

# (Key Sustainability Issues) Strengthening Corporate Governance

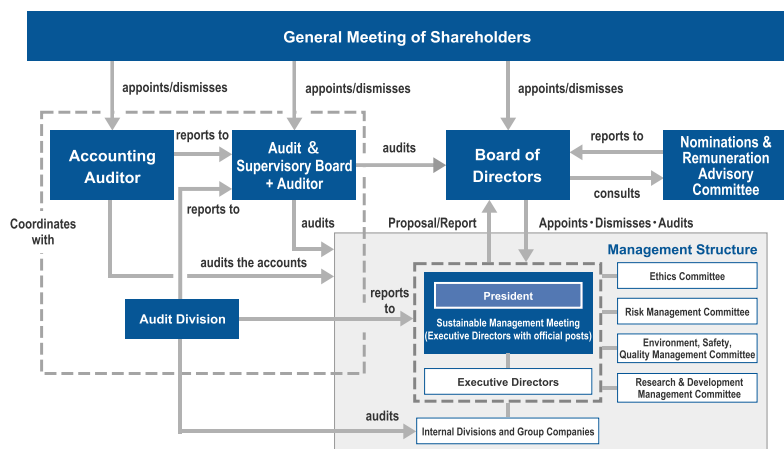
## Policy and Basic Approach

The Nippon Kayaku Group recognizes that delivering its corporate vision under the **KAYAKU spirit** requires focus on two important issues: timely and impartial information disclosure to all shareholders and investors, and guaranteed transparent management based on strengthened checking functions. Having judged that management functions can be most effectively demonstrated through decision-making via a Board of Director council system, and corporate governance via an Audit & Supervisory Board system, we will continue to tackle the expansion and reinforcement of corporate governance as a key managerial issue.

> [Corporate Governance Basic Policy \[494.9KB\]](#)

> [Corporate Governance Report \[1.2MB\]](#)

## System



## Business Execution System

Nippon Kayaku is a company which has adopted an Audit & Supervisory Board System. Furthermore, in order to rapidly respond to changes in the business environment and achieve flexible business execution, we have introduced an Executive Director System to clarify the separate managerial roles of “decision-making and supervisory functions” and “business execution functions.” By strengthening each of these functions are we carrying our appropriate decision-making and rapid execution of business.

## Governance System Chart

Overall system format	A company with a Board of Directors and Auditors (Audit & Supervisory Board)
Number of Board Members (Inside and Outside)	10 (4 of whom are Outside) * 1 female Outside Director
Number of Auditors (Inside and Outside)	5 (3 of whom are Outside)
Chairman of the Board	Chairman*
Board Member terms	1 year
Executive Director System in place?	Yes
Advisory Committee on Board Member appointments	Nomination & Remuneration Advisory Committee
Accounting Auditor	Ernst & Young ShinNihon LLC

\* If the Chairman of the Board is absent, the meeting will be chaired according to board member seniority rankings determined beforehand.

> [Skills Matrix](#)

## Strengthening Corporate Governance: A History

Year	Main Initiatives
2001	1 non-Japanese Board Member appointed (Until Aug 2003)
2005	Executive Director System introduced following business integration reforms
	Director Retirement Bonus System abolished
2013	Performance-related Pay System introduced for Directors
	1 Outside Director appointed
2016	2 Outside Directors appointed
2017	Board of Directors' Effectiveness Evaluation Conducted
2020	Nominations & Remuneration Advisory Committee established
	1/3 of the Board of Directors comprised of Outside Directors (3 Outside Directors appointed) Corporate Governance Basic Policy established
2021	Director Remuneration System altered
	Director-centered Restricted Stock Remuneration System introduced 1 female Audit & Supervisory Board Member appointed
2023	1 female Executive Director appointed
	4 Outside Directors and 1 female Outside Director
	1 Standing female Audit & Supervisory Board Member appointed Introduction of a Restricted Stock Incentive System for employee shareholders
2024	Audit & Supervisory Board' Effectiveness Evaluation Conducted
	2 female Executive Directors appointed

## Board of Directors

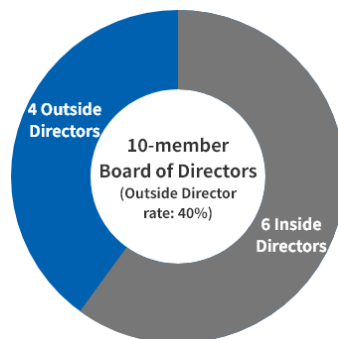
To ensure rapid implementation of management decision-making, we have set the maximum number of Directors at 10, and are working to further strengthen our supervisory functions so that all decisions regarding important operational issues are made based on the rules and policies of the Board of Directors, in accordance with the law and the Articles of Incorporation.

### ◆ Board of Directors Outline (14 meetings in FY2023)

Meeting Chair	The President	
Number of Board Members	10	Outside Directors now comprise over 1/3 of the Board of Directors.
Meeting frequency	In principle, once a month	We also convene ad hoc Board of Directors meetings according to need.
Term of Board Members	1 year	We limit terms to 1 year in order to clarify the management responsibilities and roles of each Board Member.

### ◆ Board Member breakdown (As of 2024-06-27)

	Males	Females	Total
Inside	6	0	6
Outside	3	1	4
<b>Total</b>	<b>9</b>	<b>1</b>	<b>10</b>



### ◆ Top Matters Discussed by the Board in FY2023

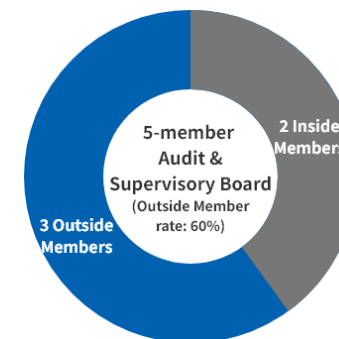
Management strategy, business plan, financial strategy, closing-related matters, HR-centered discussions, business unit strategies, strategies and progress checks on key groupwide issues

## Audit & Supervisory Board

Our Audit & Supervisory Board consists of five members, three of whom are outside and two of whom are full-time inside, with one of the latter serving as chair. In line with the audit policies, methods, plans, and division of roles determined by this board at the start of every new period does each member join key meetings, including those of the Board of Directors, review important documents, and, through assessing business execution conditions, audit and supervise the performance of Director duties from an independent standpoint. The two full-time members join management meetings and other such meetings of importance, and audit the overall management situation, Board Member performance and Executive Director performance, through conducting site visits, hearings, and reviews of meeting minutes and other key documents for all main divisions, workplaces and group subsidiaries. The non-full-time members sit in on Audit & Supervisory Board meetings to receive the aforementioned audit status reports, accompany full-time members on site visits, and participate, as appropriate, in information-exchange sessions with the Audit Team of the Inside Audit Division and the Inside Control Management Division (in charge of compliance and risk management). In such meetings will these members offer advice and voice necessary opinions.

### ◆ Audit & Supervisory Board Member breakdown (As of 2024-06-27)

Inside (Full-time)	2
Outside	3



## Nominations & Remuneration Advisory Committee

The Nominations & Remuneration Advisory Committee is comprised of at least three Directors (the majority being those who are independent and from outside of the company) selected by the Board. The aim is to further enhance corporate governance by enhancing the fairness, transparency and objectivity of the procedures relating to the nomination and remuneration of Directors. This committee deliberates the selection, dismissal and remuneration (e.g. remuneration structure) of Directors and Audit & Supervisory Board Members, the selection and dismissal of Representative Directors, and other matters deemed necessary by the Board in response to Board inquiries. Committee findings are reported to the Board.

### ◆ Nominations & Remuneration Advisory Committee Outline (6 meetings in FY2023)

Committee Chair	The President	Committee chairman selected based on a vote of the Board of Directors
Number of members	6	4 Outside Directors, 2 Inside Directors

### ◆ Top Matters Discussed by the Nominations & Remuneration Advisory Committee in FY2023

HR-related regulations, director remuneration, director personnel affairs, human capital management

## Executive Directors Meeting

This meeting is chaired by the company president, and is composed of the (up to 30) Executive Directors in charge of operational execution who are appointed by the Board. The meeting sees Executive Directors report on the status of operational execution entrusted to them by the Board and company president, as well as on other necessary items. These meetings are additionally attended, in an observer capacity, by four (4) Outside Directors and five (5) Audit & Supervisory Board Members.

### ◆ Breakdown of the 26 Executive Directors (as of June 27, 2024)

Male	Female	Total
24	2	26

## Sustainable Management Meeting

> [System](#)

## List of Committees

> [Ethics Committee](#)

> [Risk Management Committee](#)

### ◆ Number of Meetings Held by Each Committee

> [Number of Meeting Held by Each Committee](#)

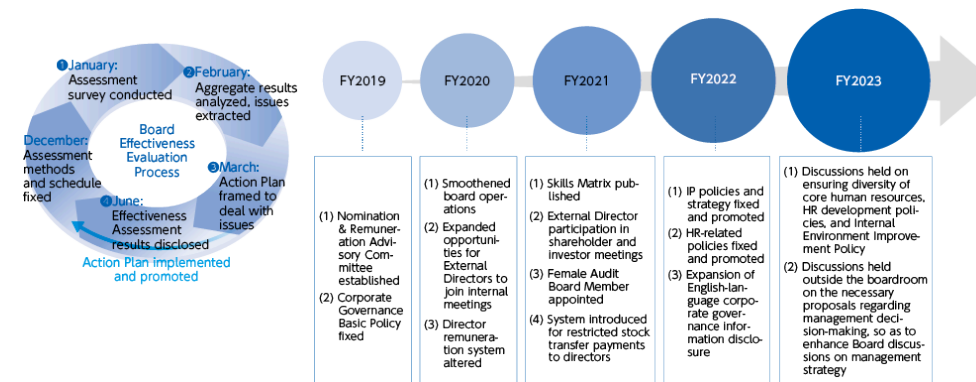
## Indicators

Key sustainability issues	Corresponding SDGs	Action plans	Indicators (KPI)	FY2025 Targets	Results		FY2023 Initiative-related Topics
					FY2022	FY2023	
Strengthening Corporate Governance		<ul style="list-style-type: none"> <li>Strengthen corporate governance of the entire group and manage in a highly transparent and sound manner</li> </ul>	Number of times that the assessment on the effectiveness of the Board of Directors meetings is evaluated	Once per year	1	1	<ul style="list-style-type: none"> <li>We have set up a Board of Directors Effectiveness Evaluation Survey, grasped the current situation, extracted relevant issues and devised an action plan as part of current improvement efforts.</li> <li>Female independent outside board member selected.</li> </ul>
			Number of times inside business audits are performed by the Audit Division	60 times in four years	22	17	<ul style="list-style-type: none"> <li>Female Standing auditor selected.</li> <li>Human Resources Development Policy and Inside Environment Preparation Policy established.</li> </ul>

## Initiatives

### Board of Directors Effectiveness Evaluation

Our improvement cycle involves conducting an annual Board of Directors Effectiveness Evaluation to grasp the current state of affairs, extract key issues, and devise a relevant Action Plan.



Initiatives set up in FY2023
(1) Discussions on ensuring diversity in core human resources, HR Development Policy, and Inside Environment Improvement Policy Fixing of HR Development Policy and Inside Environment Improvement Policy
(2) Actions to further improve Board of Directors discussions on management strategy Making proactive use of IT tools to present every Board Member with explanatory materials on proposals in a rapid and appropriate manner
Evaluation Results and Initiatives Going Forward
Our FY2023 analysis and evaluation revealed relative improvements in evaluation scores for the areas targeted in existing Action Plans. Overall, the Board of Directors was confirmed to be effectively fulfilling its roles and responsibilities. However, despite the March 2023 release of the HR Development Policy and Inside Environment Improvement Policy, the evaluation concluded that discussions over human capital management needed to continue, and in greater depth than before.
Action Plan for FY2024
(1) Enhancing discussions and monitoring of human capital policies, including those ensuring the diversity of core human resources, the HR Development Policy, and the Inside Environment Improvement Policy.
(2) Enhancing discussions on measures and monitoring focused on business portfolio strategy and PBR improvement.

Outside Directors Discussion Forum

## Director Remuneration

The 149th Ordinary General Meeting of Shareholders on August 30th 2006 saw Nippon Kayaku determine annual upper limits of director (board member) remuneration at 360 million yen for fixed remuneration and 200 million yen for bonuses. As of the end of that AGM, the Board was comprised of eight members, with zero Outside Directors. The 164th Ordinary AGM of June 25th 2021, meanwhile, saw a 100-million-yen annual limit voted through on Restricted Stock Transfer Monetary Remuneration, applying to the relevant directors and running separately to existing director remuneration arrangements. As of the end of that AGM, the Board was comprised of 9 members, of which three were Outside Directors.

The 149th Ordinary AGM also set annual limits on Audit & Supervisory Board Member remuneration at 90 million yen. There were five Audit & Supervisory Board Members as of the end of that meeting.

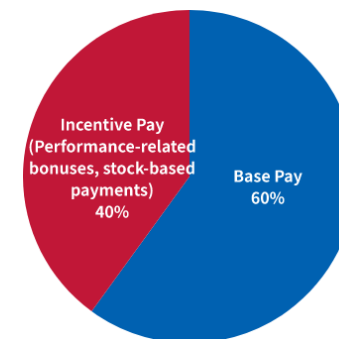
To ensure the appropriateness of matters discussed and transparency in the decision-making process, the Nomination & Remuneration Advisory Committee - the majority of whose members is comprised of independent Outside Directors - deliberates matters relating to the Director remuneration in response to inquiries from the Board of Directors, and reports back to the Board. Such a process enabled the Board Meeting of June 25, 2021 to finalize Nippon Kayaku's policy regarding the individual Director remuneration.

With a view to achieving our **KAYAKU spirit** corporate vision, in addition to sufficiently functioning as an incentive to sustainably improve corporate value and share that value with shareholders, Director remuneration shall also be structured at a competitive level to help us secure excellent personnel. Specifically, Director remuneration pertaining to the execution of business activities shall consist of basic remuneration and incentive remuneration (performance-linked bonuses and stock remuneration). The remuneration of Outside Directors, with their standpoints independent from business execution, shall be limited to basic remuneration in view of their responsibility.

The amount of basic remuneration for Directors involved in executing business activities shall be determined according to the total standard amount for each objective element, such as their duties and rights to act. This amount shall be paid in the form of monetary remuneration on a monthly basis.

### ◆ Remuneration Structure

The ratio of remuneration by type for Directors involved in executing business shall be roughly 60% for basic remuneration and 40% for incentive remuneration, and shall be determined based on the Director's position, responsibilities and other factors. Regarding decisions on the content of individual remuneration for Directors, the Nominations & Remuneration Advisory Committee will consider a draft from various perspectives, such as consistency with overall policy direction, and report back to the Board. The Board then deliberates the Committee's report and decides the content of individual Director remuneration. Audit & Supervisory Board Member remuneration shall be limited to fixed remuneration in view of their responsibility to monitor the execution Director duties, with the amount to be determined through discussions with those Members within the yearly remuneration limit range.



### ◆ Performance-related Remuneration

The performance-linked bonuses of individual Directors involved in executing business activities shall be based on the degree of achievement with regards to current financial year targets, the average rate of change of consolidated operating profit over the past three fiscal years, the degree of achievement of Medium-term Business Plan ROE targets, business results of the departments for which they are responsible, and the degree of achievement of mid-to long-term key-issue targets. These bonuses shall be paid in cash at a fixed time following the end of every fiscal year.

The reasons for selecting these business results indicators are: to heighten awareness of both the need for short-term result improvements with respect to consolidated operating profit, and the need for Medium-term Business Plan targets and sustainable business results to be achieved through our focus on an ROE of 8% of above. Directors involved in executing business activities shall be awarded transfer-restricted stock, with a fixed transfer-restriction period attached, at a certain time every year. The aim is to motivate Directors to contribute to improving mid-to long-term corporate and shareholder value under the wider aim of sharing value with shareholders. Monetary remuneration credits equivalent to the stock remuneration and the number of shares to be awarded shall be determined based on the Director's position and responsibilities, as well as our stock price and other factors.

[> Director Remuneration](#)

## Cross-shareholdings Policy

### ◆ Policy on Cross-shareholdings

Nippon Kayaku's shareholding purposes can be divided into two categories: stock investments for net investment purposes, and stocks held for purposes other than net investment. The former refers to investments made in order to derive gains from changes in share value or dividends, while the latter refers to stocks held for other purposes.

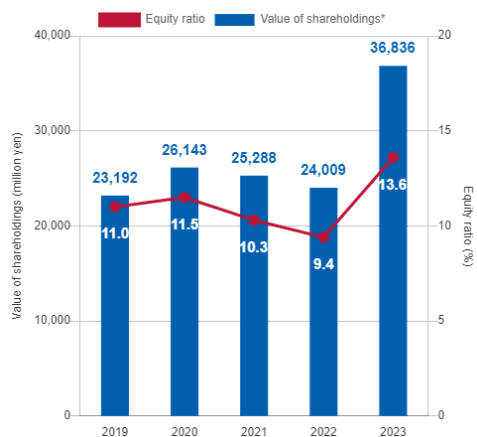
### ◆ Examination of Shareholding Suitability

Nippon Kayaku invests in cross-shareholdings from the standpoints of improving medium-to-long-term corporate value, and maintaining and strengthening relationships with our customers. Each year sees individual cross-shareholdings examined by the Board of Directors from medium-to-long-term corporate value perspectives. Cross-shareholdings deemed no longer necessary are, with due consideration given to market impact, consequently sold off.

> [Securities Report \(The Shareholding Situation\) \(Japanese\)](#)

### ◆ Shift in Cross-Shareholdings Policy

As mentioned above, Nippon Kayaku invests in cross-shareholdings from the standpoints of improving medium-to-long-term corporate value, and maintaining and strengthening relationships with our customers. Each year sees individual cross-shareholdings examined by the Board of Directors from medium-to-long-term corporate value perspectives. Cross-shareholdings deemed no longer necessary are, with due consideration given to market impact, consequently sold off. The equity ratio of cross-shareholdings for FY2023 was 13.6%, some 4.2 percentage points up on FY2022.



\* Total value of unlisted and not-unlisted stock