

Basic policy for establishment of internal control system

System to ensure that the execution of duties by the directors complies with laws and regulations and the Articles of Incorporation

Other systems to ensure the appropriateness of operations

(1) System to ensure that the execution of duties by the directors and employees complies with laws and regulations and the Articles of Incorporation

Under the NAGASE Group's longstanding management philosophy of being aware of our role as members of society and sincerely following the right path, we will continue to strive to achieve our goals. To establish and maintain a compliance system, we have a Risk and Compliance Committee. Following the Basic Compliance Policy of the parent company, all officers and employees are required to thoroughly conduct corporate activities in accordance with the NAGASE Group Compliance Code of Conduct. The Committee consists of members who are directors, employees, and others. These Committee members make all decisions related to risk management and compliance and, when necessary, use outside experts to prevent violations of laws, regulations, and the Articles of Incorporation.

Furthermore, we maintain and disseminate various rules, regulations, guidelines, manuals, and standards. In addition, decisions on individual cases are made after a multifaceted examination, including legality from a professional perspective, under the rules of reporting for approval.

If we find a problem, such as a violation of laws and regulations, we promptly communicate, consult with superiors and relevant departments, and report the problem to the Committee. The Committee immediately reports to the Board of Directors, the corporate auditor, and the Nagase Risk and Compliance Committee. Furthermore, the Committee has established a contact point for direct reporting and consultation by officers and employees through the internal reporting system. The Committee strives to raise awareness of legal compliance among officers and employees through education, such as seminars conducted by outside experts, and to promote the penetration of the management philosophy of the NAGASE Group.

(2) System for the storage and management of information related to the execution of duties by the directors

Information related to the execution of duties by the directors is recorded in documents or electronically under internal rules and regulations and is stored and managed. The directors and corporate auditor have access to these documents at all times.

(3) Rules and other systems for managing the risk of loss

The Board of Directors has a Risk and Compliance Committee for comprehensive management of the Company's risk of loss and its subsidiaries. The Board of Directors defines the functions and authority of the Committee and clarifies its roles and responsibilities. For individual risks related to the Company's corporate activities and its subsidiaries, the Committee specifies rules and guidelines, conducts training, and prepares and distributes manuals to the respective departments in charge. The Committee promptly appoints a department responsible for handling any new risks that may arise and implements the necessary measures. In addition, in an emergency within the Company and its subsidiaries, the Company will promptly and appropriately communicate information and establish an emergency system.

(4) System to ensure that the directors execute their duties efficiently

As the basis for a system to ensure that the directors execute their duties efficiently, the Board of Directors is positioned as a decision-making body for management policies and strategies and a supervisory body for business execution. In principle, the Board of Directors holds a meeting once a month and holds occasional meetings as needed. For the execution of operations based on decisions made by the Board of Directors, the Basic Rules for Organizational Management and the Division of Duties stipulate the persons in charge, their responsibilities, and execution procedures. The General Managers' Meeting is composed of full-time directors, general managers of business units, general managers of headquarters, and some members of the Corporate Planning Department. The General Managers' Meeting is held once a month in principle to discuss important matters, such as management issues, management and business strategies, and investment projects, and to support management decision-making.

(5) System for ensuring the appropriateness of business operations of the corporate group consisting of the stock company, its parent company, and subsidiaries

The Company and its parent company and the Company and its subsidiaries have established operating standards. Certain matters are decided internally by the Company and then approved by or reported to the parent company. Budgetary performance management of the Company and its subsidiaries is carried out under the medium-term management plan and the annual budget system. The Company manages the risks of the Company and its subsidiaries, centering on the Risk and Compliance Committee of the Company, which deliberates and determines issues and countermeasures related to the promotion of risk management. Furthermore, the Company and its subsidiaries deliberate and make decisions on important matters related to compliance.

In addition, to further enhance the reliability of financial reporting, the Company is taking steps to document, value, and improve the status of companywide internal controls and the process of preparing financial statements following the Financial Instruments and Exchange Act. Officers are dispatched to subsidiaries in principle to monitor whether operations are being conducted properly.

An operational audit team has been established under the President's direct control, independent of each business division and headquarters, to conduct operational audits in cooperation with the Audit Office of the Nagase & Co., Ltd. The Company has established a system to ensure the appropriateness and reliability of business execution and financial statements by appointing an accounting auditor and receiving accounting audits by such auditors.

(6) Matters concerning employees requested by the corporate auditor to assist them in their duties

To ensure the effectiveness of audits by the corporate auditor, the Company shall establish employees to assist the corporate auditor in their duties at the request of the corporate auditor.

(7) Matters concerning the independence of the employees in the preceding item from the directors and ensuring the effectiveness of instructions from the corporate auditor

To secure the employees' independence from the directors as outlined in the preceding paragraph, the Company consults with the corporate auditor in advance. The Company seeks their opinions when making personnel changes and evaluating employees. In addition, efforts are made to ensure the effectiveness of instructions given to such employees by considering the selection of the employees and the hours they are engaged in assisting the corporate auditor.

(8) Systems for reporting to the corporate auditor by the directors and employees and other systems for reporting to the corporate auditor

The Company has established a system whereby the corporate auditor can grasp the overall management status of the Company and its subsidiaries at all times by attending meetings of the Board of Directors and other important meetings, exchanging information with management, and inspecting approval documents and reports. Furthermore, the directors and employees of the Company and its subsidiaries report the following matters to the corporate auditor individually or through the Board of Directors, as appropriate.

1. Compliance issues, such as misconduct, violations of laws and regulations, and the Articles of Incorporation, concerning the execution of duties by the directors
2. Facts that may cause considerable damage to the company
3. Essential information to be disclosed
4. Facts reported under the internal reporting system
5. In response to direct reports to the Company's auditors from the directors and employees of Group companies, the Company prohibits any disadvantageous treatment of those who make such reports and ensures that all Group companies are aware of this prohibition.

(9) Other systems to ensure that audits by the corporate auditor are conducted effectively

To promote awareness and understanding of the importance and usefulness of audits by the corporate auditor, the corporate auditor

holds regular meetings with the President to exchange opinions. In addition, to enable the corporate auditor to perform their auditing duties efficiently and effectively, the Company has a system that enables close cooperation and mutual complementarity with the accounting auditor and the business auditing team. The corporate auditor may request advice from attorneys, certified public accountants, and other outside experts and request necessary expenses, such as the commissioning of research, appraisal, and other administrative work, to conduct audits. The Company cannot refuse such requests unless it finds that the expenses related to the requests are not necessary for the execution of duties by the corporate auditor.

Supplementary resolution

The resolution of the Board of Directors regarding the establishment of a system to ensure the properness of the Company's business operations, which was resolved today, shall be constantly reviewed. Such reviews will realize the reinforcement of the governance system more appropriately in light of changes in the company's environment.

March 12, 2012	Revised by resolution of the Board of Directors
March 13, 2013	Revised by resolution of the Board of Directors
March 11, 2014	Revised by resolution of the Board of Directors
May 15, 2015	Revised by resolution of the Board of Directors
May 18, 2017	Revised by resolution of the Board of Directors
May 22, 2018	Revised by resolution of the Board of Directors
May 27, 2019	Revised by resolution of the Board of Directors
May 27, 2020	Revised by resolution of the Board of Directors