

## 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.

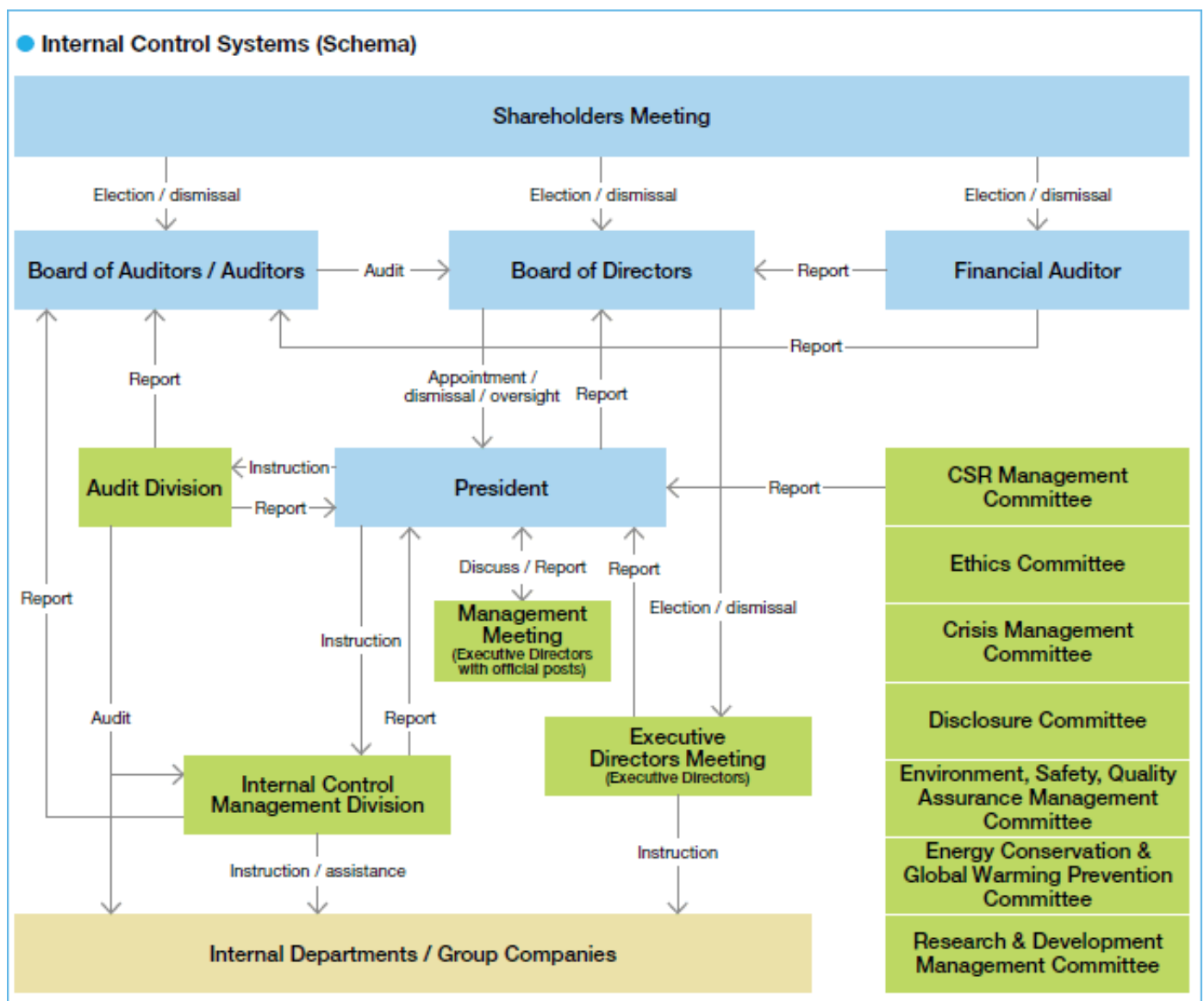
#### ■ Corporate Governance System

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 adopted the Executive Officer System in order to promptly respond to changing business climate and ensure agile execution of business operations. This system 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 a board of corporate auditors that comprises five individuals, including three outside corporate auditors. Corporate auditors 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](#) [PDF](#)



### Internal Control System and Corporate Auditor Audits

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

Audits performed by each corporate auditor attends 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 board of corporate auditors.

## Risk Management System

The Nippon Kayaku Group performs comprehensive risk management activities in order to prevent the occurrence of risk and minimize losses if risk does occur.

We have built up our risk management system around the Risk Management Manual compiled in the year 2000 and the Crisis Management Committee Rules and Regulations formulated in 2004.

In addition to our system that notifies senior management promptly about the occurrence of risks, we have also designated a department to be in charge of each factor requiring risk management as part of our efforts to avoid and prevent individual risk factors as well as take remedial measures.

Individual risk factors being addressed on the department-level include natural disaster risk such as earthquakes, environmental destruction risk, environmental pollution risk, accident (production / logistics)-related risk, product-related risk, loss of credibility risk, risk of crimes against the company, risk of crimes against senior management, employees and their families, risk related to expatriate workers and foreign business travel, litigation risk, personnel and labor-related risk, patent litigation risk, and infectious disease risk, among others.

## Activities Promoting Risk Management

The Nippon Kayaku Group has a designated department in charge of risk management that each year develops a Risk Management Action Plan, which in turn is approved by the Crisis Management Committee, as part of the company's efforts to raise risk awareness, promptly report risk to senior management and engage in risk reduction activities.

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

In fiscal 2012, we conducted business continuity plan (BCP) training at the head office, 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.

- [Fiscal 2012 Disaster Preparedness Training Survey](#) PDF

### 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.

As a result, the corporate head office and Functional Chemicals Business initiated BCP training under the guidance of an external consultant in fiscal 2012. The scenario for the training included an earthquake that struck in Tokyo Bay with a seismic intensity of 6, causing damage to the Tokyo Plant that required repair and restoration work. The company president and all employees took part in this training, which ended as planned after the Central Disaster Response Headquarters ordered the Functional Chemicals Business Disaster Response Headquarters to compile and report the recovery plan. In addition, the head office was damaged as part of the scenario, which required the Head Office Disaster Response Headquarters to be set up to help restore the functions of the head office. This aspect of the training was also completely successfully.

We will continue to conduct BCP training at all of our business divisions going forward to ensure that the BCP manual is actually used and practiced.

