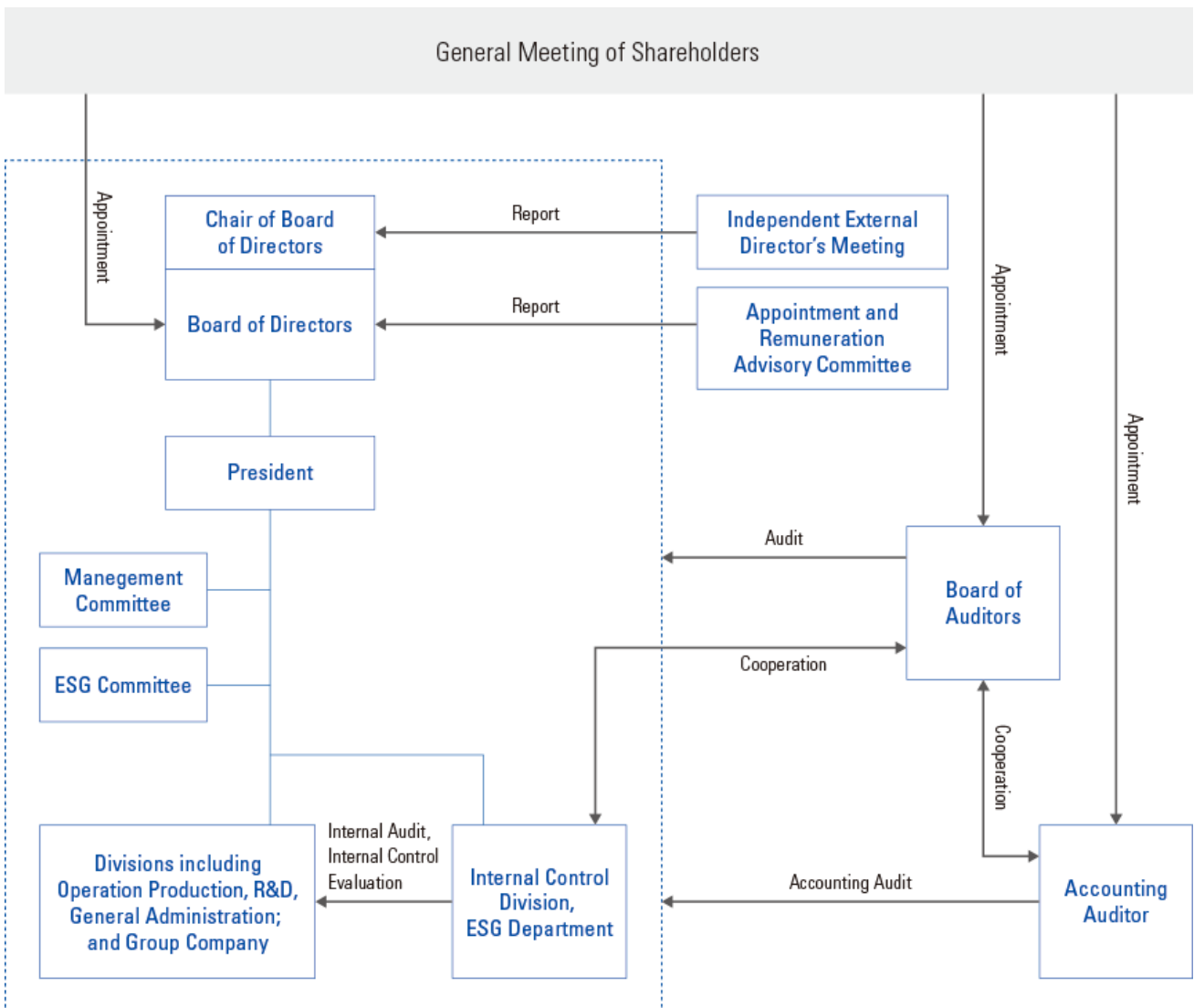


# Corporate Governance

## 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 four 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, four are independent external directors, in principle, 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 handle business operations in their respective areas of responsibility. The Executive Officers' Meeting is held monthly to share management policies and issues with the aim of achieving management goals speedily. 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 of 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 2019, 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, information provision to 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"> <li>▪ Introduced the executive officer system</li> <li>▪ Changed the number of directors from 21 to 13</li> <li>▪ Formulated the Basic Policy on Internal Control System</li> </ul>
2011	<ul style="list-style-type: none"> <li>▪ Appointed an external director</li> </ul>
2013	<ul style="list-style-type: none"> <li>▪ Formulated the Criteria for Independence of External Directors</li> </ul>
2015	<ul style="list-style-type: none"> <li>▪ Increased the number of external directors from 1 to 2</li> <li>▪ Formulated the Basic Policy on Corporate Governance</li> <li>▪ Established the Appointment and Remuneration Advisory Committee</li> <li>▪ Established the Independent External Director's Meeting</li> </ul>
2016	<ul style="list-style-type: none"> <li>▪ Commenced the effectiveness evaluation on the Board of Directors</li> </ul>
2019	<ul style="list-style-type: none"> <li>▪ Revised part of the Basic Policy on Corporate Governance</li> </ul>
2020	<ul style="list-style-type: none"> <li>▪ Increased the number of external directors from 2 to 4</li> <li>▪ Revised part of the Basic Policy on Corporate Governance</li> </ul>

# Business Risks and Uncertainties

## Basic Policy

Kaneka Group has formulated a basic risk management policy to respond to potential risks in business operations, aiming for the goal of “Wellness First” to make the world healthy.

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, 2020 and that this is not an exhaustive list of risks borne by the Group.

1. Risks related to the spread of COVID-19
2. Risks related to the Group’s ability to maintain operational advantages and trends in the Japanese and overseas economic environments
3. Risks associated with the globalization of our business (overseas business development and fluctuations in foreign exchange rates)
4. Risks of price fluctuations of raw materials and fuels
5. Risks associated with product liability, industrial accidents and large-scale disasters
6. Risks associated with the protection of intellectual property rights
7. Impact of environment-related regulations
8. Risks associated with legal action
9. Other risks

▶ See the Financial Section for more details.

## Enhancing Crisis Management Systems

Based on our basic risk management policy, we have set basic matters concerning emergency response (basic system, roles, emergency examples and ranks, etc.) in the Crisis Management Regulations. 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. In preparation for an emergency, we regularly conduct a disaster drill and a safety confirmation system drill. We also provide employees with the Crisis Management Handbook, which contains 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.

## Strengthening of Information Security

We appropriately manage information based on our Basic Information Management Policy to avoid information leakage and other risks, and we promote effective use of information and efficiency in operations.

To protect our information assets from risks, including cyberattacks, we strive to enhance security levels by using the knowledge of external experts. We also take measures to reduce risks associated with rapid change in the information security environment, including reviewing existing facilities and enhancing various security systems and tools.

Given that more employees engage in telecommuting due to the COVID-19 pandemic, we also seek to appropriately manage information on employees. In addition to disseminating our Basic Information Management Policy to employees, we hold training programs, audits, drills, and e-learning education programs, using the Information Security Guidebook.

## 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.

# Compliance

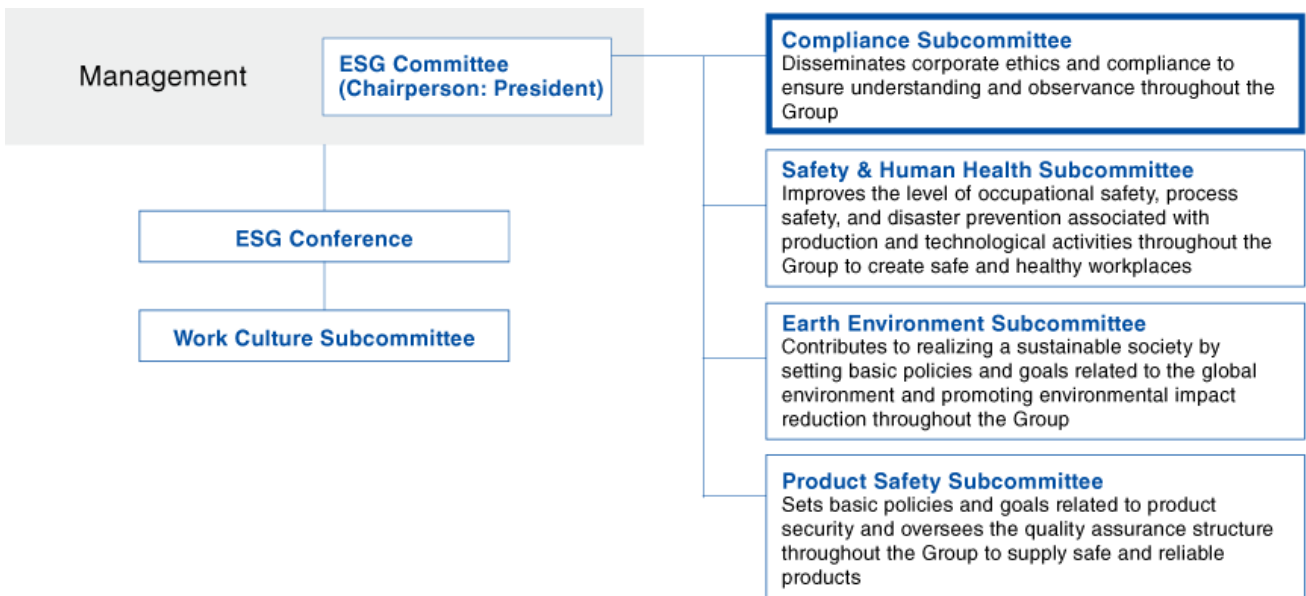
## Basic Policy

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

## Promotion System

The Compliance Subcommittee under the ESG Committee is responsible for ensuring corporate ethics and compliance throughout the company while promoting and overseeing activities such as checking employees' understanding and observance and providing consultation hotlines.

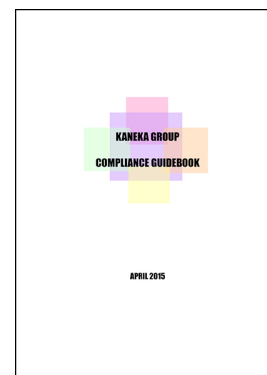
### ■ Diagram of Promotion System





## 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 fiscal 2014, was expanded to include Group companies in Japan in fiscal 2016; employees from 43 companies were encouraged to participate in fiscal 2019.

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

We at the Kaneka Group conduct ESG evaluation audits related to the Antimonopoly Act. In fiscal 2019, audits were conducted in all business operations divisions and at 28 Group companies in Japan and 14 in the U.S., Europe, and China. For Group companies in Malaysia, we plan to conduct audits from fiscal 2020 according to the Fair Trade Management Regulations formulated in October 2019.

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.

# Intellectual Property

## Basic Policy

We secure intellectual property rights, such as patents for our R&B results, aiming to provide prompt solutions to help resolve social issues.

From a global perspective, intellectual property staffs are allocated to each regional headquarters in the Americas, Europe, and Asia, with the Intellectual Property Department serving as the center, to respond directly to local issues. We also strengthen cooperation with Group companies within and outside Japan to avoid intellectual property risks and trade secret leakage.

We formulate and implement intellectual property strategies along with reform for R&B structures in cooperation with the business and R&D divisions.

We also perform a wider range of analysis that combines intellectual property information with market and corporate information, using intellectual property information analysis software and AI technology. We also actively work to create intellectual property by revising our invention incentive programs at the time of patent application to further increase application incentives for employees.

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

In fiscal 2019, we acquired patent rights mainly in the technological field, which contributes to our wellness-first management. In Japan, patents were registered for textiles and compositions made of marine biodegradable KANEKA Biodegradable Polymer Green Planet, catheters for the electrophysiology business, cold storage compositions which can replace dry ice could be useful for the transportation of pharmaceuticals and specimens, building integrated photovoltaics (BIPVs), and see-through photovoltaic modules.

Outside Japan, we acquired patent rights for a cell production method for antibody drugs and endoscopic clips for the gastrointestinal business, mainly in the U.S.

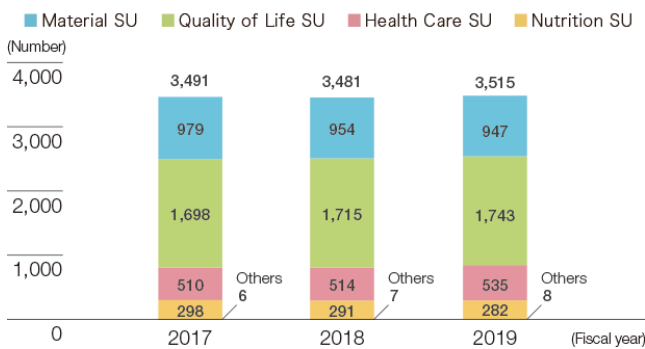
## Number of Patents Held

We are actively filing domestic and foreign patent applications to secure intellectual property rights toward transforming our business portfolio.

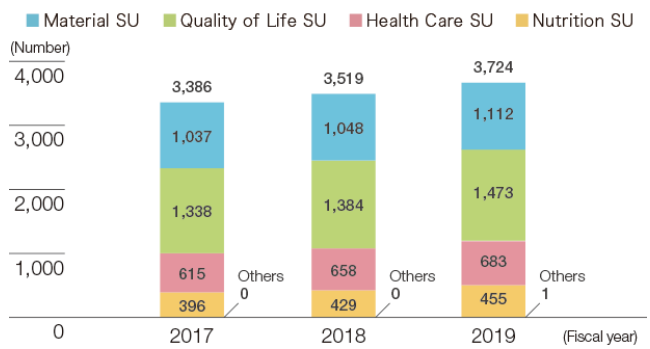
In fiscal 2019, 270 domestic patents and 303 foreign patents were newly registered. Although some product patents expired, domestic and foreign patents held as of the end of fiscal 2019 numbered 3,515 and 3,724, respectively, showing a year-on-year increase. Domestic patents greatly increased in the Quality of Life and Health Care SUs. Globalization of businesses significantly increased the number of foreign patents in the Material and Quality of Life SUs.

We will work to increase the number of patent applications and registrations to strengthen our intellectual property rights through cooperation with the R&B Division.

### ■ Number of Domestic Patents Held



### ■ Number of Foreign Patents Held



## CHECK & ACT

We will work to increase the number of patent applications and registrations to strengthen our intellectual property rights through cooperation with the R&B Division.

## “Divergent Discussion” and “Edge of Technology” as Starting Points!

### - Cultivating the ability to identify future seeds

Kaneka is a “Trial & Error experiment driven company.” We believe only such a company can generate unconventional ideas and wisdom through failures and facilitate discussion that leads to the sprouting of new seeds. Researchers at the Kaneka Group are enthusiastically searching for future seeds with “divergent discussion” and “edge of technology” as keywords to identify themes that contribute to realizing a sustainable society through resolution of the three crises. Divergent discussion helps us to have multiple 360-degree perspectives, and the edge of technology refers to the forefront of cutting-edge technology that contributes to resolving social issues. These are starting points to create future seeds. Through divergent discussion and the edge of technology, we will cultivate the ability to create exciting seeds to achieve our mission “Kaneka thinks ‘Wellness First’”.

