

## Message from Hideo Ichikawa, Chairman of the Board

The Showa Denko Group views the further strengthening of corporate governance as a top management priority. In December 2015, the Company established Corporate Governance Basic Policies, aiming to promote constructive dialogues with stakeholders, in this way increasing corporate value and shareholders' common interests. Guided by the Basic Principles, we updated our *Corporate Governance Report*, and we are now promoting constructive dialogues with shareholders.

In 2019, as in the previous year, we maintained a system where outside directors accounted for three out of the nine members of the Board of Directors. For the Audit & Supervisory Board, three out of the five members were outside members. Those outside board members were experts from the financial and manufacturing industries, academia, and the legal profession. They gave us valuable advice and comments from diverse perspectives. Both boards had very high attendance rates.

In December 2019, the Company announced that it would start a tender offer for shares of Hitachi Chemical Company, which would be the largest-ever M&A for the Company. As the chairman of the board, I would like to give appropriate guidance to the Company, aiming for the new Showa Denko Group to have a promising future after integration of the two companies.

In 2020, as a new measure to strengthen corporate governance within the Company, we increased the number of outside directors from three to four, while maintaining the total number of directors at nine. On the other hand, in March 2020, I relinquished my appointment as Representative Director and decided to concentrate my attention on my work as the Chairman of the Board. I would like to stimulate discussions at the Board of Directors' meetings and take the leadership to have lively debates at our meetings on the medium- to long-term course of the management of the Company. At the Board of Directors' meeting, we will also discuss important management policies of the Showa Denko Group, including our management philosophy, the new business strategy to be pursued after acquiring shares in Hitachi Chemical, how the new business portfolio should be structured, as well as policies on capital investment, reform of our business organization, and shareholder return.

Today, global demand is increasing for companies to contribute to society in line with the concepts of CSR and ESG. For SDGs (Sustainable Development Goals), advocated by the United Nations as targets to be achieved by 2030, the whole Showa Denko Group will work on achieving SDGs based on our Code of Conduct, which includes our pledge to "maintain and improve the global environment." The Group will positively develop, produce, and sell products as well as services that contribute to the achievement of SDGs, in this way enhancing our value as a "company contributing to the sound growth of society."

We look forward to the continued support of 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: <https://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 of Directors 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 26, 2020, nine directors, including four outside directors were appointed. One of outside directors is a female director.

## 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 Sustainability, Responsible Care, 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. Sustainability Promotion Council

The Sustainability Promotion Council examines the Showa Denko Group's important CSR issues in general, with a focus on compliance and risk management. Specifically for compliance, the Council reviews medium-to long-term action plans and significant issues, then formulates measures based on the action plans and evaluates the status of their implementation. In addition, the Council regularly aggregates and evaluates risks, formulates plans to mitigate critical risks that could affect the Group, and confirms how risk mitigation procedures are being implemented.

For the details of our policies on compliance and risk management, please visit our website: [https://www.sdk.co.jp/english/csr/risk\\_compliance.html](https://www.sdk.co.jp/english/csr/risk_compliance.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, 2019) is as follows:

#### Remuneration, etc., for Board Members

	Remuneration, etc. (Millions of yen)	Total Amount by Type of Remuneration, etc. (Millions of yen)			Number of applicable persons
		Basic Compensation	Short-term Performance-linked Compensation	Stock Compensation	
Directors	402	261	121	20	11
Outside members included in above	39	39	—	—	4
Audit & supervisory Board Members	93	93	—	—	6
Outside members included in above	33	33	—	—	3

20 Million yen is filed as Stock Compensation for Directors, not including outside Directors, based on the performance-linked stock compensation plan resolved at the 107th ordinary general meeting of shareholders held on March 30, 2016.

#### Remuneration for Auditing Corporation

	Paid amount
Name of accounting auditor: KPMG AZSA LLC Remuneration for issuing an auditing certification based on the auditing contract	¥183 million

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

The Company has four outside members in the Board of Directors and three outside members in 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.

