



Corporate Governance

Basic Concept of Corporate Governance

Nippon Kayaku understands that disclosing information to our stakeholders and investors in a timely and fair manner is an important issue, as is strengthening check functions in order to ensure management transparency.

Based on this understanding, we determined that a system based on decision-making by the board of directors, and corporate governance through an auditor system, is the most effective in terms of management functions.

Status of Programs Related to Corporate Governance

Under the above approach, we have introduced an executive director system to ensure our ability to react quickly to changes in the business environment and carry out flexible operations. We have also clearly separated

our management decision-making and supervision functions from our operational functions, strengthening each of them to ensure correct decision-making and rapid operations.

●Board of directors

In order to rapidly carry out management decision-making, we reduced the number of directors to no more than 10, and are working to further strengthen our supervision functions so that all decisions regarding important issues in our operations are made based on the rules and policies of the board of directors, in accordance with laws and the articles of incorporation.

●Executive directors committee

This committee is chaired by the company president, and is composed of the executive directors (up to 25) who are in charge of company operations, and who are appointed by the board of directors. It reports on the status of operations that are entrusted to it by the board of directors and president, as well as on other necessary items.

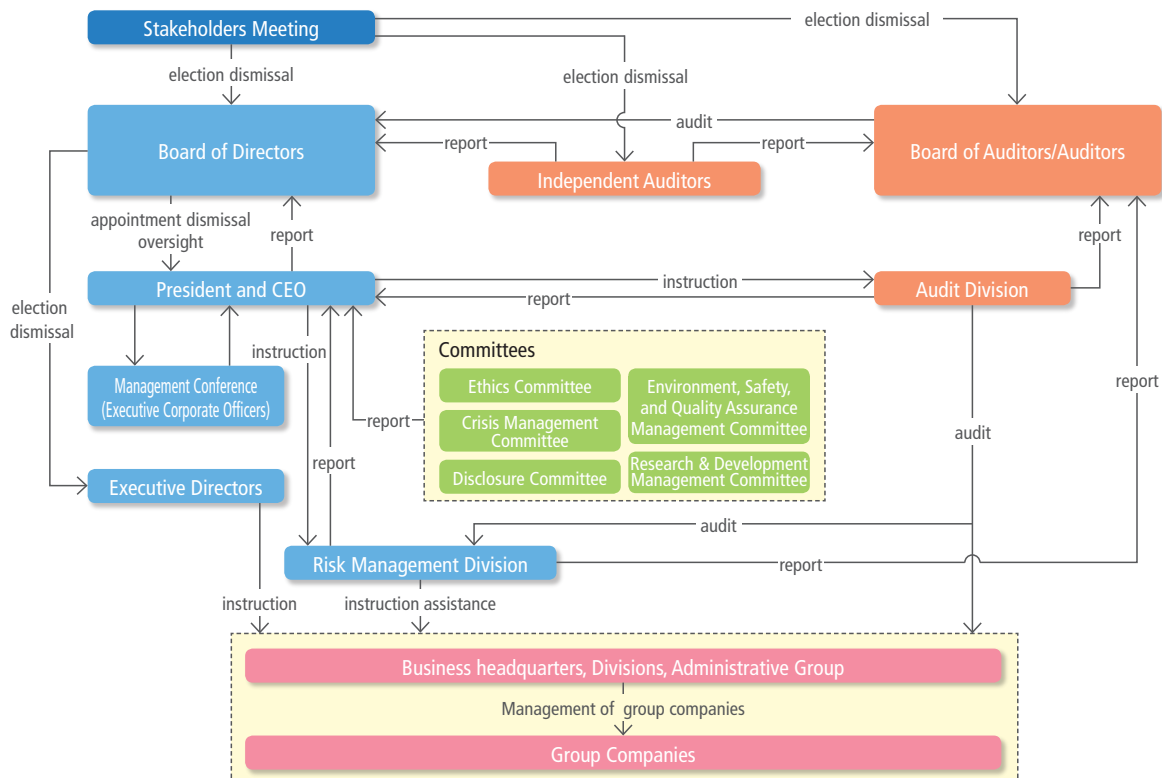
●Management conference

This conference discusses and receives reports concerning important items related to management and operations. After full discussion by the management conference members, these items are decided by the company president, who is the conference chairman.

●Board of auditors

This board is composed of five auditors, three of whom are from outside the company. Based on the rules and policies of the board of auditors, it monitors and supervises the duties of the directors from an independent perspective.

■ Status of the internal administration system and risk management system



In addition, we have established rules and policies for managerial authority, and have clarified the company business organization, business duties, and the authority and responsibilities of management and supervisory

positions. We have constructed a system of responsibility, and are working to carry out systematic and efficient business operations.

Schematic diagram of the internal administration system

At a meeting of the board of directors on May 30, 2006, a basic policy for the construction of a system to ensure fair and appropriate operations was decided.

● Establishment of the Risk Management Division

Nippon Kayaku established the new Risk Management Division as of June 1st, 2006 comprising personnel in charge of compliance and risk management, in an attempt to improve our internal control system.

The personnel in charge of compliance formulate and implement the compliance action plans, and provide the employees with regular training to increase their knowledge, awareness and respect toward compliance.

The personnel in charge of risk management accurately comprehend the possible risks throughout the company, specify the departments responsible for each risk and develop concrete countermeasures for such risks. The personnel promptly determine the responsible departments for any newly emerging risks, and also regularly provide training to educate the employees on risk management.

Status of Internal Audits and Audits by the Board of Auditors

The Audit Division has been established as an internal organization separate from the Board of Auditors to conduct internal audits that will contribute to the prevention of improper behavior and errors in the performance of duties by management and employees. Based on annual plans, this division conducts audits of operations, including those of Group member companies.

Based on the audit policy and audit plans determined by the board of auditors, and on the division of audit responsibilities, the auditors attend meetings of the board of directors, monitor the status of operations, and use other means to monitor and supervise the business conduct of the directors from an independent perspective.

Establishment of Various Committees

● Ethics Committee

The ethics committee works to formulate policies and measures for compliance and implementation of the Charter of Good Behavior and Standards of Good Behavior and to evaluate and improve company-wide compliance.

● Crisis Management Committee

The role of this committee is to develop and maintain the risk management system to deal with risk prevention, damage control and damage remediation over the full range of management issues.

● Disclosure Committee

The role of this committee is to maintain and improve the systems for prompt and proper external disclosure of important managerial information of the company.

● Environment, Safety, and Quality Assurance Management Committee

This committee presents its fiscal year policies for the environment, safety, and quality assurance, assesses results, and devises plans for improvement.

● Research & Development Management Committee

The role of this committee is to set up company-wide research and development policies and strategies, as well as discussing, making decisions and receiving reports on key issues concerning the research and development.