Company”) to be held as indicated below.

In order to prevent the spread of novel coronavirus (COVID-19), you are strongly encouraged to refrain from traveling to the venue on the date of the Meeting and exercise your voting rights prior to the Meeting in writing (by mail) or via the internet, if at all possible. Please review the attached Reference Materials for the Ordinary General Meeting of Shareholders and exercise your voting rights no later than 5:30 p.m., Thursday, March 24, 2022 (Japan Standard Time).

- 1. Date and Time:** March 25, 2022 (Friday) at 10:30 a.m. (Reception desk is scheduled to open at 9:30 a.m.)
- 2. Place:** Sakae Gas Hall, Sakae Gas Building 5F,
3-15-33 Sakae, Naka-ku, Nagoya, Japan
- 3. Meeting Agenda:**
Report matters:
 1. The Business Report and the Consolidated Financial Statements for the 14th Fiscal Year (January 1, 2021 to December 31, 2021), and the results of audits of the Consolidated Financial Statements by the Accounting Auditor and the Audit and Supervisory Committee
 2. Non-consolidated Financial Statements for the 14th Fiscal Year (January 1, 2021 to December 31, 2021)
Resolution matters:
 - Proposal 1:** Partial Amendment to the Articles of Incorporation
 - Proposal 2:** Election of Four (4) Directors (excluding Directors Serving on the Audit and Supervisory Committee)
 - Proposal 3:** Presentation of Retirement Allowance to Retiring Directors
 - Proposal 4:** Determination of Remuneration for Granting Shares with Transfer Restrictions and Performance-linked Shares for Subsequent Delivery to Directors (Excluding Directors Serving on the Audit and Supervisory Committee and Outside Directors)
- 4. Guidance for Exercising Voting Rights** Please refer to the “Guidance for Exercising Voting Rights” on pages 3 to 4.

-
- If you plan to attend the Meeting, please submit the enclosed Voting Right Exercise Form to the receptionist at the Meeting.
 - Of the documents to be provided with this Convocation Notice, Share Acquisition Rights, etc., System for Ensuring the Appropriateness of Business Operations, and Summary of Status of Implementation of System (Internal Control System) for Ensuring the Appropriateness of Business Operations in the Business Report; the Basis of Preparing Consolidated Financial Statements and Other Notes in the

Consolidated Financial Statements; and Non-consolidated Statement of Changes in Equity and Significant Accounting Policies and Other Notes in the Non-consolidated Financial Statements have been posted on the Company's website (URL: <https://www.raqualia.co.jp/>) in accordance with laws and ordinances and Article 18 of the Articles of Incorporation. Therefore, those documents are not posted in this Notice. The documents attached thereto constitute a part of the documents audited by the Audit and Supervisory Committee and the Accounting Auditor to prepare the Audit Report. These documents will be available in Japanese only.

- If any amendments are made to the Reference Materials for the Ordinary General Meeting of Shareholders, Business Report, Consolidated Financial Statements, and Non-consolidated Financial Statements, the amended version(s) will be posted on the Company's website (URL: <https://www.raqualia.co.jp/>). The amendments in these documents will be available in Japanese only.

Business Briefing for Shareholders

After this Ordinary General Meeting of Shareholders, we will continue to hold a Business Briefing for Shareholders to explain our medium-term strategies and other matters to our shareholders. The Business Briefing for Shareholders will be broadcast live on the Internet following this Ordinary General Meeting of Shareholders.

1. **Date and Time:** March 25, 2022 (Friday), after the Ordinary General Meeting of Shareholders
(scheduled for about 30 minutes)
2. **Place:** The same venue as this Ordinary General Meeting of Shareholders

Please note that the above Business Briefing for Shareholders is intended for shareholders who will attend this Ordinary General Meeting of Shareholders or view it via live webcast.

Guidance for Exercising Voting Rights

Exercise of voting rights at the Meeting is shareholders' important right. Please review the attached Reference Materials for the Ordinary General Meeting of Shareholders and exercise your voting rights. You may exercise your voting rights by the following three methods.

Voting via the Internet

Please enter your vote "for" or "against" for each of the proposals by following the guidance on the next page.

Deadline: **All data entry to be completed no later than 5:30 p.m., Thursday, March 24, 2022 (Japan Standard Time)**

Voting in Writing (by Mail)

Please indicate "for" or "against" for each of the proposals in the enclosed Voting Right Exercise Form.

Deadline: **To be received no later than 5:30 p.m., Thursday, March 24, 2022 (Japan Standard Time)**

Attending the Meeting

Please submit the enclosed Voting Right Exercise Form to the receptionist at the Meeting.

Date and Time: **March 25, 2022 (Friday) at 10:30 a.m.**
(Reception desk is scheduled to open at 9:30 a.m.)

How to Fill out the Voting Right Exercise Form

Proposals 1, 3, 4

- If you approve:
Put a circle in the box marked 賛 [For]
- If you disapprove:
Put a circle in the box marked 否 [Against].

Proposal 2:

- If you approve of all of the candidates:
Put a circle in the box marked 賛 [For]
- If you disapprove of all of the candidates:
Put a circle in the box marked 否 [Against].
- If you disapprove of some of the candidates:
Put a circle in the box marked 賛 [For] and indicate the number of the candidate that you disapprove.

If you exercise voting rights in duplicate, both in writing (by mail) and via the internet, the voting rights exercised via the internet shall be deemed effective. Also, if you exercise voting rights several times via the internet, only your final vote shall be deemed effective.

Guidance for Exercising Voting Rights via the Internet

By scanning the QR Code (“smart voting”)

You can login to the website for exercising voting rights without entering the voting right exercise code and password.

1. Please scan the QR Code printed on the Voting Right Exercise Form at the bottom right.

* QR Code is a registered trademark of DENSO WAVE INCORPORATED.

2. Then please follow the on-screen instructions to enter your vote “for” or “against” for each of the proposals.

The exercise of voting right by “smart voting” is available only once.
In case if you want to change your vote after exercising your voting right, please access the website for a personal computer and login by entering the “voting right exercise code” and “password” supplied on the Voting Right Exercise Form, to exercise your voting right again.
* You will be transferred to the website for a personal computer by scanning the QR Code again.

By entering the voting right exercise code and password

Website for exercising voting rights: <https://www.web54.net> (Available in Japanese only)

1. Please access the website for exercising voting rights.

- Click “Proceed to the next”

2. Please enter the “voting right exercise code” supplied on the Voting Right Exercise Form.

- Enter the “voting right exercise code”
- Click “Login”

3. Please enter the “password” supplied on the Voting Right Exercise Form.

- Enter the “initial password”
- Enter the new password that you will actually use
- Click “Register”

4. Then please follow the on-screen instructions to enter your vote “for” or “against” for each of the proposals.

In case you need instructions for how to operate your personal computer/smartphone/mobile phone in order to exercise your voting rights via the internet, please contact:

Sumitomo Mitsui Trust Bank, Limited,
Stock Transfer Agency Web Support (dedicated line)
Telephone: 0120-652-031 (toll free, available only
in Japan) (Support in Japanese only)
[9:00 a.m. to 9:00 p.m. (Japan Standard Time)]

Reference Materials for the Ordinary General Meeting of Shareholders

Proposal 1: Partial Amendment to the Articles of Incorporation

1. Reason for the proposal

As the revised provisions stipulated in the proviso of Article 1 of the Supplementary Provisions of the “Act for Partial Revision of the Companies Act” (Act No. 70 of 2019) will come into effect on September 1, 2022, the Company proposes to amend the Articles of Incorporation of the Company as follows in preparation for the introduction of a system to electronically provide materials for general meetings of shareholders.

- (1) Article 18, Paragraph 1 of the amended Articles of Incorporation stipulates that the Company shall take measures to electronically provide information that is the content of Reference Materials for the Ordinary General Meeting of Shareholders.
- (2) Article 18, Paragraph 2 of the amended Articles of Incorporation provides for the limitation of the scope of matters to be stated in the documents to be delivered to shareholders who have requested the delivery of documents.
- (3) The provision (Article 18 of the Articles of Incorporation before amendment) on Internet disclosure and deemed provision of Reference Materials for the Ordinary General Meeting of Shareholders, etc. shall be deleted as it is no longer necessary.
- (4) Supplementary provisions regarding the effective date, etc. shall be established in accordance with the establishment and deletion of the above.

2. Details of the amendment

The details of the amendment are as follows.

(Underlined portions indicate changes.)

Current Articles of Incorporation	Proposed amendments
<p><u>Article 18 (Internet Disclosure and Deemed Provision of Reference Materials for Shareholders’ meeting)</u></p> <p><u>Upon convocation of a shareholders’ meeting, the Company may be deemed to have provided its shareholders with information related to the matters required to be described or indicated in reference materials for a shareholders’ meeting, business reports, financial statements and consolidated financial statements if such information is disclosed by a method utilizing the Internet pursuant to the ordinance of the Ministry of Justice.</u></p> <p style="text-align: center;">(Newly established)</p> <p style="text-align: center;">Supplementary Provisions</p> <p>Article 1 (Text omitted)</p> <p style="text-align: center;">(Newly established)</p>	<p style="text-align: center;">(Deleted)</p> <p><u>Article 18 (Electronic Provision of Measures, etc.)</u></p> <ol style="list-style-type: none"> 1. <u>The Company shall, at the time of convocation of a General Meeting of Shareholders, take measures to electronically provide information that is the content of Reference Materials for the Ordinary General Meeting of Shareholders.</u> 2. <u>The Company may choose not to include all or part of the matters to be provided electronically that are specified by the applicable Ordinance of the Ministry of Justice in the documents to be delivered to shareholders who have requested the delivery of documents by the record date for voting rights.</u> <p style="text-align: center;">Supplementary Provisions</p> <p>Article 1 (As current)</p> <p><u>Article 2 (Transitional Measures Regarding Electronic Provision of Measures, etc.)</u></p> <ol style="list-style-type: none"> 1. <u>The deletion of Article 18 (Internet Disclosure and Deemed Provision of Reference Materials for Shareholders’ meeting) and the establishment of new Article 18 (Electronic Provision of Measures,</u>

Current Articles of Incorporation	Proposed amendments
	<p><u>etc.) of the Amended Articles of Incorporation shall become effective as of September 1, 2022 (below, the “effective date”), which is the date of enforcement of the amended provisions stipulated in the proviso of Article 1 of the Supplementary Provisions of the Act for Partial Revision of the Companies Act (Act No. 70 of 2019).</u></p> <p><u>2. Notwithstanding the provisions of the preceding paragraph, Article 18 of the Articles of Incorporation before the amendment shall remain in force with respect to the General Meeting of Shareholders to be held on a date within six (6) months from the effective date.</u></p> <p><u>3. This Article shall be deleted after either six (6) months has elapsed from the effective date or three (3) months has elapsed from the date of the General Meeting of Shareholders set forth in the preceding paragraph, whichever is later.</u></p>

Proposal 2: Election of Four (4) Directors (excluding Directors Serving on the Audit and Supervisory Committee)

The terms of office of all three (3) Directors (excluding Directors serving on the Audit and Supervisory Committee; the same shall apply hereinafter in this proposal) will expire upon conclusion of this Meeting. Also, the Company will increase the number of Directors by one (1) to further enhance the management system. Therefore, it is proposed that four (4) Directors be elected.

The candidates for Directors are as follows.

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
1	Hirobumi Takeuchi (Dec. 21, 1971)	<p>Apr. 1994 Joined Kyowa Co., Ltd.</p> <p>Feb. 2004 Joined Skylight Biotech, Inc. General Manager, Sales Department</p> <p>Sep. 2005 Director in charge of Business Promotion and Finance</p> <p>Jul. 2006 Director and CFO in charge of Administrative Division</p> <p>May 2009 Joined Sumisho Realty Management Co., Ltd. Manager, Administration Department</p> <p>Jan. 2013 Joined Cyfuse Biomedical K.K. Board Director in charge of Corporate Planning and Business Administration</p> <p>Jan. 2014 Joined the Company Assistant General Manager, Accounting Department</p> <p>Apr. 2014 General Manager, Accounting Department</p> <p>Oct. 2014 General Manager, Finance and Accounting Department, Finance and Corporate Planning Division</p> <p>Apr. 2018 President, UBiENCE Inc.</p> <p>Mar. 2021 Joined the Company Representative Director (to present)</p> <p>Jun. 2021 Director, UBiENCE Inc. (to present)</p> <p><Important concurrent position> Director, UBiENCE Inc.</p>	200 shares
<p>[Reason for the nomination as candidate for Director]</p> <p>Mr. Hirobumi Takeuchi has abundant business experience and knowledge of corporate management and finance as a bioventure manager. After joining the Company in 2014, he played a central role in formulating plans, including the reduction of business expenses as a member of the turnaround team. He has also served as the Company's Representative Director since March 2021, and has demonstrated his ability in the top management of the Company. Expecting that he will continue to manage the Company based on the perspectives of growth, efficiency, and shareholder returns, he has once again been nominated as a candidate for Director.</p>			

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
2	Michihiro Tsuchiya (Jul. 12, 1947)	<p>Apr. 1976 Joined Tanabe Seiyaku Co., Ltd. (currently Mitsubishi Tanabe Pharma Corporation)</p> <p>Jun. 2001 Director, General Manager, Corporate Strategic Planning Department</p> <p>Jun. 2003 Managing Director, Research Headquarters</p> <p>Jun. 2006 Representative Director, Senior Executive Corporate Officer, Research Headquarters</p> <p>Oct. 2007 Board Director, Executive Vice President, Mitsubishi Tanabe Pharma Corporation</p> <p>Jun. 2009 President & Representative Director</p> <p>Jun. 2014 Chairman of the Board & Representative Director</p> <p>Jun. 2016 Chairman of the Board & Director</p> <p>Jun. 2017 Senior Executive Adviser</p> <p>Jun. 2018 Outside Director, Sumitomo Electric Industries, Ltd. (to present)</p> <p>Jun. 2018 Outside Director, Kyoto University Innovation Capital Co., Ltd. (to present)</p> <p>Mar. 2020 Outside Director, the Company (to present)</p> <p><Important concurrent position> Outside Director, Sumitomo Electric Industries, Ltd. Outside Director, Kyoto University Innovation Capital Co., Ltd.</p>	– shares
<p>[Reason for selection as candidate for Outside Director and outline of expected role]</p> <p>Mr. Michihiro Tsuchiya has abundant experience as a senior manager and broad insight into global operations. Expecting to utilize Mr. Tsuchiya's knowledge in the senior management of the Company, so that he may promote further revitalization of the Board of Directors, improve transparency of senior management and strengthen corporate governance, he has once again been nominated as a candidate for Outside Director.</p>			

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held	
3	*Masaki Sudo (Jul. 29, 1971)	Apr. 1996	Joined TEIJIN LIMITED	8,193 shares
		Sep. 1999	Joined Pfizer Seiyaku K.K. (currently Pfizer Japan Inc.)	
		Apr. 2004	Principal Scientist, Discovery Chemistry, Pfizer Global Research and Development Nagoya Laboratories	
		Apr. 2006	Senior Principal Scientist, Discovery Chemistry, Pfizer Global Research and Development Nagoya Laboratories	
		Jul. 2008	Joined the Company Principal Scientist, Research Division	
		Oct. 2012	General Manager, Chemistry Research Department, Discovery Research Division	
		Apr. 2016	Designated Associate Professor, Institute of Transformative Bio-Molecules, Nagoya University	
		Jul. 2018	Visiting Professor, Nagoya University (to present (to be retired at the end of March 2022))	
		Jul. 2018	Manager, Business Planning Office, Stem Cell & Device Laboratory, Inc.	
		Jan. 2020	Chief Manager, Business Development Department	
		Jun. 2021	Joined the Company General Manager, Business Strategy Department	
		Oct. 2021	Vice President (in charge of Administration and Corporate Planning & Strategy) (to present)	
		<p>[Reason for the nomination as candidate for Director]</p> <p>As Vice President (in charge of Administration and Corporate Planning & Strategy), Mr. Masaki Sudo has been involved in overseeing the Administration Division, including human resources and general affairs, formulation of medium-term management plans, and investor relations, as well as in the formulation and implementation of strategies for the entire Company as the person in charge of corporate planning. Expecting that, going forward, Mr. Sudo will continue to plan and implement the Company's growth strategy, the Company nominates him as a candidate for Director.</p>		

No.	Name (Date of birth)	Career summary, position and responsibilities in the Company (Important concurrent positions)	Number of shares of the Company held
4	*Katsuhiro Uto (Mar. 31, 1974)	<p>May 2005 Joined Nippon Boehringer Ingelheim Co., Ltd.</p> <p>Jan. 2013 Joined Asahi Kasei Pharma Corporation Senior Researcher</p> <p>Jul. 2013 A unit leader, Pharmacology Research Department</p> <p>May 2017 Joined Maruho Co., Ltd.</p> <p>Oct. 2018 Project Manager, Project Management Unit</p> <p>Jun. 2020 Project Manager, Research Planning and Strategy Office, Drug Discovery Research Department</p> <p>Jan. 2021 Joined the Company General Manager, Research Planning, Discovery Research</p> <p>Mar. 2021 Vice President (in charge of Research Planning) (to present)</p>	– shares
<p>[Reason for the nomination as candidate for Director]</p> <p>As Vice President (in charge of Research Planning), Mr. Katsuhiro Uto has demonstrated his prowess in research planning in which overall research has been managed. Expecting that Mr. Uto will perform roles that are central to drug development and research to continue to achieve research results, the Company nominates him as a candidate for Director.</p>			

- (Notes)
1. The candidate with “*” symbol is a new candidate.
 2. No conflict of special interests exists between the Company and each candidate.
 3. Mr. Michihiro Tsuchiya is a candidate for Outside Director.
 4. Mr. Michihiro Tsuchiya’s tenure as Outside Director of the Company will be two (2) years at the conclusion of this Ordinary General Meeting.
 5. The Company has designated Mr. Michihiro Tsuchiya as an independent officer based on the regulations stipulated by the Tokyo Stock Exchange and has notified the Tokyo Stock Exchange accordingly. If the reelection of Mr. Tsuchiya is approved, the Company will designate him again as an independent officer.
 6. Under the provision of Article 427, Paragraph 1, of the Companies Act, the Company has entered into an agreement with Mr. Michihiro Tsuchiya to limit his liability for damages specified in Article 423, Paragraph 1 of the said Act. The maximum amount of liability for damages under the agreement shall be the amount provided for by laws and ordinances. If the reelection of Mr. Tsuchiya is approved, the Company plans to continue this agreement with him.
 7. The Company has entered into a contract of Directors and Officers Liability Insurance (D&O Insurance) with an insurance agency, as provided for in Article 430-3, Paragraph 1 of the Companies Act. This insurance policy covers damages from claims, etc. borne by the insured persons pertaining to the pursuit of liability arising in the course of execution of duties. Candidates for reappointment will continue to be included, and new candidates will be newly included, as insureds under the relevant insurance contract. Furthermore, the Company plans to renew this insurance policy with the same details at the time of the next renewal.

Proposal 3 Presentation of Retirement Allowance to Retiring Directors

At the conclusion of this General Meeting of Shareholders, Mr. Shuzo Watanabe will retire from the position of Director (excluding Directors Serving on the Audit and Supervisory Committee) due to expiration of his term of office. To reward Mr. Shuzo Watanabe for his service during his term of office, the Company proposes to present him with a retirement allowance. The timing and method of the presentation will be left to the discretion of the Board of Directors.

A retirement allowance is presented to Directors in charge of drug discovery research and Directors of subsidiaries for their appropriate involvement in the management of the Group and their dedication to the execution of duties, and the Board of Directors believes that the amount is appropriate.

The amount of the retirement allowance for the retiring Director and his brief personal history are as follows

Name	Amount	Brief personal history	
Shuzo Watanabe	17,800,000 yen	Mar. 2016	Director and Senior Vice President
		Apr. 2017	Director, TMRC Co., Ltd.
		Oct. 2020	Director, Executive Vice President of the Company (to present)
		Mar. 2021	President and CEO, TMRC Co., Ltd. (to present)

Proposal 4 Determination of Remuneration for Granting Restricted Stock-Based Compensation Plan and Post-Delivery Type Performance-Linked Stock to Directors (Excluding Directors Serving on the Audit and Supervisory Committee and Outside Directors)

With regard to the amount of monetary compensation for Directors of the Company, it was approved by resolution of the 8th Ordinary General Meeting of Shareholders held on March 30, 2016, that the total amount for Directors (excluding Directors serving on the Audit and Supervisory Committee) shall be 80,000 thousand yen or less per year (of which, 20,000 thousand yen or less per year for Outside Directors).

In order to provide for Directors of the Company with an incentive to sustainably increase the Company's corporate value and to promote further shared value with the shareholders, the Company has decided to establish a restricted stock-based compensation plan (the "RS Plan") and a post-delivery type performance-linked stock (the "PSU Plan"; collectively with the RS Plan, the "Plan") for the Company's Directors (excluding Directors serving on the Audit and Supervisory Committee and Outside Directors; below, the "Eligible Directors")

Therefore, taking into account various circumstances such as the degree of contribution of Directors to the Company, (1) the total amount of monetary compensation claims to be paid by the Company to the Eligible Directors under the RS Plan shall be up to 15,000 thousand yen per year within the framework of the current monetary compensation amount, and the total number of the Company's common shares to be issued or disposed of by the Company under the RS System shall be up to 15,000 shares per year (the number of shares to be issued or disposed of may be reasonably adjusted in the event of unavoidable circumstances requiring adjustment of the number of shares, such as a stock split or reverse stock split of the Company's common stock.); and (2) the total amount of monetary compensation claims and money to be paid by the Company to the Eligible Directors under the PSU Plan shall be within a total of 80,000 thousand yen per evaluation period (defined in 2. (i). below; the same applies hereinafter) in a separate framework from the current monetary compensation amount, and the total number of the Company's common shares to be issued or disposed of by the Company under the PSU Plan shall be within 80,000 shares per evaluation period (the number of shares to be issued or disposed of may be reasonably adjusted in the event of unavoidable circumstances requiring adjustment of the number of shares, such as a stock split or reverse stock split of the Company's common stock). The specific periods of payment to individual Eligible Directors and the specific allocation shall be determined by the Board of Directors.

The Company currently has three (3) Directors (excluding Directors Serving on the Audit and Supervisory Committee; of which one (1) Outside Director), however if Proposal 2 is approved as proposed, the number of Directors (excluding Directors Serving on the Audit and Supervisory Committee) will be four (4) (of which, one (1) Outside Director), and there will be three (3) Eligible Directors.

The details of the Plan are as follows.

1. RS Plan

Under the RS Plan, the Company shall pay monetary compensation claims of 15,000 thousand yen or less, which is within the current limit for the amount of monetary compensation, to Eligible Directors as compensation in the form of restricted stocks through the RS Plan in accordance with a resolution of the Company's Board of Directors. Each Eligible Director shall receive an allotment of restricted stocks by making a payment in all of the monetary compensation claims by the method of contribution in kind. Furthermore, the total number of the Company's common shares to be issued or disposed of through the RS Plan shall be 15,000 shares or less per year (However, if unavoidable reasons arise that necessitate an adjustment to the number of shares, such as a share split or a share consolidation of the Company's common shares, the number of shares to be issued or disposed of shall be adjustable in a reasonable manner).

The transfer restriction period shall be from the date of delivery of until the day Eligible Directors lose their position as Director of the Company or any other positions determined by the Board of Directors of the Company in order to achieve the medium- to long-term sharing of shareholder value, which is one purpose for introducing the Plans. The specific periods of payment to individual Eligible Directors and the specific allocation shall be determined by the Board of Directors.

Furthermore, the amount to be paid in per share for the Company's common shares to be issued or disposed of under the RS Plan shall be determined by the Board of Directors within a range that is not especially advantageous to the Eligible Directors based on the closing price of the Company's common shares on the Tokyo Stock Exchange on the business day immediately preceding the date of the resolution of the Board of Directors (if no transaction is made on such business day, the closing price on the closest preceding trading day).

The issuance or disposal of the Company's common shares under the RS Plan shall be subject to the conclusion of a restricted stock allotment agreement (the "Allotment Agreement") between the Company and the Eligible Directors. The Allotment Agreement shall include the following:

- (1) The Eligible Directors shall not transfer, create a security interest in, or otherwise dispose of common stock (the “transfer restriction”) of the Company allotted under the allotment agreement (the “allotted shares”) for the period from the date of delivery of the restricted shares to the date on which they lose their positions as directors of the Company or other positions determined by the Board of Directors of the Company (the “restricted period”).
- (2) The Company shall release the restrictions on transfer of all of the allotted shares upon expiration of the restricted period, provided that the Eligible Director has continuously served as a Director of the Company or in any other position determined by the Board of Directors of the Company during the restricted period.
- (3) The Company shall naturally acquire all of the allotted shares free of charge if certain events occur during the restricted period, such as if the Eligible Director is sentenced to imprisonment or severer punishment.
- (4) If, during the restricted period, proposals relating to a merger agreement under which the Company is the disappearing company, a share exchange agreement or share transfer plan under which the Company becomes a wholly owned subsidiary, or other reorganization, etc. are approved at a General Meeting of Shareholders of the Company (provided, however, that if such reorganization, etc., does not require approval by a General Meeting of Shareholders of the Company, the Company’s Board of Directors), by resolution of the Board of Directors, the Company shall lift transfer restrictions on transfer of all of the allotted shares as of the time immediately preceding the business day before the effective date of the reorganization, etc.
- (5) The method of indication of intention and notification in the allotment agreement, the method of revising the allotment agreement, and other matters to be determined by the Board of Directors shall be the contents of the allotment agreement.

2. PSU Plan

(i) Overview of the PSU Plan

The PSU Plan is a performance-linked compensation plan that grants Eligible Directors the Company’s common shares and money to secure tax payment funds arising from the delivery of such shares at an amount calculated in accordance with the level of achievement of the numerical targets for the Company’s performance, etc. for three fiscal years (the “Evaluation Period”; The initial Evaluation Period shall be the three fiscal years from the fiscal year ending December 31, 2022 to the fiscal year ending December 31, 2024, and after the end of the initial Evaluation Period, the PSU Plan may be carried out, to the extent approved at the Meeting, with the three fiscal years beginning immediately following the end of each Evaluation Period as the new Evaluation Period.) established in advance by the Company’s Board of Directors as compensation, etc. for Eligible Directors.

Accordingly, as the PSU Plan will deliver the Company’s common shares and pay money in accordance with the level of achievement of the numerical targets above, it has not been decided whether or not these common shares or money will be delivered or paid to each Eligible Director nor has the number of shares to be delivered or the monetary amount to be paid been decided as of the introduction of the Plan.

(ii) Structure of the PSU Plan

The specific structure of the PSU Plan is as follows:

- (a) The Company’s Board of Directors shall decide the indicators and formulas required for specifically calculating the number of the Company’s common shares to be delivered and the monetary amount to be paid to Eligible Directors, such as each numerical target for the Company’s performance, etc. and the calculation method for the payment rate in accordance with the achievement ratio used for the PSU Plan.
- (b) The Company shall decide the number of its common shares to deliver and the monetary amount to pay to each Eligible Director after the end of the Evaluation Period based on the payment rate calculated in accordance with the achievement ratio for each numerical target for the Company’s performance, etc. during the Evaluation Period.
- (c) The Company pays, to each Eligible Director, monetary compensation claims to be used as contribution in kind corresponding to the number of the Company’s common shares to be delivered to each Eligible Director determined in b) above, and each Eligible Director receives an allotment of the Company’s common shares by providing the full amount of the monetary compensation claims to the Company by the method of the contribution in kind. The amount to be paid in for the Company’s common shares shall be determined by the Company’s Board of

Directors based on the closing price of the Company's common shares on the Tokyo Stock Exchange on the business day immediately preceding the date of the resolution of the Board of Directors pertaining to the issuance or disposal (if no transaction is made on such business day, the closing price on the closest preceding trading day) within a range that is not especially advantageous to the Eligible Directors subscribing to the Company's common shares.

- (d) In order to secure tax payment funds arising from the delivery of the Company's common shares as described in c) above, the Company will pay to each Eligible Director the monetary amount determined in b) above, in addition to the monetary compensation claims described above.

- (iii) The method for calculating the number of the Company's common shares to be delivered to each Eligible Director based on the PSU Plan

The Company shall calculate the number of the Company's common shares to be delivered ("final number of shares delivered") and the monetary amount to be paid ("final monetary amount paid") to each Eligible Director using the following formula.

[Formulas]

Final number of shares delivered = Standard number of shares delivered (1) × Level of performance target achievement (2) × Service period fulfillment ratio (3) × 80%

Final monetary amount paid = Standard number of shares delivered (1) × Level of performance target achievement (2) × Service period fulfillment ratio (3) × 20% × market value at the time of delivery (4)

- (1) The "standard number of shares delivered" shall be determined by the Company's Board of Directors according to the position of the Eligible Director.
- (2) "Level of performance target achievement" shall be determined by the Company's Board of Directors within the range of 0% to 150% according to the percentage of achievement of the evaluation indices determined by the Company's Board of Directors for each three-fiscal-year Evaluation Period.
- (3) The "service period fulfillment ratio" shall be calculated by dividing the number of months in office by the number of months of the Evaluation Period.
- (4) The "market value at the time of delivery" shall be determined by the Board of Directors within a range that is not especially advantageous to the Eligible Directors based on the closing price of the Company's common shares on the Tokyo Stock Exchange on the business day immediately preceding the date of the resolution of the Board of Directors pertaining to the issuance or disposal of shares to be delivered under the PSU Plan (if no transaction is made on such business day, the closing price on the closest preceding trading day).

- (iv) Upper limit of compensation, etc. under the PSU Plan

The total amount of monetary compensation claims and money that the Company pays to the Eligible Directors through the PSU Plan shall be a total of 80,000 thousand yen or less for each Evaluation Period, and treated separately from the current monetary compensation amount. Furthermore, the total number of the Company's common shares to be issued or disposed of through the PSU Plan shall be 80,000 shares or less for each Evaluation Period (However, if unavoidable reasons arise that necessitate an adjustment to the number of shares, such as a share split or a share consolidation of the Company's common shares, the number of shares to be issued or disposed of shall be adjustable in a reasonable manner).

- (v) Reasons for forfeiture of the right to receive compensation, etc. under the PSU Plan

Eligible Directors shall forfeit the right to receive compensation, etc. under the PSU Plan in the event of certain illegal act or resignation for certain reasons determined by the Board of Directors of the Company.

- (vi) Treatment at the time of reorganization

If, during the Evaluation Period, proposals relating to a merger agreement under which the Company is the disappearing company, a share exchange agreement or share transfer plan under which the Company becomes a wholly owned subsidiary, or other reorganization, etc. are approved at a General Meeting of Shareholders of the Company (provided, however, that if such reorganization, etc., does not require approval by a General Meeting of Shareholders of the Company, the Company's Board of Directors), the Company shall, by a resolution of the

Company's Board of Directors, provide money reasonably determined in place of the Company's common shares.

The Company has established a basic policy regarding the details of compensation, etc. for individual Directors at the Board of Directors meeting, and plans to modify this policy to be in line with this proposal subject to the approval of this proposal. In addition, the Board of Directors believes that the content of this proposal is appropriate because the total number of shares to be issued or disposed of to the Eligible Directors is within the upper limit mentioned above, and the dilution rate is insignificant.

(Reference)

Subject to the approval of the introduction of the Plans at the Meeting, the Company plans to introduce a plan similar to the post-delivery type performance-linked stock compensation plan in the Plans to certain employees (executives) of the Company.

Consolidated Financial Statements

Consolidated Balance Sheet

(Thousands of yen)

Account title	14th Fiscal Year (As of December 31, 2021)	Account title	14th Fiscal Year (As of December 31, 2021)
Assets		Liabilities	
Current assets	4,003,775	Current liabilities	400,524
Cash and deposits	2,345,306	Accounts payable - trade	45,996
Accounts receivable - trade	1,205,401	Lease obligations	21,547
Securities	313,807	Accounts payable - other	112,768
Supplies	10,547	Accrued expenses	63,004
Advance payments to suppliers	15,939	Income taxes payable	80,405
Prepaid expenses	90,382	Accrued consumption taxes	37,475
Other	22,390	Deposits received	28,884
Non-current assets	1,230,422	Other	10,442
Property, plant and equipment	299,389	Non-current liabilities	45,668
Buildings	154,158	Lease obligations	17,520
Tools, furniture and fixtures	944,383	Asset retirement obligations	12,129
Leased assets	59,772	Deferred tax liabilities	16,018
Accumulated depreciation	(858,924)	Total liabilities	446,193
Intangible assets	33,799	Net assets	
Trademark right	3,839	Shareholders' equity	4,753,234
Software	29,227	Share capital	2,256,920
Other	731	Capital surplus	2,446,703
Investments and other assets	897,233	Retained earnings	49,631
Investment securities	887,932	Treasury shares	(21)
Other	9,300	Accumulated other comprehensive income	23,919
		Valuation difference on available-for-sale securities	23,919
		Share acquisition rights	10,850
		Total net assets	4,788,004
Total assets	5,234,197	Total liabilities and net assets	5,234,197

(Note) Figures less than one thousand yen are rounded down to the nearest thousand.

Consolidated Statement of Income

(Thousands of yen)

Account title	14th Fiscal Year (January 1, 2021 to December 31, 2021)
Business revenue	2,776,233
Business expenses	2,068,373
Cost of business revenue	320,674
Research and development expenses	1,127,397
Other selling, general and administrative expenses	620,301
Operating profit	707,860
Non-operating income	177,340
Interest income	1,775
Interest on securities	21,074
Foreign exchange gains	145,688
Other	8,802
Non-operating expenses	21,254
Interest expenses	1,454
Loss on valuation of derivatives	10,079
Settlement package	9,600
Other	120
Ordinary profit	863,946
Extraordinary income	16,632
Gain on sale of investment securities	14,364
Gain on redemption of investment securities	2,267
Profit before income taxes	880,579
Income taxes - current	122,047
Income taxes - deferred	2,742
Profit	755,788
Profit attributable to owners of parent	755,788

(Note) Figures less than one thousand yen are rounded down to the nearest thousand.

Consolidated Statement of Changes in Equity
(14th Fiscal Year from January 1, 2021 to December 31, 2021)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,255,401	2,445,184	(706,157)	(21)	3,994,407
Changes during period					
Issuance of new shares	1,519	1,519			3,038
Profit attributable to owners of parent			755,788		755,788
Net changes of items other than shareholders' equity					–
Total changes during period	1,519	1,519	755,788	–	758,827
Balance at end of period	2,256,920	2,446,703	49,631	(21)	4,753,234

	Accumulated other comprehensive income		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income		
Balance at beginning of period	4,809	4,809	11,912	4,011,129
Changes during period				
Issuance of new shares		–		3,038
Profit attributable to owners of parent		–		755,788
Net changes of items other than shareholders' equity	19,110	19,110	(1,062)	18,048
Total changes during period	19,110	19,110	(1,062)	776,875
Balance at end of period	23,919	23,919	10,850	4,788,004

(Note) Figures less than one thousand yen are rounded down to the nearest thousand.