

Policies for Development and Implementation of Internal Control Systems

At the Company's Board of Directors' meeting held on March 23, 2018, the following matters were resolved regarding the development of internal control systems pursuant to the provisions of Items (i)(b) and (e) of Paragraph (1) of Article 416 of the Companies Act.

1. Fundamental principles for the development of the Company's internal control systems

Under the corporate mission of "Serving Society with Superior Quality," the Company continues its work to realize the ultimate goal of becoming "a truly global company" and achieving "*Dan-Totsu* in all aspects of its business."

As part of the initiatives undertaken, segregation between oversight and execution of the duties, oversight by the Board of Directors, and appropriate and more efficient business operations are all regarded as the fundamental principles that the Company should consider in the refinement of its internal control systems.

With the understanding of the above, the Company's Board of Directors determines policies for development and implementation of internal control systems.

In order to realize the enhancement of internal control systems and speed of decision-making and subsequently reach a new height of the efficiency and effectiveness of management and business execution in accordance with the policies on the development of the internal control systems, the Company's Board of Directors delegates the development and implementation of internal control systems that are in line with the set policies to the Representative Executive Officer and oversee the implementation work.

2. Matters that are necessary in the execution of duties by the Audit Committee

- (1) In order to assist the work of the Audit Committee, the Company appoints a Corporate Officer dedicated to audit, and under the Corporate Officer, establishes a department dedicated to assist the Audit Committee with their duties.

Decisions on the selection and replacement of the Corporate Officer dedicated to audit are made based on prior consultations and/or requests from the Audit Committee. The same applies when the Audit Committee requests replacement of the Corporate Officer.

The performance assessment of the Corporate Officer dedicated to audit takes the performance evaluations conducted by the Audit Committee into consideration.

- (2) A person designated by the Audit Committee is required to report on matters predetermined by the Audit Committee periodically or without delay.

The Company prohibits unfavorable treatment of Members of the Board, Executive Officers, Corporate Officers, and employees of the Company, and the Members of the Board, Corporate Auditors, Corporate Officers, and employees of subsidiaries for reporting matters to the Audit Committee.

- (3) All the expenses associated with the execution of duties by the Audit Committee are fully compensated.
- (4) In order to ensure an effective audit by the Audit Committee, opportunities are created for Members of the Audit Committee to gain an understanding of the flow of important decision-making practices in the Company and the status of business operations.

3. Systems to ensure that the execution of duties by Executive Officers complies with relevant laws and regulations and the Articles of Incorporation, and matters that are necessary for the appropriate execution of business operations by the Company and the corporate group consisting the Company and its subsidiaries

- (1) Information concerning execution of duties by Executive Officers is documented without delay and adequately retained. Any significant information related to the execution of business is reported to the Board of Directors without delay.
- (2) A risk management system is developed and implemented to manage risks of incurring losses.
- (3) In order to ensure the efficient execution of duties by Executive Officers, under the appropriate delegation of authority from the Board of Directors to the Representative Executive Officer, internal policies are maintained, and appropriate authorities required for the execution of duties are reallocated.
- (4) In order to ensure that execution of duties by the Executive Officers, Corporate Officers, and employees complies with relevant laws and regulations and the Articles of Incorporation, systems for J-SOXZ Act compliance are developed and implemented in accordance with “System for Ensuring Appropriateness of Statements on Finance and Accounting and Other information,” set forth in Article 24-4-4 of the Financial Instruments and Exchange Act of Japan (the so-called “J-SOX Act”.)
- (5) In order to ensure proper execution of business operations at subsidiaries, policies are communicated across the Group; authorities are appropriately reallocated; a reporting framework for subsidiaries to report their execution of business to the Company is developed and implemented; and audits are conducted globally.

Risk management systems, compliance systems, systems against antisocial forces, and systems for J-SOX Act compliance are developed and implemented within each subsidiary.