



February 21, 2023

To whom it may concern,

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Representative: Mayuki Hashimoto, Representative Director
CEO & Chairman of the Board
(Code: 3436, TSE Prime Market)
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Announcement regarding Introduction of Performance-Based Stock Compensation Plan for Directors

At a meeting of the Board of Directors held today (February 21, 2023), the Company resolved to introduce a performance-based stock compensation plan (the “Plan”) using a trust for the Company’s Directors (excluding Directors who are members of the Audit and Supervisory Committee and Outside Directors, as described below), and decided to submit a proposal for the introduction of the Plan at the 24th Ordinary General Meeting of Shareholders to be held on March 29, 2023 (the “Shareholder Meeting”).

1. Implementation of the Plan

The Company has decided to introduce a new stock compensation plan for Directors (excluding Directors who are members of the Audit and Supervisory Committee and Outside Directors); until now, the compensation of those Directors has consisted of base compensation and performance-linked compensation.

The purpose of the Plan is to further clarify the link between Directors’ remuneration and the Company’s business performance and stock value, and to raise Directors’ awareness of the need to contribute to improving business performance and increasing corporate value over the medium to long term by sharing with shareholders the benefits and risks associated with share price movements.

Under the Plan, compensation will be paid to Directors (excluding Directors who are members of the Audit and Supervisory Committee and Outside Directors; the same applies hereinafter) in office during the three fiscal years from the fiscal year ending December 31, 2023 to the fiscal year ending December 31, 2025 (the “Target Period”), in addition to the maximum amount of compensation for Directors (excluding Directors who are members of the Audit and Supervisory Committee) approved at the 17th Ordinary General Meeting of Shareholders held on March 29, 2016 (up to 460 million yen per year, including 50 million yen per year as Outside Director compensation; not including employee salaries).

With the introduction of the Plan, compensation for Directors will consist of base compensation, performance-linked compensation, and stock compensation.

The introduction of the Plan is subject to approval at the Shareholder Meeting.

If the introduction of the Plan is approved at the Shareholder Meeting, we plan to introduce a similar stock-based compensation plan for the Presidents of our major domestic subsidiaries and for Executive Officers and other management-level employees of the Company.

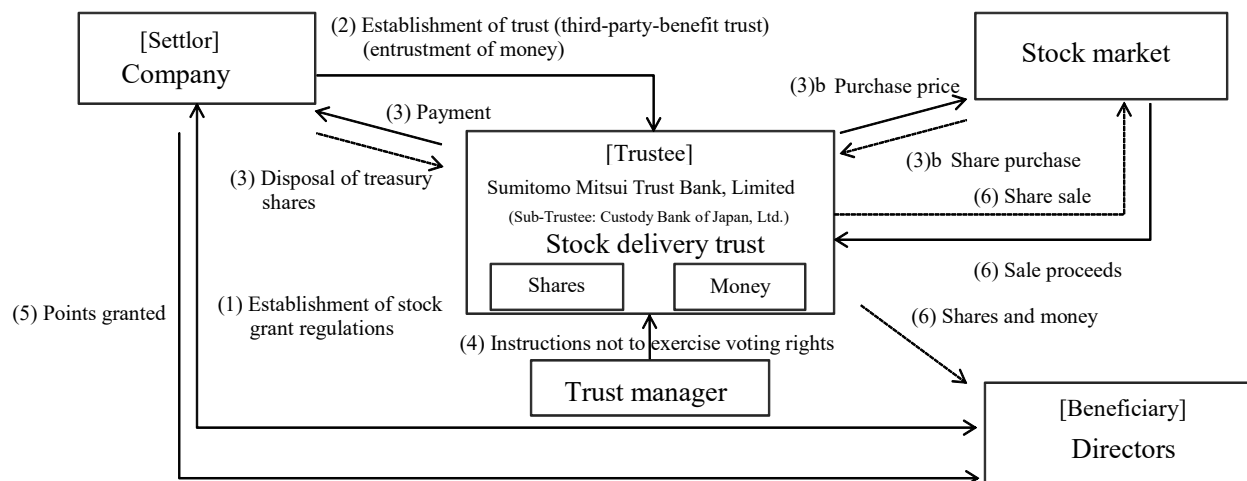
2. Outline of the Plan

(1) Structure of the Plan

Under the Plan, the Company will contribute money to establish a trust (the “Trust”) which will acquire shares of the Company, and the Trust will deliver to Directors a number of Company shares corresponding to the number of points granted by the Company to each Director.

As a general rule, Directors receive the Company shares upon stepping down from the role of Director (in this case, including Directors who are members of the Audit and Supervisory Committee) of the Company.

Structure of the Plan



- (1) The Company will establish stock grant regulations for Directors.
- (2) The Company will establish a share delivery trust (third-party-benefit trust) with the Directors who will acquire beneficial interests under (6) below as the beneficiaries (the Trust). At the same time, the Company will entrust to the trustee an amount of money equivalent to the funds for the share acquisition (however, the funds for the share acquisition for delivery to Directors shall not exceed the amount approved by the shareholder meeting).
- (3) The trustee will acquire Company shares in a single transaction in the number that is expected to be delivered to Directors in the future (through the disposal of treasury shares or through market purchase [including off-floor trading]).
- (4) A trust manager (independent of the Company and its officers) will be appointed to protect the interests of the beneficiaries subject to the stock grant regulations for the duration of the trust period and to supervise the trustee. The trust manager will instruct the trustee not to exercise voting rights with respect to the shares in trust, and the trustee will refrain from exercising voting rights during the trust period as instructed.
- (5) The Company will grant points to Directors in accordance with the stock grant regulations.
- (6) The trustee will deliver Company shares to each Director who satisfies the requirements stipulated in the stock grant regulations and the trust agreement pertaining to the Trust, as a beneficiary of the Trust, in proportion to the points granted to that Director. In certain cases specified in advance in the stock grant regulations and the trust agreement, a portion of the Company shares to be delivered will be sold on the market and money will be delivered.

The Company will acquire all Company shares remaining in the residual assets of the Trust at the time of termination of the Trust, for no consideration, and retire those shares by a resolution of the Board of Directors.

In addition, of the residual assets of the Trust at the time of termination of the Trust, a certain amount of money will be donated to a specified public interest promotion corporation that has no interest in the Company's officers, as provided for in advance in the stock grant regulations and the trust agreement. Sumitomo Mitsui Trust Bank, Limited, the trustee under the Plan, will entrust (sub-trust) the management of the trust assets to Custody Bank of Japan, Ltd.

(2) Establishment of the trust

Provided that the Shareholder Meeting approves the implementation of the Plan, the Company will establish the Trust by contributing the funds necessary for the Trust to acquire in advance the number of Company shares reasonably expected to be required for delivery over a certain period in accordance with (6) below. The Trust will acquire the Company shares with funds contributed by the Company as described in (5) below.

Sumitomo Mitsui Trust Bank, Limited, the trustee under the Plan, will entrust (sub-trust) the management of the trust assets to Custody Bank of Japan, Ltd.

(3) Trust period

The trust period will be approximately 3 years from May 2023 (scheduled) to May 2026 (scheduled). However, the trust period may be extended as described in (4) below.

(4) Maximum amount of trust funds to be contributed to the Trust to fund the acquisition of shares

The Company will contribute a total of up to 675 million yen as compensation for the Directors in office during the Target Period, to finance the acquisition of Company shares as necessary to deliver the Company shares to the Directors under the Plan, and will establish the Trust with the Directors who will acquire the beneficial interests as described in (6)(iii) below as beneficiaries. The Trust will use the money entrusted by the Company to acquire Company shares through the disposal of treasury shares or through market purchase (including off-floor trading).

Note: In addition to the funds for acquisition of the Company shares described above, the estimated amount of trust fees, trust management fees, and other necessary expenses will also be placed in trust. In addition, if a stock compensation plan similar to the Plan is introduced for the Presidents of major domestic subsidiaries of the Company as described above, the Company will also entrust the funds necessary to acquire the Company shares to be delivered to the Presidents of those subsidiaries under the Plan.

In addition, the Board of Directors of the Company may, at its discretion, extend the Target Period by designating a period of no more than three fiscal years and extend the trust period of the Trust accordingly (including effectively extending the trust period by transferring the trust property of the Trust to a new trust established by the Company with the same purpose as the Trust; the same applies hereinafter), and continue the Plan. In such case, during that extension of the Target Period, the Company will make an additional contribution to the Trust of not more than the product of 225 million yen multiplied by the number of fiscal years of the extension, as funds for additional acquisition of the Company shares necessary for delivery to Directors under the Plan, and will continue to grant points and deliver the Company shares as described in (6) below.

In addition, even if the Target Period is not extended as described above and the Plan does not continue, if there are any Directors of the Company (including Directors who are members of the Audit and Supervisory Committee) who have already been granted points but have not yet stepped down from their positions as of the expiration of the trust period, the trust period may be extended at the discretion of the Board of Directors of the Company until those Directors step down and the delivery of the Company shares is completed.

(5) Method of acquisition of Company shares by the Trust, etc.

The initial acquisition of Company shares by the Trust is planned to be conducted through disposal of treasury shares or through market purchase within the maximum amount of funds for share acquisition stated in (4) above. The details of the acquisition method will be determined and disclosed after the resolution of the Shareholder Meeting.

If there is a possibility that the number of Company shares held in the Trust may fall below the number of shares corresponding to the points granted to Directors during the trust period due to an increase in the number of Directors or other reasons, the Company may acquire additional Company shares by placing additional money in the Trust up to the limit of the trust money stated in (4) above.

(6) Calculation method and maximum number of Company shares to be delivered to Directors

(i) Method of granting points to Directors, etc.

In accordance with the stock grant regulations established by the Board of Directors of the Company, the Company will grant to each Director a number of points equal to the product of (a) the number of points determined by that Director's position and other criteria as of the point grant dates in the trust period stipulated in the stock grant regulations multiplied by (b) a performance-linked coefficient that reflects the performance of the performance-linked indices. The performance-linked indices and the range of the performance-linked coefficient will be determined by the Board of Directors. For the initial Target Period, the performance-linked indices will include ROE, EBITDAR margin, and CO₂ reduction rate, and the range of the performance-linked coefficient will be from 0% to 150%.

However, the Company will grant no more than 210,000 points to Directors in total in any one fiscal year.

(ii) Delivery of Company shares in proportion to the number of points granted

Company shares will be delivered to Directors in accordance with the procedure described in (iii) below in proportion to the number of points granted in (i) above. However, if a Director engages in misconduct that causes loss to the Company or the like, the Company will confiscate all points granted up to that point (malus) or demand the full return of money equivalent to the Company shares and other benefits that have been delivered (clawback).

One point is equivalent to one share of the Company. However, if the Company considers it reasonable to adjust the number of Company shares to be delivered due to a share split, share consolidation, or similar event, the Company will adjust the number of shares per point in accordance with the split or consolidation ratio.

(iii) Delivery of Company shares to Directors

Each Director will, in principle, acquire a beneficial interest in the Trust by following the prescribed procedures upon stepping down from the role of Director (in this case, including Directors who are members of the Audit and Supervisory Committee) of the Company, and will receive the Company shares as described in (ii) above as a beneficiary of the Trust.

However, a certain percentage of the Company shares may be sold and converted into cash by the Trust for the purpose of the Company withholding funds for the payment of withholding tax and the like, and cash delivered in lieu of the Company shares. In addition, if the Company shares held in the Trust are converted into cash, such as when the Company shares in the Trust are tendered to a tender offer and settled, cash may be delivered in lieu of the Company shares.

(7) Exercise of voting rights

Voting rights pertaining to the Company shares held in the Trust will not be exercised, pursuant to the instructions of the trust manager, which will be independent of the Company and its officers. By using this method, the Company intends to ensure neutrality toward the Company's management with respect to the exercise of voting rights pertaining to the Company shares held in the Trust.

(8) Handling of dividends

Dividends to the Company shares held in the Trust will be received by the Trust and will be used to pay for the acquisition of the Company shares and the management fees and charges of the trustee for the Trust.

(9) Handling of shares and money upon termination of the Trust

The Company will acquire all Company shares remaining in the residual assets of the Trust at the time of termination of the Trust, for no consideration, and retire those shares by a resolution of the Board of Directors.

In addition, of the residual assets of the Trust at the time of termination of the Trust, a certain amount of money will be donated to a specified public interest promotion corporation that has no interest in the Company's officers, as provided for in advance in the stock grant regulations and the trust agreement.

Reference: Outline of the trust agreement for the Trust

Settlor	SUMCO Corporation
Trustee	Sumitomo Mitsui Trust Bank, Limited (Sub-Trustee: Custody Bank of Japan, Ltd.)
Beneficiaries	Directors of the Company who satisfy the requirements for beneficiaries (the Presidents of the Company's major domestic subsidiaries may also be beneficiaries)
Trust manager	A third party independent of the Company and its officers will be selected
Exercise of voting rights	Voting rights pertaining to shares in the Trust will not be exercised during the term of the Trust
Type of trust	Money held in trust other than a money trust (third-party-benefit trust)
Trust agreement date	May 2023 (scheduled)
Trust period	May 2023–May 31, 2026 (scheduled)
Purpose of the trust	Delivery of Company shares to beneficiaries in accordance with the stock grant regulations

End