

1. Basic Concept of Corporate Governance

Nippon Kayaku recognizes that disclosing information to our shareholders and investors in a timely and fair manner, and ensuring the transparency of our management by reinforcing our check functions, are issues of great importance.

2. Corporate Governance System

Nippon Kayaku is a company that utilizes an auditor system. We have also introduced an executive director system to ensure our ability to react quickly to changes in the business environment and carry out flexible operations. With this approach, we have 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 (convenes monthly)

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.

Management Meeting (convenes weekly)

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

Executive Directors Meeting (convenes quarterly)

This meeting 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 Strategy Meeting (convenes biannually)

This meeting communicates the Nippon Kayaku Group business policies and business strategies decided by the Board of Directors, as well as other important items related to general management, to management personnel, and ensures that this information is known throughout the company.

Board of Auditors (convenes monthly)

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.

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.

Nippon Kayaku adopted the above system because we have judged that a system of decision-making by the Board of Directors and corporate governance by auditors will allow our management functions to be utilized effectively.

3. Internal Control

Working from the basic policy decided by the Board of Directors for constructing a system to ensure fair and appropriate operations, Nippon Kayaku is preparing an internal control system, establishing the necessary organizations, and taking other steps to construct the necessary systems.

4. Risk Management System

For managing the risk of loss, we have established the Crisis Management Committee, constructed a crisis management system, and established measures for responding in the event of a crisis and for preventing recurrence. We have also created the Risk Management Department in the Internal Control Management Division as the department for overall control of risk management.

Audits related to risk management are carried out by the Audit Division.

5. Compliance

Nippon Kayaku understands that “compliance” means more than observing laws and internal rules; it also means observing corporate ethics—in other words, the conscientiousness of our business practices. All executives and employees (including temporary and part-time staff) understand the importance of compliance and we are taking steps to further raise their awareness.

On April 1, 2000 we enacted the Nippon Kayaku Charter of Business Conduct and the Nippon Kayaku Code of Business Conduct, and established an internal hotline for reporting or discussing compliance issues. In June 2006, a similar external hotline (using a law firm) was put in place. Through such activities, Nippon Kayaku is serious about putting compliance into practice.

6. Audits

For internal audits, we have established an Audit Division (comprising three members) as an internal organization that is separate from the Board of Auditors. The purpose of this division is to prevent improper acts and errors by executives and employees during the course of their duties, and to contribute to improving our operations. In this way we are conducting audits of our operations, including those at Group companies, based on the annual plan.

The Board of Auditors is composed of five auditors, three of whom are from outside the company. Based on the audit policy, audit plan, and distribution of audit operations decided by the Board of Auditors, the auditors attend meetings of the Board of Directors, conduct audits of the conditions of our operations, and take other steps to monitor and supervise the discharge of director duties from an independent standpoint.

Nippon Kayaku has concluded an audit agreement with Ernst & Young ShinNihon LLC, and we have submitted to accounting audits based on corporate law and on the Financial Instruments and Exchange Act.

7. Outside Directors and Outside Auditors

Nippon Kayaku has not selected an outside director; however, we have selected outside auditors for a majority three of the five auditors. Each auditor conducts audits from an independent standpoint, and we have judged that a system has been created in which the management audit functions operate fully.

8. Payments to Directors and Auditors

Compensation to directors and auditors and audit payments to independent auditors during this fiscal year were the following.

<Compensation to directors and auditors>

Directors (12 persons): 475 million yen

Auditors (6 persons): 68 million yen (including 24 million yen to three outside auditors)

Note: The above includes three directors who resigned as of the 153rd Ordinary General Meeting of shareholders held on August 27, 2010.

<Directors whose total compensation exceeds 100 million yen>

Akira Mandai (Representative Director): 104 million yen (basic compensation: 55 million yen, bonus compensation: 49 million yen)

<Audit payments to independent auditors>

Payments for audit certification work: 86 million yen

[Schematic of the Internal Control System]

