

Basic Policy on Internal Control over Financial Reporting

1. Basic Policy

Kumiai Chemical Group companies, which include Kumiai Chemical Industry (the Company), its consolidated subsidiaries and equity-method affiliates (collectively the Group companies), consider compliance with the internal control reporting system based on the Financial Instruments and Exchange Act to be part of establishing the infrastructure for strengthening the management base. As such, Group companies establish, operate, and evaluate effective and efficient internal control over financial reporting in order to ensure the reliability of the collection of financial information on all corporate activities.

2. Establishment and Operation of the Internal Control System

In order to maintain and improve an effective internal control system, Group companies establish systems that incorporate a good balance of the six basic elements of internal control (control environment, risk assessment and response, control activities, information and communication, monitoring, and responding to IT) and operate mechanisms for timely and appropriate reporting internal control problems through daily monitoring. In addition, Group companies establish and operate systems for assessing and identifying risks related to the reliability of financial reporting and for preventing, detecting and rectifying such risks. They also establish systems that allow proper understanding of the IT environment, that ensure effective and efficient use and appropriate management of IT systems, and that maintain and manage internal control documentation.

3. Evaluation of the Internal Control System

In order to properly evaluate the status of establishment and operation of internal control at Group companies as a whole, an internal control plan shall be formulated in each business year. This plan is made in accordance with detailed rules on the establishment, operation, and evaluation of internal control related to financial reporting set out by the Company, making reference to the national Business Accounting Council's two opinion documents, "Standards for Management Assessment and Audit Concerning Internal Control Over Financial Reporting (Internal Control Standards)" and "Practice Standards for Management Assessment and Audit Concerning Internal Control Over Financial Reporting (Practice Standards)." The Internal Audit Office also verifies the effectiveness

and appropriateness of evaluations made by the Corporate Governance Office.

The scope for the evaluation of company-level internal control and internal control over financial closing and reporting processes (those that should be evaluated from a company-wide perspective) is the Company and its consolidated subsidiaries and equity method-applied affiliates as a general rule. However, with reference to the Internal Control Standards and the Practice Standards, business sites (individual companies) with an insignificant impact on financial reporting may be excluded with the decision being made taking into account the importance of the monetary and qualitative impact on financial reporting. With regard to internal control over financial closing and reporting processes (those that should be evaluated as individual business processes) and internal control over business processes, business sites (segments, companies) that account for approximately two thirds of consolidated net sales are selected as key sites for the scope of evaluation, with reference to the Internal Control Standards and the Practice Standards. The scope of evaluation is reviewed at the stage of formulating the internal control plan for each business year, and major changes to the scope of evaluation are submitted to the Executive Meeting for discussion and approval.

The reference date for evaluating the effectiveness of internal control is the fiscal-year end date of the Company.

4. Submission of Internal Control Report

The Company's Corporate Governance Office prepares an internal control report summarizing the results of the evaluation of the effectiveness of internal control at Group companies, drafts a *ringi* approval document, and receives the approval of the President. The report is then submitted to the Prime Minister after obtaining an audit certificate from the accounting auditor.

5. Education and Training

The Company strives to provide education and training for officers and employees to develop human resources with the professional skills and ethical values required to uphold reliable financial reporting.

Supplementary Provisions

The Board of Directors decides on the revision and abolition of this basic policy after deliberation by the Executive Meeting.