

**Basic Policy on the Framework for Ensuring the Appropriateness of Operations
(Internal Control System)**

Kumiai Chemical Industry (the Company) is committed to practicing sustainability management based on the Corporate Philosophy and the Kumiai Chemical Group Basic Policy on Sustainability. To achieve this, we have established a framework that can respond rapidly to changes in the management environment. At the same time, we recognize that developing and improving the management systems for the corporate group composed of the Company and its subsidiaries is an important issue in order to comply with laws, regulations, and ethics and to further increase management transparency.

(1) System for Ensuring That the Execution of Duties by Directors and Employees Complies with Laws, Regulations and the Articles of Incorporation

- (a) We have established the Kumiai Chemical Code of Conduct, the Kumiai Chemical Standard of Conduct, the Kumai Chemical Ethical Standards and the Compliance Rules to ensure that officers and employees practice corporate ethics and legal compliance.
- (b) Under the Basic Policy on Sustainability, we have established the Sustainability Promotion Committee with the supporting Environment Subcommittee, Social Affairs Subcommittee, and Governance Subcommittee beneath it.
- (c) We have established the Corporate Governance Office as the department responsible for compliance. The Risk Management & Compliance Committee deliberates on important matters related to compliance and takes measures to prevent bribery cases and human rights risks from occurring. The Corporate Governance Office continuously conducts compliance education and awareness-raising for officers and employees to develop and improve the compliance system.
- (d) In terms of internal reporting systems, we have established the Kumiai Helpline in the Corporate Governance Office and the Kumiai Chemical Group external consultation desk. We operate internal reporting systems in accordance with the Internal Reporting System Rules of Operation.
- (e) We entertain no relationships with anti-social forces that threaten public order and safety, and we take every possible measure to avoid engagement with anti-social forces.

(f) We have established the Basic Policy on Internal Control Over Financial Reporting. The Corporate Governance Office evaluates the effective and efficient development and operation of internal control concerning financial reporting of each company within the Kumiai Chemical Group (the Group). The Internal Audit Office verifies the effectiveness and appropriateness of the Corporate Governance Office's evaluation from a perspective that is independent of business divisions.

(2) System for Storing and Managing Information Related to the Execution of Duties by Directors

(a) We have established the Document Management Regulations and the Confidential Information Management Rules to specify the period of storage and the department responsible for storage and preservation in accordance with the importance of documents, and we store and preserve documents and electromagnetic information necessary for the directors to carry out their duties.

(b) Any of these documents are available for viewing immediately upon the request of a director or an Audit & Supervisory Board member.

(c) We have established the Basic Policy on Information Security. We have also developed a system of regulations consisting of the Information Security Operation and Management Regulations and various other regulations and detailed rules, in accordance with which we conduct information security activities. We have developed an information security operation and management system led by the chief officer for information security. We have also established the Information Security Meeting, which deliberates on the details of related activities.

(3) Regulations and Other Systems Related to Managing the Risk of Loss

(a) Under normal circumstances, the Corporate Governance Office oversees and promotes risk management in accordance with the Risk Management Regulations. The Risk Management & Compliance Committee periodically reviews business and other risks and compiles and shares risk information.

(b) In the event that a serious risk occurs, we respond by establishing a Risk Countermeasures Headquarters in accordance with the Regulations on Managing Corporate Risk.

(c) In the event of a disaster such as an earthquake, fire, or accident which damages the functions of

buildings or facilities, or in the event of a pandemic, we respond appropriately in accordance with the Business Continuity Plan (BCP) to ensure continuity and early recovery of business operations.

- (d) We have established the Responsible Care Promotion Committee to handle environmental, health, safety, and quality risks.
 - (e) The Corporate Governance Office conducts education on risk management for officers and employees to reduce risk.
 - (f) The Internal Audit Office audits whether the internal control systems, including for risk management and compliance, at the Company and the Group are properly established and effectively operated from an independent perspective in accordance with the Internal Audit Regulations.
- (4) System for Ensuring that Execution of Duties by Directors is Efficient
- (a) The Board of Directors determines management policies and important management matters while also supervising business execution. We have established the Management Meeting and the Executive Meeting as the next most important bodies after the Board of Directors.
 - (b) The Management Meeting discusses management strategy and important matters related to business execution.
 - (c) The Executive Meeting makes prompt and flexible decisions on management strategies. It also makes decisions on matters related to day-to-day business execution from a practical perspective that includes business strategy and tactics in order to strengthen cooperation between business divisions and ensure that business division goals are accomplished.
 - (d) We have clarified the scope of duties, responsibilities, and authority by means of internal regulations, including the Regulations on Segregation of Duties and the Detailed Itemization of Approval Criteria by Department.
 - (e) We have established the Nomination and Remuneration Committee under the Board of Directors

to ensure the fairness, transparency, and objectivity of decision processes for the nomination and remuneration of directors.

(5) System for Ensuring Appropriate Operations in the Corporate Group Composed of the Company and its Subsidiaries

- (a) Based on the Kumiai Chemical Group Corporate Philosophy/Group Principles and the Kumiai Chemical Group Conduct Charter, we implement Group-wide compliance promotion activities, instill awareness of corporate ethics and legal compliance throughout the Group, and foster the awareness of internal control principles.
- (b) In order to develop business operations comprehensively as a Group, we have established the basic management matters related to the Group in the Affiliated Company Management Regulations and other rules to facilitate operations and manage appropriately.
- (c) We have established the Kumiai Chemical Group Top Management Strategy Meeting for sharing Group management policy and basic strategy as well as verifying the management plans, management status, and business performance of the Group companies. By doing this, we supervise and manage the entire Group and strengthen the Group's management infrastructure.
- (d) The Internal Audit Office audits, reviews, and provides advice on the Group's overall business operations.
- (e) The Audit & Supervisory Board members have established the Kumiai Chemical Group Corporate Auditors Study Group and so on to share information and exchange opinions with the Audit & Supervisory Board members of the Group companies.
- (f) As a general rule, we assign officers as directors and Audit & Supervisory Board members at each Group company to ensure the intentions of the Company are reflected in management.
- (g) The supervising department periodically receives reports on the status of business operations from subsidiaries in accordance with the Affiliated Company Management Regulations, and preliminary consultations are made on important matters.

(h) When transactions are conducted within the Group, each company concerned adequately verifies the necessity of the relevant transactions and confirms that their conditions do not differ significantly from ordinary transactions with third parties.

(6) System for Handling Cases When an Audit & Supervisory Board Member Requests Appointment of Employees to Assist With Their Duties: Matters Related to Such Employees, Matters Related to the Independence of Such Employees from the Directors, and Matters Related to Ensuring the Effectiveness of the Instructions of the Audit & Supervisory Board Members to Such Employees

(a) The Internal Audit Office serves as the staff for the Audit & Supervisory Board members and assists them with their duties. The staff follow the instructions of the Audit & Supervisory Board members when carrying out such duties.

(b) The opinions of the Audit & Supervisory Board members are respected with regard to personnel changes at the Internal Audit Office.

(7) System for Directors and Employees to Report to the Audit & Supervisory Board Members and Other Systems Related to Reports to the Audit & Supervisory Board Members

(a) We have developed the following Regulation on Reporting System to the Audit & Supervisory Board members, and we operate these systems in accordance with the Regulations Governing Systems for Reporting to the Audit & Supervisory Board Members.

1) System for the Group officers and employees to report to the Company's Audit & Supervisory Board members;

2) System for those who have received a report from the Group officers and employees to report to the Audit & Supervisory Board members.

(b) The Audit & Supervisory Board members attend important meetings and committees in addition to the Board of Directors, the Management Meeting, and the Executive Meeting, and are able to provide their opinion when deemed necessary. They are also able to view the main *ringi* approval documents and other important documents related to business execution.

(c) The Internal Audit Office regularly exchanges information with the Audit & Supervisory Board members and provides them with internal audit materials.

(d) The Corporate Governance Office reports the internal reports it receives to the Audit &

Supervisory Board members in accordance with the Regulations Governing Systems for Reporting to the Audit & Supervisory Board Members.

(e) A person who has made a report to the Company's Audit & Supervisory Board members shall be subject to unfavorable treatment due to having made such a report.

(8) Other Systems for Ensuring Audits by the Audit & Supervisory Board Members Are Implemented Effectively

(a) The representative director and the Audit & Supervisory Board members exchange opinions periodically.

(b) The accounting auditor, the outside directors, and the Audit & Supervisory Board members actively exchange opinions and information to maintain close cooperation.

(c) The Company bears the costs related to the duties of the Audit & Supervisory Board members upon their request.

Supplementary Provisions

The Board of Directors decides on the revision or abolition of this Basic Policy after deliberation by the Executive Meeting.