



Governance Report

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Corporate Governance

Basic Policy on Corporate Governance

Showa Denko Materials' basic policy on corporate governance is to carry out business management in the interests of all stakeholders; and we pursue agile business execution, professional decision-making, and a structure that enables supervisory function.

Corporate Governance Structure

In June 2020, we changed our corporate governance structure from a "company with nominating committee, etc." to a "company with company auditors." We promote agile business execution under the Board of Directors and Corporate Officers who were appointed by the Board of Directors, and the Company Auditors fulfills a supervisory function.

In view of the acceleration of business integration with Showa Denko K. K. which is our parent company, its Board members are concurrently assigned as our Board of Directors.

With respect to Group Companies, by dispatching our Directors and Company Auditors to Group Companies, we ensure business execution with a sense of unity as a group and enhance the supervisory function for them.

The Internal Control System

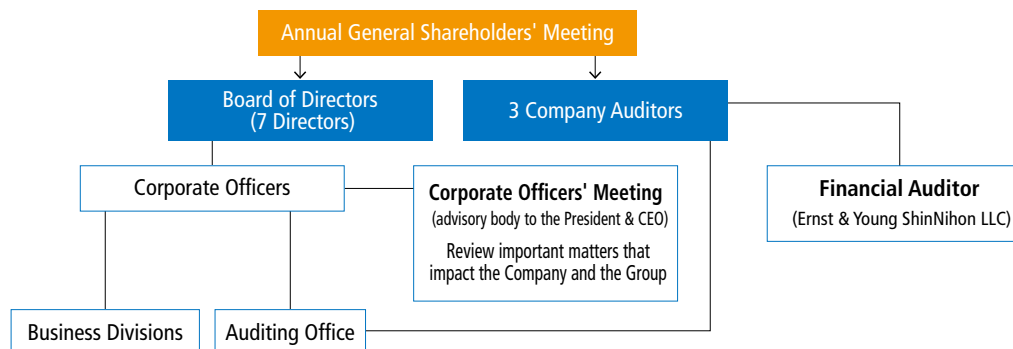
Showa Denko Materials is developing its internal control system upon establishing the internal control system by its Board of Directors to ensure the appropriateness of the business operations of the Company and its Group Companies in compliance with the Companies Act.

The main contents regarding our internal control system are as follows:

- Systems regarding retention and management of information in relation to the execution of the duties of Directors of the Company
- Rules and other systems related to management of the risk of loss of the Company and our Group Companies
- Systems to ensure that the execution of the duties of Directors of the Company and our Group Companies is performed efficiently
- Systems to ensure that the execution of the duties of employees of the Company as well as Directors and employees of our Group Companies complies with laws and regulations and the articles of incorporation
- Systems related to reporting of particulars regarding the execution of the duties of Directors of our Group Companies
- Other systems to ensure the properness of business activities in a business group comprised of the Company and any parent company or Group Companies

In addition, we set forth matters necessary for the execution of duties by Company Auditors to ensure appropriate business operation of the Company and its Group Companies through an audit structure that is independent of the Directors, etc.

Corporate Governance Structure

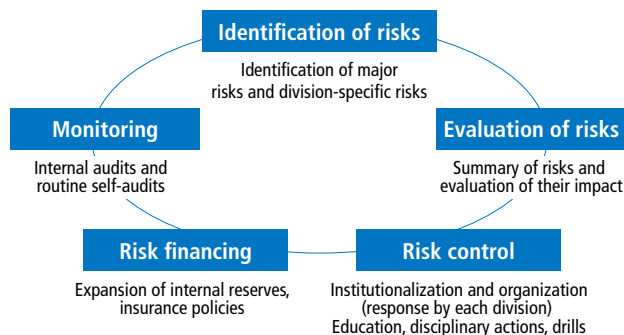


Risk Management

Basic Policy on Risk Management

Showa Denko Materials has established the "Risk Countermeasures Activities Implementation Guidelines" identifying the risks that we should work on as a Group, and stating that executives and employees have a role to play in preventing the occurrence of risks before they arise. In addition, we have clarified the criteria for establishing the Risk Countermeasures Headquarters, the members of the Countermeasure Headquarters, activities and communication standards for preparation for an emergency. Risks, which could pose a significant threat to management, are specified through risk assessment in terms of types of risk, divisions in charge, scale of damage, and frequency of occurrence, to assess their impact on management. These risks are reported in the Corporate Officers' Meeting.

Risk Management Process



Main Risks and Countermeasures

Category	Main risks	Countermeasures
Health & safety Business continuity	Damage caused by earthquakes and tsunamis	<ul style="list-style-type: none"> Developing manuals on the initial response, which varies from business site to business site; formulating BCP, and conducting drills
	Infection with diseases, pandemics	<ul style="list-style-type: none"> Formulating BCP against new worldwide strains of influenza, make alternate production arrangements and support the preparedness of overseas Group companies
Stable revenue	Recession, fall in demand, intensified competition	<ul style="list-style-type: none"> Formulate medium/long-term strategies, dynamic business operations by each business division
	Failure to detect product defects, leaks to outside	<ul style="list-style-type: none"> Application to quality management systems, stringently enforce manufacturing processes
Social responsibility	Unfair trading (bid-rigging, bribery)	<ul style="list-style-type: none"> Promote audits, education, various compliance programs
	Leakage of customer/ client information	<ul style="list-style-type: none"> Thoroughly manage information through the development of rules and self-auditing, raise awareness by e-learning Evaluate Information security and execute measures to improve Information security

Business Continuity Management

Showa Denko Materials is committed to reducing the risk of any disruption to its ongoing business and preparing itself for the unlikely event of a risk materializing to respond to the trust of our customers and society.

As part of these efforts, the Group has put in place a Business Continuity Plan (BCP) to address such contingencies as a major earthquake or pandemic (e.g., a new influenza pandemic) and continues to work to increase our state of readiness every year.

At the same time, the Group is placing emphasis on training exercises simulating BCP scenarios. The items discovered through these exercises are reported to the Corporate Officers' Meeting shared among the entire management including Corporate Officers and utilized to improve next year's BCP. By repeating and continuing these kinds of BCP training, the Group hopes to nurture abilities that enable flexible and prompt handling of crisis situations.

Reference

Stable Supply of Products
(P22)

TOPICS Corresponding to the Risk of Spreading the New Coronavirus (COVID-19)

Since Showa Denko Materials has already established a business continuity plan (BCP) on the assumption of the influenza pandemic, we set up an Infection Control Headquarters by applying BCP in response to the new coronavirus COVID-19 infection.

At the beginning of the establishment of the Control Headquarters, the Headquarters had decided on the response policy every day, and once a week after July. CRO, or Chief Risk Officer, Corporate Officers in charge of risk management, and heads of major departments of the head office participate in the Infection Control Headquarters to deal with it.

Compliance

Basic Policy on Compliance

Showa Denko Materials positions compliance at the heart of its CSR activities. The Group defines compliance as much more than merely observing regulatory requirements. Instead, it entails adhering to and improving our ability to comply with voluntary industry standards, corporate ethics, social norms, and each employees' sense of appropriate behavior.

In addition, we established a Code of Conduct in 2010 to show the specific code of conduct that all Group employees should follow at a minimum. This exactly the same Code of Conduct is shared as a rule by all Group companies in Japan and overseas. We explain to our employees the importance of compliance, including the possible consequences of a violation of our Code of Conduct.

Compliance Structure

Showa Denko Materials is working to prevent compliance violations by examining compliance at the Corporate Officers' Meeting and the Group Environmental and CSR Conference. In addition, we have Compliance Committees and Compliance Officers at each office and Group companies, and established a compliance system that is integrated with the entire Group.

We are given opportunities every year to participate in the internal training seminars and take e-learning programs on compliance with competition laws and bribery, which are central to the Codes of Conduct and the Global Compliance Program. At the same time, to ensure that all Group employees have a genuine understanding of compliance with international standards, presidents of business offices and Group companies deliver their own unique messages to employees to help them recognize the importance of compliance.

In the unlikely event that a legal violation incident occurs, employees are required to follow a predetermined sequence and promptly report all details to the designated departments and sections, and to consult with corporation lawyer toward an early resolution and prevention of recurrence. Details of any

breach of compliance are also required to be reported in the Corporate Officers' Meeting then a summary has been sent directly from the Showa Denko Materials Headquarters via e-mail to all management-level Showa Denko Materials employees (employees with positions equal to section chief and above), the presidents of domestic and overseas Group companies, and compliance officers. Through such efforts, the entire Group is notified those breach incidents. Managers receiving the notice are required to discuss it with all subordinates, and are required to check and make sure potential occurrence of similar cases are not lurking in their own operation. In addition, managers must keep a record of known facts, which are confirmed by compliance department, Headquarters performed by the Auditing Office.

Reference



The Codes of Conduct and the Codes of Conduct Handbook

(P3)

Corporate Ethics Month

Showa Denko Materials has designated October as "Corporate Ethics Month" every year. In fiscal year 2019, a message from the President was translated into 11 languages and transmitted to Group companies in Japan and overseas. Moreover, workshops were held by corporation lawyers and case discussions were held at each work group level to reconfirm the Codes of Conduct, giving all employees the opportunity to think about compliance. In the discussions specific case examples were introduced to stimulate debate and the exchange of opinions, thereby raising everyone's awareness and understanding of the Codes of Conduct.

Compliance Training and Audits

Showa Denko Materials emphasizes training designed to raise employees' awareness about compliance. Training courses, which cover a wide range of contents including compliance with competition laws, prohibition of bribery, and eradication

of harassment, are provided in the form of workshop to deepen participants' understanding. In fiscal year 2019, we held workshops at various sites in Japan and overseas as special training to prevent the recurrence of inappropriate inspections. New and mid-career recruits undergo training on CSR, compliance and human rights without exception, and the Codes of Conduct Handbook is distributed to all employees in both in Japan and overseas Group companies to ensure compliance with the requirements.

In fiscal year 2019, compliance department, Headquarters leads 152 training courses (107 in Japan and 45 overseas). The number of participants reached about 5,500.

Compliance audits were conducted at one office of Showa Denko Materials Co., Ltd. three Group companies in Japan, and seven overseas companies. In addition to confirming how well management systems and training for the promotion of compliance are being implemented and business partner screening as an anticorruption measure is being conducted, audits uncover areas for improvement, which were reported to management.

Transition of Participants to Compliance Training

FY	2015	2016	2017	2018	2019
Participants	3,350	4,110	4,491	4,606	5,541

Compliance Training Results in Fiscal Year 2019

Subject	New hires	Others	Totals
Compliance (in general)*	287	1,469	1,756
Prevention of the recurrence of inappropriate inspections	–	2,326	2,326
Harassment issues	–	496	496
Antimonopoly Act	–	963	963
Total	287	5,254	5,541

* Comprehensive training including the Antimonopoly Act, bribery, antisocial forces, prevention of insider trading, and export controls.

Compliance

Compliance Consultation and Whistle-Blowing System

The Showa Denko Materials Hotline was set up as a counseling and whistle-blowing program for employees to turn to when they encounter compliance issues. Requests for counseling and information are handled quickly and discretely, while strictly maintaining confidentiality with due care for whistle-blowers to protect them from any disadvantageous treatment.

Inquiries concerning compliance are accepted by postal mail, email, via the intranet, and by telephone by the unit responsible for handling compliance issues and via an external hotline where calls are handled by legal advisors. In line with the growing globalization of business activities, counseling and whistle-blowing information from overseas are also available. To publicize the system, posters and cards that showcase the hotline are distributed to all business sites and Group companies in and outside Japan.

A wide variety of requests for counseling and information are accepted including matters relevant to noncompliance with various laws and regulations such as the competition and anti-corruption law, violations of the Group's work rules, and infringements on human rights such as harassment, as well as inappropriate conduct and acts against social justice.

In fiscal year 2019, the number of hotline received were 90 calls from employees in Japan and overseas. We addressed each report appropriately and as needed, working with the related business units. There were no reports that led to serious legal violations.

Transition of Consultation and Whistle-blowing Calls

FY	2015	2016	2017	2018	2019
Number of calls	34	27	32	53	90

Anti-Trust Act Rigorously Observed

At Showa Denko Materials the Anti-Trust Act positioned as a core of compliance management, a message from the president issued in the Corporate Ethics Month in October every year calls for thorough adherence to the act.

In July 2019, a corporation lawyer was invited to conduct

Anti-Trust Act workshops for all employees. A total of 743 employees participated in the workshops. If there is even a hint of a breach of the Anti-Trust Act, employees mainly in sales and marketing, business, and technology divisions are obliged to record the details in the Compliance Information Record Notebook and report to their supervisors and other competent departments. Employees related to sales divisions are also obliged to obtain the approvals in advance from their supervisors and record the details in the same notebook in case of the necessity to attend a meeting of a particular industry organization. All records are subject to biannual audits. In fiscal year 2019, audits were conducted in April and October by the unit in charge of compliance. In audits, all concerned employees are interviewed to ascertain the facts recorded in the Notebook. This initiative has also been implemented at Group companies in and outside Japan with the same type of audits being conducted.



Compliance information record note

Prevention of Antisocial Transactions

Showa Denko Materials has traditionally avoided any contact with antisocial forces. In addition to its policy of steadfastly refusing any demand for interaction, the Group has established a Compliance Committee at each of its business sites and endeavored to put in place a framework, including self-audits, designed to block any connections with antisocial forces. As a member of Tokuboren (the Federation on Special Organized Crimes within the Jurisdiction of the Tokyo Metropolitan Police Department), the Group makes ongoing efforts to ensure the elimination of contact with antisocial forces. In accordance with Organized Crime Exclusion Ordinances, Showa Denko Materials incorporated a clause in its contracts with customers, suppliers, and all other third parties specifically precluding any transactions with antisocial forces as part of its work.

Anticorruption Measures

Showa Denko Materials' Global Compliance Program is established

as a regulation common to the Group, which serves as a guideline for maintaining appropriate relationships with public officials in Japan and abroad. The Codes of Conduct clearly state that we strictly prohibit and will have no involvement in bribery or other corrupt business practices, and that, when working with political entities, we will build and maintain sound and transparent relationships. Based on the Codes of Conduct, all Group companies have established related rules, including Rules Pertaining to Prevention of Bribery, to establish thorough compliance with these rules by employees throughout the entire Group.

In fiscal year 2017, the Group revised its rules in order to further strengthen its anti-bribery framework. We clarified the procedures for screening business partners and added more items regarding the employment of public servants, to target further risk mitigation.

The number of dismissed employees, terminated contracts, lawsuits, etc. resulting from corruption in fiscal year 2019 was continuously zero.

Protecting National Security Interests and Complying with Export Controls

In fulfilling its responsibilities as an organization that actively develops business overseas and in order to contribute to the maintenance of peace and security in the international community, Showa Denko Materials strictly observes the Foreign Exchange, Foreign Trade Act and foreign regulations governing exports in the countries where it operates. In addition, the Group takes steps to put in place rules and regulations relating to Security Export Controls that match the business conditions at each Group company.

Based on these rules and regulations, decisions are made whether export approvals are required for specific products and technologies at design and development departments. Sales departments investigate concerns regarding transaction counterparties and conduct stringent due-diligence screening. The Group additionally conducts periodic audits as well as director and employee training programs.

By corresponding to the accelerating global business expansion, we will continue to make improvements in fiscal year 2020 by focusing on cooperation with overseas Group companies and the control of technologies as priority items.

Information Security

Basic Policy on Information Security Management

Showa Denko Materials has formulated an overarching Information Security Policy, which has been implemented by the Information Security Management System that covers all of our information assets containing personal information. The system serves further as an administrative framework to ensure ongoing improvement of Information Security Policy including the planning, deployment, assessment, and review of our information security measures.

The Group also works continuously to ensure that Information Security Policies and systems are functioning properly. This is done through the Information Security Committee, directed by the President and chaired by Corporate Officers to implement measures to improve management systems, audits, and employee training every year, and to regularly monitor and continuously improve the status of the management.

Personal Information Protection

Showa Denko Materials continues to implement a Personal Information Protection System (Personal Information Mechanism) that is based on its Personal Information Protection Policy, which incorporates the Group's philosophy toward personal information protection. At the same time, Showa Denko Materials has initiated an e-learning education program for all employees, and periodically conducts audits of the status of operations. The Group has also set up external contact counters at each business office and clarified responsible persons so that they can respond promptly to customer and employee questions regarding personal information. No serious incidents of leaks or breaches of personal information occurred in fiscal year 2019, as in the past.

Information Security Audits

In fiscal year 2019, Showa Denko Materials Co., Ltd. self-audited itself and 12 domestic Group companies following an audit checklist for information security and personal information protection. The Group likewise audited 39 Group companies overseas according to global security self-check list.

Information Security Training

Every year, Showa Denko Materials conducts e-learning training on information security and personal information protection for its entire workforce including all officers, employees and temporary employees in order to raise awareness and ensure understanding of company internal regulations.

A simulation drill is also performed each year for email address holders to prepare them for targeted attack emails, which has become a recent threat.

Comprehensive data security training is provided for new recruits as part of their generalized training curriculum. The new recruits are not allowed to access the company's internal network until they commit to maintaining data security by signing a written pledge. They are also required to take six essential courses through e-learning after their assignment.

Information Leakage Measures

The Group maintains the appropriate level of security. We also have following measures in place to prevent data leaks via computers and other information devices and external storage media.

- Installing anti-virus software and encryption software in all computers
- Installing email recipient confirmation tool
- Installing email/web filtering system
- Files are automatically locked so that any information cannot be exported to external media by employees below section-chief class.

No incidents of leaks of confidential information occurred in fiscal year 2019, as in the past.