

Corporate Governance Basic Policies

Chapter 1: General Provisions

1. Purpose

Showa Denko (the “Company”) shall hereby establish the Corporate Governance Basic Policies in order to increase corporate value and shareholders’ common interests through appropriate cooperation with all stakeholders including shareholders.

2. Basic idea for Corporate Governance

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.

Chapter 2: Securing the Rights and Equal Treatment of Shareholders

1. Basic Policy

The Company shall strive to realize a sustainable increase in corporate value through appropriate cooperation with shareholders and develop an environment in which shareholders can appropriately exercise their rights. We will also pay sufficient attention to the security of the equality of shareholders’ right.

2. General Meeting of Shareholders

The Company recognizes a general meeting of shareholders as a place for constructive dialog with shareholders and appropriately sets up schedules related to general meetings of shareholders. In order to ensure sufficient time to consider the agenda of general meetings of shareholders, the Company shall strive to mail convocation notices early and disclose the information on its website and other media before mailing. In addition, the Company shall develop an environment in which all shareholders including those who are unable to participate in general meetings of shareholders can appropriately exercise their voting rights such as by using an electronic voting rights exercise platform.

3. Capital Policy

The Company considers the payment of dividends as an important obligation to its shareholders. As such, the Company shall make it a basic policy to decide on dividends after consideration to the earnings situation for each fiscal year and internal reserves to prepare for future business developments. The Company shall appropriate its internal reserves preferably for capital investment, research and development, and improvement of its financial standing, all of which are expected to contribute to the sustainable expansion of profits, including measures to accelerate development of growth businesses.

4. Cross-Shareholding

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. In addition, the Company shall decide the exercise of voting rights of cross-shareholdings by examining whether each item on the agenda contributes to increasing the corporate value of the two companies.

5. Related Party Transactions

The Company shall obtain approval from the Board of Directors in accordance with laws and regulations as well as its Rules of Board of Directors' Meeting for competitive transactions and conflict of interest transactions between the Company and its Directors or Corporate Officers. In addition, the Company shall report the results of the said transactions to the Board of Directors.

6. Anti-Takeover Measures

When introducing and applying anti-takeover measures, the Company shall carefully examine necessity and rationality of introduction and application of those measures from the perspective of fulfilling its fiduciary responsibility to shareholders, and provide sufficient explanations to shareholders for the purposes of those measures, which shall include enhancement of corporate value and shareholders' common benefit, but shall not include self-protection of the Board of Directors.

Chapter 3: Appropriate Cooperation with Stakeholders other than Shareholders

1. Basic Policy

The Company shall conduct business activities through appropriate cooperation with all stakeholders including shareholders in order to achieve sustainable corporate growth and create mid- to long-term corporate value.

2. Our Vision and Code of Conduct

The Company, under its Vision, shall strive to realize "a company contributing to the sound growth of society" that contributes toward creating a society in which affluence and sustainability are harmonized. In addition, in order to realize our Vision, and develop both international society and the Group sustainably, the Company shall define what the Group should do as "Our Code of Conduct" and comply with it.

3. Sustainability

The Company, under its Vision, shall place CSR at the core of its business activities and contribute to creating a sustainable society by resolving, through the Group's products and services, social issues such as those related to the global environment, energy, and resources.

4. Diversity

The Company shall identify "management paying high regard to diversity" as one of its key management strategies with the aim of "improving the creativity of organization and individuals by mutually making the most of diversity" and "forming a flexible and active organization that creates new values."

5. Whistleblowing System

The Company shall establish a whistleblowing system by providing internal and external routes and expand the scope of its application to Group companies both in Japan and abroad. The Company shall report the operational status of the whistleblowing system to the Board of Directors and the Audit & Supervisory Board on a regular basis.

Chapter 4: Appropriate Information Disclosure and Securing of Transparency

1. Basic Policy

The Company shall appropriately disclose financial and non-financial information in accordance with laws and regulations as well as the Securities Listing Regulations established by the Tokyo Stock Exchange and provide all stakeholders including shareholders with accurate and easy-to-understand information at IR briefing sessions and via the website.

Chapter 5: Responsibilities of the Board of Directors, etc.

1. Directors and Board of Directors

(1) Roles

Given its fiduciary responsibility and accountability to shareholders, the Board of Directors shall strive to achieve sustainable corporate growth and increase mid- to long-term corporate value through the realization of efficient and effective corporate governance.

In addition to deciding the fundamental policies of the Company, the Board of Directors shall make decisions on matters specified in the Companies Act and the Company's Articles of Incorporation as well as on other important issues of business execution, and provide oversight of business execution. In order to clarify the division of roles between management oversight and business execution functions, the Company shall adopt the Corporate Officer System and clarify the scope of delegation of authority to management by setting rules for matters to be resolved at Board of Directors' meetings and matters to be reported to the Board of Directors in the Rules of Board of Directors' Meeting.

The Board of Directors shall establish the "Basic Policy for Development of Internal Control System" and oversee the establishment and appropriate operation of the Group's internal control.

Independent Outside Directors shall, based on their extensive knowledge and experience, provide advice and oversight to secure the appropriateness and transparency of management from independent standpoints.

(2) Composition

The Board of Directors shall have a personnel structure giving thoughtful attention to a good balance among specialties, experience, and other factors, regardless of gender, nationality or age, and the size of the Board of Directors shall be set so as to ensure prompt decision-making and appropriate oversight of business execution. In addition, two or more persons with extensive experience and broad insight shall be elected as Independent Outside Directors in order to secure the appropriateness of business execution and to increase the effectiveness of oversight.

(3) Election

The Company set the criteria for nomination of candidates for Directors as in the following. The Board of Directors shall determine candidates for Directors after the Nomination Advisory Committee deliberates on persons who meet the nomination criteria. Candidates for Outside Directors shall be persons who satisfy the independence standards for outside officers provided separately.

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.

(4) Operation

In order to carry out constructive discussions and exchange of opinions, the Board of Directors shall determine the annual meeting schedule and main agenda regarding management strategies and internal controls by the end of previous fiscal year. Materials for the agenda to be submitted to each Board of Directors' meeting, shall be distributed in advance and the General Manager of the Corporate Strategy Department, or the General Manager of the General Affairs & Human Resources Department, etc. shall, as necessary, explain the details to Outside Directors and Outside Members of Audit & Supervisory Board no later than the day before the meeting.

(5) Evaluation

The Board of Directors shall, on an annual basis, analyze and evaluate the effectiveness of the overall Board of Directors during the applicable fiscal year and disclose the outline of the results.

2. Audit & Supervisory Board Members and Audit & Supervisory Board

(1) Roles

Audit & Supervisory Board Members shall attend the Board of Directors' meetings and other important internal meetings, offering opinions as necessary. They conduct audits on business execution through on-site investigations, interviews with responsible persons, inspection of important documents, and other appropriate measures, so as to provide suggestions, advice, and recommendations for securing soundness in management. In addition, Audit & Supervisory Board Members shall enhance audits on Group companies and strive to strengthen a consolidated management framework in cooperation with Audit & Supervisory Board Members of major affiliated companies.

(2) Composition

The Audit & Supervisory Board shall have a personnel structure that includes Member(s) who has adequate expertise in financing or accounting. In order to ensure a structure that will increase the effectiveness of audits through independence and advanced information gathering capabilities, Standing Statutory Members of Audit & Supervisory Board shall be appointed and a half or more of the Audit & Supervisory Board shall be Outside Members of Audit & Supervisory Board.

(3) Election

The Company set the criteria for nomination of candidates for Audit & Supervisory Board Members as in the following. The Board of Directors shall, with the consent of the Audit & Supervisory Board, determine candidates for Audit & Supervisory Board Members after the Nomination Advisory Committee deliberates on persons who meet the nomination criteria. Candidates for Outside Members of Audit & Supervisory Board shall be persons who satisfy the independence standards for outside officers provided separately.

a) Inside Member of Audit & Supervisory Board

- 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 Member of Audit & Supervisory Board

- 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.

3. Advisory Committees regarding Nomination and Remuneration

(1) Roles

In order to strengthen independence and objectivity of the functions of the Board of Directors, and accountability of the Board of Directors as a company with an audit & supervisory board, the Company shall establish the Nomination Advisory Committee and Remuneration Advisory

Committee as advisory bodies to the Board of Directors. The two Committees report to the Board of Directors after deliberating items related to election of candidates for Directors and Audit & Supervisory Board Members and remuneration of Directors and Corporate Officers.

(2) Composition

The Nomination Advisory Committee and Remuneration Advisory Committee shall consist of three or more members including Independent Outside Directors. The committee members shall be elected from among Directors and Audit & Supervisory Board Members.

4. Remuneration System

(1) Basic Policy

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. Remuneration of Non-Executive Directors (e.g. Outside Directors) and Audit & Supervisory Board Members shall consist of base remuneration only.

(2) Process

The Board of Directors shall determine the remuneration of Directors and Corporate Officers after the Remuneration Advisory Committee deliberates on it based on the basic policy, judges the appropriateness of the ratio of performance-linked remuneration and the amount of individual remuneration. Remuneration of Audit & Supervisory Board Members shall be determined through discussion by the Audit & Supervisory Board.

5. Assistance Structure for the Board of Directors and the Audit & Supervisory Board

A secretariat to the Board of Directors shall support Outside Directors to obtain sufficient information and facilitate cooperation with Audit & Supervisory Board Members, management, and other parties. In addition, a secretariat to the Audit & Supervisory Board shall support the Audit & Supervisory Board and Audit & Supervisory Board Members in the appropriate performance of their duties.

6. Concurrent Duties of Directors and Audit & Supervisory Board Members

The Company shall annually disclose the status of concurrent duties of Directors and Audit & Supervisory Board Members at other listed companies.

7. Training 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.

Chapter 6: Dialogue with Shareholders

1. Basic Policy

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.

2. Dialog with Shareholders, Structure

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, General Affairs & Human Resources, 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.

[History]

Established December 25, 2015

Amended March 30, 2017

The Company has established standards to judge the independence of its Outside Directors and Outside Members of Audit & Supervisory Board. Persons who fall under any of the items below shall be deemed not independent.

Candidates for the Company's Outside Directors and Outside Members of Audit & Supervisory Board shall be elected from those who do not fall under any of the items below; however, even if a person falls under items (2) through (11) below, such person may be elected as a candidate for Outside Officer if the Company decides that he or she is capable of fully fulfilling the roles and responsibilities of Outside Officer and there is no risk of conflict of interest with general shareholders.

- (1) A person who executes or executed business^{*1} at the Company and Showa Denko Group companies
- (2) A person who executes business in an entity holding 10% or more of the Company's shares
- (3) A person who executes business in an entity in which the Company holds 10% or more of the shares
- (4) A person who executes business in an entity which is a principal business counterparty^{*2} of the Company
- (5) A person who executes business in an entity which is a principal lender^{*3} to the Company
- (6) A certified public accountant who belongs to an audit firm that is the Company's accounting auditor
- (7) Other certified public accountant or a professional advisor such as an attorney who has received an annual payment of ¥10 million or more on average for the past three fiscal years from the Company in addition to officers' remuneration. If such advisor is an organization, a person who is in the organization which has received 2% or more of its total revenue from the Company
- (8) A person who is a director or who executes business in an organization which has received annual donations from the Company in excess of ¥10 million or 2% of the total revenue of the said organization, whichever is larger, on average for the past three fiscal years
- (9) A person who executes business in an entity which is receiving outside officers from the Company
- (10) A person whose spouse, relative within the second degree of kinship, or relative living together falls under (1) through (9) above
- (11) A person to whom any of (2) through (10) above applies within the last five years

*1. A person who executes business:

Executive Directors, Executive Officers, Corporate Officers, or employees including managers

*2. An entity which is a principal business counterparty of the Company:

An entity which is a supplier or buyer of the Company's products, etc. where the transaction

amount between the Company and the said entity comprises 2% or more of annual sales of the Company or the said entity in the most recent fiscal year

*3. An entity which is a principal lender to the Company:

A financial institution where the Company's loan balance comprises 2% or more of the Company's total assets