

## **Basic Policy for Designing the Internal Control System**

System to Ensure Compliance with Laws, Regulations, and the Articles of Incorporation in the  
Execution of Duties of Directors  
System to Ensure Suitability of Business Practices

### **(1) System to Ensure Compliance with Laws, Regulations, and the Articles of Incorporation in the Execution of Duties of Directors and Employees**

Based on the management philosophy of the NAGASE Group “We recognize our responsibility to society and offer beneficial products and services while maintaining the highest standards of integrity,” Hayashibara Co., Ltd. (hereinafter referred to as “Hayashibara”) develops “Hayashibara Vision,” “Hayashibara in 2030” and “Sustainability Policy” as our philosophical structure. Directors communicate the management philosophy and policies through activities such as management meetings and dialogues with employees. In accordance with the above philosophical structure and “Basic Compliance Policy,” Hayashibara implements and maintains the compliance system through the Hayashibara Risk Management & Compliance Committee and strives to conduct corporate activities in accordance with the “NAGASE Group Compliance Code of Conduct.”

The Committee, consisting of Directors and department heads and other members, shall independently and faithfully make all decisions related to risk management and compliance, and appoint external experts, as necessary, to prevent any possible violations of laws, regulations, and the Articles of Incorporation.

When a violation within Hayashibara or our Group companies is discovered, this violation shall be promptly communicated to a supervisor and/or the relevant department, and then reported to the Committee. The Committee shall immediately report the incident to the Board of Directors, Corporate Auditors and the Risk Management & Compliance Committee of the parent company, Nagase & Co., Ltd. The Internal Reporting Systems allow Directors and employees of Hayashibara and our Group companies to report and consult directly with the Risk Management & Compliance Committee of Hayashibara Co., Ltd. or with an attorney as a third party.

Hayashibara continuously strives to improve the awareness of compliance issues by educating Hayashibara officers and employees and its Group companies through workshops conducted by external experts.

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

Information related to the execution of duties of Directors shall be recorded in documents or electronically, and stored according to internal regulations. Directors and Corporate Auditors shall have constant access to these documents or electronic data.

### **(3) Risk Management System**

As a system for comprehensive control of the risk of loss, the Board of Directors shall establish a committee comprising Directors and responsible managers to receive regular reports from all business units, discuss issues and reach consensus.

As a mechanism to handle the risks associated with individual corporate activities, the Board of Directors shall establish the Risk Management & Compliance Committee with specific functions and authority. The Committee determines the responsibilities and tasks of all business units. Under the Committee's leadership, Hayashibara shall address 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 shall develop a system that designates particular departments responsible for a rapid response to ensure speedy and appropriate communications in the handling of emergencies.

#### **(4) System to Ensure the Efficient Execution of Duties by Directors**

The Board of Directors are the foundation of a structure to ensure efficiency in the execution of duties of Directors. They shall be clearly positioned as the body in charge of making decisions on management policies and strategies, and supervising the execution of operations. The Board shall hold regular meetings in addition to provisional meetings as necessary, review and formulate measures regarding important decisions, and track business performance. Regarding the carrying out of work based on decisions by the Board of Directors, the Organization and Division of Duties Regulations, Division of Work, and Approval and Reporting Regulations shall specify the persons responsible for each, their responsibilities, and the procedures for carrying out work.

#### **(5) System to Ensure Fairness in Business Practices of Hayashibara and Our Parent Company Nagase & Co., Ltd.**

Hayashibara shall ensure fairness in business practices along with Nagase & Co., Ltd. through specific articles of operational standards. These standards shall require Hayashibara to seek the approval of Nagase & Co., Ltd. after making decisions or to notify Nagase & Co., Ltd. on specific matters. The standards shall also require Hayashibara, in principle, to accept the appointment of executives from our parent company Nagase & Co., Ltd.

In creating various business development-related goals based on the medium-term management plan and annual budget system, Hayashibara shall evaluate the business performance and the financial outcome in comparison to the projections. The results shall be shared appropriately within the Company and reported to Nagase & Co., Ltd. in a timely manner to improve transparency of the organization.

In addition, the Audit Office, as an independent entity, shall be established to implement the Internal Control System. To ensure propriety and reliability, Hayashibara's accounting practices shall be audited by an accounting auditor appointed by the Audit Office and operational practices shall be audited by the Audit Offices of Hayashibara and Nagase & Co., Ltd.

#### **(6) Matters Related to Corporate Audit Staff Selected to Assist Corporate Auditors**

Corporate Auditors shall request to have staff assigned to assist in audit work. Such staff shall belong to the Audit Office.

**(7) Independence of Corporate Audit Staff and Effectiveness of Directions Given by Corporate Auditors**

To ensure corporate audit staff independence in the preceding paragraph from the Board of Directors, any staff assignments or evaluations shall require consultation with and approval of Corporate Auditors beforehand. Directions provided to corporate audit staff shall reflect considerations of effectiveness concerning the time necessary to select the individual and to perform work assisting Corporate Auditors.

**(8) System regarding Reports to Corporate Auditors from Directors and Corporate Audit Staff**

Hayashibara shall establish a system for the Corporate Auditors 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 shall report the following items to Corporate Auditors either individually or through the Risk Management & Compliance Committee and Board of Directors, as appropriate.

- i Misconduct related to the execution of duties of Directors, violations of the laws, regulations, and the 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 Corporate Auditors shall be filed directly by Directors or employees. Individuals filing such reports shall in no way be subject to punishment, and this shall be explicitly indicated in the Internal Reporting System, and made thoroughly clear within the Company. Furthermore, the results of internal audits conducted by the Audit Office on the status of the Company's work shall be reported to Corporate Auditors.

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

Corporate Auditors and Representative Director shall exchange opinions as necessary and collaborate closely to enhance the efficiency and effectiveness of the audit process. To enable Corporate Auditors to carry out their duties efficiently and effectively, Hayashibara shall upgrade our system for close coordination and reciprocity between the accounting auditor and the Audit Office. In the event that Corporate Auditors call in attorneys, certified public accountants, or other outside experts to provide advice, investigations, assessments, or other services related to the performance of audits, Corporate Auditors may request that related costs and expenses be paid by Hayashibara. Hayashibara may not

refuse to make such payment, unless said services performed by outside experts are deemed to have been unnecessary.