June 10, 2024

Notice of the Recommendation of Objection by a Proxy-advisory Firm (ISS) Against Proposal No. 4 to Be Discussed at the 44th Annual General Meeting of Shareholders

Ferrotec Holdings Corporation (Representative Director: He Xian Han; hereinafter "the Company") confirmed the fact that a proxy-advisory firm Institutional Shareholder Services Inc. (hereinafter "ISS") issued a report recommending that shareholders turn down Proposal No. 4 which would be discussed at the 44th Annual General Meeting of Shareholders to be held on June 27, 2024 (hereinafter "the Proposal").

The reason of objection recommended by ISS is that dilution as a result of issuance of shares based on the share remuneration plan to be adopted through the Proposal will be 9.1% in ten years and exceeds the criteria set by ISS (5% or less). However, the Company designed the program so that dilution will be 5% or less. Therefore, we believe that this program does not trigger excessive dilution irrespective of the criteria set by ISS. The following is an explanation on this matter.

We would like shareholders who will exercise their voting rights at the Annual General Meeting of Shareholders to read through this document and vote for or against the Proposal.

1. Contents of recommendation of objection by ISS

(1) Evaluation criteria set by ISS

- The report by ISS states that "dilution as a result of issuance of shares based on the share remuneration plan should not exceed 5% for matured companies and 10% for growing companies."
- Furthermore, in calculating the dilution ratio, ISS assumes that "we issue a maximum number of restricted stocks every year in the coming ten years" if the Proposal is passed, as the Company does not need to obtain an approval from shareholders every year regarding the provision of restricted stocks unless the number of shares issued annually exceeds the upper limit set for each year.

(2) Calculation of the dilution ratio by ISS

- ISS calculated the dilution ratio at 9.1%, which we recognize is based on 470,000 shares, derived from "the total amount of monetary remuneration claims and money being (omitted) a maximum of 470,000 shares per fiscal year."

Total number of shares outstanding as of March 31, 2024	47,111,567 shares
Maximum number of shares to be issued in ten years (470,000 shares × 10 years)	4,700,000 shares
Total number of shares issued after ten years	51,811,567 shares
Dilution ratio: (47,111,567 ÷ 51,811,567) - 1 = -9.07%	9.1%

2. Actual dilution ratio (the ratio obtained as a result of the adoption of the plan as proposed in the Proposal)

- As for around 50% of shares to be delivered, money will be provided for the purpose of allotting it as funds for paying taxes.
- Therefore, "the total number of common shares in the Company issued or disposed of shall be a maximum of 235,000 annually" in the plan, so the actual dilution ratio in ten years is as described below.

Total number of shares outstanding as of March 31, 2024	47,111,567 shares
Maximum number of shares to be issued in ten years (235,000 shares × 10 years)	2,350,000 shares
Total number of shares issued after ten years	49,461,567 shares
Dilution ratio: (47,111,567 ÷ 49,461,567) - 1 = -4.75%	**4.8%**

As mentioned above, the actual dilution ratio is below the evaluation criteria set by ISS (5% or less). We think that shareholders approve the Proposal.

(3) Description on the number of shares to be issued in the Proposal

The Company brings forward the Proposal at the 44th Annual General Meeting of Shareholders as we announced it in "Notice of the Adoption of a Stock-based Compensation Plan Under Which Shares are Delivered after Right Allotment Conditions are Satisfied" disclosed on May 28, 2024.

The following is the excerpt of the relevant section of the disclosed document.

The Plan is comprised of the following two types of stock compensation:

Restricted Stock Unit: RSU	The number of shares in the Company and the amount of money determined in advance will be granted after a certain period of time prescribed in advance by the Company's Board of Directors (hereinafter "the Prescribed Period") under the condition that the directors continue to work at the Company for the Prescribed Period and satisfy other relevant conditions.
Performance Share Unit: PSU	The number of shares in the Company and the amount of money calculated according to the rate of progress with the performance indicator specified in advance by the Company's Board of Directors will be granted after the Prescribed Period. *Evaluation is made by comparing the total shareholder return (TSR) as an initial performance indicator with the growth rate of the Tokyo Stock Price Index (TOPIX) (including dividends).

We would like to provide monetary remuneration claims or money for delivering common shares in the Company to the Eligible Directors under the Plan with the **total amount of monetary remuneration claims and money being within an amount calculated by multiplying a maximum of 470,000 shares per fiscal year** by the share price at the time of delivery of shares in the Company (provided, however, that wages paid in accordance with the position as an employee for directors who concurrently serve as an employee are not included). When remuneration will be granted to each Eligible Director and how much remuneration or money will be provided will be determined in detail separately by the Board of Directors. Remuneration equivalent to the consideration for the duties executed over several fiscal years that correspond to the Prescribed Period can be given in a lump after the Prescribed Period.

While the Company currently has nine directors (including three outside directors), the number of Eligible Directors for the Plan will be six when Proposal No. 2 "Appointment of nine directors" is approved as proposed.

Regarding delivery of shares, the Eligible Directors pay in all the monetary remuneration claims given under the Plan as property contributed in kind and have common shares in the Company issued or disposed of in accordance with a resolution of the Company's Board of Directors; **the total number of common shares in the Company issued or disposed of accordingly shall be a maximum of 235,000 annually** (provided, however, that the total number of common shares so issued or disposed of shall be adjusted to a reasonable extent when common shares in the Company are split up (including common shares in the Company allotted free of charge) or consolidated, or for any other reasons requiring adjustment of the total number of common shares in the Company issued or disposed of under the Plan on or after the date of approval of the Proposal; hereinafter the same). With regard to the total number of the shares, the amount equivalent to the consideration for the duties executed over several fiscal years corresponding to the Prescribed Period can be granted in a lump after the Prescribed Period specified in advance by the Board of Directors.

(Omitted)

With such matters as the amount of income taxes imposed on the Eligible Directors taken into account, the amount of money to be provided shall be equivalent to 50% of the minimum number of shares in order to allot it as funds for paying taxes arising from delivery of common shares in the Company.

4. References

•Convocation Notice of the 44th Annual General Meeting of Shareholders: The Proposal is written on and after p. 19.
https://www.ferrotec.co.jp/php/download.php?f=en/66605b0569fb6.pdf

•"Notice of the Adoption of a Stock-based Compensation Plan Under Which Shares are Delivered after Right Allotment Conditions are Satisfied" disclosed on May 28, 2024
https://www.ferrotec.co.jp/php/download.php?f=en/665ebde7295b7.pdf