

Basic Policy in formulating the Internal Control Systems

System to ensure compliance with regulations, laws and the Articles of Incorporation
in the execution of director and employee duties
System to Ensure Fairness of Business Practices

June 2018

(1) System to ensure compliance with the regulations, laws and the Articles of Incorporation in the execution of director and employee duties

Based on the management philosophy of NAGASE Group, "Maintaining good and fair business practices as a member of society," as well as the NAGASE Group's "Basic Compliance Policy", Hayashibara Co., Ltd. (hereinafter referred to as "Hayashibara") implements and maintains a compliance system through Hayashibara's Risk Management & Compliance Committee and strives to conduct corporate activities in compliance with "NAGASE Group Compliance Code of Conduct". The committee, consisting of all the Directors and main employees of related business departments, independently and faithfully makes decisions on risk management and compliance, and appoints external experts, as necessary, to prevent any possible violation of regulations, laws or the Articles of Incorporation. Any violation within Hayashibara or NAGASE Group companies must be promptly reported and discussed with the responsible individuals, and then reported to the committee. The committee immediately reports the incidents to the Board of Directors, Audit & Supervisory Board Members and the Risk Management & Compliance Committee of NAGASE & CO., LTD. The Internal Reporting System allows the directors and employees of Hayashibara and NAGASE Group companies to report to and consult directly with the Risk Management & Compliance Committee or to an attorney as a neutral third party. Hayashibara continuously strives to improve the awareness of compliance issues by educating Hayashibara officers and employees and its group companies through workshops by external experts to ensure the common management philosophy of the NAGASE Group is well understood.

(2) Storage and Control of Information Related to the Execution of Directors' Duties

Information related to the execution of the directors' duties is recorded in hard paper or electronic documents and stored according to internal regulations. Directors and Audit & Supervisory Board Members can view these materials at any time.

(3) Risk Management System

The Board of Directors established a system for the directors and responsible managers to regularly participate in meetings to integrate overall risk control for Hayashibara. The meetings are to review and discuss the reports from all business units and any additional important matters that may arise. As a mechanism to handle the risks associated with individual corporate activities, the Board of Directors established the Risk Management & Compliance Committee with specific functions and clearly defined authority. The committee determines the responsibilities and tasks of all business units. Under the committee's leadership, Hayashibara addresses risks in particular areas by setting rules and guidelines, holding workshops and preparing and distributing manuals. To deal with additional risks that might occur, Hayashibara has developed a system that designates particular departments responsible for rapid response to ensure speedy and appropriate communication to handle emergencies.

(4) System to Ensure the Efficient Execution of Directors' Duties

The Board of Directors is the foundation of the structure to ensure efficiency in the execution of directors' duties. The Board is clearly positioned as the body in charge of making decisions on management policies and strategies, and supervising the execution of operations. The Board holds regular meetings in addition to provisional meetings as necessary, reviews and formulates measures regarding important decisions, and tracks business performance. Implementation of the decisions made by the Board of Directors shall be executed in accordance with the basic organizational regulations for operation, division of duties and regulations for approval-process and reporting. This includes appointment of responsible individuals and the related procedures.

(5) System to Ensure Fairness in Business Practices of Hayashibara and its parent company NAGASE & CO., LTD.

Hayashibara ensures fairness in business practices along with NAGASE & CO., LTD. through specific articles of operational standards. These standards require Hayashibara to seek the approval of NAGASE & CO., LTD. after making decisions or notify NAGASE & CO., LTD. on specific matters. The standards also require Hayashibara, in principle, to accept the appointment of executives from its parent company NAGASE & CO., LTD. In creating various business development related goals based on the medium-term management plan and annual planning system, Hayashibara evaluates actual business performance and financial outcomes in comparison to the projections. The results are shared in a timely and appropriate manner within the company and reported to NAGASE & CO., LTD. to improve transparency of the organization. In addition, the Audit Office, as an independent entity, has been established to implement the Internal Control Systems. To ensure fairness and reliability, Hayashibara's accounting practices are audited by an auditor appointed by the Audit Office and operational practice is audited by the Audit Offices of Hayashibara and NAGASE & CO., LTD.

(6) Matters Related to Staff Selected to Assist Audit & Supervisory Board Members

The Audit & Supervisory Board Members may request to have staff assigned to assist in audit work. Such staff members are assigned to the Audit Office as their official department of employment.

(7) Independence of Corporate Audit Staff and Practicability of Directions Given by Corporate Auditor

To ensure corporate audit staff independence from directors, any staff assignments or evaluations require consultation with and approval of the corporate auditors beforehand. Directions provided to corporate audit staff should reflect considerations of practicability concerning the time necessary to select the individual and to perform work assisting corporate auditors.

(8) System to Ensure Effectiveness of Reports to Directors and Auditors

Hayashibara has established a system for the Audit & Supervisory Board Members to understand the overall state of management on an ongoing basis by attending important meetings including Board of Directors' meetings and exchanging information, and viewing approval-process documents and reports. Moreover, directors and employees of Hayashibara are able to report the following items to the Audit & Supervisory Board Members either individually or through the Risk Compliance Committee and the Board of Directors.

- i Misconduct related to the execution of directors' duties, violations of regulations, the law or Articles of Incorporation, and compliance-related problems.
- ii Matters that have the potential to significantly damage Hayashibara
- iii Important items of disclosure
- iv Reporting of matters based on the Internal Reporting System, etc.

Reports to the Audit & Supervisory Board Members may be filed directly by directors or employees. Individuals filing such reports shall in no way be subject to punishment. This policy has been clearly communicated throughout Hayashibara and through our Internal Reporting System.

(9) Other Systems to Ensure Effectiveness of the Corporate Audit Process

The Audit & Supervisory Board Members and representative director hold regular conferences to create an environment for close collaboration that will improve the efficiency and effectiveness of the audit process. To enable the Audit & Supervisory Board Members to carry out their duties efficiently and effectively, Hayashibara has upgraded its system for close coordination and reciprocity between the Audit & Supervisory Board Members and Audit Office. In the event that the Audit & Supervisory Board Members call in attorneys, certified public accountants, or other outside experts to provide advice, conduct investigations or assessments, or provide other services related to the performance of audits, the Audit & Supervisory Board Members may request that related costs and expenses be paid for by Hayashibara. Hayashibara may not refuse to make such payments, unless said services performed by outside experts are deemed to have been unnecessary.

Supplementary resolution

The Board of Directors resolved to establish the preceding systems to ensure the fairness of business practices of Hayashibara. The said systems will continue to be updated on a regular basis to strengthen corporate governance in accordance with changes in the business environment surrounding Hayashibara and with changes in laws and regulations by various government agencies.