



Governance

The ADEKA Group, under its management policies based on “Contributing to society through our business” and “Realizing harmony and co-prosperity with society,” strives to meet the expectations and demands of society and consistently enhance its brand and corporate value by reinforcing its corporate governance and rigorously managing compliance.

Corporate Governance

•Basic Stance on Corporate Governance

The ADEKA Group recognizes that reinforcing its corporate governance is a top management priority for realizing its corporate mission and management policies and for achieving sustainable growth and enhancing its mid- to long-term corporate value.

•Corporate Governance Structure

ADEKA believes that a decision-making process centered on consultation by the board of directors and a corporate governance structure with an audit and supervisory board provide the optimal system for effective management. The company has also introduced a corporate officer system to clearly define the responsibility and authority involved in operational execution, accelerate decision making, and efficiently manage business operations.

Key management issues are determined by the board of directors following deliberation by the Management Committee, comprising full-time directors and corporate officers. This ensures the transparency, sufficiency, and validity of decision making as well as mutual oversight between directors and corporate officers.

The 11 members of the board include 2 independent


external directors who offer advice on achieving sustainable growth and enhancing corporate value over the mid- to long-term while also overseeing management from an independent, objective standpoint.

The 5 corporate auditors include 3 independent external members of audit and supervisory board who objectively oversee the execution of operations by directors.

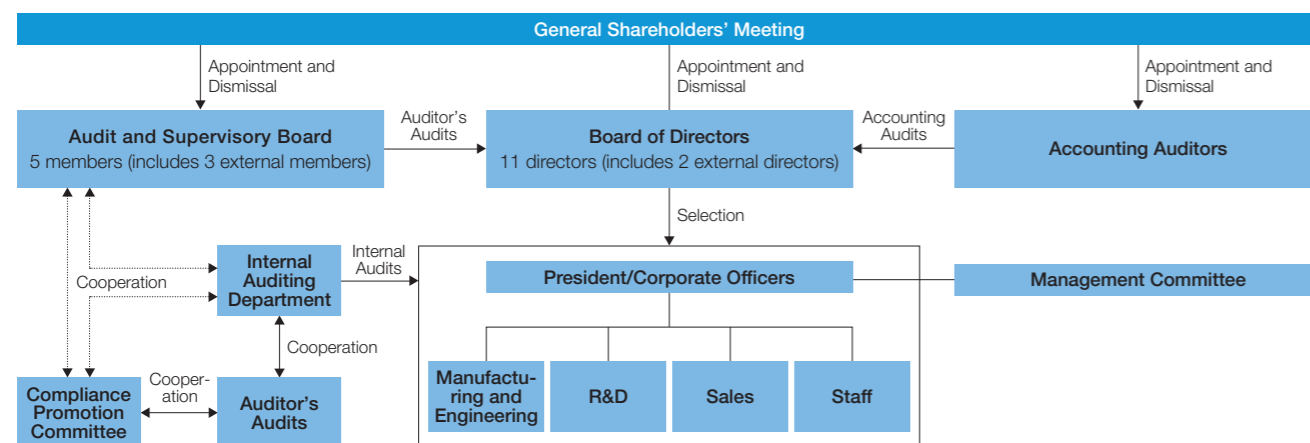
•Compliance with Corporate Governance Code

In consideration of the intent and purpose of the Corporate Governance Code, adopted in June 2015, the ADEKA Group Corporate Governance Guidelines were laid down in order to raise the level of governance across the Group by constructing a highly effective system of corporate governance. This allows each organizational entity, including the board of directors and the audit and supervisory board, as well as executives and employees, to fulfill their respective roles.

The ADEKA Group will aim for sustainable growth through the practical application of these guidelines to realize transparent, fair, speedy, and bold management.

 [ADEKA Group Corporate Governance Guidelines](http://www.adeka.co.jp/ir/library/pdf/cgg.pdf)
<http://www.adeka.co.jp/ir/library/pdf/cgg.pdf>
 (in Japanese only)

► Overview of Corporate Governance as of June 30, 2017



•System for Providing Information and Support to External Officers

The ADEKA Group has established a support system for external officers so they can deepen their understanding of the Group's business activities and make accurate decisions.

Soon after officers are appointed, the Group holds an orientation session on the Group's businesses and financial conditions and organizes tours of its facilities as needed. Reference materials for meetings of the board of directors are distributed and important issues are explained by the



External officers inspecting a Group company in China

secretariat in advance to ensure that external officers are fully briefed and can engage in constructive discussion.

In fiscal 2016, the external officers visited 5 Group companies in China and inspected the business management and operational status of production facilities at each company. They also toured the planned site for construction of the head office and plant of ADEKA FINE CHEMICAL (ZHEJIANG) Co., Ltd., a newly established subsidiary. The visits provided deeper insight into overseas business activities, a current focus of the ADEKA Group.



External officers touring the planned site of a plant in China

VOICE

Seeking Sustained Enhancement of Corporate Value

Kazuyuki Nagai
External Director



Companies are expected to comply with external laws and regulations including corporate governance code and stewardship code, establish a governance system, and effectively respond to any issue that may arise. And so they must also clearly confirm their basic management strategies and secure an effective governance system for pursuing those strategies.

ADEKA aspires to be a company that fulfills its social responsibilities while seeking to sustainably enhance its corporate value. To this end, the company must ensure that its board of directors and executive system are capable of implementing business strategies for achieving the sustained long-term enhancement of its corporate value, overseas business development, and M&A and focus on core competence. At the same time, ADEKA should raise company-wide awareness of the need to fulfill social responsibilities that are associated with doing business and required by society.

I intend to firmly fulfill my expected role as an external director to establish such a governance system.

VOICE

Bolstering Sound Management

Hironori Yano
External Director



Companies that genuinely want to contribute to society must uphold their corporate and management principles and maintain a long-term outlook of the bigger picture.

Sound management is evidenced by sound financial results, assets, and credit. The long-term future of a company depends on its social credibility that cannot be quantified. Increased credibility is reflected in business performance, creating a positive management cycle that ensures soundness.

To win the trust of company stakeholders, ADEKA must present its future direction and pursue ethical management, which is synonymous with its goal of becoming a sound company. Trust is earned in small steps and facilitated by a high sensitivity to information from a group and global perspective, as well as timely actions taken onsite.

In the years ahead, I hope to put my experience to use and fulfill my responsibilities as an external director to bolster sound management and enhance corporate value.

Compliance

•Basic Stance on Compliance

The management policies of the ADEKA Group make it possible to effectively respond to changes in the social and managerial environment. They are intended to realize sound management and harmony with international society by sufficiently protecting the interests of stakeholders. Such management policies and corporate missions are the essence and origin of compliance.

The ADEKA Group's compliance management is intended to fulfill public expectations and demand through the provision of new value that is useful in resolving social issues by providing high-quality products and services created using ADEKA's unique technologies and through actively communicating with stakeholders as well as engaging in social contribution activities.

•System for Promoting Group Compliance

The Compliance Promotion Committee meets four times a year to manage and monitor compliance at ADEKA. A system for instilling the Basic Compliance Policy across the company and swiftly collecting information have been established by appointing Compliance Leaders in each section. Also, representatives and compliance officers of major Group companies meet twice a year for the Group Compliance Conference.

Every 2 years, the company carries out a survey on compliance awareness, targeting all executives and employees of major Group companies, and uses the survey results to improve activities in a united Group effort to rigorously enforce compliance.



Training for Compliance Leaders

•Strengthening Group Compliance

The ADEKA Group seeks to raise awareness of compliance by conducting training for each job position and workplace. At the Global Accounting Staff Meeting in September 2016, 27 local managers from 16 overseas Group companies gathered to heighten their knowledge of the Group's management policies and mid-term management plan, CSR, compliance, and prevention of bribery. The introduction of e-learning has made it possible for

employees to acquire knowledge on laws and compliance in greater detail. A total of 2,487 employees attended courses on topics including information management, trade control, competition law, anti-bribery regulations, and patents.

The company also organized harassment training for managers and workplace training at Group companies to raise awareness of and prevent harassment.



Global Accounting Staff Meeting

•Preventing Bribery

In response to tightened regulations against bribery in and outside of Japan, we formulated the ADEKA Group Anti-Bribery Guidelines in Japanese, English, and Chinese and encouraged greater understanding among Group companies by organizing conferences and distributing DVD tutorials. Employees are required to obtain permission before entertaining or giving gifts and must submit a report afterward. Once a year, ADEKA assesses the risks of corruption in Group companies overseas and formulates measures for improvement through PDCA cycles.

•Operational Status of System for Reporting Compliance Issues

The ADEKA Group has maintained an internal reporting system since 2003. Also, the web-based service, D-Quest Helpline, is now more widely known, resulting in nine reports in fiscal 2016, the highest number since the system was introduced.



Poster promoting compliance and internal reporting system

▶Number of Internal Reports

Fiscal Year	2012	2013	2014	2015	2016
Reports	1	7	3	4	9

Risk Management

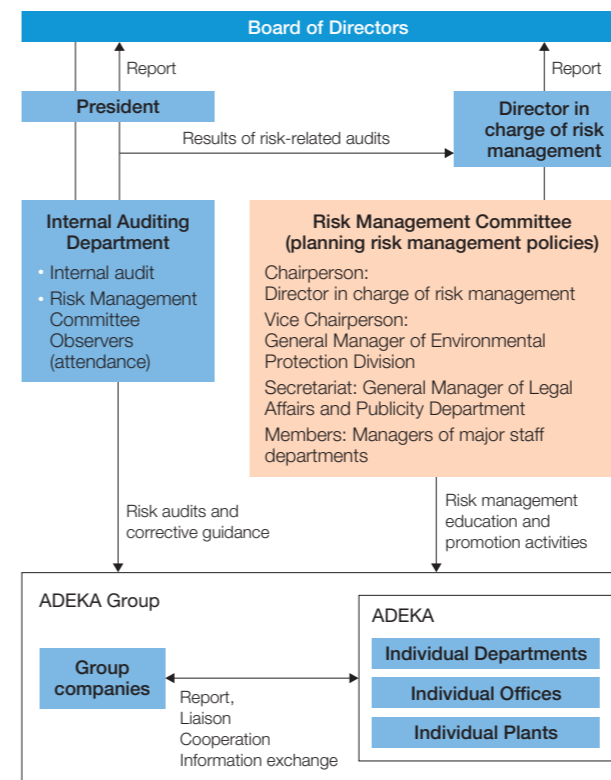
•Basic Stance on Risk Management

As business risks increase in the management environment, the ADEKA Group has sought to prevent risks from materializing and to minimize damage in the event they do materialize. It has done this by outlining a system for managing risks under normal operating conditions in the ADEKA Group Risk Management Manual in a focused effort on prevention and countermeasures.

•Risk Management System

The Risk Management Committee, led by managers of the staff departments in the head office, regularly meet to formulate and manage the Basic Risk Management Policy.

▶Overview of Risk Management



•Risk Identification

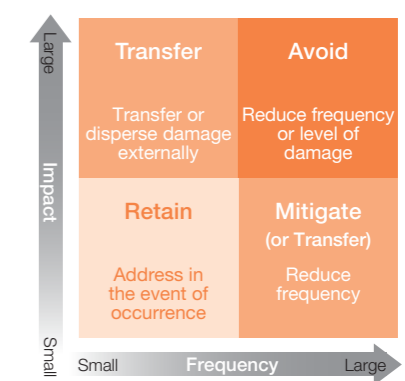
We conduct annual risk assessment surveys of all department and office managers concerning the frequency and impact of risks. Risks are mapped and countermeasures are discussed by subcommittees of the Risk Management Committee. In fiscal 2016, risks related to earthquakes, infectious diseases, information management and security, and BCP were addressed by the respective subcommittees.

〈Theme Selection Method〉

A risk map is created from the results of the survey, and

the area in which the level of damage and impact is above 3 and level of frequency is above 2 is designated as a high-risk zone. Themes that should be addressed by the Risk Management Committee are selected from among the priority issues.

▶Selection of Countermeasures



•Crisis Management

The ADEKA Group Risk Management Manual also sets the framework and workflow that enable each section and Group company to work in concert for quick and effective emergency response.

In addition, ADEKA has published and distributed an Emergency Public Relation Manual with the aim of minimizing the loss of credibility in the event of any scandal, including incidents and accidents happened in the ADEKA Group.

•Business Continuity Management

The BCMS Committee takes the initiative on business continuity management for minimizing any damage to business assets and enabling the continuation or early recovery of business activities in the event of an emergency.

•Strengthening Information Security

ADEKA revised its Internal Information Management Regulations and established the Trade Secret & Confidential Information Protection Manual in 2015. It has been rigorously implementing information management and security measures under the regulations. To enhance employee knowledge and awareness, an external lecturer was invited by the company to conduct a seminar on information security in April 2016, and 544 employees attended.



Information security seminar