Governance

The ADEKA Group, under its management policies of “Contributing to society through our business” and “Realizing harmony and co-prosperity with society,” strives to meet public expectations and demand. At the same time ADEKA Group is consistently enhancing its brand and corporate value by reinforcing its corporate governance and rigorously managing compliance.

Corporate Governance

Basic Stance on Corporate Governance

The ADEKA Group places a top priority on the strengthening of corporate governance in order to realize its mission and management policies as well as achieve sustainable growth and enhance its mid- to long-term corporate value. Based on the audit and supervisory board system adopted under its management system, the company is strengthening its governance systems through efforts such as the appointment of independent external directors, introduction of the executive officer system and appointment of independent external directors, and realizing its mission and management policies as well as its governance systems through efforts such as the introduction of the executive officer system and establishment of Management Committee.

Strengthening Corporate Governance

In accordance with the ADEKA Group Corporate Governance Guidelines, the ADEKA Group is constructing a highly effective system of corporate governance that 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.

Internal Control System

ADEKA has established an internal control system that allows management to properly manage company operations and assets. The Internal Control Promotion Committee is in charge of developing, operating and overseeing the internal control system based on the Companies Act and adequate financial reporting procedures based on the Financial Instruments and Exchange Act.

Overview of Corporate Governance as of June 30, 2019

Compliance with Corporate Governance Code

The Financial Services Agency and the Tokyo Stock Exchange, Inc. introduced Japan’s Corporate Governance Code (CGC), which establishes fundamental principles for effective corporate governance at listed companies. ADEKA operates a CGC Promotion Committee that meets on a quarterly basis to discuss the following matters:

1. Study of measures to strengthen corporate governance
2. Review of the ADEKA Group Corporate Governance Guidelines
3. Matters disclosed in the Corporate Governance Report
4. Review of the implementation status of ADEKA’s governance based on the CGC and the Guidelines
5. Review of the latest trends in corporate governance, and based on input from institutional investors

In order to comply with revisions to the CGC that were introduced in June 2018, the ADEKA Group Corporate Governance Guidelines were revised in November 2018.

Assessment of the Effectiveness of the Board of Directors

ADEKA conducts an analysis and assessment of the effectiveness of the board of directors at the end of each fiscal year and discloses a summary of the results. All directors and auditors are asked to complete a self-assessment questionnaire on the level of active discussions and strategic decision making and supervision functions of the board of directors. An assessment/analysis is made at a meeting attended only by the external directors and external audit & supervisory board members (collectively “External Officers”) based on the aggregated results from the questionnaire.

FY2018 Assessment Result

- The board of directors is adequately and efficiently managed.
- Stronger supervision is needed over corporate governance and compliance of Group companies, including those of overseas, to regularly monitor the progress and results of the mid-term management plan and large-scale investment projects, and deepen the discussions on issues that need to be addressed.

Incentive Compensation for Directors

ADEKA’s incentive compensation for directors is introduced as a medium- to long-term incentive in June 2017.

Providing Information and Support to External Officers

The ADEKA Group continues striving to improve its support system for external officers so that they can deepen their understanding of the Group’s business activities and make sound decisions.

The ADEKA Group holds an orientation session on its businesses and financial position and organizes field tours. Before the Board of Directors’ meetings, reference materials and overviews on important issues are provided by the secretariat to ensure that external officers are fully briefed and can engage in constructive discussion.

Audit Framework

ADEKA operates under a corporate auditor system, with a five-person Audit and Supervisory Board that includes three independent external auditors. All auditors attend the Board of Directors’ meeting, while full-time auditors also attend meetings of the Management Committee. Full-time auditors also attend important meetings in an observer capacity, including meetings of the CGC Promotion Committee, Compliance Promotion Committee, Internal Control Promotion Committee, and Risk Management Committee. This enables the full-time auditors to audit all aspects of the business.

The attendance rate by external auditors at the 17 Board meetings convened in fiscal 2018 was 96%. The attendance rate by external auditors at the six Audit and Supervisory Board meetings convened in fiscal 2018 was 100%.

Respect for Human Rights

The ADEKA Group intends to create a society that respects the rights and diverse values of all stakeholders involved in our business activities. We are making every effort to promote respect for the basic human rights of all stakeholders, including customers, business partners, local communities and employees. In order to eliminate any violations of human rights, such as child and forced labor, in the Group or by the domestic and overseas supply chain.
Compliance

Basic Stance on Compliance

The management policies of the ADEKA Group support the effective response to changes in the social and managerial environment. They are intended to realize sound management and harmony with international society by sufficiently protecting stakeholders' interests. The Group’s compliance management is intended to fulfill public expectations and demand through the provision of new value that is useful for addressing 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 quarterly to manage and monitor compliance at ADEKA. A system for instilling the Basic Compliance Policy across the company and swiftly collecting information has been established by appointing Compliance Leaders in each section. In addition, representatives and compliance officers of major Group companies meet twice a year for the Group Compliance Conference. Also, the company conducts a survey on compliance awareness biannually, targeting all executives and employees of major Group companies. Survey results are used to improve activities in a united Group effort to enforce compliance rigorously.

Compliance Education

ADEKA implements compliance education and training for a broad spectrum of employees, using a combination of e-learning courses, job-specific training, education on specific subjects, and education specific to laws and regulations. In fiscal 2018, ADEKA focused on implementing compliance leader training*1 and basic e-learning courses. Additionally, ADEKA conducted lectures on harassment prevention in December 2018, which were attended by 479 employees.

Strengthening Group Compliance

In fiscal 2018, the results from the 2017 compliance awareness survey were used to give feedback to the Group Compliance Council and the representatives and compliance managers of the Group companies through individual interviews. The feedback was reflected in each company’s fiscal 2018 compliance plan. ADEKA also conducted compliance leader training programs which encompass the representatives and compliance managers of the Group companies.

Operational Status of System for Reporting Compliance Issues

The ADEKA Group has maintained an internal reporting system since 2003, and it received eight reports in fiscal 2018. Users can provide information anonymously to prevent them from the negative repercussions of reporting non-compliance issues. Details about the cases and the actions taken are shared with auditors and outside legal counsel, and reported to the Board of Directors.

Preventing Bribery

The ADEKA Group is committed to combating bribery through employee training and risk assessment based on its Basic Policy of Prohibiting Bribery, related regulations, and the Anti-Bribery Guidelines. At the Global Administration Staff Meeting that was held in September 2018, English and Chinese translations of the revised Anti-Bribery Guidelines were distributed to personnel from overseas Group companies, and the companies were urged to strengthen their bribery prevention measures.

Seminar on Anti-Monopoly Act

Toshiaki Tada, an attorney with the Hibiya Sogo Law Offices, was invited to give a seminar on the Anti-Monopoly Act. Tada discussed the purpose and mechanisms of the legislation and described the sanctions and preventative measures against cartels and bid rigging, as well as precautions for implementing business tie-ups with competitors. The seminar was broadcasted to the branch offices through the teleconferencing system, with 185 employees attending the seminar.

Systemic issues in the ADEKA Group include cases in which international standards or local laws are excluded from conducting trade with that country. In the broadest sense, it includes cases in which international standards or the standards of a specific country raise ethical and social issues that in effect restrict the behavior of Japanese corporations, even if there are no legal measures against it.

Increasing Extraterritorial Application of Foreign Laws in Securing Compliance

The extraterritorial application of foreign laws is increasing. The narrow sense of extraterritorial application includes the direct application and enforcement of the laws of a given country against the actions and trade occurring in another country. In the broad sense, it means that companies that fail to meet the standards of the legal system of the other country are excluded from conducting trade with that country. In the broadest sense, it includes cases in which international standards or the standards of a specific country raise ethical and social issues that in effect restrict the behavior of Japanese corporations, even if there are no legal measures against it.

Broadly speaking, this is a risk management issue having to do with understanding different cultures and cross-cultural corporate ethics. These perspectives are necessary to embrace ESG factors at a deeper level.

As an external director, I will strive to foster such perspectives within the ADEKA Group.

Focusing on ADEKA’s Contributions to Society through Its Business

ADEKA’s commitment to contributing to society through its business is the very definition of CSR. This principle has been the focus of my attention, having served as an external director of ADEKA for almost a year. I hope that each employee will embrace this principle and take ownership of it by implementing it in their everyday activities.

The public is increasingly focusing on corporate social responsibility (CSR) and implementing it in their everyday activities. ADEKA and its Group companies are making a concentrated effort to practice corporate governance and are seeing results. Through its ongoing efforts to be an excellent company, ADEKA and its Group companies are enhancing their governance, which will further increase corporate value.

As an external director, I am always conscious of increasing corporate value and have given much thought to what I can do to increase ADEKA’s value over the medium- and long-term future. I will try to use my experience in the international community to help ADEKA take another step forward in its global business development.
# Risk Management

## Basic Stance on Risk Management
As business risks increase in the management environment, the ADEKA Group has been seeking prevention of the incidents and minimization of the damage thereof. This has been done by outlining a system for managing risks in the ADEKA Group Risk Management Manual focusing on prevention and countermeasure effort.

## Crisis Management
The ADEKA Group Risk Management Manual also sets the framework and workflow for enabling 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 within 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
In October 2018, an external lecturer, invited by the Information Management Subcommittee, conducted a seminar on information security to improve employee knowledge and awareness of information security, and 588 employees attended. To strengthen information security, the Information Security Policy and related regulations were also formulated and have been in effect since May 2018.

## Risk Management System
The risk management framework under regular circumstances is stipulated in the ADEKA Group Risk Management Manual.

The Risk Management Committee, which is chaired by the Director in charge of risk management and consists of managers of the staff departments in the Head Office, meets twice a year to formulate and manage the Basic Risk Management Policy.

Risk assessment surveys are conducted for the general managers of divisions and business locations. Information management, security and business continuity risks are mapped based on the frequency of occurrence and impact, and measures are studied.

*● Selection of Countermeasures*

<table>
<thead>
<tr>
<th>Transfer</th>
<th>Avoid</th>
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<tbody>
<tr>
<td>Transfer or disperse damage externally</td>
<td>Reduce frequency or level of damage</td>
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<thead>
<tr>
<th>Retain</th>
<th>Mitigate (or Transfer)</th>
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<tbody>
<tr>
<td>Address in the event of occurrence</td>
<td>Reduce frequency</td>
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## Theme Selection Method
A risk matrix is created using the survey, and the area in which the level of damage and impact is higher than 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 the priority issues.

*● Overview of Risk Management*

<table>
<thead>
<tr>
<th>Board of Directors</th>
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<tbody>
<tr>
<td>President</td>
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<tr>
<td>Results of risk-related audits</td>
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<tr>
<td>Director in charge of risk management</td>
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<table>
<thead>
<tr>
<th>Internal Auditing Department</th>
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<tbody>
<tr>
<td>Internal audit</td>
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<tr>
<td>Risk Management Committee: Observer in attendance: auditors, Internal Auditing Department</td>
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<table>
<thead>
<tr>
<th>Risk Management Committee (planning risk management policies)</th>
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<tbody>
<tr>
<td>Chairperson: Director in charge of risk management</td>
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<tr>
<td>Vice Chairperson: General Manager of Environmental and Safety Division</td>
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| Secretariat: General Manager of Legal Affairs and Publicity Department |
| Members: Managers of major staff departments |

<table>
<thead>
<tr>
<th>ADEKA’s Group</th>
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<tbody>
<tr>
<td>Group companies</td>
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<table>
<thead>
<tr>
<th>Report, Liaison, Cooperation, Information exchange</th>
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</thead>
<tbody>
<tr>
<td>ADEKA Departments: Individual Departments, Individual Offices, Individual Plants</td>
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