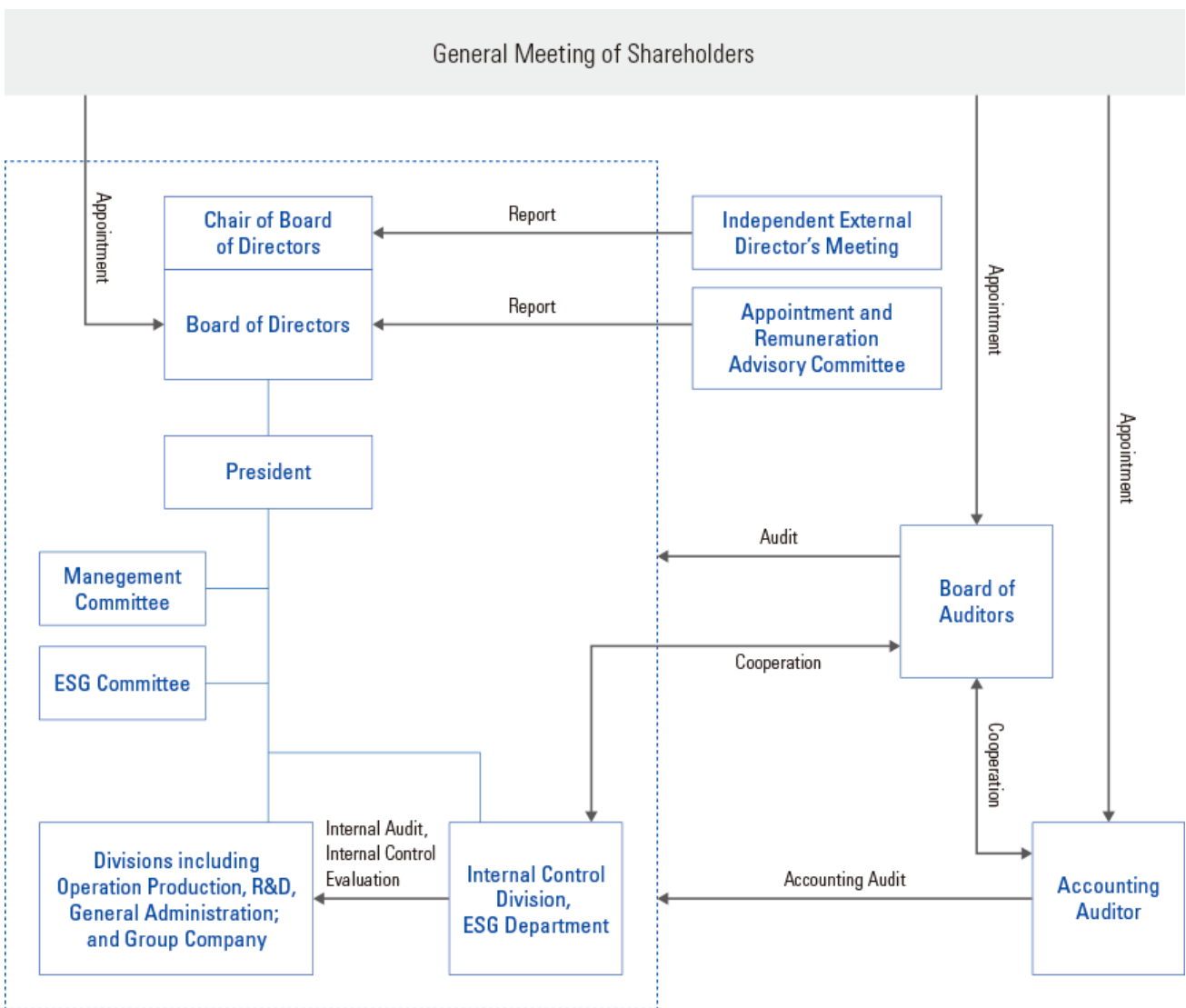


Corporate Governance

Basic Policy

Guided by our Corporate Philosophy, Kaneka aims to achieve sustainable growth, improve medium- to long-term corporate value, and build trust among all stakeholders, including shareholders, investors, customers, local communities, vendors, and employees, realizing optimum corporate governance to fulfill our social responsibility.

■ Diagram of Corporate Governance System



► Please see here for the Board of Directors.

Organizational Design

We currently have two independent external directors and two independent external auditors. Since both the overseeing of business operations by the Board of Directors and auditing by the Board of Auditors are functioning well, Kaneka has chosen to be a Company with Board of Auditors under the Companies Act.

Directors and the Board of Directors

The Board of Directors seeks to ensure efficient and effective corporate governance in order to realize the company's sustainable growth and increase corporate value in the medium to long term.

The Board of Directors exercises its oversight functions on overall management to ensure fairness and transparency, as well as to appoint management positions, evaluate and determine remuneration, evaluate serious risks and determine strategies to counter them, and make the best decisions on important business operations. The Board of Directors makes resolutions on important matters related to the management of the Kaneka Group after deliberation by the Management Committee, which includes the president. There are at most 13 members on the Board of Directors. Of these, two are independent external directors to strengthen the oversight function. Directors serve for a period of one year to clearly define management responsibilities.

Auditors and the Board of Auditors

Auditors and the Board of Auditors seek to ensure healthy and sustainable corporate growth and to establish a structure with good corporate governance that can gain social trust by checking on the performance of directors in regard to their duties.

The Board of Auditors comprises four members, two of whom are independent external auditors in principle, and performs audits in coordination with the Accounting Auditor and the ESG Department Internal Control Division's. Auditors are given space to periodically exchange views with the president, and monitor the state of business operations when necessary, by attending key meetings of the Board of Directors and those of the Management Committee, which decides on the implementation of important matters, as well as division head meetings.

Appointment and Remuneration Advisory Committee / Independent External Director's Meeting

The Appointment and Remuneration Advisory Committee discusses the remuneration of Directors and the appointment of Director and Auditor candidates to report to the Board of Directors. The Independent External Director's Meeting discusses the effectiveness of the Board of Directors to report to the Chair of the Board of Directors.

Implementation of Business Operations

Kaneka has adopted the executive officer system to harmonize the oversight function of directors with the implementation function of business operations, which also facilitates decision-making and clearly defines roles. The Board of Directors decides on key management strategies and business operations of the entire Kaneka Group, while executive officers assume responsibility for business operations. Division heads, including executive officers appointed by the Board of Directors, are given extensive authority over daily business execution. Monthly division head meetings are held to enable the directors and auditors to directly hear progress reports from each division head. The Internal Control Division of the ESG Department evaluates the effectiveness of internal control and conducts an internal audit.

Standards for Independence of External Directors/Audit & Supervisory Board Members

We have defined the Standards for Independence of External Directors/Audit & Supervisory Board Members to guarantee the independence of independent external directors and auditors in practice. The standards are disclosed in our notice of convocation general meeting of shareholders, corporate governance report, etc.

Selection Criteria for Directors

At Kaneka, directors are selected by the Board of Directors, on the basis of character, judgment, expertise and experience as well as ethics without limitations on gender, age, nationality and other attributes, after deliberation by the Appointment and Remuneration Advisory Committee, which is comprised of representative directors and independent external directors.

Analysis and Evaluation of Effectiveness of the Board of Directors

Kaneka regularly implements an analysis and evaluation of the effectiveness of the Board of Directors, and discloses a summary of the evaluation results. Specifically, the Chair of Board of Directors periodically receives reports from the Independent External Director's Meeting and opinions from the internal directors. Based on these reports, the current status of operations of the Board is evaluated. In the evaluation process in fiscal 2018, the Independent External Director's Meeting held discussions focusing on the operation of the Board of Directors (number of meetings held, frequency, length, contents of information provided beforehand, contents of agendas, deliberations, etc.), role of external directors, and risk management. Based on the discussion results, the Board of Directors conducted a self-evaluation. As a result, it has been confirmed that the Board of Directors functions effectively in making decisions on important matters for the Group such as risk management and supervising business execution. We will continue to enhance the effectiveness of our Board of Directors through effectiveness evaluations.

■ Our Efforts to Strengthen the Governance Capacity

2006	<ul style="list-style-type: none"> ▪ Introduced the executive officer system ▪ Changed the number of directors from 21 to 13 ▪ Formulated the Basic Policy on Internal Control System
2011	<ul style="list-style-type: none"> ▪ Appointed an outside director
2013	<ul style="list-style-type: none"> ▪ Formulated the Criteria for Independence of Outside Directors
2015	<ul style="list-style-type: none"> ▪ Increased the number of outside directors from 1 to 2 ▪ Formulated the Basic Policy on Corporate Governance ▪ Established the Appointment and Remuneration Advisory Committee ▪ Established the Independent Outside Officers Meeting
2016	<ul style="list-style-type: none"> ▪ Commenced the effectiveness evaluation on the Board of Directors
2019	<ul style="list-style-type: none"> ▪ Revised part of the Basic Policy on Corporate Governance

Business Risks and Uncertainties

Basic Policy

Our basic risk management policy is that each division identifies operational risks and other types of risks that it may face, takes appropriate preventive measures, and responds appropriately in cooperation with other relevant divisions if a risk manifests itself.

For preventive measures against potential risks including those related to ethics and legal compliance, the Compliance Subcommittee of the ESG Committee oversees the development and implementation of the company-wide plans.

When a risk occurs or is likely to occur, the ESG Committee handles the risk in cooperation with the relevant divisions.

We regularly check whether the above-mentioned activities are implemented properly to prevent our risk management system from falling into mere formality, and strive to maintain and improve its effectiveness.

Business-Related Risks

Factors that may significantly affect the performance and the financial position of the Kaneka Group include those described below.

Please note that the matters described are only those that we considered risks as of March 31, 2019 and that this is not an exhaustive list of risks borne by the Group.

1. Risks related to the Group's ability to maintain operational advantages and trends in the Japanese and overseas economic environments
2. Risks associated with the globalization of our business (fluctuations in foreign exchange rates and overseas business development)
3. Risks of price fluctuations of raw materials and fuels
4. Risks associated with product liability, industrial accidents and large scale disasters
5. Risks associated with the protection of intellectual property rights
6. Impact of environment related regulations
7. Risks associated with legal action
8. Other risks

▶ See the Financial Section for more details

Strengthening of Information Security

Kaneka Group has established a Basic Information Management Policy, and works to disseminate it to all employees, thereby ensuring appropriate management of information.

Basic Information Management Policy

1. Observance of laws/regulations and rules

The trust and confidence of society and customers is the most precious asset the Group must protect.

Complying with laws and regulations, social norms, and internal regulations/procedures is the basic principle that all individuals engaged in business activities should follow.

2. Protection of confidential information

Confidential information concerning manufacturing processes, research, sales, etc. is the source of the Group's competitiveness.

All individuals engaged in business activities must be fully aware of this, and must not leak such information or use it for illicit purposes. In particular, data requiring strict handling, such as personal information and information entrusted as confidential from other entities, must be identified as such and managed strictly by the person in charge of information management at each company.

3. Establishment of systems/structures

In order to sustain and expand the Group's business, it is essential to make effective use of information and increase the efficiency of business operations.

In addition to establishing rules regarding information security and continuing to improve information systems to ensure safe, effective use of information, the persons responsible for information management should be determined to ensure appropriate information management.

4. Implementation of training and awareness-raising programs

With the strengthening of Group management and increased use of external resources, people with diverse values and ethics are involved in Kaneka's business operations.

To ensure smooth cooperation with these members, efforts should be made to raise awareness of information security risks and to enhance and continue training on information security including ethical aspects.

To protect its information assets from risks including cyberattacks, Kaneka Group continues striving to enhance security levels, by utilizing the knowledge of external experts. Since fiscal 2018, measures have been taken to reduce risks associated with rapid change in the information security environment, including reviewing existing facilities and introducing various security tools. Stratified training programs, audits, drills, and e-learning education are held regularly to improve employees' information security literacy.

Enhancing Crisis Management Systems

Based on its basic risk management policy, Kaneka Group's Crisis Management Regulations give employees a better understanding of basic matters concerning emergency response.

We also provided employees with the Crisis Management Handbook, containing intelligible graphs of emergency initial response rules. This handbook explains emergency procedures: proper incident notification, instructions, consultation, and response, as well as the smooth flow of information. In fiscal 2018, we revised the Crisis Management Regulations to clarify a basic system and roles for emergency response as well as emergency examples and ranks. We will continue to fulfill our social responsibility by maintaining corporate activities, while avoiding and reducing adverse effects on the Kaneka Group as much as possible.

Compliance

Basic Policy

Viewing compliance as an important management issue, we implement various initiatives to ensure all directors and employees comply with all applicable laws and regulations.

Compliance Awareness Raising

Our corporate Intranet provides ready access to our Compliance Guidebook, which provides a clear explanation of our Ethical Code of Conduct as well as the laws and regulations to be observed by all of our directors and employees. Additionally, a variety of training sessions and meetings, and activities of the Compliance Subcommittee ensure that we strictly adhere to our compliance policies.



Compliance Guidebook

Self-Check in Training Session

The compliance online course for all employees, launched in 2014, was expanded to include Group companies in Japan in 2016; employees from 43 companies participated in fiscal 2018.

Training sessions on the Antimonopoly Act are conducted regularly with all of managerial officers from the Kaneka and Group companies in Japan who are involved in sales, purchasing, and business development, all of whom are required to submit a pledge.

Internal Audits and Establishment of Consultation Hotlines

The scope of ESG evaluation audits, which are carried out for all Group companies in Japan, the U.S. and Europe, was expanded to include those in China in fiscal 2018. Going forward, Group companies outside Japan will be included as well.

We have also set up compliance consultation hotlines both internally and with outside law firms in order to answer inquiries from those within the Group. We strive to respond quickly to provide a rapid resolution to any concerns that may arise.



A compliance training session

Intellectual Property

Basic Policy

Kaneka's Intellectual Property Department, operating directly under the President, secures intellectual property rights such as patents for our R&D results, aiming to provide prompt solutions to help resolve social issues.

From the global perspective, the intellectual property staff are allocated to each site in the Americas, Europe, and Asia, with the Department serving as a center, to respond directly to local issues.

The Department formulates and implements intellectual property strategies for each division, including establishment of patent portfolios covering upstream to downstream business, in cooperation with the business and R&D divisions.

Our invention incentive programs include patent application incentives, patent master incentives for the acquisition of a certain number of registered patents, and overseas patent registration incentives.

Increasing application incentives for employees actively creates intellectual property.

We respect the intellectual property rights of other companies and, to avoid disputes, we conduct careful patent searches, securing patent clearance at each phase of development including theme proposal, commercialization, and specification changes.

Establishment of Patent Portfolio and Execution of Patent Rights

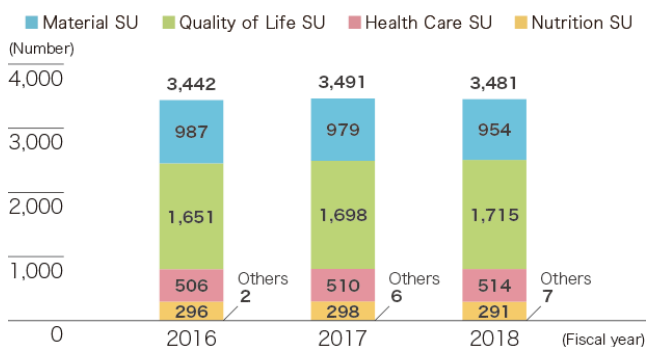
In fiscal 2018, we acquired patent rights mainly in priority areas contributing to our "Wellness-First Management." In Japan, patents were registered for resin compositions with superior moldability, made of marine biodegradable Kaneka Biodegradable Polymer PHBH, for "Kaneka Luce," an organic EL lighting device with a tiltable/rotatable light-emitting surface, and for margarine containing fermented butter. Outside Japan, we acquired patent rights for hybrid organic EL elements that produce a color closer to natural light, for a plant-growth promoting agent following "Kaneka Peptide," and for a manufacturing method of oxidized and reduced forms of coenzyme Q10, mainly in the U.S.

Executing intellectual property rights, we administratively prosecuted three companies that illegally produced and sold wig products under the name of "Kanekalon" in China and confiscated labels and products infringing on our trademark right. In Europe, based on patent rights, we issued warnings to six companies involved in distributing and selling reduced form of coenzyme Q10, blocked the marketing of infringing products, and replaced them with our regular products.

Number of Patents Held

More than 200 domestic patents were newly registered in fiscal 2018, as in last year, toward transforming our business portfolio. Meanwhile, some product patents expired, so the total number of domestic patents remained almost the same. Foreign patents continued to increase in all SUs, reflecting our recent efforts to strengthen our foreign patent portfolio. Consequently, domestic and foreign patents held by the Group as of the end of fiscal 2018 numbered 3,481 and 3,519, respectively. In particular, globalization of businesses significantly increased the number of foreign patents in the Health Care and Nutrition SUs, our new priority areas.

■ Number of National Patents Held



■ Number of Foreign Patents Held

