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News Release  
(Translation)

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## **Notice of formulation of preventive measures and disciplinary action in response to improprieties at an overseas subsidiary**

As described in the February 14, 2025 News Release, “Notice of Receipt of Investigation Report from Special Investigation Committee,” Fukoku Co., Ltd. (“Company” hereinafter) is taking the findings of the Special Investigation Committee with the utmost seriousness. This Special Investigation Committee found that an employee of consolidated overseas subsidiary Shanghai Fukoku Rubber & Plastics Industry Co., Ltd. (“Shanghai Fukoku” hereinafter) had withdrawn funds for personal use (“Impropriety” hereinafter). To enhance the internal controls of the Company and the Fukoku Group in response to the Impropriety, the Company has established an Internal Controls Enhancement Committee, chaired by the President and CEO, and considered various measures to prevent the recurrence of this incident in line with the report’s recommendations.

In its meeting held today, the Company’s Board of Directors passed a resolution on various matters in connection with this Impropriety, including preventive measures and disciplinary action.

### Details

#### 1. Analysis of the factors giving rise to the Impropriety

The Special Investigation Committee found that the Impropriety was attributable to a single employee assigned responsibility for accounting, receipts, and disbursements at Shanghai Fukoku. No other officers or employees were cleared of possible involvement in the Impropriety. In addition, no comparable cases of embezzlement or other improprieties were discovered at other Group companies.

The Special Investigation Committee pointed out the following issues as reasons why the Impropriety could not be prevented or promptly detected. Please refer to the Special Investigation Committee’s Investigation Report for more information on each factor.

##### (1) Shanghai Fukoku’s internal administrative system

- (i) Failures of internal controls in accounting processes
- (ii) Assignment of all duties related to receipts, disbursements, and their recording to a single individual for an extended period; concurrent assignment of the duties related to calculation of cost to the same accounting personnel
- (iii) Extended tenure of personnel assigned to specific positions, such as finance manager and vice president

- (iv) Inadequate awareness of the potential for improprieties by employees in charge of administering receipts and disbursements
- (v) Perfunctory implementation of the governance under the structure governed by Chinese corporate law

(2) The Company's systems for administering Shanghai Fukoku

- (i) Management by the Finance Department and the Business Strategy Office
- (ii) Internal audits by the Internal Audit Office
- (iii) Issues involving risk evaluations as part of subsidiary management
- (iv) Issues involving organizational culture
- (v) HR management that allowed extended tenure of the vice president of Shanghai Fukoku

2. Overview of preventive measures

Summarized below are the preventive measures formulated by the Company to address each of the factors identified by the Special Investigation Committee:

(1) Reorganization of Shanghai Fukoku's administration system

- (i) Establishment of internal controls in accounting processes
  - i. Use of petty cash and checks at Shanghai Fukoku will be discontinued.
  - ii. Operational processes related to management and the handling and use of seals will be made clearer. The President of Shanghai Fukoku will assume responsibility for managing the seals used when making payments and for checking the purpose of use, vouchers, evidence, etc. before use of seals.
  - iii. For processes involving the payment and recording of expenses, separate persons will be assigned responsibility for preparing and checking vouchers within the organization handling such preparation. Payments will be double-checked by the accounting section. Duties related to approving payments and executing payments (persons in charge of receipts and disbursements) will be thoroughly segregated and assigned to different persons.
  - iv. The checks and balances and division of responsibilities described above will be documented clearly in the rules and other documents. All Shanghai Fukoku personnel will be made thoroughly aware of these rules and documents.
  - v. The President of Shanghai Fukoku will monitor everyday operational processes.
- (ii) Personnel-related risk management
  - i. The practice of having the same person handle administration of receipts and disbursements and calculation of costs will be eliminated. The concurrent assignment to those duties will be prohibited.
  - ii. To ensure the efficacy of checks and balances and double-checking, assigned duties will be revised or job rotations implemented within three years, for the time being, to prevent the extended tenure of same personnel as persons executing payments (persons in charge of receipts and disbursements), persons double-checking payment operations, and persons approving payment operations.

(iii) Training and education on risks of improprieties and the importance of internal controls

In February 2025, the Company provided on-site training and education and awareness promotion activities for all managers of Shanghai Fukoku on the risks of improprieties and the importance of internal controls. Henceforth, periodic training will be provided for all managers of Shanghai Fukoku to ensure a proper understanding of the risks of improprieties in internal controls, based on guidelines and

manuals (see 3-(2)-(iv)) prepared by the Company that identify standard procedures and other matters for incorporating appropriate internal controls into accounting processes.

(iv) Enhancement of the governance structure under Chinese corporate law

- i. The Shanghai Fukoku Board of Directors will be enhanced to assume the functions of management and oversight of the state of business execution at Shanghai Fukoku.
- ii. The Company will dispatch Directors and Auditors to the Shanghai Fukoku Board of Directors, and the President of Shanghai Fukoku also will participate in the Board. During the coming year, as the person responsible for implementing preventive measures, the President of Shanghai Fukoku will report monthly to the Shanghai Fukoku Board of Directors on the state of implementation of preventive measures, including the execution of checks and balances and division of responsibilities.
- iii. Directors and Auditors dispatched from the Company will monitor the state of implementation of preventive measures and report to Company management on a quarterly basis. Company management will assess the state of implementation and determine the frequency of meetings and reports in the second year and thereafter.

3. Improving and strengthening the Company's administration system for Shanghai Fukoku

(1) Support for and monitoring of the formulation and implementation of preventive measures at Shanghai Fukoku

The Company has formulated preventive measures for Shanghai Fukoku under 2. above in cooperation with Shanghai Fukoku. Over the coming year or so, efforts will be made to ensure a thorough understanding of the preventive measures at Shanghai Fukoku, and each quarter the Company (Internal Audit Office, Finance Department, and other administrative sections) will check the state of implementing preventive measures on site and provide support as needed for their execution.

(2) Improving and strengthening the governance structure Groupwide

To improve and strengthen the governance structure Groupwide, the Company will enhance the functions of the Internal Audit Office and implement the following measures:

(i) Detailed risk evaluation for each subsidiary

The Internal Audit Office will send questionnaires on internal controls, focusing on the risk of potential improprieties in accounting processes, to all facilities, and collect and check their answers.

Risk evaluations of subsidiaries' internal controls will be performed and updated with consideration of the results of this check and the conditions at each subsidiary, including lines of business, scale of operations, status of division of responsibilities, and status of job rotations.

(ii) Checks and balances through on-site inspections of the status of internal controls

Based on risk evaluations of subsidiaries under (i) above, risks will be prioritized. The Internal Audit Office (and, as necessary, the Finance Department and other administrative sections) or Audit and Supervisory Committee members will analyze and investigate operational and other processes and implement on-site verification, as necessary. Plans call for launching these starting with Shanghai Fukoku.

(iii) Enhancing and analyzing financial data by the Finance Department and the Business Strategy Office

To increase the likelihood of identifying irregularities in analyses of changes and budget vs. actuals in subsidiary financial results by the Finance Department and Business Strategy Office, the Company will consider various approaches to the implementation of such measures, including the use of AI and other analytical tools.

(iv) Support by related sections for establishing internal controls

The Internal Controls Enhancement Committee will prepare, manage, and update guidelines and manuals that identify standard procedures and other matters to incorporate appropriate and effective internal controls into accounting processes. It will then take steps to ensure that each subsidiary thoroughly understands these matters.

(v) Reflecting risk evaluations in subsidiary personnel management

The Company will dispatch personnel familiar with internal controls to subsidiaries recognized to pose potential concerns based on evaluations on risks at the subsidiaries or on-site verification by the Internal Audit Office and other sections under (ii) above. In addition, to avoid excessively long tenures by personnel in such assignments, job rotations will be effected at certain intervals (from three years to up to five years).

(vi) Enhanced training and education for management human resources dispatched from the Company to overseas facilities

For management human resources dispatched from the Company to overseas facilities, the pre-overseas-assignment training currently handled by the Internal Audit Office to foster awareness of compliance and the training conducted by the Business Strategy Office and the Finance Department on financial knowledge will be enhanced. Internal control procedures for the accounting processes will be incorporated into training programs, using as teaching materials the guidelines and manuals referred to above.

(vii) Utilization of intermediate management coordination organizations

With regard to Shanghai Fukoku, the system whereby the president and the vice president in charge of management serve concurrently as the president and the vice president in charge of management of Fukoku (Shanghai) Trading Co., Ltd. ("Fukoku (Shanghai) Trading" hereinafter) will be abolished. Within the coming year, the involvement of and checks and balances implemented by the Company head office, including dispatching representatives from the Company, will be strengthened. To date, Fukoku (Shanghai) Trading has been responsible for coordinating the consolidated subsidiaries, including Shanghai Fukoku, as well as equity method affiliates in China; henceforth, functions related to coordinating management processes in China will be enhanced and a system developed to enable effective management. Since the conditions of facilities subject to coordination vary from region to region, management coordination structures will be established for each region.

#### 4. Details of disciplinary action

In the meeting of the Company's Board of Directors held on February 28, 2025, the following voluntary refunds of executive remuneration were proposed.

President and CEO:	20% of monthly executive remuneration for a three-month period
Chairperson of the Board:	10% of monthly executive remuneration for a three-month period
Director (Corporate Officer and Chief Director of Administration Division/General Manager of Personnel Planning Department):	10% of monthly executive remuneration for a three-month period

Director (Standing Audit and Supervisory Committee Member): 10% of monthly executive remuneration for a three-month period

Along with the measures above, the decision was made to take stringent disciplinary action and related measures in accordance with Company regulations for managers and employees of Shanghai Fukoku and the Company.

On December 12, 2024, criminal charges of embezzlement were filed with the Shanghai Public Security Bureau against the Shanghai Fukoku employee who committed the Impropriety. The investigating authorities decided to initiate an investigation. Following detention and investigation, the employee was arrested on January 23, 2025. The investigation by the investigating authorities continues.

The employee was subjected to disciplinary dismissal under Chinese labor laws.

We offer our sincerest apologies to shareholders, business partners, and other stakeholders for the considerable concern this matter has caused. We will strive to regain trust by steadily implementing preventive measures that ensure such incidents can never occur again.