

Corporate Governance / Compliance

Corporate Governance

Basic Concept

Nippon Chemi-Con's basic concept of corporate governance is to ensure the transparency and efficiency of management for shareholders and all other stakeholders. In addition to legal functions such as General Meeting of Shareholders, the Board of Directors, the Audit & Supervisory Board, and Accounting Auditor, the company established the internal control systems, and continuously provided information on business conditions through briefing session on financial results and timely disclosure to implement sound, efficient and transparent corporate management.

Our Corporate Governance System

Nippon Chemi-Con is a company with an Audit & Supervisory Board. The company has introduced an executive officer system in the company since June 2014 in order to have a distinct separation between inspection and supervision of management and execution of operations. The company concurrently reduced the number of directors but appointed one outside director to strengthen the function of inspecting and supervising management. In June 2015, the number of outside directors was increased to two to reinforce the function.

Additionally, to supplement the function of the Board of Directors, in November 2015 we established a Nomination Advisory Committee and a Compensation Advisory Committee. For both the Nomination Advisory Committee and the Compensation Advisory Committee, the chairperson is an

independent outside director and the majority of members are independent outside directors.

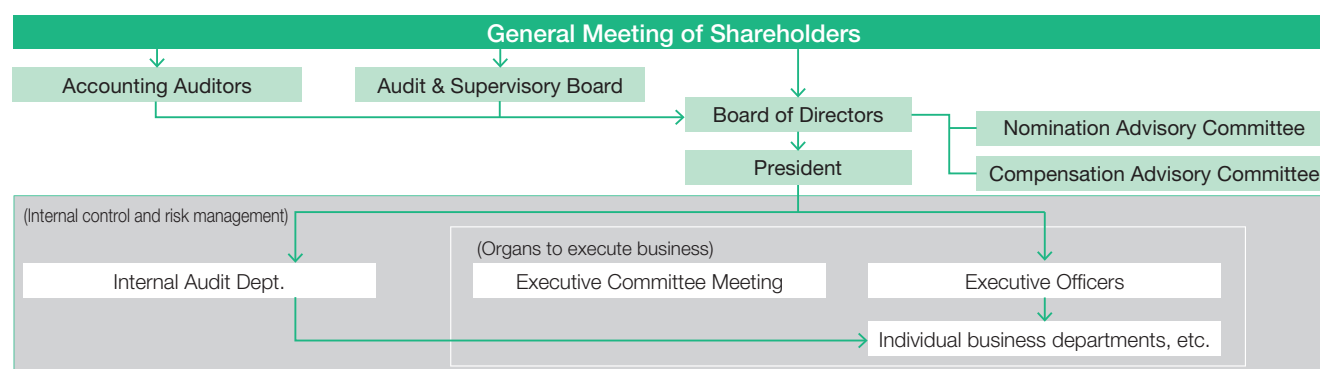
Our Audit & Supervisory Board comprises four members. The board audits decisions made by directors and operational executions carried out by executive officers, the business and financial positions of Nippon Chemi-Con and its subsidiaries in Japan and overseas.

Business Supervision and Audit Function

Nippon Chemi-Con uses an executive officer system to separate the business monitoring and supervision function and the business execution function of company directors in order to strengthen the business monitoring and supervision function of directors.

The Audit & Supervisory Board monitors the state of governance and business management, and also monitors daily business activities, including the activities conducted by directors. Specifically, Audit & Supervisory Board Members working under guidelines outlined in auditing policies and audit plans created by the Audit & Supervisory Board attend board of directors meetings and conduct factory visits to investigate and validate the status of work implementation and business management, and conduct audits to determine the existence of circumstances that violate laws or the Articles of Incorporation, or that could harm the interests of shareholders and other stakeholders. In addition to Audit & Supervisory Board Members fulfilling a role as a legal entity, we also have established the internal audit department which reports directly to the company president. The internal audit department works to strengthen monitoring functions for transactions and other general business activities. The internal audit department

Details of the Corporate Organs



Board of Directors	Nippon Chemi-Con's Board of Directors comprises six members. The Board of Directors with this small number has enabled to make swift decisions and appointed two independent outside directors who are disinterested in the company to reinforce the function of inspecting and supervising management.
Executive Officer System	Nippon Chemi-Con has introduced an executive officer system to make separation between the function of the Board of Directors' decision making in management and of directors' inspecting and supervising operations and the function of executive officers' executing operations. Executive officers swiftly execute operations based on decisions in management by executing matters determined by the Board of Directors.
Audit & Supervisory Board	The Audit & Supervisory Board inspects the state of the corporate governance, the steering situations, and daily activities in management including those performed by directors.
Nomination Advisory Committee	The Nomination Advisory Committee consult with other members about the content of a draft to be proposal to a General Meeting of Shareholders concerning selection and dismissal of directors and members of the Audit & Supervisory Board and the content of a draft to be proposed to the Board of Directors concerning selection and dismissal of executive officers. Such consultations are conducted prior to determination of such proposals in light of the "Standards for Selection of Directors and Executive Officers" and the "Standards for Selection of Members of the Audit & Supervisory Board" set by the company, the conclusions of which are recommended to the Board of Directors.
Compensation Advisory Committee	The Compensation Advisory Committee consult with other members about matters concerning compensation of directors and executive officers and expenses opinions and advice to the Board of Directors. Such consultations are conducted after the committee considers the business scale and levels of compensation of employees of the company, and decent third party's study conducted periodically on compensation of corporate management, etc. in addition to levels of compensation of other competitors, socio-economic conditions, etc.
Executive Committee Meeting	Nippon Chemi-Con has established the Executive Committee Meeting for making swift decisions. The committee, which is the consultation organ on operational execution policies, holds weekly meetings, in principle, in order to examine important subjects in management.

conducts regular internal audits of management systems related to all aspects of business and provides detailed advice and recommendations aimed at improvement of work processes and reinforcing compliance.

Selection of Outside Officers

Of the six directors of Nippon Chemi-Con, two are outside directors. Also, of our four Audit & Supervisory Board Members, two are outside Audit & Supervisory Board Members.

In addition to the parameters outlined in the Companies Act, we established our own "Criteria for appointment of outside officers that ensure independence from Nippon Chemi-Con" to ensure highly-independent audits and supervision by our outside officers. Outside officers are selected based on these standards.

All four outside officers are registered with the Tokyo Stock Exchange as independent officers.

Officer Compensation

Compensation for Nippon Chemi-Con directors is designed and managed as a system that is both linked to

performance and investor long-term income and to the promotion of personnel growth and development. Our basic policy is to achieve an appropriate and fair balance that further increases director motivation toward maximizing corporate value.

For the purpose of enhancing the independence and objectivity of functions related to determining directors' compensation, we establish a Compensation Advisory Committee to deliberate on matters related to directors' compensation, after which a decision is made by the Board of Directors.

Furthermore, compensation for executive directors is comprised of monthly compensation and performance-linked compensation, which is determined based on company performance for the given fiscal year and individual performance. As performance-linked compensation is not appropriate for non-executive directors and outside directors, their compensation consists solely of monthly compensation.

Compensation for Audit & Supervisory Board Members is monthly compensation only, which is determined as individual fixed compensation based on deliberations by Audit & Supervisory Board Members.

Officer category	Total compensation (million yen)	Total compensation by type (million yen)		Number of applicable officers
		Base compensation	Bonus	
Directors (excluding outside directors)	133	133	—	4
Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members)	43	43	—	3
Outside officers	36	36	—	4
Total	213	213	—	11

(For the fiscal year ended March 31, 2018)

Compliance

Compliance Promotion System

In addition to our Compliance Regulations, the Nippon Chemi-Con Group has established various internal regulations related to compliance and appoints a managing compliance officer (executive officer in charge of the Nippon Chemi-Con Administration Department) as the chief officer in charge of compliance promotion and enforcement. This chief compliance officer oversees a compliance committee, which works to draft compliance policy that is applied to the entire Group, draft action plans related to compliance, and conduct monitoring of implementation progress for these initiatives. Each department in Nippon Chemi-Con and Group company has assigned a compliance officer and compliance staff, who work to promote and reinforce policy related to compliance.

Initiatives for enhancing education & training to ensure compliance with laws including competition laws

As part of our CSR activities, Nippon Chemi-Con conducts compliance training covering matters such as competition laws and insider trading regulations. Training is conducted at every level, from new hires (including mid-career hires) to management. We teach employees that compliance is a prerequisite in all corporate activities. We also provide education to each Nippon Chemi-Con department and

subsidiary to ensure and reinforce awareness of Nippon Chemi-Con Group Business Conduct Guidelines. These and other compliance education and awareness activities are conducted on a Group-wide level.

One initiative related to ensuring compliance with competition laws is to invite external lecturers (attorneys) to hold competition law seminars. At the same time, we drafted the Basic Policies Concerning Compliance with Competition Laws and other internal regulations, manuals, etc., which are applied to internal audits conducted by the legal affairs department every year.

Whistleblowing Help Desk

The Nippon Chemi-Con Group has established "Regulations Related to the Handling of Whistleblowing," through which we established a consultation desk and whistleblowing help desk for employees (Nippon Chemi-Con in-house standing statutory member of the Audit & Supervisory Board and Administration Department manager) as part of a system for ensuring the early discovery and prevention of legal infractions and to protect whistleblowers. During compliance training, we explain the importance and effectiveness of whistleblowing to promote awareness about the whistleblowing system. The legal affairs department (Nippon Chemi-Con Administration Department) serves as the point of contact for legal consultations related to daily operations and works to prevent compliance risks.