

# Corporate Governance

## **1. Basic Concept of Corporate Governance**

Nippon Kayaku understands that strengthening check functions in order to ensure management transparency and disclosing information to our shareholders and investors in a timely and fair manner are important issues for the purpose of ensuring sustainable business operations. Based on this understanding, we have selected a corporate governance system that is based on decision-making by the Board of Directors and on an auditor system as the most effective system in terms of exercising management functions.

## **2. Corporate Governance System**

Nippon Kayaku has 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 (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.

## **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 has constructed and operates an internal control system. In order to strengthen our internal control, this year the Risk Management Division was renamed the Internal Control Management Division and we added the J-SOX Department to the Internal Control Management Division. The J-SOX Department is responsible for maintaining and evaluating our system for ensuring the reliability of financial reporting.

## **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 a department for overall control of risk management. Audits related to risk management are carried out by the Audit Division.

## 5. Audits

For internal audits, we have established an Audit Division (comprising four members) 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.

Outside auditors attend meetings of the Board of Directors and other important meetings to deliver their opinions, and conduct regular meetings to exchange information with representative directors to understand the management policies and other important elements of our company. The outside auditors also receive summary explanations from the corporate auditors regarding matters such as the contents of Management Meetings and the results of on-site audits.

We have concluded an agreement with the company Ernst & Young ShinNihon LLC as our accounting auditor, and we have submitted to accounting audits.

## 6. Payments to Directors and Auditors

Compensation to directors and auditors and payments to independent auditors during this fiscal year

<Compensation to directors and auditors>

Directors (nine persons): 355 million yen

Auditors (five persons): 68 million yen (including 23 million yen to three auditors from outside the company)

Note 1: The amount of compensation to directors includes 104 million yen paid into the bonus reserve for directors during this fiscal year.

Note 2: The number of persons as of the end of this fiscal year was eight directors and five auditors.

<Audit payments to independent auditors>

Payments for audit certification work: 86 million yen

### [Schematic of the Internal Control System]

