



(TRANSLATION FOR REFERENCE ONLY)

December 14, 2023

To Our Shareholders:

Corporate Name: PROTO CORPORATION
Representative: Kenji Kamiya, President
Securities Code: 4298
(TSE Prime, NSE Premier)
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Notice Regarding the Adoption of “ESOP Trust”

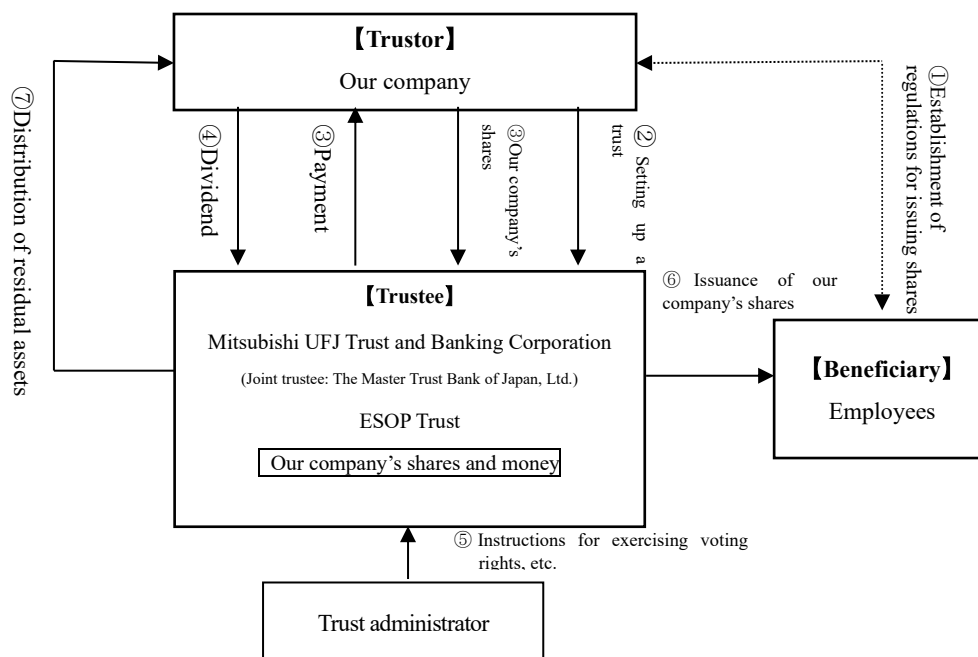
At the meeting of the board of directors held on Dec. 14, 2023, we resolved to adopt an incentive plan for employees titled “ESOP Trust” (hereinafter referred to as “this system”) for our company’s employees (hereinafter referred to as “the employees”) as described below.

1. Regarding the adoption of this system

- (1) In order to improve our business performance in the medium/long term and enhance our corporate value, we will foster the employees’ willingness to get involved with business administration and increase our company’s share price from a medium/long-term viewpoint, to realize “stakeholder-oriented management” and adopt this system as “investment in human capital” for improving our corporate value in a sustainable manner.
- (2) As this system, we will adopt ESOP (Employee Stock Ownership Plan) Trust.
ESOP Trust is an incentive plan for employees, which was designed with reference to the ESOP in the U.S. The shares of our company acquired by ESOP Trust will be distributed to the employees who satisfy certain requirements in accordance with regulations for distributing shares. ESOP Trust will acquire the shares of our company at the expense of our company, so the employees will bear no expenses.
- (3) Through the adoption of ESOP Trust, the employees will be able to receive economic benefits if the share price rises. Accordingly, this system is expected to motivate the employees to perform while considering the share price and work harder. In addition, the voting rights for our company’s shares, which are the assets of ESOP Trust, will be exercised while reflecting the thoughts of the employees, who are beneficiary candidates. Accordingly, this plan is effective for improving corporate value by encouraging employees to get involved with business administration.

* In parallel with the adoption of this system, we resolved to transfer 110,000 shares (141.46 million yen) out of 1,663,807 shares (as of Sep. 30, 2023), which are currently held by our company. For details, please refer to “Notice Regarding the Disposal of Treasury Shares Through a Third-Party Allocation,” which was separately disclosed today.

2. Mechanism of this system



- ① Our company will establish regulations for issuing shares for adopting this system.
- ② Our company will inject money, and establish ESOP Trust with beneficiaries being the employees who satisfy the conditions for becoming a beneficiary.
- ③ ESOP Trust will acquire the shares of our company that are expected to be distributed to beneficiaries during the trust period from our company (disposal of treasury shares) by using the money injected in ②, while following the instructions from the trust administrator.
- ④ Dividends will be paid for the shares of our company in ESOP Trust like other shares of our company.
- ⑤ Regarding the shares of our company in ESOP Trust, the trust administrator will give instructions about the exercise of voting rights throughout the trust period, and ESOP Trust will follow the instructions when exercising the voting rights as a shareholder.
- ⑥ In accordance with the regulations for distributing shares, we will distribute the shares of our company to the employees who satisfy certain conditions.
- ⑦ The remaining assets after distribution to beneficiaries at the termination of ESOP Trust will belong to our company within the range of reserve for trust expenses, which is calculated by subtracting funds for acquiring shares from the amount of trust money.

(Note) If there emerges a possibility that the number of shares in ESOP Trust will become insufficient or the funds in trust assets will become insufficient for paying trust fees or expenses, our company may inject more funds into ESOP Trust.

【For reference】

● Details of the trust contract

- (1) Type of the trust Money trust other than that for a specific purpose (trust for benefits of others)
- (2) Purpose of the trust Provision of incentives to the employees of our company
- (3) Trustor Our company
- (4) Trustee Mitsubishi UFJ Trust and Banking Corporation
(Joint trustee: The Master Trust Bank of Japan, Ltd.)
- (5) Beneficiary Our company's employees who satisfy the conditions for becoming a beneficiary
- (6) Trust administrator A third party who has no stake in our company
- (7) Date of conclusion of a trust contract: Jan. 4, 2024
- (8) Trust period: Jan. 4, 2024 to Jun. 30, 2028 (scheduled)
- (9) Date of start of the system: Jan. 4, 2024
- (10) Exercise of voting rights: Beneficiaries will exercise the voting rights of shares of our company while following the instructions from the trust administrator reflecting the situation of exercise of voting rights of beneficiary candidates.
- (11) Type of shares to be acquired Common shares of our company
- (12) Total amount of shares to be acquired 141.46 million yen
- (13) Method for acquiring shares Acquisition through a third-party allocation of treasury shares of our company