



## Corporate Governance

### The Nippon Kayaku Group Corporate Governance and Internal Control System

#### Fundamental Approach to Corporate Governance

To gain the trust of society, the Nippon Kayaku Group recognizes the vital importance of preserving business transparency through greater checks and balances and of timely, impartial information disclosure to investors and shareholders. To that end, we have put in place an autonomous corporate governance system.

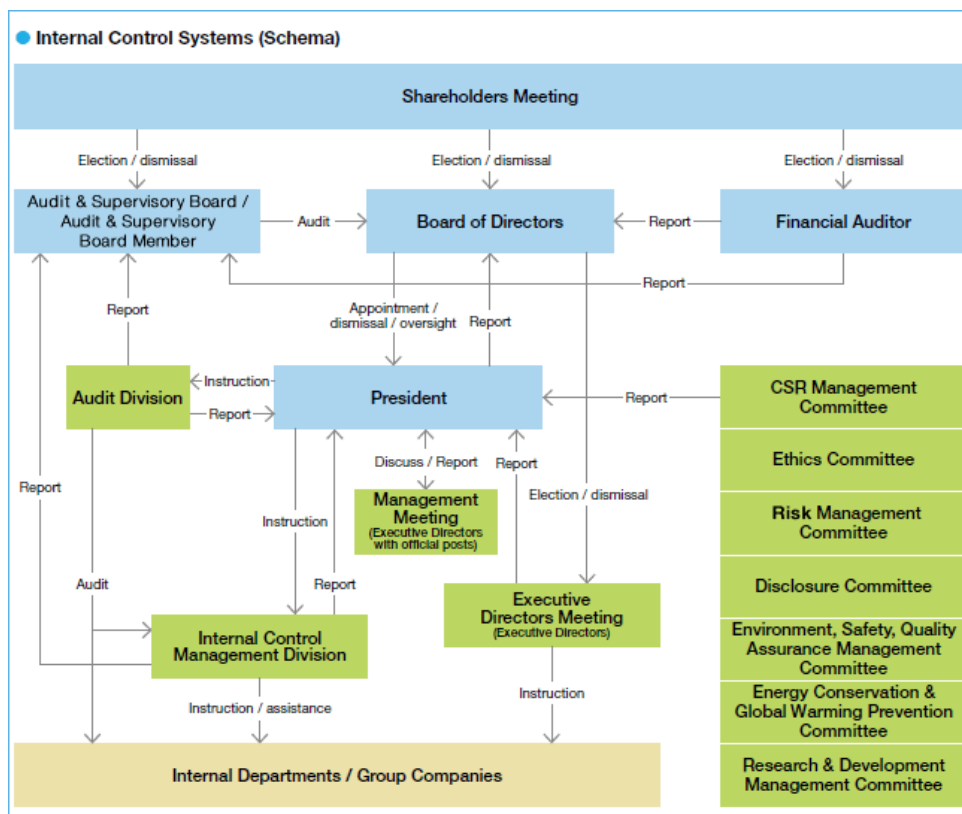
#### Corporate Governance System

Through decision-making by the council system of our Board of Directors and the corporate auditor system, the Nippon Kayaku Group believes that its system of corporate governance effectively supports management functions.

Starting in August 2005, Nippon Kayaku clearly distinguishes management decision making and auditing from business execution, enabling each of these functions to be reinforced, whereby ensuring that appropriate decision making and punctual business execution take place. To further clarify management accountability and responsibility for business execution, the term of board of directors and executive officers has been set at one year. In addition, an outside director has been appointed since June 2013. This heightens management transparency and helps to further strengthen the company's corporate governance system.

Nippon Kayaku has an Audit & Supervisory Board that comprises five individuals, including three Outside Audit & Supervisory Board Members. Audit & Supervisory Board Members attend board of director meetings and other important company deliberations and through information sharing with the Internal Audit Department they are able to oversee and monitor directors' execution of duties from a neutral and independent stance.

[Summary of Internal Control Systems](#) 



## Internal Control System and Corporate Auditor Audits

The Internal Audit Department has been established separate from the Audit & Supervisory Board and is directly managed by the president in order to perform internal audit that help prevent improprieties and errors before they happen, improve business operations, and protect company assets. This department performs business audit on all Nippon Kayaku Group companies in accordance with the fiscal year plan.

Audit & Supervisory Board Members attend board of director meetings and other important company deliberations and performs business execution audits to oversee and monitor directors' execution of duties from an independent perspective in accordance with the audit policy, audit plan, and assignment of duties decided by the Audit & Supervisory Board.

## Risk Management System

Identifying and controlling various risks represents an important element of corporate governance. The Nippon Kayaku Group works to mitigate risks following the Risk Management Action Plan approved by the Risk Management Committee.

## Activities Promoting Risk Management

The Nippon Kayaku Group is carrying out TOP5 Risk Control Activities as part of its Risk Management Action Plan.

TOP5 Risk Control Activities cover all subsidiaries of the Nippon Kayaku Group that are in turn broken down into more than 70 individual groups. Each group works on identifying their inherent risks, of which the five most critical items are selected and defined as "TOP5 risks." At the start of the year, each group formulates countermeasures for their TOP5 risks, the results of which are compiled by the staff in charge of risk management at fiscal year end for analysis and trend mapping. The collected data is reported to the Risk Management Committee, which continuously examines the data for risks present for the company as a whole, to make sure small risks are not being overlooked, and to see if risk management is being carried out effectively, for utilization in management-level decision making.

## Risk Management Training

In the past, the Nippon Kayaku Group had conducted risk management training for managers and above only, while holding individual risk training sessions for new hires, newly appointed managers, and employees on overseas assignments.

In fiscal 2015, in addition to these training sessions, risk management training was held for all Nippon Kayaku Group employees as part of our activities to implement a continuous PDCA cycle for minimizing risk and improving risk awareness. These risk management training sessions will continue to be held going forward.

## Crisis management system

We have established a "Crisis Management Manual" and "BCP Manual" in preparation for risks that could have a serious impact on corporate activities. These manuals also form part of our crisis management system.

The first edition of the "Crisis Management Manual" was created in 2000 to enable appropriate management of, and responses to the various risks facing the Nippon Kayaku Group's businesses. After releasing the second edition in 2010, we compiled a third edition in fiscal year 2015, making wide ranging modifications, including a reexamination of applicable risk events and changes to the departments in charge.

The "BCP Manual" stipulates basic actions and matters to be implemented in the preliminary response prior to risk events stipulated in the "Crisis Management Manual" as well as in the post-event initial response and recovery measures in cases where business operations were interrupted. In order to fulfill our responsibility to supply products and minimize management damages, in 2012 we compiled the "Basic Manual" and manuals prepared for each business group.

BCP simulation training is held every year for all executive officers, including the president, in order to ensure business recovery measures are well established. In fiscal 2015, this training focused on the Agrochemicals Division and featured a re-enactment of the Great East Japan Earthquake in order to develop improved responses in terms of production management, shipments and customer service.

Members of the headquarters for disaster countermeasures of Agrochemical Business, including mainly heads of business divisions, were able to create a shipment and production plan for fulfilling customer needs during the training, while working not only with the head office, but the Kashima Plant as well.

## The Nippon Kayaku Group's Business Continuity Plan Initiatives

We have conducted business continuity plan (BCP) training at the head office since fiscal 2012, utilizing the lessons learned from the Great East Japan Earthquake and tsunami that struck Japan on March 11, 2011. This section takes a closer look at our BCP initiatives.

[FY 2015 Nippon Kayaku Group Disaster Prevention Training Activities Summary sheet](#) 

### BCP Training

In fiscal 2011, we drafted a BCP manual and launched a company-wide BCP project led by the Internal Control Promotion Department and involving all other company divisions. The BCP manual calls for each business division to set up its own response headquarters and for the establishment of a system to focus resources for the restoration of important business operations defined in advance in order to quickly restore operations within the targeted timeframe. Each workplace has also been allocated a satellite phone, design modifications made to information systems, and strategic inventory set up and managed from the perspective of business continuity planning. At the same time, we recognize that employee training is a key to quickly implementing the BCP.

All executive officers, including the president, take part in Nippon Kayaku's BCP training, and since fiscal 2012, this training has been conducted for all of our main organizational units, including Functional Chemicals, Pharmaceuticals, and Safety Systems. In fiscal 2015, this training was held for the Agrochemicals Division in which the scenario featured an earthquake similar in size to the Great East Japan Earthquake.

This type of BCP training will continue to be held on a regular basis going forward to ensure the BCP Manual does not become a "pie in the sky."

### Takasaki Plant's Fire and Disaster Prevention Activities

Since the Great Hanshin-Awaji Earthquake, reinforcing the ability to deal with large-scale disasters has become an important issue. Given this, the Fire Services Act was partially revised and the disaster prevention management system was newly established in accordance with the current fire prevention management system.

The size of the Takasaki Plant necessitates disaster prevention management, so in addition to the conventional fire fighting training (held annually), the plant now holds a new training drill with the scenario of a major earthquake. Thus, the comprehensive fire prevention drill is held as part of the plant's fire prevention management during the spring and in the autumn the plant holds comprehensive disaster prevention training using the scenario of a major earthquake (seismic intensity of 6 upper) as part of its disaster prevention management.

All employees participate in both trainings in which the head office and each district are separated into teams to conduct evacuation, rescue, communications (using satellite phones), and protection measures.

The Takasaki Plant is surrounded by rivers and forests, which also exposes it to the risk of wild fires. With this in mind, the plant's firefighting brigade conducts fire training drills at the same time as those mentioned above. On the day of the drills, all participants take part earnestly and the nearby fire chief visits to assess the drill every year. These activities make the drill quite beneficial to all involved.



Also, fire training using actual fire extinguishers is held every year as part of the safety training for new hires and AED training is held as part of Safety Week in October.

Furthermore, following the Great East Japan Earthquake, we have systematically established provisions of food rations (1,000 meals), drinking water and fuel (diesel and gasoline) as part of our emergency response. These provisions are continually maintained for use in emergencies.

#### Nikka Fine Techno's Disaster Prevention Activities

Nikka Fine Techno Co., Ltd. is the Nippon Kayaku Group's only trading company in Japan. Nikka Fine Techno has its head office in Tokyo and other business sites in Osaka and Fukui. The company has customers in various fields located in all parts of Japan, while overseas it does business mainly in Asia, but also in the United States and Europe.

This photograph was taken during the disaster prevention training at Nikka Fine Techno's head office on September 1, 2015. In addition to this training, Nikka Fine Techno conducts earthquake navigation training, sets up emergency backpacks and carries out emergency evacuation training at all three of its business sites in Tokyo, Osaka and Fukui. The company's disaster prevention training and earthquake navigation training are held with the advice of Nippon Kayaku's Environmental Protection & Safety Division provided for communications and instructions. Nikka Fine Techno will continue to enhance its emergency response through these regular training drills and by storing food and other necessities.



## Summary of each Meeting

### **Board of Directors Meeting (Held Monthly)**

To ensure prompt decision-making, the Board is limited to 10 members. Decisions related to important business matters are made through the stipulations of the Board of Directors in conformity with relevant laws and our articles of incorporation. Operational oversight functions also are being strengthened.

### **Management Meeting (Held Weekly)**

The Management Meeting deliberates important matters related to management and business affairs and receives reports from business divisions. The President, as the chairman, makes decisions after thorough deliberation among the Management Meeting members.

### **Executive Directors Meeting(Held Quarterly)**

The Executive Directors Meeting is chaired by the President, and attended by all Executive Directors (up to 25) appointed by the Board of Directors. Executive Directors report on the status of the businesses they have been entrusted with from the Board of Directors and the President as well as other necessary matters.

### **Management Strategy Meeting(Held Semi-Annually)**

Important management matters at the Board Meeting such as basic policy of our group and management strategy are distributed to management personnel through the Management Strategy Meeting to ensure thorough understanding and awareness.

### **Board of Auditors Meeting(Held Monthly)**

The Board of Auditors consists of five auditors (three external). The members monitor and oversee the duties of Directors from an independent position based on the stipulations of the Board of Auditors..

In addition, the Company clarifies authority and responsibility by management position, segregation of duties and company organization structure, setting rules that stipulate duties and powers. This promotes organized and efficient operations and establishes a framework of accountability.

## Establishment of Various Committees

### CSR Management Committee

Decides CSR action policy and mid-term action plan as well as confirms the validity of the measures based on KAYAKU spirit and CSR philosophy to undertake corporate social responsibility sustainably.

### Ethics Committee

Works to formulate policies and measures for compliance and implementation of the Charter of Business Conduct and Code of Business Conduct and to evaluate companywide compliance.

### Risk Management Committee

Develops and maintains a risk management structure for risk preventive measure, damage control and damage remediation over the full range of management issues.

### Disclosure Committee

Scrutinizing important managerial information of the company and maintains and improves the structure for timely and proper external disclosure.

### Environment, Safety, and Quality Assurance Management Committee

Presents its fiscal year policies on environment, safety, and quality assurance matters. Assesses results, and devises plans for improvement.

### Energy Conservation and Global Warming Prevention Committee

Makes mid- and long-term plans, confirms each activity and discusses measures to problems based on the policy about energy conservation and global warming prevention.

These results are disclosed to inside and outside the company.

### Research & Development Management Committee

Develops company-wide research and development policies and strategies. A forum to report, discuss and make decisions on important research and development matters.

# FY2015 Nippon Kayaku Group Disaster Prevention Training Activity Summary Sheet

— : Non-applicable

\* 1 Notification, evacuation, fire fighting, and other training in cooperation with the Fire Departments overseeing Comprehensive Disaster Prevention Exercises

\* 2 Training in placing the monthly satellite phone calls, starting June 2012, required by the Satellite Phone Training section of the BCP

Business site/ Company name	Comprehensive disaster prevention training*1	Notification training, evacuation training	Early stage fire-fighting training ; Use of fire extinguishers and fire hydrants, firefighting skills	Earthquake simulation training	First-Aid training, AED training	Leakage Response training, Sandbag training	Lectures, study sessions	Satellite phone training*2
Head Office, NIPPON KAYAKU CO., LTD.	●	●	●	●	●	—	●	●
Fukuyama Plant/ NIPPONKAYAKU FUKUYAMA CO., LTD.	●	●	●	●	●	●	●	●
Asa Plant	●	●	●	●	●	●	●	●
Tokyo Plant/ NIPPON KAYAKU TOKYO CO., LTD.	●	●	●	●	●	●	●	●
Takasaki Plant	●	●	●	●	●	●	●	●
Himeji Plant	●	●	●	●	●	●	●	●
Kashima Plant		●	●	●	●	●	●	●
Tokyo business CENTER/ Tokyo business district	●	●	●	●	●	●	●	●
POLATECHNO CO., LTD.	●	●	●	●	●	●	●	—
MOXTEC, INC.		●	●			—	●	—
WUXI POLATECHNO OPTICS CO., LTD.		●	●			—	●	—
Dejima Tech B.V.		●	●		●	—	●	—
POLATECHNO (HONG KONG) CO., LIMITED	—		●			—		—
NIKKA FINE TECHNO CO., LTD.	—		●	●		—	●	—
Nippon Kayaku Korea Co., Ltd.	—	●				—		—
NIPPON KAYAKU AMERICA, INC.	—	●				—		—
Euro Nippon Kayaku GmbH	—	●				—		—
KAYAKU CHEMICAL (WUXI) CO., LTD.	●	●	●		●		●	—
MicroChem Corp.		●	●		●	●	●	—
Wuxi Advanced Kayaku Chemical Co., Ltd.	●	●	●		●	●	●	—
Shanghai KAYAKU International Trading Co., Ltd.	—					—	●	—
NIPPON KAYAKU FOOD TECHNO CO., LTD.	●	●	●	●	●			—
Tumor Diagnosis Support Co., Ltd.	—	●				—		—
NAC Co., Ltd.	●	●	●	●	●		●	—
Taiwan Nippon Kayaku Co., Ltd.	—	●				—		—
INDET SAFETY SYSTEMS a.s.		●	●		●	●	●	—
Kayaku Safety Systems (Huzhou) Co., Ltd.	●	●	●			—	●	—
Kayaku Safety Systems de Mexico, S.A. de C.V.		●	●		●	—	●	—
Kayaku Safety Systems Malaysia Sdn.Bhd.		●	●	—	●	—	●	—
Nishiminato Driving School Corporation		●				—		—
Wako Toshi Kaihatsu Co., Ltd.	●	●		●	●	—	●	—
JHMS Co., Ltd.	—	●				—		—
Okiura Golf Center Co., Ltd.	—	●	●		●	—		—
Kouwa Sangyo Co., Ltd.	●	●	●	●	●	●	●	—
Gunnan Sangyo Co., Ltd.	●	●	●	●	●	●	●	—
Head Office, KAYAKU AKZO CORPORATION	●	●	●	●		—		—
Asa Plant, KAYAKU AKZO CORPORATION	●	●	●	●	●	●		—
Head Office, Kayaku Japan Co., Ltd.	●	●	●			●	●	—
Asa Plant, KAYAKU AKZO CORPORATION	●	●	●	●	●	●	●	—
Sanko Kagaku Kogyo Co., Ltd.		●	●	●		—	●	—