

Skill Matrix

The Company has prepared a skill matrix detailing the expertise and experience of directors and Audit & Supervisory Board members. The skills required of directors and Audit & Supervisory Board members were identified based on the following three perspectives.

Post-Integration Vision

The Showa Denko Group has revised its long-term vision, which had been announced in December 2020, in conjunction with the instatement of a new management team and the launch of the new management philosophy. The Group has also stated the purpose of the newly integrated company as “Change society through the power of chemistry,” and now aims to become a company with a strong presence in the global market, a company that contributes to a sustainable global society, and a company that develops co-creative talent representing Japan’s manufacturing industry.

Medium- to Long-Term Strategy to Realize the Vision

To realize the long-term vision, it is necessary for the Group to make the most of its business portfolio, which combines Core Growth businesses, Next-Generation businesses, Stable Earnings businesses, and Fundamental Technologies/Materials businesses. We have positioned our electronics and mobility businesses as growth businesses that will lead the growth of the entire Showa Denko Group and will make these businesses grow rapidly.

Major Issues to Be Discussed at Board of Directors’ Meetings

To enhance the effectiveness of the long-term vision, it will be necessary for the Board of Directors to have lively discussions on the way to compete on the world stage, contribution to initiatives based on the SDGs, autonomous business portfolio reform, and innovation including technical synergy, and to practice quick decision-making.

Directors	Name	Inside / Outside	Terms (Years)	Global business	Innovation and fusion of technology	ESG and sustainability	Portfolio management	Finance / accounting	Personnel management / development	Legal / risk management
	Kohei Morikawa		6	●	●	●	●			●
	Hidehito Takahashi		5	●		●	●	●		●
	Hisashi Maruyama		1	●		●	●	●		●
	Hiroshi Sakai		2	●	●	●				
	Hideki Somemiya		—	●		●	●	●		
	Tomomitsu Maoka		—	●	●	●	●			
	Masaharu Oshima	Outside	7	●	●	●			●	
	Kiyoshi Nishioka	Outside	4	●	●	●	●			
	Kozo Isshiki	Outside	3		●	●	●	●	●	
	Noriko Morikawa	Outside	2	●		●		●	●	
	Total			9	6	9	7	5	3	3
Audit & Supervisory Board members	Toshiharu Kato		3	●		●		●		
	Jun Tanaka		2		●	●	●		●	
	Kiyomi Saito	Outside	10	●	●		●	●		
	Masako Yajima	Outside	2	●						●
	Yasuyuki Miyasaka	Outside	—	●				●		●
	Total			4	2	2	2	3	1	2

Corporate Governance

Basic Policies

Showa Denko K.K. works to increase its corporate value and expand profit for both the company and its shareholders by collaborating appropriately with stakeholders, including shareholders in line with its Corporate Governance Basic Policies.

We are committed to promoting our corporate governance to ensure the soundness, effectiveness, and transparency of management and to continue enhancing our corporate value, thereby earning more trust and receiving a higher rating from society. We describe our efforts made to this end in our corporate governance report, while fostering constructive dialogue with investors and shareholders.

WEB

Review of 2021

In January 2022, the management teams of Showa Denko K.K. and Showa Denko Materials Co., Ltd., were integrated, making for a structure in which the same 12 individuals, including the president and corporate officers, manage both companies. In addition, the management committee meetings of both companies are held jointly. Going forward, we will continue to craft and reinforce corporate governance structures in preparation for our full integration as a corporate entity in 2023.

Concurrently, organizational integration measures are moving forward, and the progress of these measures is regularly reported to the Board of Directors.

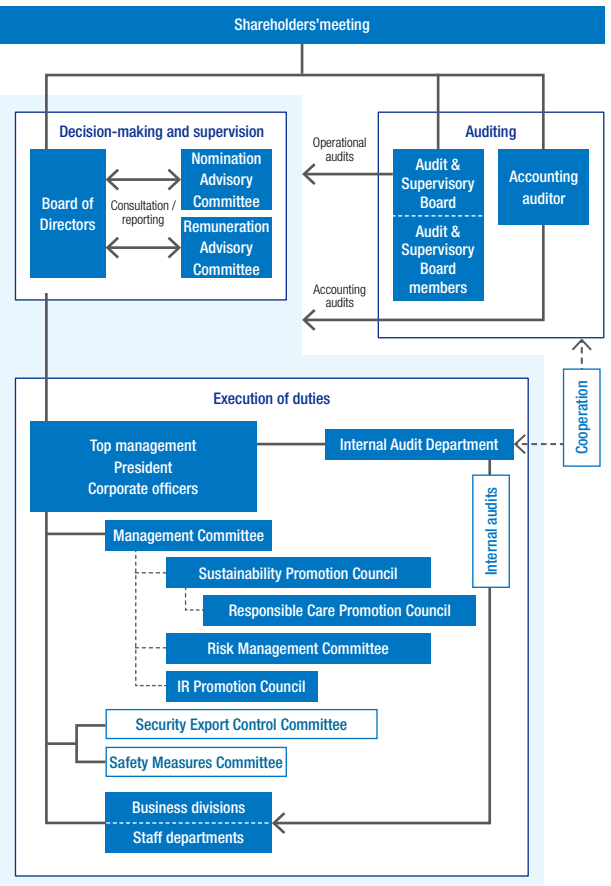
The progress of the integration P.12

In fiscal 2021, discussions at meetings of the Nomination Advisory Committee focused on the nomination of candidates for chief executive officer and other management positions, while the Remuneration Advisory Committee dedicated meeting time to examining new remuneration systems for directors and corporate officers.

Process for selecting the new chief executive officer P.78

Remuneration for directors and corporate officers P.89

Corporate Governance Structure (As of June 30, 2022)

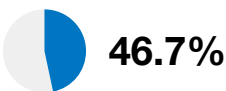


Note: The above corporate governance structure may change as the Company examines the course to be taken leading up to full integration in January 2023.

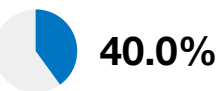
Ratio of Outside Directors



Ratio of Outside Officers (Directors, Audit & Supervisory Board Members)



Ratio of Directors Not in Charge of Business Execution



Ratio of Female Officers (Directors, Audit & Supervisory Board Members)



Corporate Governance

Cross-Shareholding Policy and Method of Verifying the Rationality of Holdings

Policy of Selling All Cross-Shareholdings by 2024

In principle, the Company adheres to a policy of not engaging in cross-shareholdings, and steps are currently underway to reduce existing cross-shareholdings. Investment securities held for purposes other than pure investment are assessed by the Board of Directors each year to verify whether the profitability and business feasibility of holdings are rational given the associated capital costs.

Numbers of Cross-Shareholdings and Amount on the Balance Sheet

	Holdings	Amount on the balance sheet (Millions of yen)
Unlisted stocks	58	¥ 4,256
Other stocks	20	16,638

Holdings for Which Numbers of Shares Held Increased in Fiscal 2021

	Holdings	Acquisition costs of additional shares (Millions of yen)	Reason for increase
Unlisted stocks	2	¥3,037	Increase in holdings of unlisted shares due to restructuring
Other stocks	—	—	

Holdings for Which Numbers of Shares Held Decreased in Fiscal 2021

	Holdings	Gain on sales associated with reduction in the number of shares (Millions of yen)
Unlisted stocks	2	¥ 24
Other stocks	22	6,395

Selection and Dismissal of Management Members and Nomination of Candidates for Director and Audit & Supervisory Board Positions → The process for selecting the new president and CEO P.78

Showa Denko selects candidates for positions as director based on the criteria for knowledge, insight, fair judgment, ability to take actions, practical experience, and other requirements for directors. For the selection of management, individual performance as well as corporate performance are also taken into consideration. Candidate Audit & Supervisory Board members must possess sufficient knowledge, experience, and capabilities to fulfill their obligations, including an appropriate level of expertise in the areas of finance and accounting.

The Nomination Advisory Committee deliberates on the nomination of candidates for the aforementioned positions and submits recommendations to the Board of Directors. The committee is an advisory

board to the Board of Directors, and more than half of its members are outside directors designated as independent directors.

Dismissal of the Chief Executive Officer and Other Members of Management

In the event it is revealed that any of the directors, including the chief executive officer, has substantially damaged the corporate value of the Company or does not meet the selection criteria for directors, the Nomination Advisory Committee will discuss whether the person is still suitable for the position and report the results to the Board of Directors, which will make the final decision.

Succession Planning

Showa Denko is taking Groupwide and global steps to cultivate the future leaders who will be necessary to advancing its growth strategies.

Corporate officers are responsible for selecting potential successors, with due consideration paid to diversity, and for formulating

development plans. These plans are discussed and confirmed by the Nomination Advisory Committee based on the Corporate Governance Basic Policies. The Board of Directors monitors all succession planning initiatives based on reports from the Nomination Advisory Committee.

New Remuneration System for Directors and Corporate Officers

An ongoing series of discussions on the ideal remuneration system for directors and corporate officers, to facilitate the realization of the long-term vision of the newly integrated company, were held by the Remuneration Advisory Committee, which is comprised largely of the members of management and outside and independent officers who are responsible for leading the integration process. Through these discussions, it was decided that the remuneration system would be

changed in 2022 to facilitate the recruitment and retention of talented individuals suited to the newly integrated company from inside and outside of the organization, and to commit management to the accomplishment of performance targets and steady improvements in corporate value. The new system will increase the degree to which remuneration is linked to the management indicators and initiatives defined in the long-term vision.

Basic Policies

Directors (Excluding Outside Directors)

- Establishment of a remuneration scheme appropriate for recruiting and retaining talented human resources from inside and outside Japan suited to a global top-level functional chemical manufacturer from Japan
- Motivation of efforts to achieve performance targets and increase medium- to long-term corporate value, to drive the sustainable growth of the Group
- A transparent, fair, and rational process for deciding remuneration from the viewpoint of accountability to shareholders and all other stakeholders

Outside Directors

- Establishment of a remuneration scheme appropriate for the role and responsibility of supervising management from an independent and objective standpoint

Composition and Levels of Remuneration

The remuneration of executive directors and corporate officers consists of basic compensation (fixed compensation) based on the position, short-term performance-linked compensation, and medium- to long-term performance-linked compensation (stock-based compensation). The standard amount for the president entails a ratio of 40:30:30 for basic compensation, short-term performance-linked compensation, and medium- to long-term performance-linked compensation. Compensation for other executive directors and corporate officers is decided in line with the standard amount for the president. As for the

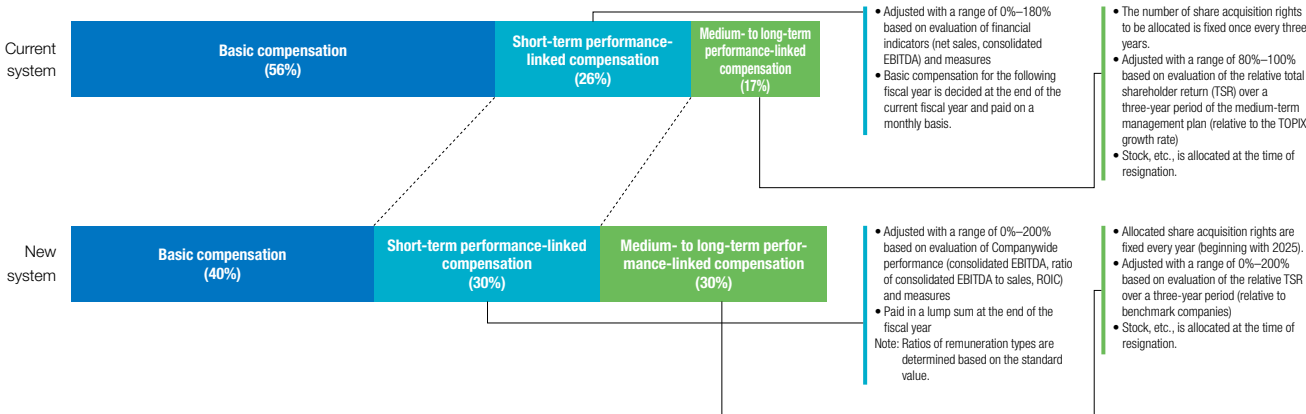
chairman of the Board (without right of representation), short-term performance-linked compensation will not be given in view of the basic role of supervising management. Compensation paid to outside directors and Audit & Supervisory Board members will be only basic compensation, in consideration of their roles and responsibilities.

In deciding the composition and levels of remuneration, the Company will use objective market research data provided by external specialized institutions (such as Willis Towers Watson's database on remuneration for executives) and reference comparisons with global chemical or other material companies of a similar scale.

Types of Remuneration and Recipients

Types of remuneration			Recipients			
Fixed / variable	Monetary / non-monetary	Composition	Executive directors, corporate officers	Director and chairman of the Board (without right of representation)	Outside directors	Audit & Supervisory Board members
Fixed	Monetary	Basic compensation	○	○	○	○
		Short-term performance-linked compensation (bonuses)	○	—	—	—
Variable	Non-monetary	Short-term performance-linked compensation (bonuses)	○	—	—	—
		Medium- to long-term performance-linked compensation (stock-based compensation)	○	○	—	—

Comparison of Remuneration of the President under the Current and New Remuneration Systems



Corporate Governance

Incentive Compensation

Incentive compensation will be granted according to performance based on long-term financial targets of the long-term vision. This form of compensation is intended to encourage action based on the Company’s corporate philosophy and management strategies under a remuneration system linked to performance and corporate value.

Short-Term Performance-Linked Compensation (Bonuses)

Individual amounts of short-term performance-linked compensation are decided by multiplying the standard value (decided in advance based on the position) by the performance evaluation coefficient (adjusted within the range of 0%–200%). The performance evaluation coefficient is determined based on a Companywide performance evaluation (70%) and a personal evaluation (30%). In the case of the representative director and chairman of the Board, only an evaluation of overall business results is considered.

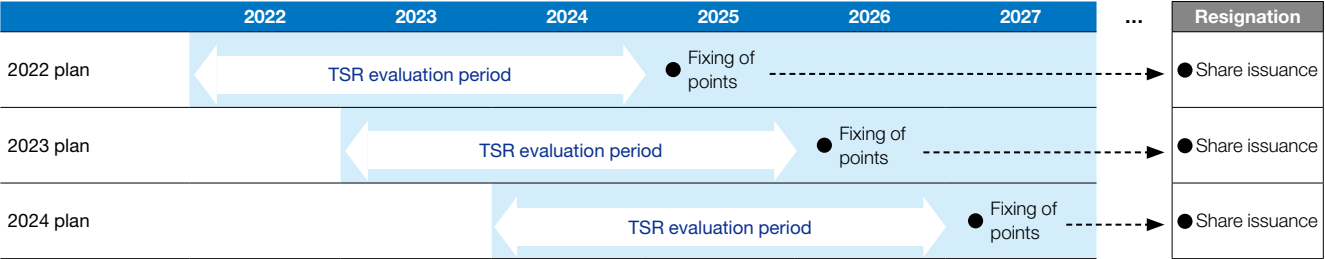
Indexes used for the Companywide performance evaluation consist of the amount of consolidated EBITDA (20%), the ratio of consolidated EBITDA to sales (30%), and ROIC (20%). Consolidated EBITDA and the ratio of consolidated EBITDA to sales are evaluated based on the degree of achievement of goals each year, while ROIC is evaluated on the basis of the average for the past three years. Personal performance evaluations are made by the Remuneration Advisory Committee based on the authority delegated by the Board of Directors and entail assessments concerning individual goals, evaluation, and the amount of payment.

In the case of misconduct, the Company may nullify the right to receive benefits or demand return of compensation, depending on the timing of the misconduct and the timing of its revelation. The

Evaluation Indexes for Short-Term Performance-Linked Compensation (Bonuses)

Evaluation indexes	Evaluation weight	
Companywide performance evaluation	Consolidated EBITDA	20%
	Ratio of consolidated EBITDA to sales	30%
	ROIC	20%
Personal performance evaluation	30%	

TSR Evaluation Period and Share Issuance



Compensation Governance

The Remuneration Advisory Committee is chaired by an outside director designated as an independent director, and the majority of committee members comprise outside directors designated as independent directors and outside Audit & Supervisory Board members designated as independent auditors. The committee makes proposals and reports as necessary to the Board of Directors based on up-to-date information on executive compensation and market

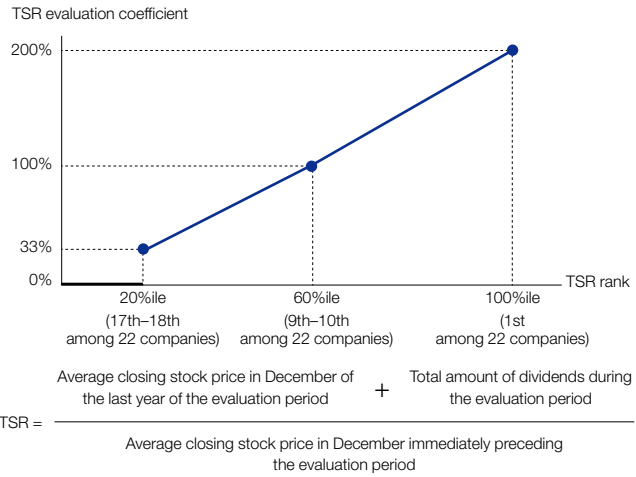
Board of Directors will make a decision on the matter after deliberations by the Remuneration Advisory Committee.

Medium- to Long-Term Compensation (Stock-Based Compensation)

Under the new remuneration system, points are given by multiplying standard figures (decided in advance based on the position) by the TSR evaluation coefficient (adjusted within the range of 0%–200%). The TSR evaluation will be decided based on a rank order of three-year relative TSR evaluation (percentile) by comparison with 22 competitors in the chemical and material industries with similar business models and of the same size or larger. To encourage the realization of the long-term vision, the TSR evaluation coefficient will be set at 100% when the rank order is in the 60th percentile, while it will be 0% when the rank order is below the 20th percentile. To promote long-term sharing of value with shareholders, shares will be given in a lump sum after resignation according to cumulative points.

In the case of misconduct, the Company may nullify the right to receive benefits or demand return of compensation, depending on the timing of misconduct and the timing of its revelation. The Board of Directors will make a decision on the matter after deliberations by the Remuneration Advisory Committee.

Method for Calculating the TSR Evaluation Coefficient



trends, results of comparisons with relevant competitors, and other matters. To ensure high levels of independence and objectivity, decisions on remuneration for respective directors will be entrusted to the Remuneration Advisory Committee starting in fiscal 2022. Moreover, the Company has appointed Willis Towers Watson, an external consultancy, as advisor.

Remuneration of Directors and Audit & Supervisory Board Members

Category	Total amount paid (Millions of yen)	Total amount paid by remuneration type (Millions of yen)			Number of recipients
		Basic compensation	Short-term performance-linked compensation	Stock-based compensation	
Directors	¥307	¥208	¥51	¥48	9
Outside directors	58	58	—	—	4
Audit & Supervisory Board members	96	96	—	—	5
Outside Audit & Supervisory Board members	36	36	—	—	3

- Notes:
- The amounts of basic compensation and short-term performance-linked compensation above are the total amount of compensation paid in fiscal 2021 (all monetary compensation).
 - The amount of stock-based compensation above is the total amount expensed in fiscal 2021. The stock-based compensation represents the number of shares, etc., determined by position in accordance with the TSR evaluation for each medium-term management plan period to be deferred and delivered upon retirement. Of this number, 60% of the shares, etc., to be delivered are physical shares, and 40% are to be paid in cash equivalent to the market value of the shares, etc. For the management of stock-based compensation, we utilize the Stock Benefit Trust of Mizuho Trust & Banking Co.
 - The amount of monetary remuneration for directors was resolved at the 107th Ordinary General Meeting of Shareholders held on March 30, 2016 to be no more than ¥42 million per month (not including employee salaries for directors who also serve as employees). As of the close of the said annual general meeting of shareholders, the number of directors was nine (including three outside directors). Separately from such monetary compensation, a resolution was passed at the same general meeting of shareholders to pay stock-based compensation, etc., to directors, excluding outside directors (up to ¥288 million over three fiscal years to be contributed as funds to acquire shares). The number of directors (excluding outside directors) as of the conclusion of the said ordinary general meeting of shareholders was six. The amount of monetary remuneration for Audit & Supervisory Board members was resolved at the 96th Ordinary General Meeting of Shareholders held on March 30, 2005 to be no more than ¥12 million per month. The number of Audit & Supervisory Board members as of the close of the said annual general meeting of shareholders was four.

Evaluation of the Board of Directors’ Effectiveness

Basic Policies

Showa Denko aims to achieve sustainable corporate growth and to increase its medium- to long-term corporate value. To this end, as its responsibility and role, the Board of Directors is expected to build a system to make decisions in a transparent, fair, prompt, and resolute manner and to supervise the management of the system. The Company issues a questionnaire survey to directors and Audit & Supervisory Board members to evaluate the effectiveness of the Board of Directors as a whole and whether it has fulfilled that responsibility and role. Based on the survey results, issues to be resolved are discussed by the Board of Directors.

Evaluation Method

Regarding the effectiveness of the Board of Directors in 2021, we conducted a survey in December 2021 in which the directors and Audit & Supervisory Board members answered questions and made free comments. Then, in March 2021, the Board of Directors held a meeting for all directors and Audit & Supervisory Board members to discuss the collected self-evaluation results, create a summary of the evaluation results for fiscal 2021, and formulate an action plan for fiscal 2022. To ensure the objectivity of the survey and further boost the effectiveness of the Board of Directors, the survey is conducted and the results are tabulated by an external organization.

Evaluation Results

The evaluation results have determined that, in Board of Directors’ meetings, highly effective Board members with a broad perspective and values reflecting a variety of experiences and expertise are engaged in discussions that help to increase corporate value. Handouts and explanations about agendas are standardized and provided beforehand to encourage the members to take part in vigorous and constructive discussions and allow sufficient time for

- discussions. With regard to the action plan for 2021, which was made based on the results of evaluation of overall effectiveness of the Board of Directors for 2020, members of the Board of Directors and Audit & Supervisory Board have confirmed facts and issues as follows.
- Regarding preparations for the substantial integration of Showa Denko and Showa Denko Materials in January 2022, important issues including the optimization of the business portfolio were discussed sufficiently at the Board of Directors’ meetings, at meetings involving exchanges of views among all directors and corporate officers, and at other opportunities to discuss these issues.
 - Taking into account the expansion of the Showa Denko Group and the progress in globalization of business activities of the Group, the Board of Directors will continue discussing how the governance and compliance systems of the Group should be developed to boost effectiveness.
 - To facilitate the evolution into a “Co-creative Chemical Company,” as put forth in the long-term vision, further discussion from a broader perspective is required with regard to management strategies and the ideal state of the Board of Directors.
 - The Board of Directors should revise the internal rules and regulations on the referring of proposals to Board of Directors’ meetings to secure sufficient time to discuss issues effectively and efficiently, even when a Board of Directors’ meeting is held by teleconference.

In the action plan for fiscal 2022, the Board of Directors decided to ensure thorough discussion of management strategies for realizing the long-term vision, the ideal state of the Board of Directors, and the management of the Group at Board of Directors’ meetings by securing sufficient time and opportunities for such discussion. The Board of Directors also decided to continue taking measures to improve the effectiveness and efficiency of proceedings at the Board of Directors’ meetings and other meetings of executives.