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Notice Concerning Opinion of NHK SPRING's Board of Directors on Shareholder Proposal

NHK SPRING CO., LTD. (Head office: Yokohama, Japan; President & COO Kazuhisa Uemura) hereby announces that it has received a written document ("the Shareholder Proposal Document") which outlines a shareholder proposal ("the Shareholder Proposal") regarding an agenda item at the 104th Annual General Meeting of Shareholders scheduled for June 25, 2024, but at the Board of Directors meeting held on May 6, it resolved to oppose the Shareholder Proposal as explained below.

1. Proposing Shareholder

Shareholder Name: LONGCHAMP SICAV

2. Details of Shareholder Proposal

(1) Agenda Item

Approval of Remuneration Amount for Restricted Stock-Based Compensation Plan

(2) Details of Agenda Item

As indicated in "Details of Shareholder Proposal" in the appendix.

It should be noted that "Details of Shareholder Proposal" in the appendix presents the original text of the Shareholder Proposal Document as submitted by the proposing shareholder.

3. Opinion of NHK SPRING's Board of Directors on the Shareholder Proposal

(1) Opinion of NHK SPRING's Board of Directors

NHK SPRING's Board of Directors opposes the Shareholder Proposal.

(2) Reason for Opposition

As a basic rule, when determining remuneration for individual Members of the Board, NHK SPRING sets remuneration for Members of the Board (excluding external Members of the Board) at an appropriate level in accordance with its "Policy on Determination of Remuneration, etc., of Individual Members of the Board," based on a compensation system linked to shareholder profits so that it will function adequately as an incentive to continuously improve corporate value. Specifically, with a basic policy of setting it at a reasonable level based on the responsibilities of each Member of the Board's position, Members of the Board's compensation consists of basic remuneration as fixed compensation, bonuses as performance-linked compensation, and Board Benefit Trust (BBT) stock-based compensation as non-monetary compensation, etc. Performance-linked compensation bonuses act as a short-term incentive, while stock-based compensation acts as a long-term incentive. However, since the role of external Members of the Board and Audit & Supervisory Board Members is to monitor and supervise management from a perspective that is independent of business execution, bonuses and stock-based compensation are not paid to them.

Furthermore, with regard to Members of the Board's compensation, for the purpose of ensuring neutrality and objectivity, NHK SPRING has formed a Nomination and Compensation Committee as a voluntary advisory body for the Board of Directors, with a majority of the members being independent external Members of the Board. The Board of Directors makes decisions about the compensation plan for Members of the Board, including the "Policy on Determination of Remuneration, etc., of Individual Members of the Board," based on the results of reports made by the Nomination and Remuneration Committee.

The Shareholder Proposal proposes the introduction of restricted stock-based compensation as a stock-based compensation plan. However, the BBT plan, whose introduction was approved at NHK SPRING's 102nd Annual General Meeting of Shareholders held in June 2022, makes the correlation between Members of the Board's compensation and stock value more clear, and since Members of the Board not only benefit from increased share prices but also share the risk of share decreases with shareholders, this plan was introduced with the purpose of increasing Members of the Board's awareness of contributing to improved performance and increased corporate value in the medium to long term. It amply ensures shared values between Members of the Board and shareholders.

In addition, the Shareholder Proposal, which would allow monetary compensation claims for the purpose of granting restricted stock up to a maximum of 280,000 shares (not exceeding 420 million yen per year) to eligible Members of the Board, etc., is designed as an incentive plan linked to performance, including ROE and TSR (total shareholder return), and if performance criteria are met, it also proposes granting restricted stock equivalent to three times the fixed compensation amount on a cumulative basis over the next three years. However, NHK SPRING's Board of Directors has determined appropriate payment ratios for basic remuneration, performance-based remuneration, and non-monetary remuneration with the aim of sharing shareholders' interests and continuously improving corporate value, and since the Shareholder Proposal is an excessively stock-based compensation plan that is significantly unbalanced in terms of stock remuneration as non-monetary remuneration,

etc. versus basic remuneration and performance-linked bonuses, which diverges from the company's basic policy with regard to Members of the Board's compensation, it is considered to be inappropriate.

Furthermore, the Shareholder Proposal proposes introducing a restricted stock-based compensation plan for external Members of the Board as well. However, as indicated above, NHK SPRING expects external Members of the Board to play a role in monitoring and supervising management from a perspective that is independent of business execution. Granting performance-linked incentives to these individuals is therefore considered to be inappropriate.

NHK SPRING is currently reviewing its overall corporate governance, and going forward, it will continue to consider better policies related to the nature of compensation for the company's Members of the Board, including granting them appropriate incentives, with a view to providing incentives that will improve medium- to long-term performance and increase corporate value.

Based on the above, NHK SPRING's Board of Directors opposes the agenda item based on the Shareholder Proposal.

(Appendix: "Details of Shareholder Proposal")

*This presents the original text of the Shareholder Proposal Document as submitted by the proposing shareholder.

1. Proposed Agenda Item

Approval of Remuneration Amount for Restricted Stock-Based Compensation Plan

2. Outline of Agenda Item and Reason for Proposal

(1) Outline of Agenda Item

At the Annual General Meeting of Shareholders held on June 29, 2010, it was resolved that the maximum compensation amount for NHK SPRING's directors would be 420 million yen per year. In addition, separately from the above compensation framework, it was resolved at the Annual General Meeting of Shareholders held on June 28, 2022, to introduce a Benefit Board Trust stock-based compensation plan for directors (excluding external directors), which grants them a fixed number of points in consideration of their position, etc. for each business year, with the total number of points converted into one NHK SPRING common share per point per business year, up to a maximum of 40,000 points. Separately from the above annual compensation, the present proposal would allow NHK SPRING's directors (including external directors) monetary compensation claims for the purpose of granting restricted stock up to a maximum of 280,000 shares (not exceeding 420 million yen per year).

The specific timing and allocation of payments would be determined by the Board of Directors, but this proposal is designed as an incentive plan linked to performance, including ROE and TSR (total shareholder return), and if performance criteria are met, it proposes granting restricted stock equivalent to three times the fixed compensation amount on a cumulative basis over the next three years.

(2) Reason for Proposal

We consider the small amount of stock owned by each director and the resulting lack of a shareholder perspective to

be the biggest weakness of boards of directors in Japan. The directors of NHK SPRING likewise do not own much stock, with the majority of their economic benefits being basic remuneration in the form of fixed compensation. While there is some remuneration linked to the achievement of performance, we believe that the sharing of shareholders' values, which is the purpose of restricted stock-based compensation, is insufficient. It is necessary for directors to receive the benefits of improved corporate value along with shareholders by providing them with an economic incentive aimed at continuous improvement of NHK SPRING's corporate value and aligning their interests with those of shareholders.

The standard for stock-based compensation that is effective in ensuring shared values between directors and shareholders is an amount equivalent to three times the fixed compensation amount. While NHK SPRING has introduced a Board Benefit Trust stock-based compensation plan, in its 103rd fiscal year (from April 1, 2022, to March 31, 2023), stock-based compensation for its directors (excluding external directors) was 12 million yen versus 275 million yen paid in fixed compensation this year. Stock-based compensation is only 4% of fixed compensation. At that rate, it would take around 69 years until the directors owned stock equivalent to three times their fixed compensation amount, which is the standard for stock-based compensation that is effective in ensuring shared values between directors and shareholders. Since restricted stock-based compensation has no meaning unless it is granted while the directors are in office, it is necessary to grant a certain amount within a shorter timeframe.

Furthermore, in the U.S., almost all leading publicly listed corporations have adopted stock ownership guidelines which stipulate a requirement to maintain ownership of a certain amount of stock for a certain period of time, which is believed necessary to share shareholders' values. Following a vesting period of several years, in most cases senior management receive three to five times their basic remuneration, while external directors receive an amount equivalent to their compensation. Irrespective of past conventions, we propose that NHK SPRING's directors and other executive-level managers target an ownership level on par with international standards and show their commitment to it via appropriate disclosure, and we believe that stock ownership guidelines should be established.