

# Corporate Governance

## 1. Basic Concept regarding Corporate Governance

We fully recognize the importance of corporate governance as a means to ensure the soundness, effectiveness, and transparency of management, and to earn the full trust and confidence of the market and society, thereby enhancing corporate value over the long term. The Company is, therefore, taking various measures to strengthen compliance and management supervision, clarify management responsibility, ensure quick decision making and effective execution, and improve disclosure. We also aim to strengthen relations with our stakeholders, including shareholders, customers, suppliers, citizens, and employees. Based on the above, we have clarified our mission in the form of the Company vision stated below, working hard to realize this vision.

### VISION

**We at the Showa Denko Group will provide products and services that are useful and safe and exceed our customers' expectations, thereby enhancing the value of the Group, giving satisfaction to our shareholders, and contributing to the sound growth of international society as a responsible corporate citizen.**

## 2. Situation of the Company's Supervision and Decision-Making Functions

We have adopted the auditor system to enhance the fairness and transparency of management, ensuring efficient management of the Company. To clearly separate management supervision functions from business execution functions, we have introduced the corporate officer system. The top management team, consisting of the President and corporate officers in charge of respective operations, is working to increase the speed of decision making and vitalize operations. Meanwhile, the Company has substantially reduced the number of directors. In addition, we have strengthened the supervision functions by appointing outside directors. At Board meetings held once or twice a month, the Board decides the Company's basic policy and decides, after full deliberation, on matters provided for in the Companies Act and the Company's Articles of Incorporation as well as important matters for the execution of the Company's operations, ensuring a speedy and vigorous decision-making process. We appoint directors from the viewpoint of strengthening corporate governance, aiming to strengthen the Board of Directors' supervision functions and ensure the propriety of the decision-making process. We make sure that corporate officers whose duties are primarily business execution will not concurrently serve as directors, in principle. Furthermore, we have abolished the positions of managing directors and



### Message from Kyohei Takahashi, Chairman of the Board:

The Showa Denko Group considers that strengthening corporate governance is one of the top-priority issues in managing operations. The Company's ordinary general meeting of shareholders, held on March 27, 2015, appointed an additional outside director, increasing the total number of outside directors to three. As a result, outside directors now account for one-third of the nine-member Board of Directors. As for the Board of Auditors, three out of the five members are outside auditors. Both boards have high attendance rates, keenly discussing a wide variety of matters relating to the Group's management. We will continue striving to further strengthen our corporate governance and enhance our value.

A handwritten signature in black ink, which appears to be "K. Takahashi".

senior managing directors to put all directors (except for the Chairman, the President, and the Executive Vice President) on an equal footing, while strengthening the supervision by auditors (including outside auditors) and mutual supervision among directors. The term of office of directors has been shortened to one year to ensure a quick response to changes in the business environment and to clarify management responsibility of directors. At the Company's ordinary general meeting of shareholders held on March 27, 2015, nine directors, including three outside directors, were appointed.

## 3. Situation of Business Execution

The Management Committee, which meets once a week in principle and is chaired by the President, deliberates and decides on matters to be referred to the Board of Directors' meetings

and important matters pertaining to overall management of the Company. The decisions are made after deliberations on two occasions. As for investment plans, their risks are examined by task teams before referral to the Management Committee, and their progress is monitored after authorization. The Company's medium-term business plans are decided not only by the Management Committee but also by the participation of all corporate officers.

The Company considers that responsible execution forms the basis of corporate activities. The Company evaluates performances of respective business segments to ensure the effective implementation of the performance-based evaluation system. The Company has Security Export Control and Safety Measures committees under the CSR Committee chaired by the President. The Company also has Responsible Care, Risk Management, Human Rights/Corporate Ethics, and IR promotion councils. These committees and councils investigate, study, and deliberate on specific matters important for the execution of businesses.

#### 4. Situation of Auditing Functions

The Company's Board of Auditors consists of five auditors, including three outside auditors. The auditors attend the Board of Directors' meetings and other important internal meetings, offering opinions as necessary. They audit the execution of operations through such means as field investigations, hearing sessions, and perusal of important documents, making proposals and providing advice and recommendations to ensure the sound management of the Company. They are working to strengthen the consolidated auditing system in cooperation with auditors of major associated companies.

We have a department for internal audit reporting directly to the President. The Internal Audit Department investigates the overall execution of business, checking for accuracy, propriety, and efficiency. It also investigates the management policies, business plans, and their execution, checking for consistency and soundness. The results of internal auditing are reported to auditors to ensure consistency with audits by auditors.

As for matters relating to the environment and safety, respective divisions in charge conduct Responsible Care audits. KPMG AZSA LLC conducts auditing of the Company based on an auditing contract and an annual plan agreed upon with auditors, and provides audit results to auditors. The accounting corporation and auditors exchange information and views from time to time to strengthen their cooperation.

#### 5. Compliance and Risk Management

The Company's Board of Directors has decided to strengthen compliance and promote risk management as key components of its internal control system. The Board will continue to work on these issues.

##### **Compliance**

The Company is working to strengthen compliance through the Code of Conduct for its employees and the Human Rights/Corporate Ethics Promotion Council, which is under the CSR Committee chaired by the President. Every January, we observe Corporate Ethics Month to renew our awareness. Furthermore, compliance is strengthened through various seminars provided by staff sections and activities organized by respective business sectors. In the event of transgressions, the Company takes measures to prevent recurrence and takes disciplinary actions. The performance evaluation of relevant sectors is to reflect such transgressions. To prevent a transgression or detect it early, we have established an internal check system and channels of communication for reporting the matter.

##### **Risk management**

The Management Committee examines important matters from various angles. In particular, investment plans are examined carefully from such viewpoints as strategic importance and risk management. Furthermore, their progress is monitored and their results are reviewed. Respective business sectors analyze and evaluate their own business risks. The Risk Management Promotion Council, which is chaired by the Company's Chief Risk Management Officer, is under the CSR Committee chaired by the President. The Risk Management Promotion Council decides the Company's basic risk management policy, regularly evaluates overall risks, works out measures regarding high-risk matters, and checks how the measures are implemented by relevant business sectors.

As to individual risks pertaining to environmental protection, industrial safety, disaster prevention, chemical substances, product quality, intellectual property, fair trade, export control, and legal matters, relevant staff sections establish in-house rules and manuals, provide seminars, and manage risks through the review and authorization of proposals from business sectors. In the event of an emergency, the Company will set up crisis headquarters to take swift action and minimize damage.

# Corporate Governance (cont.)

## 6. Reaction Policy on Large-Scale Purchases of the Company's Stock Certificates, etc.

The Company believes that its shareholders should be determined through the free movement of its shares in the market. Although proposals regarding the large-scale purchases of the Company's shares are made by specific persons, the decision whether to sell the Company's shares in response to such a proposal shall eventually be made based on the opinion of the shareholders, which is reached after being given the sufficient information necessary for making an appropriate decision and sufficient time for consideration.

In light of the basic policy stated above, the Company has renewed its efforts to prevent inappropriate persons from controlling its financial and business policy decisions. A renewed "Reaction Policy on Large-scale Purchases of the Company's Stock Certificates (Takeover Defense)" was approved at the Company's ordinary general meeting of shareholders held on March 27, 2014. (For details, please refer to the Company's press release dated February 13, 2014.)

## 7. Other

Remuneration, etc., to directors, auditors and auditing corporation (for the period from January 1 through December 31, 2014) is as follows;

### Remuneration, etc., to directors and auditors

	Number of applicable persons	Paid amount
Directors (excluding outside directors)	9	¥278 million
Auditors (excluding outside auditors)	2	¥54 million
Outside directors and auditors	5	¥55 million
Total	16	¥388 million

### Remuneration to the auditing corporation

	Paid amount
Name of accounting auditor: KPMG AZSA LLC Remuneration for the issuance of auditing certification based on the audit contract	¥153 million

## 8. Personal/Financial Relations and Interests between the Company and Outside Directors/Auditors

The Company has three outside directors and three outside auditors. None of them has special interests in the Company. An outline of the Company's corporate governance system is as shown below.

