

NEWS RELEASE

SHOWA DENKO K.K.

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SDK to Introduce Performance-linked Stock Compensation Scheme

Showa Denko (SDK) (Tokyo: 4004) resolved at its board meeting today to revise its existing director compensation scheme and newly introduce a performance-linked stock compensation scheme called Board Benefit Trust (BBT) (“the Scheme”), a scheme utilizing a trust service, and to submit a proposal for the introduction of the scheme to the 107th ordinary general meeting of shareholders scheduled for March 30, 2016 (“the General Meeting of Shareholders”).

1. Background and purpose of the proposed introduction

The above-mentioned board meeting resolved to introduce the Scheme on condition of obtaining the approval of shareholders at the General Meeting of Shareholders for proposed director compensation, and to submit the proposal for the Scheme at the meeting. The purpose of the proposed introduction of the Scheme is to further clarify the linkage between compensation for Directors and Corporate Officers and the share value of SDK, thereby enhancing their awareness of the need to contribute to the efforts to achieve improved business performance and greater enterprise value in the medium to long term.

SDK has in place a Compensation Advisory Committee, a majority of which comprises Outside Directors and Auditors (External Auditors), which serves as an advisory body to the Board of Directors. Prior to the above-mentioned board meeting resolution to introduce the Scheme that decides compensation for Directors and Corporate Officers, this committee deliberated on the proposal.

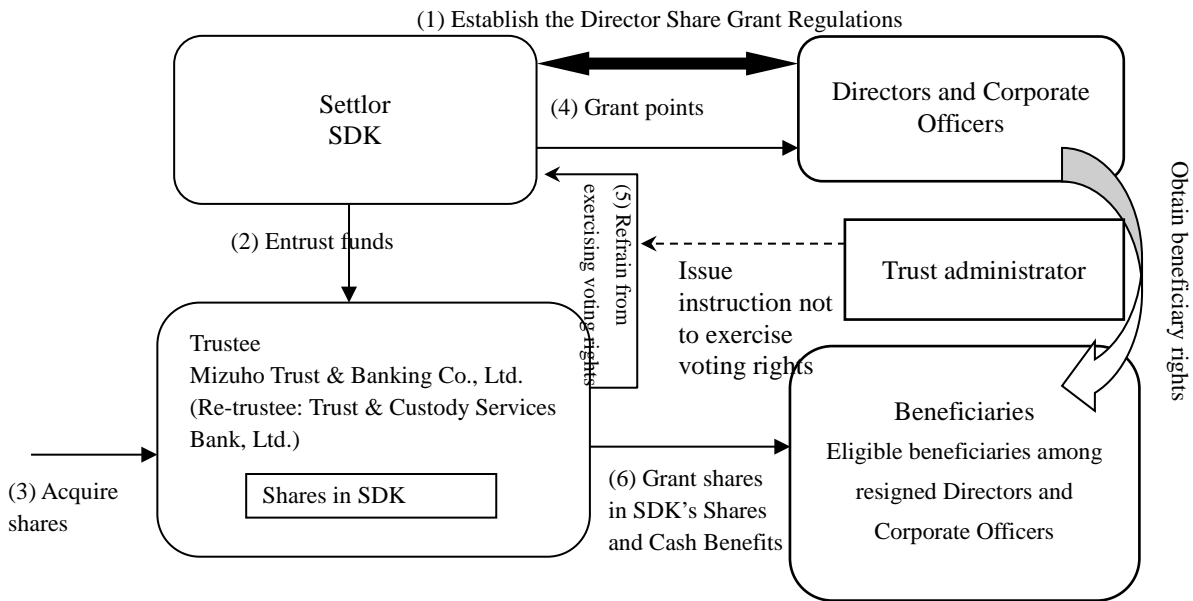
2. Outline of the Scheme

(1) Outline of the Scheme

The Scheme is a performance-linked stock compensation scheme in which a trust acquires shares in SDK using underlying funds contributed by SDK and the shares and an amount of money corresponding to their prevailing market price (“SDK’s Shares and Cash Benefits”) are granted by the trust to SDK’s Directors and Corporate Officers pursuant to the Director Share Grant Regulations to be prescribed by the Board of Directors. Any of SDK’s Shares and Cash Benefits for each of the Directors and Corporate Officers shall, in principle, be granted to him/her when he/she resigns as Director or Corporate Officer.

SDK intends to introduce the Scheme as part of its efforts to adhere to the Code of Corporate Governance. Thus, after the introduction of the Scheme, compensation for Directors and Corporate Officers will consist of stock compensation representing SDK’s Shares and Cash Benefits to be granted to them as “Medium- to Long-term Performance-linked Compensation” in addition to the existing “Basic Compensation” and “Short-term Performance-linked Compensation.”

<Structure of the Scheme>



- i. SDK will obtain the approval of the General Meeting of Shareholders for the director compensation under the Scheme, and establish the Director Share Grant Regulations within the scope of the framework approved at the meeting concerned.
- ii. SDK will entrust funds to the trustee within the scope approved by the resolution of the General Meeting of Shareholders stipulated in item (i) above (the trust to be established through the entrustment of funds is hereinafter referred to as “the Trust”).
- iii. The Trust will use funds entrusted to it, as stipulated in item (ii) above, as underlying funds to acquire shares in SDK by way of the stock market or by underwriting shares of SDK’s treasury stock.
- iv. SDK will grant applicable points to Directors and Corporate Officers pursuant to the Director Share Grant Regulations.
- v. The Trust, obeying instructions from the trust administrator independent from SDK, will not exercise the voting rights of SDK shares held in the trust account.
- vi. The Trust will grant shares in SDK to each of the resigned Directors and Corporate Officers meeting beneficiary requirements set forth in the Director Share Grant Regulations (“Beneficiaries”), based on the number of points assigned to the beneficiary; provided, however, that, with regard to a certain portion of the points, the Trust will pay an amount of money corresponding to the prevailing market price of SDK shares to any Director or Corporate Officer meeting relevant requirements set forth in the above-mentioned regulations.

(2) Targets of the Scheme

Directors and Corporate Officers of SDK (excluding Outside Directors and Auditors)

(3) Trust period

The trust period will be May 2016 (proposed) 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 SDK will contribute to the Trust and the number of shares it will acquire in SDK

SDK, on condition of obtaining the approval of the General Meeting of Shareholders for the introduction of the Scheme, will introduce it for three financial years from the one ending December 31, 2016 to the one ending December 31, 2018 (this period of 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 will contribute up to 450 million yen (including 288 million yen for share granting to Directors) to the Trust as funds to acquire shares in SDK for the purpose of granting them to Directors and Corporate Officers under the Scheme with regard to the inaugural Target Period.

Even after the passage of the inaugural Target Period, SDK will make an additional contribution of up to 450 million yen (including 288 million yen for Directors) for each of the Target Periods until the termination of the Scheme, as funds to acquire shares in SDK as mentioned above. 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 Corporate Officers, among SDK shares corresponding to the number of points assigned to such executives) or any money ("Residual Shares and Cash Benefits") 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 and Cash Benefits (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 to be additionally contributed shall be an amount not exceeding the upper limit approved by the General Meeting of Shareholders.

For reference, assuming an acquisition of SDK shares for a stock exchange closing price of 123 yen per share on February 9, 2016, the Trust will acquire 3,658,536 shares in SDK using 450 million yen, the maximum amount of funds it will contribute as funds for the Trust to acquire SDK shares to be granted to Directors and Corporate Officers for the inaugural Target Period.

(5) Method for the Trust to acquire shares in SDK

The Trust will acquire shares in SDK by way of the stock market or by underwriting shares of SDK's treasury stock.

(6) Method for calculating the number of SDK shares to be granted to Directors and Corporate Officers

Based on standard points granted to each of Directors and Corporate Officers

according to his/her job description and responsibility, for each financial year SDK will grant points to be calculated in light of his/her contribution to the efforts achieve enhanced and greater enterprise value in the medium to long term.

The upper limit on the total number of points to be granted to Directors and Corporate Officers each financial year will be 1,000,000 (including 640,000 for Directors).

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

The number of points for each Director and Corporate Officer, which serves as the basis for computing the number of SDK shares to be granted to him/her, will be determined by multiplying the cumulative number of points granted to him/her until his/her resignation by a ratio of adjustment for share price fluctuation (not more than 1.0), a ratio to be stipulated in the Director Share Grant Regulations (“Definitive Points”).

(7) Timing of granting SDK shares to Directors and Corporate Officers

Any of the resigned Directors and Corporate Officers meeting beneficiary requirements set forth in the Director Share Grant Regulations will be allowed, in principle, to receive from the Trust after his/her resignation, a grant of the number of SDK shares corresponding to an applicable number of Definitive Points, a term stipulated in item (6) above, by performing a specified beneficiary determination procedure. Nevertheless, any such resigned Director or Corporate Officer meeting relevant requirements set forth in the Director Share Grant Regulations may be granted an amount of money corresponding to the prevailing market price of SDK shares with regard to a certain portion of the share grant, instead of the authorized grant of the shares. The Trust may sell a certain number of SDK shares for money granting purposes.

(8) Handling of voting rights

On the instruction 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 Corporate Officers serving SDK at the time.

(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

Directions. 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 Corporate Officers as stipulated in item (9) above.

<Outline of the Trust>

- i. Name: Board Benefit Trust (BBT)
- ii. Settlor: Showa Denko K.K.
- iii. Trustee: Mizuho Trust & Banking Co., Ltd.
(Re-trustee: Trust & Custody Services Bank, Ltd.)
- iv. Beneficiaries: Resigned Directors and Corporate Officers meeting beneficiary requirements set forth in the Director Share Grant Regulations
- v. Trust administrator: A third party with no interest-based relationship with Showa Denko K.K.
- vi. Type of trust: Trust of money other than cash trust (third-party-benefit trust)
- vii. Conclusion date for the trust agreement: May 2016 (proposed)
- viii. Date of money entrustment: May 2016 (proposed)
- ix. Trust period: From May 2016 (proposed) to the termination 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.)

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