Corporate Governance

Last Updated: March, 29, 2019

SHOWA DENKO K.K.
Kohei Morikawa, President and Chief Executive Officer
Contact: 03-5470-3111 (General Affairs Office, CSR & General Affairs Department)
Securities Code: 4004
http://www.sdk.co.jp/

The corporate governance of SHOWA DENKO K.K. (the "Company") is described below.

I. Basic Views on Corporate Governance, Capital Structure, Corporate Attributes and Other Basic Information

1. Basic Views

The Company shall enhance its corporate governance in order to realize "a company contributing to the sound growth of society," which ensures soundness, effectiveness and transparency of management, and continuously enhances its corporate value, thereby earning social trust and esteem. In addition, proper relationships with our shareholders, customers, business partners, community residents, employees, and other stakeholders must also be maintained as well as developed further in order to earn social trust and esteem through continuous enhancement of our corporate value. Based on the above, we have clarified our mission in the form of the Group vision stated below. We shall conduct our business with the aim of realizing this vision.

Vision of the Showa Denko Group
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.

[Reasons for Non-compliance with the Principles of Japan's Corporate Governance Code]

(Principle 1-4: Cross-Shareholdings)
(1) Policy on Reduction of Cross-Shareholdings
As described in "Disclosure Based on the Principles of the Japan's Corporate Governance Code."
(2) Review on the Appropriateness of Cross-Shareholdings
From fiscal 2019, we will review the appropriateness of cross-shareholdings following the procedure as below.
Every year, the Board of Directors of the Company shall review and judge the suitability of each cross-shareholdings through cost-benefit analysis of capital and other measures based on the results of the evaluation of profitability and feasibility of the relevant cross-shareholdings.
(3) Voting Right Exercise Standard
As described in "Disclosure Based on the Principles of the Japan's Corporate Governance Code."

(Principles 4-8 (1) and (2): Meetings consisting solely of Independent Outside Officers and election of the lead Independent Outside Officer)
The Company has appointed three Outside Directors and three Outside Audit & Supervisory Board Members to increase the effectiveness of oversight from an independent and objective standpoint. At every Board of Directors' meeting, each Outside Officer has actively participated in unfettered and constructive discussions about management and other issues. On the date of the Board of Directors' meeting, the Company has provided an opportunity for Chairperson, President and Outside Officers to exchange opinion; and also has held semiannual sessions for all Officers to exchange opinions, so that they are able to fully share information. For these reasons, the Company has neither provided the meetings consisting solely of

Outside Officers, nor appointed Lead Outside Director among them. However, the Company shall arrange meetings solely of Outside Officers at their request.

(Principle 4-11: Preconditions for Board of Directors and Audit & Supervisory Board Effectiveness)
The Board of Directors is composed of persons with knowledge, experiences and capabilities required to fulfill duties as Directors, regardless of gender, age and nationality; the size of the Board of Directors shall be designed to ensure prompt decision-making and appropriate oversight of business execution. To obtain insights into appropriateness of business execution, we select at least two Independent Outside Directors who have a wealth of experience and extensive knowledge and insights, such as corporate executives and academic experts. We have no female or foreign national Directors at present, but have selected multiple Directors who have a wealth of experience in international operations. Going forward, the Company will remain committed to board diversity. The Audit & Supervisory Board consists of five members, including those with strong expertise in finance and accounting; three of them (including one female) are Outside Audit & Supervisory Board Members, who are corporate executives, lawyers, etc.

[Disclosure Based on the Principles of Japan's Corporate Governance Code]

(Principle 1-4: Cross-Shareholdings)
(1) Policy on Reduction of Cross-Shareholdings
The Company shall decide the suitability of cross-shareholdings by examining mid- to long-term economic rationality, maintenance and enhancement of business relationships, and other factors. The Company shall reduce the amount of certain cross-shareholdings if it judges that the relevant cross-shareholdings do not contribute to mid- to ling-term appreciation of our corporate value.
(2) Please read "Reasons for Not Implementing Each Principle of the Japan's Corporate Governance Code" for review of the appropriateness of cross-shareholdings, which will start in fiscal 2019.
(3) Voting Right Exercise Standard
When the Company exercises its voting rights of cross-shareholdings, the company shall decide approval or disapproval of each item on the agenda by examining whether the item contributes to increasing corporate value and maintaining/increasing shareholders' returns or not.

(Principle 1-7: Transactions among Related Parties)
The Company gains approval from the Board of Directors in accordance with laws and regulations as well as its Rules of Board of Directors for competitive transactions and conflict of interest transactions between the Company and its Directors or Corporate Officers. In addition, the Company reports the results of the said transactions to the Board of Directors.

(Principle 2-6: Roles as Asset Owners of Corporate Pension Plan)
To securely and effectively manage funds for its defined benefit pension plan, the Company has organized the Pension Management Committee consisting of experts from each of Human Resources, Finance & Accounting, and Strategy Planning Divisions. The Committee deliberates on the formulation and review of basic investment policies for the pension funds and a policy asset mix. Also, we have established a structure that allows us to cooperate with an investment consulting firm in deliberating basic investment policies so that we can ensure sustainable and proper pension funds management.

(Principle 3-1: Enhancement of Disclosure)
(1) For company goals (Vision, etc.), management strategies and business plans.
Please refer to the Group's vision, management strategies and mid-term business plan on its website. (URL: http://www.sdk.co.jp/about.html)
(2) Basic views and basic policies on corporate governance
Details of basic views are described in "1.1 Basic Views" in this report. Concerning basic policies, "Corporate Governance Basic Policies" is posted on the Company's website.
(URL: http://www.sdk.co.jp/about/governance.html)
(3) The Board of Directors' policies and procedures in determining the compensation of the senior management and Directors
Remuneration of Executive Directors and Corporate Officers shall consist of base remuneration, short-term performance-linked remuneration, and mid- to long-term performance-linked remuneration. In addition to the amount of base remuneration which is determined based on titles and other factors, the amount of

performance-linked remuneration shall be determined in consideration of corporate and individual performance and other factors based on the performance evaluation system. In determining remuneration, the Remuneration Advisory Committee, an advisory body to the Board of Directors where Independent Outside Directors and Outside Audit & Supervisory Board Members account for the majority of its members, shall deliberate matters related to the remuneration and report the results of its deliberation to the Board of Directors.
(4) Board of directors policies and procedures in the appointment/dismissal of the senior management and the nomination of candidates for Directors and Audit & Supervisory Board Members
Candidates for Directors shall be persons who have the knowledge, experiences and capabilities required to fulfill their duties as Directors. The Company selects senior management members by taking into account corporate and individual performance and other factors. Candidates for Audit & Supervisory Board Members shall have the knowledge, expertise and capabilities required to fulfill their duties, including those with strong expertise in finance and accounting. In electing and nominating Audit & Supervisory Board Members, the Nomination Advisory Committee, an advisory body to the Board of Directors where Independent Outside Directors account for the majority of its members, shall deliberate matters related to nomination and report the results of its deliberation to the Board of Directors. If there is a fact concerning the senior management, including CEO, that may meet the Dismissal Standards given below, the Nomination Advisory Committee shall deliberate the applicability of the Dismissal Standards, and report the result of deliberation to the Board of Directors. Then the Board of Directors shall make a final decision on dismissal of the relevant Director.

(Criteria for selecting candidates for Directors and Audit & Supervisory Board Members)
1. Directors
a) Inside Director
・ A candidate must have high principles, wide-ranging insight, strict ethical view, fair judgement, and executive power, which are essential characteristics for carrying out Director's duties.
・ A candidate must have enough knowledge and experience concerning businesses of the Group, which are essential for realizing management vision of the Group.
・ A candidate must be well-educated, and maintain strong willpower, physical and mental health enough to fulfill Director's obligations.
b) Outside Director
・ A candidate must have high principles and objective judgment enough to give pertinent advice on the management of the Group.
・ A candidate must be a talented one who satisfies the above-mentioned condition and has expertise in the field the candidate is engaged, such as a corporate executive, an expert on laws or accounting, and a person who once served at public agencies.
2. Audit & Supervisory Board Members
a) Inside Audit & Supervisory Board Member
・ A candidate must have knowledge and experience rich enough to appropriately and fairly audit the Company's Directors' performance of their duties.
・ A candidate must have high principles, wide-ranging insight, strict ethical view, and fair judgement.
b) Outside Audit & Supervisory Board Member
・ A candidate must have knowledge and experience rich enough to fairly and objectively judge audit of the Company's Directors' performance of their duties.
・ A candidate must be a talented one who satisfies the above-mentioned condition and has expertise in the field the candidate is engaged, such as a corporate executive, an expert on laws or accounting, and a person who once served at public agencies.
(Dismissal Standards of the senior management)
a) If a Director greatly damages corporate value of the Company due to negligence of the Director's duties.
b) If it is revealed that a Director does not meet the criteria for nomination of candidates for Directors
c) If a Director cannot continue to perform the Director's duties for reasons of health.

(5) Explanations about respective elections or dismissals of senior management members and nominations of candidates for Directors and Audit & Supervisory Board Members
The Company gives explanations on its nomination of Directors and Audit & Supervisory Board Members,

including reasons for their election in reference documents for the General Meeting of Shareholders. Also, the Company appropriately discloses reasons for dismissals.

(Principle 4-1 (1): Range of Scope of Delegation)
The Company has defined the scope of delegation of authority to the management by setting rules for matters to be resolved by Board of Directors and matters to be reported to the Board of Directors in the "Rules of Board of Directors."

(Principle 4-9: Independence Standards and Qualification for Independent Outside Directors)
The Board of Directors shall establish independence standards and qualifications for our Independent Outside Directors in accordance with the Independence Standards as defined by laws and regulations and Tokyo Stock Exchange, and nominates the candidates who meet these independence standards and qualifications. For the independence standards, please refer to "Attachment to the Corporate Governance Basic Policies."

(Principle 4-11 (1): View on Total balance of knowledge, experience, skills and diversity, size of the Board of Directors)
The Board of Directors is composed of persons with knowledge, experiences and skills required to fulfill duties as Directors; the size of the Board of Directors shall be designed to ensure prompt decision-making and appropriate oversight of business execution. For more appropriate business execution and higher effectiveness of oversight, we shall elect at least two Independent Outside Directors with a wealth of experience and extensive knowledge, who are corporate executives, academic experts, etc.

(Principle 4-11 (2): Directors and Audit & Supervisory Board Members also serving as officers at other listed companies)
The Company discloses facts about its Directors and Audit & Supervisory Board Members concurrently serving as Directors or Audit & Supervisory Board Members at other listed companies in its annual business reports.

(Principle 4-11 (3): Results of evaluation on overall effectiveness of the Board of Directors)
1. Method of Evaluation
In January 2019, the Company surveyed respective Directors and Audit & Supervisory Board Members through questionnaires and free descriptions to evaluate effectiveness of the Board of Directors in fiscal 2018. Based on the aggregate results, the officers discussed the topic in the Board of Directors meeting held in March 2019. Note that we have outsourced the questionnaire survey and its aggregation to an outside institution in order to ensure its objectivity and enhance future effectiveness of the Board of Directors.
2. Evaluation Results
The evaluation results have revealed that in the Board of Directors, highly effective board members, who have a broad perspective and set of values based a variety of experiences and expertise, are engaged in discussions which help increase the corporate value; and that handouts and explanations about agenda are provided beforehand to encourage vigorous and constructive discussions and allow for enough time for discussions at board meetings. We have confirmed that we will continue to deliberate centerpieces such as business strategies and the direction of the Group's business management so that all board members share the same perception about changes in business environment and other issues. For this year's action plans, at "the Board of Directors' meetings" and "the opinion exchange meetings of all officers (held semiannually)," we review business strategies in line with a progress of the new mid-term business plan, and deliberate on implementing and strengthening CSR and compliance structures with a view to further expanding business globally; we also work on initiatives towards more effective operation of the Board Meetings and enhance functions of the secretariat to the Board of Directors

(Principle 4-14 (2): Training policy for Directors and Audit & Supervisory Board Members)
In addition to offering training to new Directors and Audit & Supervisory Board Members, the Company shall provide Directors and Audit & Supervisory Board Members with opportunities for internal and external training and bear the necessary expenses so that they may regularly update their knowledge about management strategies, revision of laws and regulations, corporate governance, and other matters.

(Principle 5-1: Policy for Constructive Dialogue with Shareholders)

The Company regards investor relations (IR) activities as activities to enable shareholders and investors to understand the Company's corporate management, activities, and strategies and to evaluate the Company's corporate value appropriately. Therefore, the Company shall
(1) actively hold dialog with shareholders and investors and increase the transparency of management, and
(2) disclose the Company's corporate information in an easy-to-understand, fair, timely, and accurate manner in order to increase understanding and trust towards the Company.

In addition to IR activities for institutional investors both in Japan and abroad by CEO and CFO, the Company shall hold presentations for individual investors in Japan. In addition, the Company shall set up the IR Promotion Council chaired by CFO with members from Corporate Strategy, CSR & General Affairs , and Finance & Accounting Departments. The IR Promotion Council shall deliberate comprehensive initiatives and basic plans related to IR, examine the details of information obtained through dialog, etc. with shareholders, and report them appropriately. In addition, the Company shall ensure appropriate disclosure of important information by centrally managing important information such as information related to account settlement under the Timely Disclosure Rules.

2. Capital Structure

Foreign Shareholding Ratio	30% or more

[Status of Major Shareholders]

Name	Number of Shares Owned (Shares)	Shareholding Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,747,500	6.67
Japan Trustee Services Bank, Ltd. (Trust Account)	6,469,900	4.43
MSCO CUSTOMER SECURITIES	5,574,482	3.81
Fukoku Mutual Life Insurance Company	5,016,800	3.43
The Dai-ichi Life Insurance Company, Limited	3,600,000	2.46
Japan Trustee Services Bank, Ltd. (Trust Account 9)	3,547,900	2.43
CDSIL AS DEPOSITARY FOR OLD MUTUAL GLOBAL INVESTORS SERIES	3,417,900	2.34
NORTHERN TRUST CO. (AVFC) SUB A/C USL NON-TREATY	3,217,547	2.20
Meiji Yasuda Life Insurance Company	2,644,682	1.81
Sompo Japan Nipponkoa Insurance Inc.	2,555,760	1.75

Controlling Shareholder (except for Parent)	—
Parent	None

Supplementary Explanation

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange
Fiscal Year-End	December
Type of Business	Chemicals
Number of Employees (Consolidated) at End of the Previous Fiscal Year	1,000 or more
Net Sales (Consolidated) for the Previous Fiscal Year	From ¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries at End of the Previous Fiscal Year	From 50 to less than 100

4. Policy for Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholder

—

5. Special Circumstances Which May Have Material Impact on Corporate Governance

The Company owns one listed subsidiary. The Group guides affiliated companies to align with the Group's basic management matters, including strengthening of compliance, the vision, the mid-term business plan and the business policies, while respecting their management autonomy.

II. Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Supervision in Management

1. Organizational Composition and Operation

Organization Form	Company with Audit & Supervisory Board

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	Not limited
Term of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Chairman (excluding the case where the person concurrently serves as President)
Number of Directors	9
Appointment of Outside Directors	Appointed
Number of Outside Directors	3
Number of Independent Officers Designated from among Outside Directors	3

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Masaharu Oshima	Academic								△			
Kiyoshi Nishioka	From another company								△			
Kozo Isshiki	From another company											

* Categories for "Relationship with the Company"
"○" when the director presently falls or has recently fallen under the category;
"△" when the director fell under the category in the past;
"●" when a close relative of the director presently falls or has recently fallen under the category; and
"▲" when a close relative of the director fell under the category in the past

a. Executive (a person who executes business; hereinafter, the same) of the Company or its subsidiary
b. Non-executive director or executive of the parent of the Company
c. Executive of a fellow subsidiary of the Company
d. Party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the Company or an executive thereof
f. Consultant, accounting professional or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as a director
g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a corporation)
h. Executive of a client or supplier of the Company (which does not correspond to any of d., e., or f.) (the director himself/herself only)
i. Executive of a corporation to which outside officers are mutually appointed (the director himself/herself only)
j. Executive of a corporation that receives a donation from the Company (the director himself/herself only)
k. Other

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Masaharu Oshima	○	Mr. Oshima is an emeritus professor of the University of Tokyo. He and the Company had worked on joint research projects from 1996 to 2008; the research expenses back then was less than 10 million yen per year.	We have appointed him as Outside Director, hoping that he would give us advice on the appropriateness of our business execution based on his wealth of expertise and experience as an electronics researcher. Although Mr. Oshima is an emeritus professor of the University of Tokyo, we have appointed him as Independent Officer since the university has received neither a large amount of money nor assets from us, and therefore, the appointment will not cause any conflict of interests with our ordinary shareholders.

Kiyoshi Nishioka	○	Mr. Nishioka is an advisor of Research Center for Advanced Science and Technology, the University of Tokyo. Until June 2009, he had served as Executive Officer of Nippon Steel Corporation (the current Nippon Steel & Sumitomo Metal Corporation), which has a transactional relationship with us. Our annual transactions with Nippon Steel & Sumitomo Metal Corporation, however, accounts for less than 1% of our overall net sales.	We have appointed him as Outside Director, hoping that he would give us advice on the appropriateness of our business execution based on his strong expertise and extensive knowledge and insights garnered through his experience working in research, manufacturing and marketing and managing the development of technologies at the steel company. Although Mr. Nishioka is an advisor of Research Center for Advanced Science and Technology, the University of Tokyo, the university has received neither a large amount of money nor assets from us. Also, Nippon Steel Corporation (currently Nippon Steel & Sumitomo Metal Corporation), where he served as Corporate Officer till June 2009, is not our key business partner. Therefore, based on conclusion that his appointment would not cause any conflict of interests between our ordinary shareholders and the two entities, we have appointed him an Independent Officer.
Kozo Isshiki	○	—	We appointed him as Outside Director, hoping that he would give us advice on the appropriateness of our business execution based on his wealth of expertise and experience in business management and the financial industry. Mr. Isshiki served as an executive director of Development Bank of Japan Inc. till May 2005, from which the Company has borrowed funds. However, Development Bank of Japan is not a major creditor for the Company as the amount of the borrowing represents less than 1% of our total assets. Therefore, based on conclusion that his appointment would not cause any conflict of interests with our ordinary shareholders, we have appointed him as Independent Officer.

Voluntary Establishment of Committee(s) Equivalent to Nominating Committee or Remuneration Committee	Established

Committee's Name, Composition, and Chairperson's Attributes

	Committee Equivalent to Nominating Committee	Committee Equivalent to Remuneration Committee
Committee's Name	Nomination Advisory Committee	Remuneration Advisory Committee

Total Committee Members	5	5
Full-time Members	0	0
Inside Directors	2	2
Outside Directors	3	2
Outside Experts	0	0
Other	0	1
Chairperson	Outside Director	Inside Director

Supplementary Explanation

To strengthen functional independence, objectivity and accountability of the Board of Directors, the Company shall establish the Nomination Advisory Committee and the Remuneration Advisory Committee, advisory bodies to the Board of Directors. Independent Outside Directors represent the majority of its members for the Nomination Advisory Committee, while Independent Outside Directors and Outside Audit & Supervisory Board Members represent the majority of its members for the Remuneration Advisory Committee. Both Committees report to the Board of Directors after deliberating matters related to election of candidates for Directors and Audit & Supervisory Board Members, appointment of senior management, and remuneration of Directors and Corporate Officers, respectively.

[Audit & Supervisory Board Members]

Establishment of Audit & Supervisory Board Members	Established
Maximum Number of Audit & Supervisory Board Members Stipulated in Articles of Incorporation	Not limited
Number of Audit & Supervisory Board Members	5

Cooperation among Audit & Supervisory Board Members, Accounting Auditor and Internal Audit Department

Audit & Supervisory Board Members periodically hold meetings with Accounting Auditor where the members receive audit programs and explanations about the status of the internal control, priority audit and other matters, and exchange opinions. Audit & Supervisory Board Members accompany Accounting Auditor in their audit site-visits as needed and receive reports on any progress of the audit. Audit & Supervisory Board Members also hold bimonthly meetings with the Internal Audit Department where they are updated on audit results including the status associated with the internal control system. They may request the Internal Audit Department to investigate the status of the internal control system as needed.

Appointment of Outside Audit & Supervisory Board Members	Appointed
Number of Outside Audit & Supervisory Board Members	3
Number of Independent Officers Designated from among Outside Audit & Supervisory Board Members	3

Outside Audit & Supervisory Board Members' Relationship with the Company (1)

Name	Attribute	Relationship with the Company*												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Hiroyuki Tezuka	Attorney at law										○			
Kiyomi Saito	From another company													
Setsu Onishi	From another company							△			△			

* Categories for "Relationship with the Company"
"○" when the audit & supervisory board member presently falls or has recently fallen under the category;
"△" when the audit & supervisory board member fell under the category in the past;
"●" when a close relative of the audit & supervisory board member presently falls or has recently fallen under the category; and
"▲" when a close relative of the audit & supervisory board member fell under the category in the past

a. Executive (a person who executes business; hereinafter, the same) of the Company or its subsidiary
b. Non-executive director or accounting advisor of the Company or its subsidiary
c. Non-executive director or executive of the parent of the Company
d. Audit & supervisory board member of the parent of the Company
e. Executive of a fellow subsidiary of the Company
f. Party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accounting professional or legal professional who receives a large amount of monetary consideration or other property from the Company besides compensation as an audit & supervisory board member
i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a corporation)
j. Executive of a client or supplier of the Company (which does not correspond to any of f., g., or h.) (the audit & supervisory board member himself/herself only)
k. Executive of a corporation to which outside officers are mutually appointed (the audit & supervisory board member himself/herself only)
l. Executive of a corporation that receives a donation from the Company (the audit & supervisory board member himself/herself only)
m. Other

Outside Audit & Supervisory Board Members' Relationship with the Company (2)

Name	Designation as Independent Officer	Supplementary Explanation of the Relationship	Reasons for Appointment
Hiroyuki Tezuka	○	Mr. Tezuka is a partner attorney of Nishimura & Asahi. The Company has requested his colleague lawyers of the law firm for legal services when needed. The past three-year average fee paid to the firm was less than 1% of its gross revenue.	We have appointed him as Outside Audit & Supervisory Board Member, hoping that he would give us advice on the appropriateness of our business execution based on his strong expertise and extensive knowledge and insights about corporate legal affairs as an international lawyer. The Company has requested his colleague lawyers of Nishimura & Asahi, where Mr. Tezuka is working concurrently, to handle legal affairs as needed. Since the firm has received neither a large amount of money nor assets from us, and therefore, his appointment will not cause any conflict of interests with our ordinary shareholders, we have appointed him as Independent Outside Officer.
Kiyomi Saito	○	Representative Director and President of JBond Totan Securities Co., Ltd.	We have appointed her as Outside Audit & Supervisory Board Member, hoping that she would give us advice on the appropriateness of our business execution based on her wealth of experience and extensive knowledge and insights garnered through her experience starting and managing a business consulting firm and securities firm specialized in electronic bond trading. Ms. Saito serves as Representative Director and President for JBond Totan Securities Co., Ltd., which has no interest in the Company. Since her appointment will not cause any conflict of interest with our ordinary shareholders, we have appointed her as Independent Outside Officer.

Setsu Onishi	○	Mr. Onishi formerly worked at Mizuho Financial Group, Inc., a holding company of Mizuho Bank, Ltd. He served as executive Corporate Officer till April 2011. The Company has borrowed funds from Mizuho Bank, Ltd. The balance of outstanding debt from the bank constitutes about 7% of our total assets. More than six years have passed since he resigned as executive Corporate Officer of the bank. We have a transactional relationship with IBJ Leasing Co., Ltd., where he had served as Executive Director until June 2016. Our annual transactions with IBJ Leasing Co., Ltd., however, accounts for less than 1% of our overall net sales.	We have appointed him as Outside Audit & Supervisory Board Member, hoping that he would give advice on the appropriate of our business based on his wealth of experience and extensive knowledge and insights garnered through years of experience in the management of a financial institution. Until April 2011, he had served as executive Corporate Officer of a holding company of Mizuho Corporate Bank, Ltd. (current Mizuho Bank, Ltd.), which is our main bank. More than six years have passed since he resigned. Thus, he is no longer in a position to be influenced by his former company. Since we have transactions with many other financial institutions, we are not heavily dependent on Mizuho Bank, Ltd. IBJ Leasing Co., Ltd., where he served as Executive Director until June 2016, is not our key business partner. Therefore, based on conclusion that his appointment would not cause any conflict of interests with our ordinary shareholders, we have appointed him an Independent Outside Officer.

[Independent Officers]

Number of Independent Officers	6

Matters relating to Independent Officers
—

[Incentives]

Implementation of Measures to Provide Incentives to Directors	Performance-linked remuneration

Supplementary Explanation
Performance measures for the short-term performance-linked remuneration system include net sales, ordinary profit and ROA. The concept of the remuneration system applies to the executive remuneration system across the Group’s affiliated companies. The Company has implemented the performance-linked stock remuneration system as a mid to long-term performance-linked remuneration for all Directors except Outside Directors.

Recipients of Share Options	

Supplementary Explanation

—

[Director Remuneration]

Disclosure of Individual Directors' Remuneration	No individual disclosure

Supplementary Explanation

The amount of remuneration paid during fiscal 2018 is as shown below. As remuneration for Directors, 342 million yen was paid to ten Directors, of which 37 million yen was paid to four Outside Directors. As remuneration for Audit & Supervisory Board Members, 87 million yen was paid to seven members, of which 31 million yen we paid to four Outside Audit & Supervisory Board Members.

Policy for Determining Remuneration Amounts or Calculation Methods Thereof	Established

Disclosure of Policy for Determining Remuneration Amounts or Calculation Methods Thereof

Remuneration for Directors consists of base remuneration, short-term performance-linked remuneration, and mid- to long-term performance-linked remuneration. In addition to the amount of base remuneration determined on titles and other factors, the amount of short-term performance-linked remuneration shall be determined in view of corporate and individual performance and other factors based on the performance evaluation system. The mid- and long-term performance-linked remuneration shall be paid in accordance with the Officer Stock Benefit Rules. The Board of Directors shall determine remuneration based on the results of deliberation by the Remuneration Advisory Committee. Outside Directors shall be paid basic remuneration only. Remuneration of Audit & Supervisory Board Members shall consist only of basic remuneration and shall be determined through discussion by the Audit & Supervisory Board.

[Supporting System for Outside Directors and/or Audit & Supervisory Board Members]

(1) System for Supporting Outside Director The Secretariat　Office, CSR & General Affairs Department handles clerical works. They distribute handouts regarding agenda to be discussed at the Board of Directors' meetings. Managers of CSR & General Affairs Department explain the details beforehand. (2) System for Supporting Outside Audit & Supervisory Board Members We have assigned full-time staff members who support Outside Audit & Supervisory Board Members in fulfilling their duties. Standing Statutory Members of Audit & Supervisory Board give outside Audit & Supervisory Board Members prior explanations of the agenda to be discussed at the Board of Directors meetings and the Audit & Supervisory Board meetings. They shall also give Outside Audit & Supervisory Board Members an opportunity to obtain information through on-site inspections.

[Status of Persons Who Have Retired from a Position Such as Representative Director and President]

Retired Representative Director and Presidents, etc. Holding Advisory or Any Other Position in the Company

Name	Title/ Position	Responsibilities	Working Form and Conditions (Full-time/Part-time, Paid/Unpaid, etc.)	Date of Retirement from Position Such as President	Term of Office
Mitsuo Ohashi	Honorary Adviser	・Advice on activities outside the Company ・Involvement in social contribution activities	Full-time, Paid	January 3, 2005	1 year update
Kyohei Takahashi	Advisor	▪ Advice on specific management issues when needed. ▪ Advice on activities outside the Company ▪ Involvement in social contribution activities	Full-time, Paid	January 3, 2011	1 year update

Total Number of Retired Representative Director and Presidents, etc. Holding Advisory or Any Other Position in the Company	2

Other Matters

▪ The Board of Directors shall decide whether to appoint an adviser or honorary advisor.
▪ President decides internal rules for treatments of advisors and honorary advisors after deliberation by the Nomination Advisory Committee.
▪ Advisors and honorary advisors are not involved in the Company's business execution or its supervision. Nevertheless, advisors may advise us on specific management issues upon the request of the management.

2. Matters on Functions of Business Execution, Audit and Supervision, Nomination and Remuneration Decisions (Overview of Current Corporate Governance System)

1. Status of the oversight and decision-making function:
The Company has implemented an executive officer system to explicitly divide management oversight and business execution functions with the aim to accelerate and stimulate the decision-making processes by the senior management consisting of President and Executive Officers in charge. We have also drastically reduced the number of board directors. In addition, we have strengthened the oversight function by appointing Independent Directors. The Board of Directors meeting is held once or twice per month. The Board defines basic corporate policies, and makes decisions on important business execution matters and items specified in the Companies Act and the Articles of Incorporation based on thorough deliberation. The Board has sought to accelerate and stimulate the management decision-making function. To strengthen the oversight function of the Board of Directors and ensure appropriate decision-making, Directors are appointed with an emphasis on corporate governance perspectives, while Executive Officers are appointed in a manner they do not have to concurrently serve as Directors as far as possible and can focus on business execution, their primary duty. The Company has abolished the director-in-charge system except for Chairperson and President for more effective oversight function through monitoring by Audit & Supervisory Board Members including Outside Audit & Supervisory Board Members and mutual monitoring between respective directors. We have also established an agile management system to quickly respond to changes in business environments, and limit the term of office of directors to one year to more clearly define management responsibilities of Directors. We appointed nine Directors, including three Outside Directors, at the Ordinary General Meeting of Shareholders held on March 28, 2019. To strengthen functional independence and objectivity and accountability of the Board of Directors, the Company has organized the Nomination Advisory Committee and the Remuneration Advisory Committee. Independent Outside

Directors and Outside Audit & Supervisory Board Members represent the majority of both committees.

2. Status of the operational execution function:
Agendas and priority matters to be submitted to the Board of Directors' meeting for resolution are decided through a two-tier deliberation system at weekly Management Committee meetings chaired by President. For investment matters escalated to the Management Committee, their risks are analyzed and their results and progress are managed through preliminary risk review and assessment by task teams. Basic management measures, such as the mid-term business plans, are formulated based on deliberation by the Management Committee and exhaustive discussions by all Executive Officers. The Company has implemented a performance evaluation system for each division to place the strong responsibility for execution at the core of business activities and fully implant the result-focused performance evaluation. Also, the Company has organized the Security Export Control Committee and the Safety Measure Committee reporting directly to President, and the Responsible Care Promotion Council , the Risk Management Promotion Council , the Human Rights/Corporate Ethics Promotion Council , and the IR Promotion Council under the Management Committee chaired by President. These committees and councils are responsible for investigation, research and deliberation on items necessary for appropriate business execution.

3. Status of the Internal audit function:
(1) Audit by the Audit & Supervisory Board Members: The Audit by the Audit & Supervisory Board consists of five members including three Outside Audit & Supervisory Board Members (including one female member). For more sound business management, Audit & Supervisory Board Members shall attend the Board of Directors' meetings and other important internal meetings. They deliver their insights; and audit business executions through on-site inspections, interviews with responsible persons, and consulting important documents, to provide suggestions, advice and recommendations. In addition, Audit & Supervisory Board Members are making efforts to enhance audits on Group companies and strive to strengthen a consolidated management framework in cooperation with Audit & Supervisory Board Members of major affiliated companies. Mr. Toshiharu Kato, Standing Statutory Member of Audit & Supervisory Board , has garnered significant expertise in finance and accounting through years of involvement in the Company's Finance and Accounting Division, and as Chief Financial Officer (CFO) to control the Finance and Accounting Division.
(2) Internal Audit: The company has organized the Internal Audit Department reporting directly to the President. The Internal Audit Department (consisting of 13 full-time staff members) investigate the status of business execution, including its accuracy, validity and efficiency, by the Company and its affiliates. The department also reviews business policies, plans and the internal control system for how it works to verify their consistency and soundness. It reports internal audit results to Audit & Supervisory Board Members to link the results with audit by Audit & Supervisory Board Members. The divisions and departments in charge of environment protection, safety and other related matters conduct responsible care audit.
(3) Audit by Accounting Auditor: The Company has signed an audit agreement with KPMG AZSA LLC, which conducts accounting audit. Certified Public Accountants who executed the audit are designated limited liability partners and executive members, namely Michitaka Shishido, Noriaki Sakurai and Takeharu Kirikae. Assistants to the audit service included nine Certified Public Accountants and 26 other staff members. Accounting Auditor reviews an annual audit schedule jointly with Audit & Supervisory Board Members and report the results of audit. Accounting Auditor exchanges information and opinions as needed to facilitate collaborations with other related parties.

3. Reasons for Adoption of Current Corporate Governance System

The Company is committed to effective corporate management by adopting the Audit & Supervisory Board Member system to improve fairness and transparency of management.

III. Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Energize General Shareholders Meetings and Smooth Exercise of Voting Rights

	Supplementary Explanations
Early Notification of General Shareholders Meetings	The notice is sent on March 6, five days earlier than the statutory date on March 13.
Scheduling General Shareholders Meetings Avoiding the Peak Day	The Ordinary General Meeting of Shareholders is held in late March.
Allowing Electronic or Magnetic Exercise of Voting Rights	Voting rights of the Company may be exercised via the internet.
Participation in Electronic Voting Platform and Other Efforts to Enhance the Voting Environment for Institutional Investors	The Company has joined the Electronic Voting Platform for Institutional Investors operated by ICJ, Inc.
Providing Convocation Notice in English (Translated Fully or Partially)	We submit a convocation notice in English to the Tokyo Stock Exchange and disclose it at the Company's website.
Other	We consider shareholdings meetings as the opportunities for our shareholders to understand the Company's basic policies, and therefore, we explain the details and status of the mid-term business plans at the meetings. In addition, the convocation notice is posted on the Company's website.

2. IR Activities

	Supplementary Explanations	Explanation by Representative
Preparation and Publication of Disclosure Policy	Posted on the Company's website.	
Regular Investor Briefings for Individual Investors	We hold an IR briefing session for retail investors, where the Chief Finance Officer (CFO) himself gives briefings. The briefings with documents are available for retail investors on the Company's website.	Yes
Regular Investor Briefings for Analysts and Institutional Investors	We hold periodic briefings about our financial results, the mid-term business plans etc., which are available in both Japanese and English on the Company's website.	Yes
Regular Investor Briefings for Overseas Investors	The Company discloses financial results etc. in English on the Company's website. We also pay a visit to overseas investors to hold briefings on a regular basis. When we announce a mid-term business plan, etc., we also hold briefing sessions abroad.	Yes

Posting of IR Materials on Website	The Earnings Report (Kessan Tanshin) and explanatory documents for securities analysts are available online in both Japanese and English, with the Annual Securities Report (Yukashoken Hokokusho), annual report and the report titled "To our shareholders" and the notice of convocation of the general meeting of shareholders.	
Establishment of Department and/or Manager in Charge of IR	The Company has established the IR Office as an organization responsible for timely disclosure and IR activities. We have also established the IR Promotion Council as an organization subordinate to the Management Committee. The Council is responsible for the review of comprehensive measures and basic plans related to IR, confirmation of and orders for timely disclosure.	
Other	We proactively deliver explanations to respective institutional investors. We release news in both Japanese and English at the same time on newspapers, as well as on the Company's website. We also distribute news abroad under the contract with an international news distribution company.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanations
Provisions to Ensure Due Respect for Stakeholders in Internal Rules, etc.	These rules are set forth in the Group Vision and "Our Code of Conduct."
Implementation of Environmental Activities, CSR Activities, etc.	The Company promotes Responsible Care to ensure "Environment Protection, Safety and Health" in the entire life cycle of each chemical substance, from development, manufacturing, logistics, use to disposal. The Company has organized the Security Export Control Committee and the Safety Measure Committee reporting directly to President, and the Responsible Care Promotion Council, the Risk Management Promotion Council, the Human Rights/Corporate Ethics Promotion Council and the IR Promotion Council reporting directly to the Management Committee chaired by President. These committees and councils have been promoting CSR activities in an integrated and proactive manner. We issue SHOWA DENKO Report about details of the activities, for which we have also developed and opened a web page dedicated to CSR.
Formulation of Policies for Information Provision to Stakeholders	"Our Code of Conduct" stipulates that "we timely and appropriately disclose the Group's information to enable stakeholders to properly evaluate potential influence on them." Based on the provision, we have defined basic policies for disclosure. We release and disclose, on our website, the information helpful for our shareholders and other stakeholders in understanding the Company, whether or not such information falls under the Timely Disclosure Rules.

Other	The Group has embraced “Management Paying High Regard to Diversity of Employees” as one of the business strategies since 2008. We have been striving to foster an organization and individuals that allow diverse human resources to keep creating benefits and new values by respecting each other’s unique characteristics, values and ideas. Since 2013, the Company has promoted a diversity project with the aim to achieve this goal. Among others, the Company is committed to achieving a female manager ratio of 5% by 2020 as part of the efforts to promote more active participation of women. We have been making efforts for proactive employment and assignment, support of carrier designing and ability development.

IV. Matters Related to Internal Control System

1. Basic Views on Internal Control System and Progress of System Development

The below shows basic policies for establishing the internal control system as resolved by the Board of Directors:

The Company positions fair social ethics-based behavior as well as compliance with laws and regulations, and the articles of incorporation as critical management issues. We have, thereby, formulated the “Group Vision” and “Our Code of Conducts.” Based on the above, we define and appropriately operate the basic policies to “establish a system to ensure appropriateness of business (internal control system)” as stated below.

(1) Framework ensuring that execution of duties by directors and employees of the Company and its subsidiaries complies with laws and regulations and the Articles of Incorporation
The Company has organized the Human Rights/Corporate Ethics Promotion Council under the Management Committee chaired by President in accordance with the Rules for Human Rights/Corporate Ethics Promotion. The Council considers mid- and long-term action plans and priority matters for the Group’s compliance, formulates measures based on the Action Plan and monitors implementation of them. The Company has established the Whistleblowing System, which are available via both internal and external routes, to prevent issues, detect them earlier, and solve them appropriately. We shall fully disseminate compliance policies through trainings and a Corporate Ethics Campaign Month held in the first half of each year. We shall take an action against any violative acts to prevent recurrence or proper punitive measures. Such actions or measures shall be reflected in the organization performance assessment etc. The Company properly streamlines and operates the internal control to ensure reliability of financial reports. In no case, we shall have any relation with any anti-social forces. We shall not respond to undue claims, either. We have established a structure against anti-social forces to fully disseminate relevant information and how to handle them. For each of specific cases, we shall take a firm action in cooperating with the police authority and external professional bodies.

(2) Framework for storing and managing information related to execution of duties by directors of the Company
The Company shall handle, save and maintain the minutes of the Board of Directors’ meeting and other management meetings, and information related to execution of duties such as decisions in writing in accordance with respective rules of Document Control, Confidential Information, Information Security and Personal Information Management, etc.

(3) Policy and framework for managing risks of loss of the Company and its subsidiaries
The Company multilaterally considers the Group’s priority matters with the members of the Management Committees held weekly. We attach special importance to investment deals from the perspectives of strategic rationale, risk management, and progress and result management. Each of business divisions and staff sections analyzes and assesses its inherent risks for proper risk management. As stipulated in the Risk Management Rules, we have organized the Risk Management Promotion Council chaired by Chief Risk Management Officer under the Management Committee to summarize and assess risks of the Group on a

regular basis. The Council formulates measures against significant risks which may impact the Group and confirm the status of their implementation. In the event of outbreak of crisis such as an accident or a disaster, we will take actions to address each of them by organizing emergency response headquarters, based on the internal rules such as Emergency Protocols. The Company has organized the Responsible Care Promotion Council to ensure environment protection, safety and health; and the Security Export Control Committee for legitimate export of regulated cargos, etc. The staff departments manage individual risks appropriately through development of rules related to the Group and development and delivery of manuals and trainings.

(4) Framework ensuring the efficiency of execution of duties by directors of the Company and its subsidiaries
The Company has implemented the executive officer system to explicitly divide management oversight and business execution functions with the aim to accelerate and stimulate decision-making processes by the top management consisting of President and Executive Officers in charge. In accordance with the mid-term business plans and the Group Management Policies, we shall decide the direction for the management and the Group's management policies. We include each year's issues and targets of the entire Group in Annual Action Plans (budget), based on which we manage our business performance. The Management Organization Rules specifies the division of duties and clearly defines authorities in accordance with the Group Management Rules. All subsidiaries are supposed to follow these rules when building their organizational structures, which will help the Group to exercise agile decision-making in line with the characteristics of each business and deal with wide-ranging operations appropriately and efficiently.

(5) Systems to report matters related to duties of Directors etc. of subsidiaries of the Company, and to ensure appropriateness of business execution in other corporate groups
The Company requires that all of its subsidiaries report to the parent, on a regular basis, their operation results, financial position and any other important information in accordance with the Group Management Rules. Audit & Supervisory Board Members and Internal Audit Departments of the Company shall inspect and diagnose the Group companies, if necessary. Audit & Supervisory Board Members of the Company shall have meetings on a regular basis with Audit & Supervisory Board Members of the key Group companies to keep interactions.

(6) Items regarding the system for employees assisting duties of Audit & Supervisory Board Members of the Company, such employees' independence from the directors, and ensuring effectiveness of instructions given to them
The Company assigns full-time assistants for Audit & Supervisory Board Members to help them efficiently fulfill their duties. We shall consult them and obtain their prior consent for reassignment of the assistants and their evaluations. Such employees shall not concurrently serve any other divisions or departments but report exclusively to Audit & Supervisory Board Members.

(7) System to ensure Audit & Supervisory Board Members of the Company to be informed from Directors, etc. of the Company, Directors, etc. of its subsidiaries, or a person who received a report from either of the former two persons
To enable Audit & Supervisory Board Members to have a full picture of important decision making or business execution by the Directors, we keep them informed by explaining matters discussed in important meetings such as the Board of Directors' or Management Committee meetings, sharing important documents about execution of duties such as requests for approval, monthly financial documents and internal audit reports, briefings by relevant divisions and departments of the Company. According to the Group Management Rules, the Company shall decide supervisory departments of the Group companies requiring them to inform Audit & Supervisory Board Members of the items related to their companies when necessary. The Group's officers and employees shall immediately report any business execution matters upon request by Audit & Supervisory Board Members. If they discover any fact that may cause a material damage on the Group, they shall immediately report it to Audit & Supervisory Board Members. Note that such report submitted to Audit & Supervisory Board Members must include the fact and the status of operation of the Group's internal reporting system.

(8) A system to protect Directors, etc. who reported to Audit & Supervisory Board Members of the Company from unfair treatment

The Company shall not unfairly treat anyone who reported the fact to Audit & Supervisory Board Members of the Company.

(9) System of policy on procedures for advance payment or reimbursement of expenses incurred in the execution of duties by Audit & Supervisory Board Members of the Company, and other expenses incurred in the said execution of duties, or handling of debts
The Company shall allocate a certain amount of budget every year to shoulder costs etc. arising from execution of duties of Audit & Supervisory Board Members except cases considered as unnecessary for execution of their duties.

(10) Framework ensuring the effectiveness of auditing by Audit & Supervisory Board Members of the Company
To increase the effectiveness of audit to be performed in accordance with the Standards for Audit by Audit & Supervisory Board Members and in line with the Audit policies and plans formulated in the beginning of the year by Audit & Supervisory Board Members, the Company shall give proper supports for Audit & Supervisory Board Members to visit and audit sites. President and Chief Risk Management Officer shall hold monthly meetings with Audit & Supervisory Board Members about issues, priority audit issues, improvement of audit environments and other issues that the Company should address. The Internal Audit Department and Accounting Auditor shall cooperate with Audit & Supervisory Board Members by reporting audit results and through periodic meetings.

2. Basic Views on Eliminating Anti-Social Forces and Progress of Related Efforts

We have stipulated, in the "Our Code of Conduct" approved at the Board of Directors meeting that all employees are required to observe rules and regulations and behave under highly ethical standards. The "Guidance of Practice" including specific guidelines of the Code explicitly states that the Company shall not have any relationship with anti-social groups or persons and resolutely decline any unreasonable claims without easy concession. For this purpose, necessary information shall be collected by CSR & General Affairs Department controlling the entire company, and general affairs divisions or departments of business sites and affiliated companies under the control of Chief Risk Management Officer (CRO) and the manager responsible for preventing unreasonable concessions. They shall deliver trainings, share and familiarize relevant information and procedures against anti-social groups within the Company. For each of specific cases, we shall take a firm action in cooperation with the police authority and external professional bodies.

V. Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Not adopted

Supplementary Explanation
—

2. Other Matters Concerning Corporate Governance System

The below describes the internal system for timely disclosure of our corporate information.

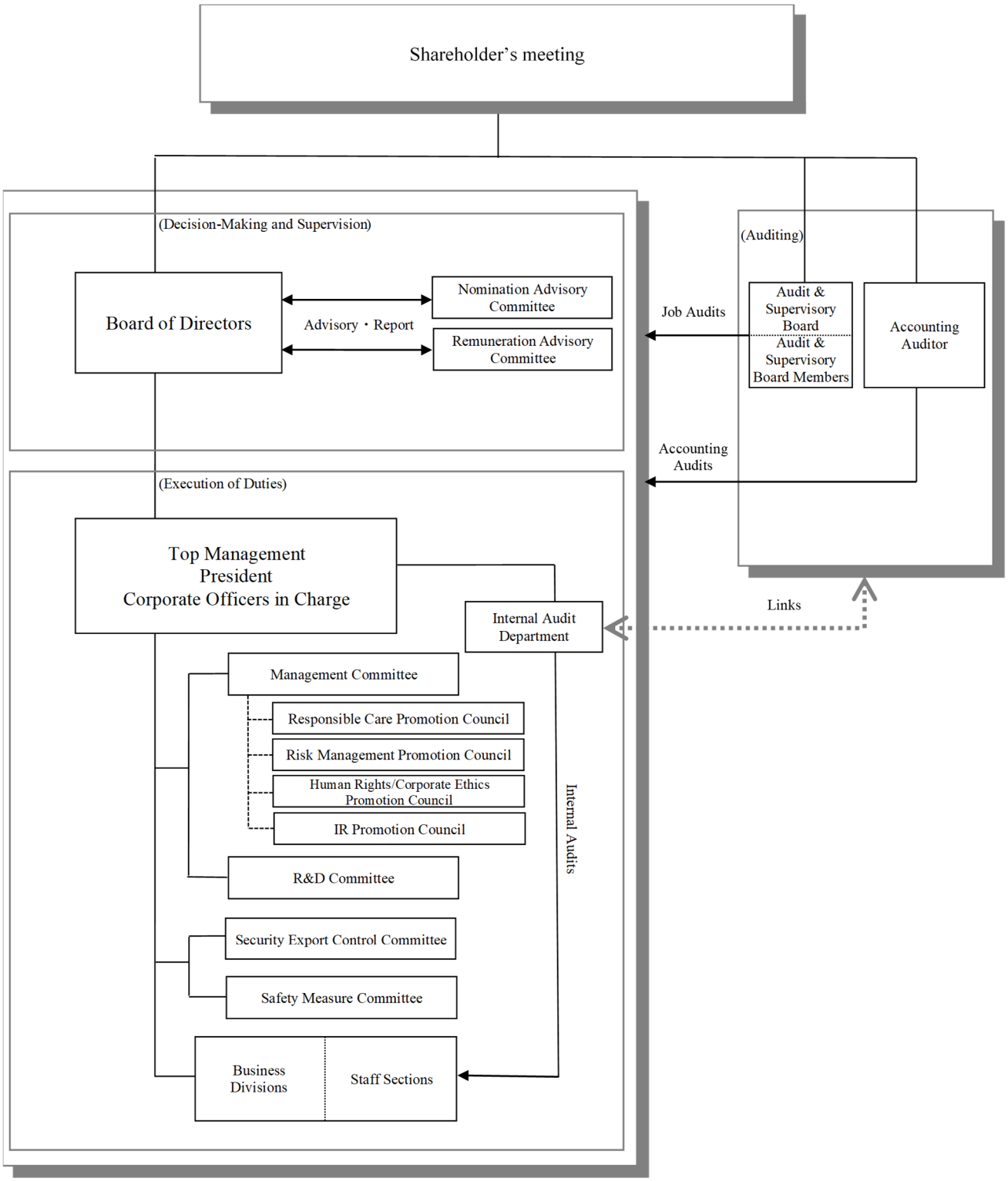
1. Basic policies on the disclosure of information
Observing any and all relevant laws and regulations including Financial Instruments and Exchange Act, etc. the Company shall disclose any important information including decided material facts , unintended material facts , information related to account settlement, etc. that affect investment decisions by all

investors, in accordance with the “Rules on Timely Disclosure of Corporate Information” as provided by the Tokyo Stock Exchange (the Timely Disclosure Rules). The Company shall communicate to our shareholders and investors our financial results, financial position, future vision and business strategies in an easy-to-understand, fair, timely and accurate manner according to the Timely Disclosure Rules. We also disclose information exempted from the Timely Disclosure Rules to shareholders, investors and other stakeholders via proactive news release and our website, only if we consider it useful for our shareholders, investors and other stakeholders to understand what is going on. Further, the Company has formulated the above policy as “Disclosure Policy” and disclosed the Policy on the Company’s website.

2. Status of Internal system for timely disclosure of Company information
(1) Internal management system for timely disclosure of Company information
The Company has organized the IR Promotion Council to establish and promote holistic measures and basic plans of IR activities for shareholders and investors under the Management Committee which promotes CSR activities. The IR Promotion Council is led by General Manager of IR Office as Secretariat under CFO (Chief Financial Officer), the Chair of the Council. It is steered by key members of general managers from Finance &Accounting Department, PR Office and Strategy Planning Department . It centrally manages disclosure of important information related to account settlement according to the Timely Disclosure Rules to ensure proper, easy-to-understand, fair, timely and accurate disclosure.

(2) Timely disclosure of information related to account settlement
Upon approval of information about financial results by the Board of Directors, the IR Promotion Council instructs General manager of PR Office who is the person in charge of information management to disclose the information in accordance with the Timely Disclosure Rules. Based on the above, General Manager of IR Office shall disclose the information in a timely manner at the Tokyo Stock Exchange via TD Net. General manager of PR Office shall make an announcement at the press club, etc.

(3) Decided material facts and Unintended material facts
In any decide material facts and unintended material facts , General Manager of PR Office must ensure thorough internal information control, and report them to the IR Promotion Council after consultation with related corporate departments and upon approval of President. In accordance with the instruction of disclosure, General Manager of PR Office discloses the information in a timely manner at Tokyo Stock Exchange via TD Net and announce them at the press club and on our website, etc.


Shareholder's meeting
(Decision-Making and Supervision)
Board of Directors
Advisory・Report
Nomination Advisory Committee
Remuneration Advisory Committee
(Auditing)
Job Audits
Audit & Supervisory Board
Audit & Supervisory Board Members
Accounting Auditor
Accounting Audits
Links
(Execution of Duties)
Top Management
President
Corporate Officers in Charge
Internal Audit Department
Management Committee
Responsible Care Promotion Council
Risk Management Promotion Council
Human Rights/Corporate Ethics Promotion Council
IR Promotion Council
R&D Committee
Security Export Control Committee
Safety Measure Committee
Business Divisions
Staff Sections
Internal Audits

Internal Management Structure for Timely Disclosure of Company Information

