



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.

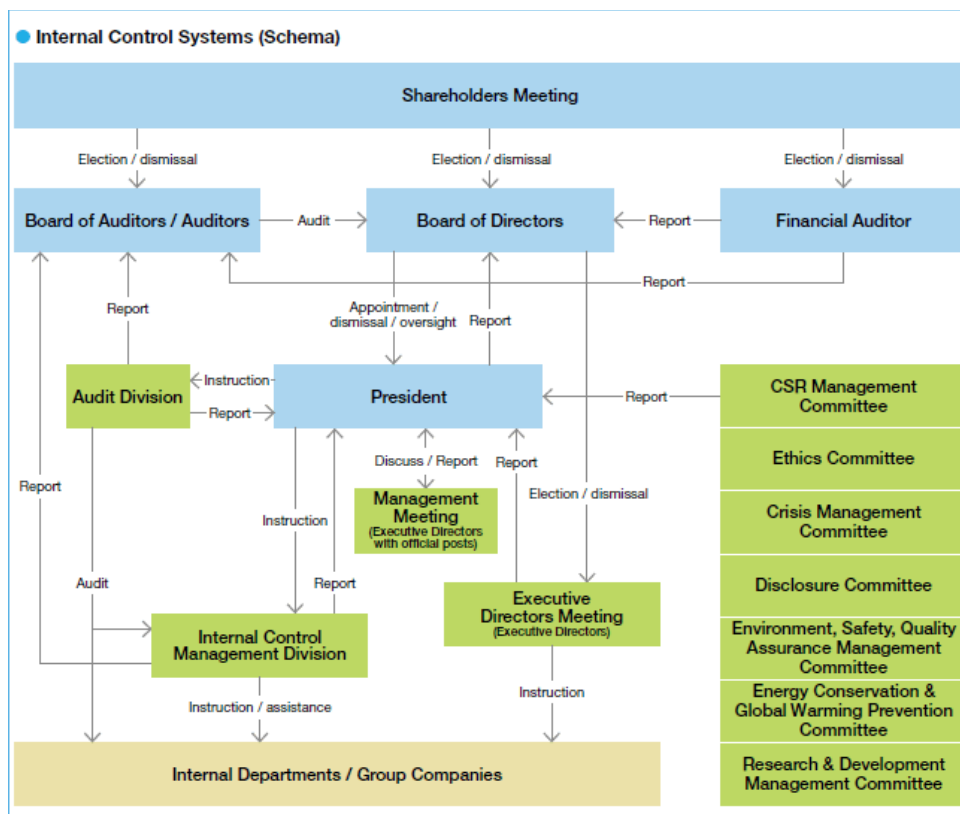
Corporate Governance System

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 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](#) 



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

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.

[Fiscal 2013 Disaster Preparedness Training Survey](#) 

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 BCP training, which was held for the head office and Functional Chemicals Group in fiscal 2012 and for the Pharmaceuticals Group in fiscal 2013. In both cases an outside consulting firm provided guidance with regards to the training. The BPC training featured a blind simulation in which an earthquake with a magnitude of 8 strikes the Northern Kanto region, causing damage to the Takasaki Plant and requiring the Pharmaceuticals Group to restore business operations. The Pharmaceuticals Group Disaster Response Headquarters, set up by order of the head (the Nippon Kayaku President) of the Central Disaster Response Headquarters, created a draft restoration plan covering production management, shipments and customer response. This plan was reported to the Central Disaster Response Headquarters and the training concluded as planned. 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.



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.

FY 2013 Disaster Prevention Training Survey

*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	Notification training	Early stage fire-fighting training: fire extinguishers, fire hydrant and firefighting	Earthquake simulation training	Evacuation training	Leakage training	Patient transportation and first aid training	AED training	Sandbag training; simulated smoke inhalation training	Lectures, presentations, study sessions	Satellite phone training
1	Head Office, NIPPON KAYAKU CO., LTD.		●		●		—	●	●	—	●	●
2	Fukuyama Plant/ NIPPONKAYAKU FUKUYAMA CO., LTD.	●	●	●	●	●	●	●	●	●	●	●
3	Asa Plant	●	●	●	●		●	●	●	●	●	●
4	Tokyo Plant/ NIPPON KAYAKU TOKYO CO., LTD.	●	●	●	●	●	●	●	●	●		●
5	Takasaki Plant	●	●	●	●	●	●	●	●	●	●	●
6	Himeji Plant	●	●	●	●	●	●	●		●	●	●
7	Kashima Plant		●	●	●	●	●	●	●		●	●
8	Tokyo business CENTER/ Tokyo business district	●	●	●	●	●	—	●	●	●	●	—
9	POLATECHNO CO., LTD.	●	●		●		●					—
10	MOXTEC, INC.			●		●	—		●		●	—
11	WUXI POLATECHNO OPTICS CO., LTD.		●	●		●	●				●	—
12	Dejima Tech B.V.			●		●	—	●	●	—	●	—
13	POLATECHNO (HONG KONG) CO., LIMITED			●						—		—
14	NIKKA FINE TECHNO CO., LTD.			●	●		—			—	●	—
15	Nippon Kayaku Korea Co., Ltd.					●				—		—
16	NIPPON KAYAKU AMERICA, INC.					●	—			—		—
17	Euro Nippon Kayaku GmbH		●							—		—
18	KAYAKU CHEMICAL (WUXI) CO., LTD.	●	●	●		●		●			●	—
19	MicroChem Corp.			●		●	—		●	—	●	—
20	Wuxi Advanced Kayaku Chemical Co., Ltd.	●		●		●	●	●			●	—
21	Zhaoyuan Advanced Chemical Co., Ltd.			●				●			●	—
22	Shanghai KAYAKU International Trading Co., Ltd.						—			—	●	—
23	NIPPON KAYAKU FOOD TECHNO CO., LTD.	●	●	●	●	●		●				—
24	Tumor Diagnosis Support Co., Ltd.					●	—			—		—
25	Nippon Kayaku Medical Care Co., Ltd.	●	●	●	●	●	—	●		—	●	—
26	NAC Co., Ltd.	●	●	●	●	●		●			●	—
27	Taiwan Nippon Kayaku Co., Ltd.					●	—			—		—
28	INDET SAFETY SYSTEMS a.s.		●	●		●	—	●		—	●	—
29	Kayaku Safety Systems (Huzhou) Co., Ltd.			●		●	—			—		—
30	Kayaku Safety Systems de Mexico, S.A. de C.V.			●		●	—	●		—	●	—
	Kayaku Safety Systems Malaysia Sdn.Bhd.										●	—
31	Nishiminato Driving School Corporation	●	●	●			—			—		—
33	Wako Toshi Kaihatsu Co., Ltd.		●		●		—	●	●	—	●	—
34	NIKOS CO., LTD.		●		●		—	●	●	—		—
35	JHMS Co., Ltd.					●	—			—		—
36	Okiura Golf Center Co., Ltd.		●		●		—			—	●	—
37	Kouwa Sangyo Co., Ltd.	●	●	●	●		●	●	●	●	●	—
38	Gunnan Sangyo Co., Ltd.	●	●	●	●	●	—	●	●	●	●	—
39	Head Office, KAYAKU AKZO CORPORATION	●	●	●	●	●	—			—		—
	Asa Plant, KAYAKU AKZO CORPORATION	●	●	●	●	●	●	●	●	—		—
40	Head Office, Kayaku Japan Co., Ltd.	●	●	●			—			●	●	—
	Asa Plant, Kayaku Japan Co., Ltd	●	●	●	●		●	●	●	●	●	—
41	Sanko Kagaku Kogyo Co., Ltd.		●	●	●		—			—		—