

## Basic policy for Enhancement of the Internal Control System

(Established on 2006.05.15)

(Revised on 2011.03.25)

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### 1. Fundamental Principles

- (1) Sumitomo Chemical Company (The Company) aspires to contribute to global sustainable development as a chemical manufacturer by developing and supplying technologies and products that are useful and take due account of safety for the benefit of society. The Company's Board members and employees alike place great importance on gaining the trust of society, and conduct business based on the principles incorporated in the "Business Philosophy", the "Sumitomo Chemical Charter for Business Conduct" and the United Nations "Global Compact," etc.
- (2) The Company recognizes that establishing a system necessary to ensure the proper conduct of business ("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, the Board of Directors, corporate auditors, Board of corporate auditors, accounting auditors, as well as shareholders meetings and Directors, in accordance with the laws and the Articles of Incorporation.
- (2) Directors shall observe all applicable laws, the Articles of Incorporation and resolutions of the shareholders meetings. They shall also have an obligation to be attentive to their duties as good managers and carry out these duties faithfully. The term of office for Director shall be one year to allow for a swift response to changes in the business environment of the Company. 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) 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 retention periods, management procedures and other matters with respect to documents (including those recorded electromagnetically), and shall retain and manage such information properly in conformity with the Company's internal rules.

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

- (1) The 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 "Group") and shall monitor the progress of work toward the targets.
- (2) The 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) Directors shall work to get information about management activities of the Group in a prompt and appropriate manner by establishing management information systems utilizing information technology.

**5. A system for ensuring that the Company's employees and its group companies' Directors 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 (“Risk”). Furthermore, when certain issues have been pointed out as a result of auditing by corporate auditors, 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**

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.

**8. A system for ensuring the effective conduct of audits by the Company's corporate auditors**

**(1) Matters concerning employees who are due to assist the corporate auditors in performing their duties**

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

**(2) Matters on reporting to the corporate auditors**

i) The Company's Directors and employees shall establish a system capable of ensuring that the Company's standing corporate auditors attend conferences on important issues of the Company or its group companies and, in addition, shall report as appropriate to the corporate auditors on matters based on the laws or on matters called for by the corporate auditors about the Company or its group companies.

ii) The Company's Directors shall report to its corporate auditors on internal audit plans to be conducted by an internal audit department, the progress of the audit and its results.

iii) The Company shall establish a system capable of ensuring that none of the Company's Directors 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 corporate auditors.

**(3) Matters concerning expenses arising from the performance by the corporate auditors of their duties**

The Company shall establish a system capable of ensuring meeting expenses required for the execution by its corporate auditors of their duties, with respect to those expenses that may arise from the performance by the Company's corporate auditors of their duties.

**(4) Other matters for ensuring the effective conduct of audits by the corporate auditors**

- i) Representative Directors shall hold regular meetings with the Company's corporate auditors, 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 corporate auditors.
- ii) The Company shall work to develop a system whereby the Company's corporate auditors 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.

**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.