

NEWS RELEASE

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February 14, 2022

SDK to Revise Amount of Director Compensation (in Money) Following Revision of Director Compensation Scheme and to Partially Revise Performance-Linked Stock Compensation Scheme

Showa Denko (SDK) (Tokyo: 4004) decided at its board meeting today to submit proposals to the 113th ordinary general meeting of shareholders on March 30, 2022 (“the General Meeting of Shareholders”) for revising the amount of director compensation in money following a revision of the director compensation scheme and partially revising the performance-linked stock compensation scheme.

1. Background and purpose of the revision

To achieve its long-term numerical goals set forth in the long-term vision (2021-2030) for the newly integrated company, SDK intends to ensure executive officers’ commitment to financial results and enhancement of enterprise value, realization of a co-creation-type chemical company with a commitment to “Change society through the power of chemistry” as well as reflection of the concept of compensation schemes under the long-term vision. Thus, the board resolved to revise the director compensation scheme subject to approval of the General Meeting of Shareholders, and submit proposals concerning revision of the amount of director compensation in money as well as partial revision of the performance-linked stock compensation scheme.

For details, please refer to “Reference: Outline of New Director Compensation Scheme” described later.

2. Revision of the amount of director compensation (in money)

At the 107th ordinary general meeting of shareholders on March 30, 2016, it was approved that the amount of director compensation in money should not exceed ¥42 million a month. Based on deliberations of the Compensation Advisory Committee, where independent outside directors have a majority, the board decided to newly set the maximum amount of basic compensation for directors and short-term-performance-linked compensation for directors (excluding outside directors) at ¥850 million a year, including the maximum of ¥100 million a year for outside directors. In setting this amount, the board took into consideration the extent of the Showa Denko Group’s social role and responsibility, trends of companies in the chemical industry and others competing in business and for human resources, and changes in the management environment.

3. Partial revision of performance-linked stock compensation scheme

(1) Outline of revision

At the 107th ordinary general meeting of shareholders on March 30, 2016, it was approved to introduce a performance-linked stock compensation scheme for directors (excluding outside directors) and corporate officers (“Directors and Others”). This scheme is based on Board Benefit Trust, or BBT (“the Scheme”).

Based on deliberations of the Compensation Advisory Committee, and taking into consideration the extent of the Group’s social role and responsibility, trends of companies

in the chemical industry and others competing in business and for human resources, and changes in the management environment, we decided to further clarify the linkage between director compensation and SDK's business results as well as stock value. By sharing both the merits of higher stock prices and the risks of lower ones with shareholders, Directors and Others will increase their commitment to higher medium-to-long-term business results and enterprise value. Thus, we decided to revise the maximum amount of funds SDK will contribute to the trust, and strengthen the linkage to business results. While we added Councilors to the scope of the Scheme at the board meeting on March 5, 2019, we will remove them this time following the revision of the Scheme.

(2) Specific content of the Scheme after revision

1) Outline of the Scheme

The Scheme is a performance-linked stock compensation scheme in which a trust acquires shares in SDK using funds contributed by SDK and the shares are granted by the trust to SDK's Directors and Others pursuant to the Director Share Grant Regulations prescribed by the Board of Directors. The shares are granted to each of the Directors and Others at the time of resignation, in principle.

2) Targets of the Scheme

Directors and Corporate Officers of SDK (excluding Outside Directors and Members of the Audit & Supervisory Board)

3) Trust period

The trust period will be from May 2016 to the expiration of the Trust. (No specific expiration date is set for the Trust, which will remain in effect as long as the Scheme continues to be in force. The Scheme will terminate in the event of a stock exchange delisting of shares in SDK, an abolition of the Director Share Grant Regulations or other circumstances.)

4) Amount of funds contributed to the Trust

SDK has introduced the Scheme for three financial years from the one ended December 31, 2016 to the one ended December 31, 2018 (this period of initial three financial years, as well as each subsequent period of three financial years, are hereinafter referred to as "Target Period") and for each of subsequent Target Periods. SDK contributed up to ¥400 million to the Trust as funds to acquire shares in SDK for the purpose of granting them to Directors and Others as well as Councilors under the Scheme. Eligible Directors and Others as well as Councilors are treated as beneficiaries of the Trust. Using funds contributed by SDK, the Trust has acquired 3,000,000 shares in SDK.

The Trust will continue for the purpose of granting benefits to Directors and Others based on the Scheme. SDK will make an additional contribution of up to ¥2,400 million (including ¥1,350 million for Directors) for each of the Target Periods until the termination of the Scheme, as funds to acquire shares in SDK. If, however, in the event of SDK making such additional contribution, the trust assets contain any residual SDK shares (excluding shares yet to be granted to Directors and Others as well as Councilors, among SDK shares corresponding to the number of points assigned to such executives) or any money ("Residual Shares, etc.") on the last day of the Target Period immediately preceding the Target Period for which SDK intends to make the additional contribution, the combined total value of the Residual Shares, etc. (the applicable value of the SDK shares shall be the amount of their book value on the last day of the above-mentioned immediately-preceding Target Period) and the money shall be within the limits of the maximum amount approved by the General Meeting of Shareholders. When additional contribution is decided, SDK will disclose it in a timely and appropriate manner.

- 5) Method for the Trust to acquire shares and the number of shares to be acquired
The Trust will acquire shares in SDK by way of the stock market or by underwriting shares of SDK's treasury stock, using funds contributed according to 4) above. The upper limit of the total number of points to be granted to Directors and Others for each financial year will be 730,000 as described in 6) below. Thus, the upper limit of the total number of SDK shares to be acquired by the Trust for each Target Period will be 2,190,000. SDK will disclose details of share acquisition by the Trust in a timely and appropriate manner.
- 6) Upper limit of the number of SDK shares to be granted to Directors and Others
Standard points are granted to each of Directors and Others for each financial year according to his/her position as well as market price of SDK shares. These standard points are reviewed after three years, and multiplied by an evaluation coefficient pertaining to total shareholder return (TSR) for the relevant three years. (The coefficient is set in the range of 0% to 200% in accordance with relative TSR ranking in the chemical industry, etc.) Thus, definitive points are given to respective Directors and Others. In case of dividends for SDK shares within the Trust assets corresponding to the definitive points given to Directors and Others as a result of dividend of surplus by SDK, additional points will be given to Directors and Others by dividing the amount of dividends by the book value of shares held by the Trust as of the effective date of dividend payment. (A fraction is to be rounded off.) The maximum number of points to be given to Directors and Others for one financial year (after multiplied by the TSR-related coefficient and including additional points at the time of dividend payment) shall be 730,000 (including 410,000 for Directors). This number has been decided after comprehensive consideration of the current level of director compensation, the number of Directors and Others, and future prospect. We consider this number is reasonable.

Each point to be granted to Directors and Others is converted into one common share in SDK on the occasion of the share granting mentioned in 7) below. (If, however, SDK shares are subjected to a share split, gratis share allotment or share consolidation after the scheme revision is approved by the General Meeting of Shareholders, the Trust will make a reasonable adjustment to the upper limit of the points, granted points, or conversion ratio, according to the applicable percentage figures.)

The number of shares (730,000) corresponding to the upper limit of points to be given to Directors and Others for one business year accounts for approx. 0.4% of the total stocks issued (as of December 31, 2021, after deduction of treasury stock). The number of points for Directors and Others, used as a basis for granting shares in 7) below, shall be the number of points given to Directors and Others by the time of resignation, in principle. (The points thus calculated will be hereinafter referred to as "Total Definitive Points.")

- 7) Timing of granting SDK shares
After resignation, any of the Directors and Others meeting beneficiary requirements set forth in the Director Share Grant Regulations will be allowed, in principle, to receive SDK shares from the Trust corresponding to an applicable number of Definitive Points as stipulated in 6) above, by performing a specified beneficiary determination procedure. However, in case of a resolution of dismissal at a general meeting of shareholders or resignation due to breach of duty, SDK may not give a definitive point related to standard points or cancel already given points in whole or in part. This will also apply to a case of voluntary retirement, where the Compensation Advisory Committee decides not to give a definitive point related to standard points or cancel already given points in whole

or in part. In case of misconduct, SDK may nullify the right to receive benefit or demand return of compensation after deliberations at the Advisory Committee and by resolution of the Board of Directors, depending on the timing of misconduct and the timing of its revelation.

8) Exercise of voting rights

On the instructions of the trust administrator, the Trust will uniformly not exercise voting rights for SDK shares held in the trust account. This is intended to ensure the neutrality of SDK's business management regarding the voting rights of such shares.

9) Handling of dividends

The Trust will receive dividends for SDK shares held in the trust account, and use them to acquire other shares in SDK and pay trust fees payable to the trustee. Pursuant to the Director Share Grant Regulations, any such dividends remaining in the trust account at the termination of the Trust will be granted to Directors and Others serving SDK at the time in proportion to the number of points held respectively.

10) Procedure to be performed at trust termination

The Trust will terminate in the event of a stock exchange delisting of shares in SDK, an abolition of the Director Share Grant Regulations or other circumstances. SDK will acquire, at no charge, all SDK shares among assets held in the trust account at the termination of the Trust, and retire them with the resolution of the Board of Directors. Any money contained in the residual assets held in the trust account at the termination of the Trust will be delivered to SDK in an amount less the deduction of the amount to be granted to Directors and Others as stipulated in 9) above.

< Reference: Outline of New Director Compensation Scheme >

When the proposals for revising the amount of director compensation in money and partially revising the performance-linked stock compensation scheme are approved by the General Meeting of Shareholders, the new director compensation scheme for SDK in and after 2022 will be as outlined below:

1. Basic policy

- Directors (excluding outside directors)
 - A compensation scheme appropriate for recruiting and maintaining excellent human resources inside and outside Japan as SDK aims to become a world-leading chemical company for advanced functional materials
 - A compensation scheme that will help motivate efforts to achieve financial goals and increase medium-to-long-term enterprise value, thereby contributing to sustainable growth of the Group
 - A transparent, fair and rational process for deciding compensation from the viewpoint of accountability to all stakeholders, including shareholders
- Outside directors
 - A compensation scheme appropriate for the role and responsibility for supervising the management of SDK from an independent and objective standpoint

2. Composition and levels of compensation

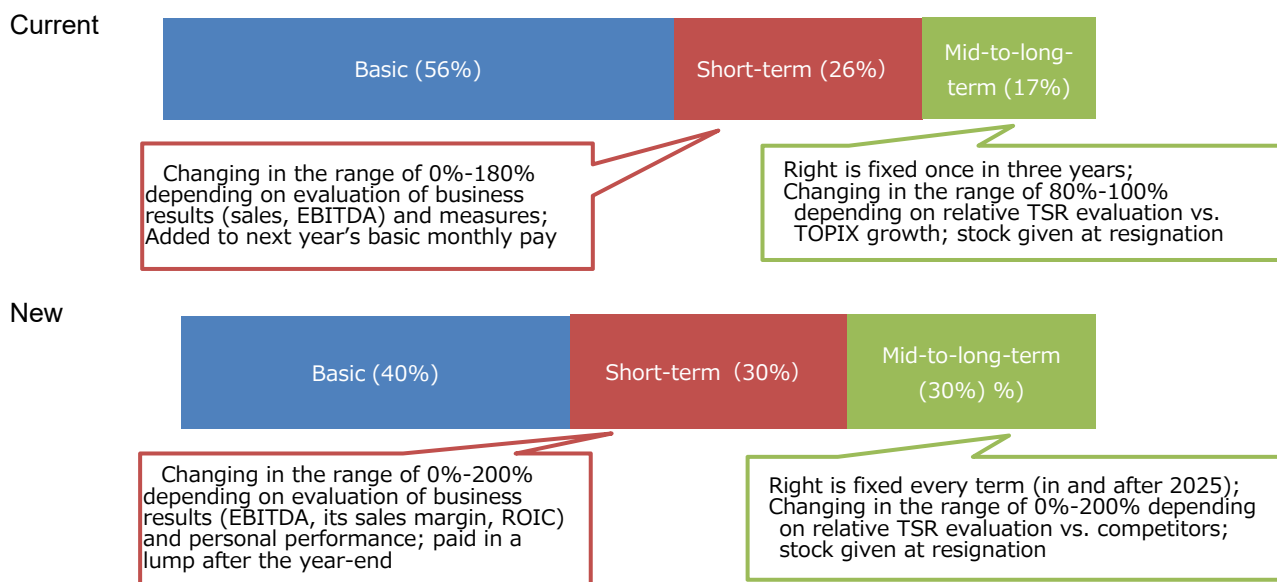
The compensation for executive directors and corporate officers consists of basic compensation (fixed compensation) based on position, short-term performance-linked compensation, and medium-to-long-term performance-linked compensation (stock-based compensation). In case of a standard amount for President and CEO, the proportions of basic, short-term performance-linked, and medium-to-long-term performance-linked compensations are roughly 40%:30%:30%. Compensations for other executive

directors and corporate officers are decided in line with the case of president. As for director and chairman of the board (without right of representation), short-term performance-linked compensation will not be given in view of its basic role of supervising the management. Compensation paid to non-executive directors, outside directors, and members of the Audit & Supervisory Board will be only basic compensation in consideration of their roles and responsibilities. In deciding the composition and levels of compensation, we will use objective market research data provided by external specialized institutions (such as Willis Towers Watson's database regarding compensation for executives). We will consider the results of comparison with global chemical or other material companies of a similar scale.

Graph 1 Type of compensation and scope of payment

Type of compensation			Scope			
Fixed / fluctuating	Money or not money	Composition	Executive directors / corporate officers	Director / chairman of the board (without right of representation)	Non-executive directors / outside directors	Members of the Audit & Supervisory Board
Fixed		Basic	○	○	○	○
Fluctuating	Money	Short-term performance-linked (Bonuses)	○	-	-	-
	Not money	Medium-to-long-term performance linked (Stock-based)	○	○	-	-

Graph 2 Percentage of compensation components for President and CEO (image)



Composition is calculated based on standard amount.

3. Incentive compensation

Incentive compensation will be granted according to performance based on indexes of long-term numerical goals included in the integrated company's long-term vision. It is intended to urge performance of tasks for realizing vision and strategy under the compensation scheme linked to business results and enterprise value.

i) Short-term performance-linked compensation (bonuses)

Payment to each person is decided by multiplying standard value (decided in advance based on position) by performance evaluation coefficient (changing in the range of 0%-200%). The coefficient consists of overall business results evaluation (70%) and personal evaluation (30%). In the case of representative director and chairman of the board, only overall business results evaluation is considered.

Indexes of overall business results evaluation consist of the amount of consolidated EBITDA (20%), the ratio of consolidated EBITDA to sales (30%), and ROIC (20%). As for the first two, evaluation is made relative to the degree of achievement of goals for each term. As for ROIC, evaluation is made on the basis of the average for the past three years.

Personal performance evaluation is made by the Compensation Advisory Committee entrusted by the Board of Directors concerning individual goals, evaluation, and the amount of payment. In case of misconduct, SDK may nullify the right to receive benefit or demand return of compensation, depending on the timing of misconduct and the timing of its revelation. The Board of Directors will make a decision on the matter after deliberations at the Advisory Committee.

Graph 3 Evaluation indexes of short-term performance-linked compensation (bonuses)

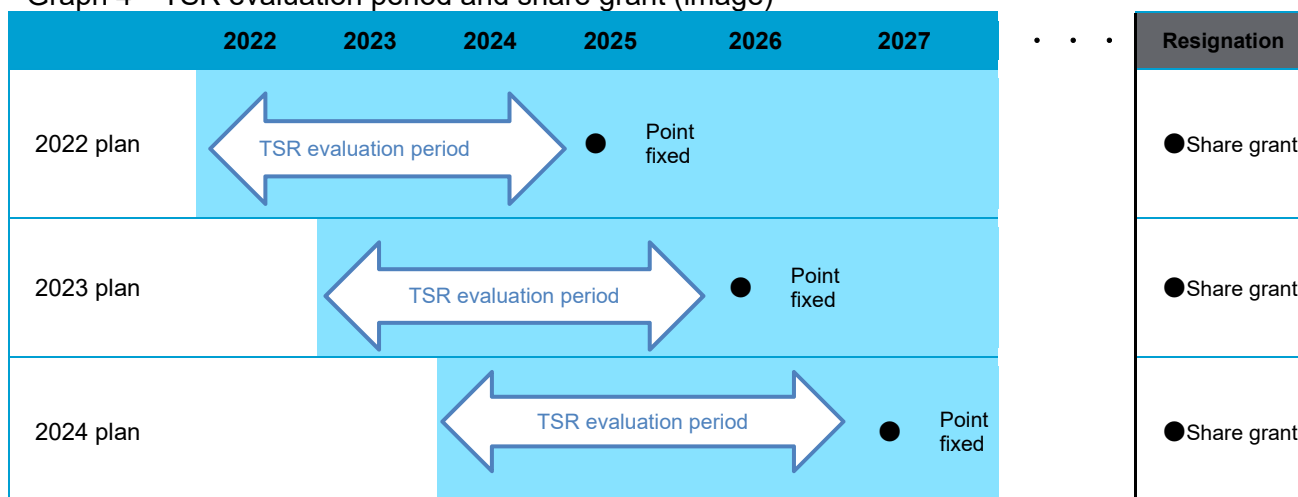
Evaluation indexes		Weighting of evaluation
Evaluation of overall business results	Consolidated EBITDA (amount)	20%
	Ratio of consolidated EBITDA to sales (%)	30%
	ROIC	20%
Personal performance evaluation		30%

4. Medium-to-long-term compensation (stock-based compensation)

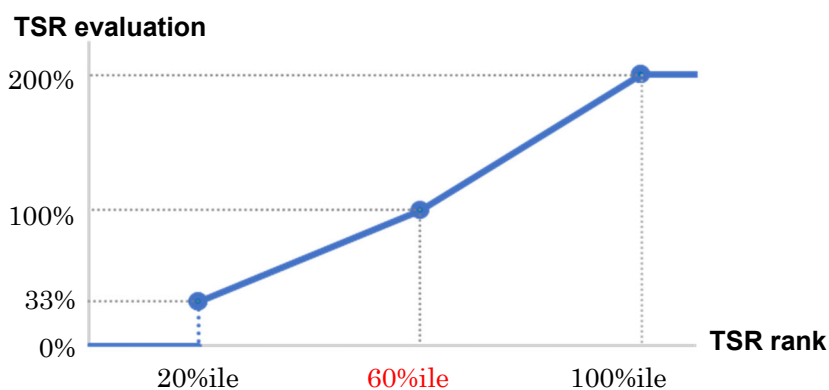
Under the new scheme, points are given by multiplying standard figures (decided in advance based on position) by TSR evaluation coefficient (changing in the range of 0%-200%). TSR evaluation coefficient will be decided based on SDK's rank order of three-year relative TSR evaluation (percentile, hereinafter "%ile") by comparison with competitors in the chemical/textile industries having similar business models and of the same size or larger. To encourage realization of the long-term vision, TSR coefficient will be set at 100% when SDK's rank order is in 60%ile, while it will be 0% when SDK's rank order is below 20%ile. To promote long-term sharing of value with shareholders, shares will be given in a lump after resignation according to cumulative points.

In case of misconduct, SDK may nullify the right to receive benefit or demand return of compensation, depending on the timing of misconduct and the timing of its revelation. The Board of Directors will make a decision on the matter after deliberations at the Advisory Committee.

Graph 4 TSR evaluation period and share grant (image)



Graph 5 TSR evaluation coefficient



$$TSR = \frac{\text{Average closing stock price in Dec. of the last year} + \text{Total amount of dividends during the period}}{\text{Average closing stock price in Dec. immediately preceding the evaluation period}}$$

5. Compensation governance

SDK's Compensation Advisory Committee is chaired by an independent outside director, and independent outside directors/auditors account for the majority of committee members. The committee will make proposals and reports as necessary to the Board of Directors in view of the latest situation concerning executive compensation and market trends, results of comparison with relevant competitors, and other pieces of advice. To ensure high levels of independence and objectivity in deciding compensation for respective directors, the Board of Directors will decide, after the completion of the General Meeting of Shareholders, to entrust the decision to the Compensation Advisory Committee. SDK has appointed Willis Towers Watson, an external consultancy, as advisor.

As for the structure of our Board Benefit Trust, please visit the website of the trustee, Mizuho Trust Banking Co., Ltd. (https://www.mizuho-tb.co.jp/corporate/nenkin/nenkin_esop.html)

For further information, contact:

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