

Message from Hideo Ichikawa, Chairman of the Board

The Showa Denko Group views further strengthening of corporate governance as one of the top-priority management issues. In December 2015, the Company established Corporate Governance Basic Policies, aiming to promote constructive dialogue with stakeholders, thereby increasing corporate value and shareholders' common interests. Guided by the Basic Policies, we updated our Corporate Governance Report, and we are promoting constructive dialogue with investors and shareholders.

In 2018, we maintained a system under which outside directors accounted for three out of the nine members of the Board of Directors, as we had in the previous year. For the Audit & Supervisory Board, three out of the five members are outside members. Those outside board members are experts from the insurance and financial industry, manufacturing, academia, and the Law. They give us valuable advice and comments from various perspectives. Both boards have high attendance rates, and keenly discuss a wide variety of matters relating to the Group's management. Especially in 2018, during the process to formulate the new medium-term business plan, members of the two boards keenly discussed various matters, including structural reforms, M&As, capital investments, and improvement in return to shareholders.

Under the new medium-term consolidated business plan The TOP 2021, aiming to continue to be a corporate group that has a sound present and a promising future, the Showa Denko Group will aggressively invest in plants and equipment by making the best use of the fruits of the structural reforms that we have been conducting for a long time, and will thereby expand the scale of business and improve profitability. Throughout the three-year period of The TOP 2021, the Group will establish a solid foundation for growth, aiming to become a *Koseiha* Company (individualized company) which is an aggregate of *Koseiha* Businesses (individualized businesses). We will continue striving to further strengthen our corporate governance and enhance our value. With regard to SDGs, on the basis of Our Code of Conduct which includes our pledge to "maintain and improve the global environment," the whole Showa Denko Group will positively develop, produce, and sell products and services that contribute to achievement of the SDGs, thereby enhancing our value as a "company contributing to the sound growth of society." We look forward to the continued support of our investors and shareholders.



Hideo Ichikawa
Chairman of the Board

1. Basic Concept of Corporate Governance

We will promote corporate governance to ensure the soundness, effectiveness, and transparency of management, and to continue enhancing our corporate value, thereby contributing to the sound growth of society and earning its full trust and confidence. To that end, it is essential for us to strengthen relations with our stakeholders, including shareholders, customers, suppliers, community residents, and employees. Based on the above, we have clarified our mission in the form of the Group's vision, as stated below, and we are 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.

* Please visit our website (URL: <http://www.sdk.co.jp/english/about/governance.html>) for our Corporate Governance Basic Policies.

2. Supervisory and Decision-Making Functions

We have adopted the Audit & Supervisory Board system to enhance the fairness and transparency of management, ensuring efficient management of the Company. To clearly separate management supervision from business execution, we have introduced a corporate officer system. The top management team, consisting of the President and corporate officers in charge of their respective operations, is working to increase the speed of decision-making and to vitalize operations. At the same time,

the Company has substantially reduced the number of directors.

In addition, we have strengthened supervisory functions by appointing outside directors. To strengthen the independence and objectivity of the Board of Directors, and accountability of the Board of Directors, the Company has established the Nomination Advisory Committee and the Remuneration Advisory Committee as advisory bodies to the Board of Directors. The majority of each committee consists of independent outside directors and outside members of the Audit & Supervisory Board. At board meetings held once or twice a month, the board decides on 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' supervisory functions and to 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 senior managing directors to put all directors (except for the Chairman, and the President) on an equal footing, while strengthening the supervision by Audit & Supervisory Board members (including outside members) 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 the management responsibility of directors. At the Company's ordinary general meeting of shareholders held on March 28, 2019, nine directors, including three outside directors, were appointed.

3. 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 for the overall management of the Company. The decisions are made after deliberations on two occasions. 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 the performances of 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 direct supervision of the President. The Company also has Responsible Care, Risk Management, Human Rights/Corporate Ethics, and IR promotion councils under the Management Committee chaired by the President. These committees and councils investigate, study, and deliberate on specific matters important for the execution of business.

4. Audit & Supervisory Functions

The Company's Audit & Supervisory Board has five members, including three outside members. The members attend the Board of Directors' meetings and other important internal meetings, offering opinions as necessary. They audit and supervise the execution of operations through field investigations, by hearing sessions, and by reading important documents, making proposals and providing advice and recommendations to ensure the sound management of the Company. They are working to strengthen the consolidated audit & supervisory board system in cooperation with auditors of major associated companies.

The Internal Audit Department reports directly to the President and investigates the overall execution of business, checking for accuracy, propriety, and efficiency. It also investigates management policies as well as business plans and their execution, checking for consistency and soundness. The results of internal auditing are reported to the members of the Audit & Supervisory Board to ensure consistency with their audits.

For matters relating to the environment and safety, the divisions in charge conduct Responsible Care audits. KPMG AZSA LLC audits the Company based on an auditing contract and an annual plan agreed upon with the Audit & Supervisory Board, and provides the board with audit results. The auditing corporation and the Audit & Supervisory Board exchange information and views from time to time to strengthen 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 the internal control system. The Board will continue to work on these issues.

For the details of our policies on compliance and risk management, please visit our websites:

<http://www.sdk.co.jp/english/csr/compliance.html>

http://www.sdk.co.jp/english/csr/risk_management.html

6. Other Items

Remuneration, etc., to the members of the Board of Directors and the Audit & Supervisory Board as well as the auditing corporation (for the

period from January 1 through December 31, 2018) is as follows:

Remuneration, etc., for Board Members

	Number of applicable persons	Paid amount
Members of the Board of Directors (excluding outside members)	6	¥305 million
Members of the Audit & Supervisory Board (excluding outside members)	3	¥ 56 million
Outside board members	8	¥ 68 million
Total	17	¥429 million

Remuneration for Auditing Corporation

	Paid amount
Name of accounting auditor: KPMG AZSA LLC	
Remuneration for issuing an auditing certification based on the auditing contract	¥194 million

7. Personal/Financial Relations and Interests among the Company and Outside Board Members

The Company has three outside members each for both the Board of Directors and the Audit & Supervisory Board. None of them has special interests in the Company. An outline of the Company's corporate governance system is shown below.

