

## Basic policy for Enhancement of the Internal Control System

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### 1. Fundamental Principles

- (1) The Company will, based on the business spirit and the Business Philosophy of Sumitomo, conduct business activities in accordance with the “Basic Principles for Promoting Sustainability” and “Sumitomo Chemical Charter for Business Conduct” so that the business group composed of the Company and the Company Group will promote sustainability, namely contribute to the achievement of sustainable society through our business and achieve our own sustainable growth.
- (2) The Company recognizes that establishing a system necessary to ensure the proper conduct of business (hereinafter, “Internal Control System,”) is a process required for the sound sustenance of the organization and should be undertaken proactively in order to accomplish the Company’s business objectives. Recognizing this, the Company shall establish its Internal Control System as outlined below and alter it as necessary in response to changes in the Company’s business environment, thereby conducting business operations that fulfill the interest of its shareholders and all other stakeholders. In addition, the Company shall establish a dedicated committee or committees to ensure attaining the above objectives.

### 2. A system for ensuring that the Company’s Directors execute their business duties in compliance with the laws and the Company’s Articles of Incorporation

- (1) The Company shall institute, as its corporate bodies, General Meeting of Shareholders, Directors, the Board of Directors, the Audit & Supervisory Committee and Accounting Auditors in accordance with the laws and the Articles of Incorporation. In addition, with respect to Directors, several Outside Directors with independence shall be appointed. In order to increase the transparency and fairness of nominations of Directors and compensations of Directors, the Nomination Advisory Committee and the Remuneration Advisory Committee, of which Outside Directors have the majority, shall be established.
- (2) The Company’s Directors shall observe all applicable laws, the Articles of Incorporation and resolutions of the General Meeting of Shareholders. They shall also have an obligation to be attentive to their duties as good managers and carry out these duties faithfully. The Board of Directors shall assume supervisory responsibility to ensure that Directors observe all applicable laws and the Company's Articles of Incorporation, and that Directors establish and operate an adequate Internal Control System pursuant to the basic policies contained herein.
- (3) The Company’s Directors shall establish systems for ensuring required reliability of financial reporting and the proper and timely disclosure of information concerning the Company.

### 3. A system for the retention and management of information regarding the execution of business duties by the Company’s Directors

The Company shall establish rules prescribing the manner of retention, disposal and management, operating method of the information system, security assurance, etc. concerning the business-related information handled in various media. The Company shall retain and manage information properly by establishing a management system pursuant to such rules.

### 4. A system for ensuring the efficient execution of business duties by Directors, etc. of the Company and its group companies

- (1) The Company’s Board of Directors shall properly determine the targets for important issues concerning business policies, planned business undertakings, accounting & finance, research & development, etc. of the corporate group consisting of the Company and its group companies (the "corporate group," hereinafter referred to as the “Group”) and shall monitor the progress of work toward the targets.
- (2) The Company’s Board of Directors shall appoint Executive Officers to promote the expeditious execution of business and more clearly define their responsibilities, and shall cause the Executive Officers to perform businesses specifically entrusted to them in their respective fields determined by the Board.

- (3) The Company's Directors shall work to get information about management activities of the Group in a prompt and appropriate manner and aim to improve the efficiency of execution of duties by utilizing information technology.

**5. A system for ensuring that the Company's employees and its group companies' Directors, etc. and employees carry out their business assignments in compliance with the laws and the Articles of Incorporation**

- (1) The Company shall strive to ensure that all employees are fully aware of their obligation to abide by the law and to develop a sound corporate culture by educating employees about compliance with social norms and continually raising the level of business ethics, based on the principles in the "Sumitomo Chemical Charter for Business Conduct."
- (2) The Company, through an internal committee governing "compliance," shall investigate and oversee the status of compliance and, if necessary, recommend improvements.
- (3) The Company shall strive to promptly identify and rectify any violations or suspected violations of compliance through its internally established "Speak-Up Hotline," which provides employees with an avenue for reporting such violations or suspected violations.
- (4) The Company shall establish a department in charge of internal auditing to verify that employees carry out their duties in a proper and effective manner. They shall also take pertinent measures to carry out special controls or auditing with regard to businesses, departments, systems, etc. that are exposed to risks that may result in significant losses (hereinafter, "Risk"). Furthermore, when certain issues have been pointed out as a result of auditing by the Audit & Supervisory Committee, accounting auditors, the Company's department in charge of internal auditing, etc., the relevant departments, etc. of the Company that have been thus audited shall take appropriate remedial measures within a specified period of time.
- (5) The Company shall clearly define the roles and functions of each department, section, etc. by designing and establishing an organization that will be most capable of conducting business activities in compliance with the law and the Articles of Incorporation.
- (6) In order to achieve its overall targets, the Company shall strive to ensure the fair operation of its personnel management system, whereby employees are encouraged to set their own targets to be achieved, and their performance is assessed and compensation and incentives determined on the basis of the degree to which such targets have been achieved.
- (7) The Company shall request its major group companies both in Japan and abroad to adopt and properly operate a compliance system equivalent to that of the Company. It shall also work to establish, maintain, and enhance the effective internal control of the Company and its group companies in their entirety by conducting internal audit.

**6. A system of the Company and its group companies for risk management rules, procedures, etc.**

- (1) The Company shall establish rules for the Group to promote developing Risk awareness, ensure early detection of Risks, prevent Risks from manifesting themselves, prepare plans to handle instances of emergency, etc.
- (2) The Company shall, through its internally established committee overseeing risk management of the Group, determine the Group's policies on risk management, evaluate Risks involved, monitor and supervise the status of work on preparation and implementation of plans for the risk management and, where necessary, make recommendation on improvements to be made.
- (3) In the event that there occurs any incident of crisis which requires company-wide all-out efforts for resolution, the Company shall promptly work to look into the situation affected by the crisis and resolve it by setting up a task force headquarters.

**7. A system regarding reporting to the Company about business operations of the Group and matters concerning the execution of business duties by Directors etc. of the Company's group companies**

- (1) The Company shall establish rules concerning operations of the Group, request its group companies both in Japan and abroad to report on their business policies, planned business undertakings, and other important matters relating to their business operations in accordance with the rules, and shall strive to deepen mutual understanding and share management strategies with those group companies.
- (2) The Company shall work to develop a system whereby the Company's Audit & Supervisory Committee can exchange information with corporate auditors and other auditing staff at its major group companies, and thereby

jointly ensure the effectiveness of audits throughout the Group.

**8. A system for ensuring the effective conduct of audits by the Company's Audit & Supervisory Committee**

**(1) Matters concerning employees who are due to assist the Audit & Supervisory Committee in performing its duties**

The Company shall appoint an employee or employees who work full-time to assist the Audit & Supervisory Committee in performing its duties under its direction in accordance with the Company rules. Personnel management matters concerning such an employee shall be settled with the prior approval of the Company's Audit & Supervisory Committee.

**(2) Matters on reporting to the Audit & Supervisory Committee**

- i) The Company's Directors (excluding Directors who are Audit & Supervisory Committee Members) and employees shall establish a system capable of ensuring that an Audit & Supervisory Committee Member appointed by the Company's Audit & Supervisory Committee attends conferences on important issues of the Company or its group companies and, in addition, shall report as appropriate to the Company's Audit & Supervisory Committee on matters based on the laws or on matters called for by the Audit & Supervisory Committee about the Company or its group companies.
- ii) The Company's internal audit department shall obtain approval from the Company's Audit & Supervisory Committee regarding internal audit policies and plans to be conducted and report to the Company's Audit & Supervisory Committee on the progress of the internal audit and its results. The internal committee governing compliance reports to the Audit & Supervisory Committee on matters related to Speak Up System or compliance violations, as well as potential risks of such violations.
- iii) The Company shall establish a system capable of ensuring that none of the Company's Directors (excluding Directors who are Audit & Supervisory Committee Members) and employees or its group companies' Directors, Corporate Auditors and employees will be put at any disadvantage on the ground of having reported to the Company's Audit & Supervisory Committee.

**(3) Matters concerning expenses arising from the performance by the Audit & Supervisory Committee Members of their duties (limited to expenses related to the execution of duties of the Audit & Supervisory Committee)**

The Company shall establish a system capable of ensuring meeting expenses required for the execution by its Audit & Supervisory Committee Members of their duties, with respect to those expenses that may arise from the performance by such Audit & Supervisory Committee Members of their duties.

**(4) Other matters for ensuring the effective conduct of audits by the Audit & Supervisory Committee**

- i) The Company's Senior Management, including Representative Directors, shall hold regular meetings with the Company's Audit & Supervisory Committee, to exchange views and deepen mutual understanding about tasks to be undertaken by the Company, risks confronting the Company, and the general state of the environment for auditing by the Audit & Supervisory Committee.
- ii) The Company shall establish a system whereby the Company's Audit & Supervisory Committee may, as necessary, instruct the Company's internal audit department and the Compliance Committee to conduct investigations, submit reports, etc., in order to ensure the effectiveness of the audits conducted by the Audit & Supervisory Committee.

**9. A system for excluding influences of antisocial factions and groups**

The Company shall never enter into any relationship, including transactional relations, with antisocial factions and groups that threaten to disrupt the public order and safety of society, and shall take action against them across the Company in a firmly determined and uncompromising manner, working closely with outside specialized institutions.