

## **Basic Policy on Internal Control**

To realize the KITZ' Statement of Corporate Mission, which represents the corporate philosophy of the group of companies consisting of the Company and its subsidiaries (hereinafter "Group"), the Company shall develop and operate the following internal controls system (i.e., a system to ensure that the performance of duties by directors conforms with laws, regulations, and the articles of association and other systems necessary to ensure the propriety of the business operations of the joint-stock company and the group of companies consisting of the joint-stock company and its subsidiaries) based on the Companies Act and the Enforcement Regulations to the Companies Act with the aim of achieving soundness and strength in the Group's management foundations.

### **1. System for ensuring that the performance of duties of directors and employees of the Company and its subsidiaries conform to laws, regulations, and the articles of association**

- (1) Directors and employees of the Company and its subsidiaries shall carry out their duties in thorough conformity to laws, regulations, and the articles of association, as well as the KITZ' Statement of Corporate Mission, Long-Term Management Vision, the Action Guide, the Basic Policy on Sustainability, the Basic Policy on Corporate Governance, the Compliance Code of Conduct, and other policies established by the board of directors of the Company or its subsidiary.
- (2) The board of directors shall receive periodic reports on the state of execution of business operations from the managing executive directors and executive officers and shall oversee the performance of the duties of each director.
- (3) Audit and supervisory board members shall carry out audit and supervisory board member audits of the performance of the duties of directors based on the rules of the audit and supervisory board and the standards for audit and supervisory board member audits.
- (4) The C&C Control Committee, chaired by the president, shall be established as an organization to maintain the Groupwide compliance structure and ascertain and address related issues, to respond to crises, and to supervise risk management. This committee shall promote compliance Groupwide.
- (5) The Group shall establish a Groupwide internal whistleblowing system to enable notification,

reporting, and consultation regarding any violations of laws, regulations, or the Compliance Code of Conduct or other suspicious acts that have been identified. As the contact point to receive such communications, it shall establish a Compliance Helpline at the Company and subsidiaries, as well as inside a law firm.

(6) The Compliance Guidebook shall be distributed to directors and employees of the Company and subsidiaries as part of compliance awareness-raising and educational activities and to publicize the Compliance Helpline.

(7) The Group shall respond resolutely to antisocial forces by refusing any and all relationships with such forces, refusing to yield to any threats, and rejecting their demands of any kind.

## **2. Structure for retention and management of information concerning the performance of duties of Company directors**

(1) Information in important documents and other materials (including electromagnetic records) concerning the performance of the duties of directors shall be retained and managed appropriately in accordance with laws, regulations, and internal rules.

(2) Information in the above documents and other materials shall be kept in a state in which directors and audit and supervisory board members may view it as needed.

## **3. Rules and other structures related to management of risks of losses by Company subsidiaries**

(1) An executive officer responsible for Group risk management shall be appointed to promote risk management in business execution by the Group.

(2) As for risks in Group business execution, the Management Conference shall identify, analyze, and assess the risks, and consider and implement countermeasures against the risks based on policies and assessment standards on risk management formulated by the C&C Control Committee. The board of directors shall make decisions on the identification of important risk items and policies for implementing countermeasures.

(3) A Business Continuity Plan (BCP) shall be developed and implemented to be prepared for risks related to business interruption due to natural disasters or other causes as anticipated by the Group.

- (4) In addition to the development of a management structure for various risks related to the Group's business execution and management of information on risks at subsidiaries through Group company rules specifying such matters as items for which application for approval and reporting to the Company are required, other efforts for internal auditing by the Internal Audit Office shall be employed to promote integrated crisis management related to losses Groupwide.
  
- (5) To assess risks related to Group business execution, various committee organizations shall be established and utilized to carry out the necessary responses regarding such matters as internal controls, responding to crises, risk management, compliance, quality assurance, the environment, safety and health, security trade control, investment and loans, information security, personal information protection, corporate identity, and promotion of sustainability.

#### **4. Structure for ensuring efficiency in the performance of duties of directors of the Company and subsidiaries**

- (1) Efforts will be made toward swift decision-making by the board of directors, enhancement of its supervision functions, and clarification of responsibility in business execution by ensuring a more appropriate number of directors and adopting an executive officer system.
  
- (2) Independent outside directors will be appointed who have a wealth of experience, as well as fair and impartial discernment, to increase the appropriateness and validity of management decisions by the board of directors.
  
- (3) Decision-making by the boards of directors of the Company and subsidiaries shall be conducted in accordance with the rules of the board of directors and the rules on decisions on applications for approval.
  
- (4) The scope of delegation of authority from the board of directors shall be established, and efforts shall be made to ensure swift and efficient business execution through rules on the delegation of authority, rules on decisions on applications for approval, rules on Group companies, and other rules.
  
- (5) Basic policies on management, policies on medium-term management, annual business plans, and related matters concerning Group business activities shall be decided by the board of

directors.

- (6) The Management Conference shall confirm progress on policies on management and management plans decided by the board of directors and make related adjustments, as well as discussing and deciding on important matters related to management and business execution.
- (7) Together with deciding on response policies to realize each of the principles of the Corporate Governance Code and enhancing corporate governance, decision-making shall be carried out in fair, transparent, swift, and decisive ways.
- (8) It shall be periodically verified whether the board of directors is functioning properly and efficiently, and appropriate measures shall be implemented based on the results.

#### **5. Structure for ensuring the propriety of Group business operations**

- (1) To ensure the propriety and efficiency of Group business operations, in addition to the establishment and maintenance of rules, progress shall be made on the development and maintenance of information systems to ascertain the state of achievement of management goals and to utilize related information in a timely manner.
- (2) Transactions between Group member companies shall be carried out fairly and appropriately in light of laws, regulations, accounting principles, and other social norms.
- (3) Based on the rules on Group companies, the Company shall strive to ensure the propriety of Group business operations through means that include the establishment of organizations to supervise individual subsidiaries and the development of structures related to reporting to the Company on matters related to the performance of duties of subsidiary directors and other management, structures related to the management of the risk of losses, structures for the efficient performance of duties, and structures to ensure conformity to laws, regulations, and the articles of association.
- (4) Representative directors, managing executive directors, and executive officers shall guide subsidiaries to enable them to maintain and operate appropriately the internal controls systems in accordance with their individual job duties. They also shall guide the representative directors and other directors of subsidiaries to retain and manage information related to the performance

of the duties of directors.

- (5) Together with serving concurrently as directors of subsidiaries and monitoring and overseeing their management, Company sections in charge of subsidiaries and others shall carry out prior approval of important matters related to the execution of subsidiaries' business operations based on the Group company rules.
- (6) Corporate staff sections shall provide guidance to subsidiaries as necessary based on their individual functions to support efficient and appropriate business execution.
- (7) An Internal Audit Office shall be established to ensure the efficacy and validity of internal controls throughout the business operations of all Group companies by implementing internal audits of the Company and subsidiaries.
- (8) The Internal Audit Office shall plan business audits and report on the state of implementation and results to Company representative directors, directors and executive officers responsible for individual subsidiaries, Company audit and supervisory board members, and subsidiary representative directors in accordance with their degrees of importance. As necessary, it also shall attend meetings of the board of directors to report directly on the state of internal auditing.
- (9) To ensure the reliability of financial reporting, the state of internal controls and business processes of all Group companies shall be subjected to evaluation, improvement, and documentation in accordance with the policies of the Internal Control Committee, and the board of directors shall check on these activities periodically.
- (10) By serving concurrently as audit and supervisory board members of subsidiaries that have established audit and supervisory boards, standing audit and supervisory board members shall cooperate closely with the accounting auditor and the Internal Audit Office to enable effective and appropriate monitoring and verification of the states of management of subsidiaries, as well as ascertaining of the state of consolidated management Groupwide.
- (11) Company directors and directors of subsidiaries shall report to audit and supervisory board members on the state of execution of their duties in meetings of the board of directors, the Management Conference, and other important meetings in which audit and supervisory board

members participate or are in attendance.

**6. Structures related to reporting to the Company on matters related to the performance of duties of directors of subsidiaries**

- (1) The Group company rules shall apply to all subsidiaries, and subsidiaries shall be obligated, under the standards for decisions and reporting in the board of directors and the Management Conference, to obtain prior approval from the Company for important matters concerning management and to report to the board of directors and the Management Conference.
- (2) Directors and executive officers of Company sections responsible for subsidiaries shall receive, from directors and other employees of the subsidiaries of which they are responsible, reports on important matters related to the performance of their duties.

**7. Matters related to appointment of employees to assist the Company's audit and supervisory board members**

- (1) The Auditors Board Office, under the direct control of the audit and supervisory board, shall be established as an organization to assist in the duties of the audit and supervisory board and audit and supervisory board members.
- (2) Employees capable of fulfilling the duties described in the preceding paragraph shall be appointed to the Auditors Board Office (hereinafter "Auditors Board Office staff").
- (3) The Auditors Board Office shall serve as the administrative secretariat of the audit and supervisory board in addition to performing its duties as instructed by audit and supervisory board members.

**8. Matters related to securing the independence from directors of employees assisting in the duties of audit and supervisory board members as described in the preceding paragraph and to ensuring the efficacy of the instructions of audit and supervisory board members**

- (1) The post of Auditors Board Office staff shall be a full-time post. Auditors Board Office staff shall be independent of the directors and shall not serve in other concurrent business-execution posts. However, they may serve concurrently as audit and supervisory board members of subsidiaries.
- (2) The prior consent of the audit and supervisory board shall be obtained regarding matters related to the appointment, transfer, and other personnel decisions regarding the Auditors Board Office staff.

(3) Personnel evaluations of Auditors Board Office staff shall be conducted by the audit and supervisory board in accordance with the rules of the audit and supervisory board.

**9. Structures for reporting by directors and employees of the Company and subsidiaries to Company audit and supervisory board members, structures for other reporting to audit and supervisory board members, and structures for ensuring that those who have made such reports will not be treated at a disadvantage for reason of having made such reports**

(1) Company directors and directors and audit and supervisory board members of subsidiaries shall report swiftly to Company audit and supervisory board members concerning any acts in violation of laws, regulations, or the articles of association and other acts, matters, or states with a major impact on Company management or business results.

(2) Company directors and directors and audit and supervisory board members of subsidiaries shall respond appropriately to any requests from Company audit and supervisory board members for reports on the state of business execution, financial standing, and other matters. The same shall apply to employees of the Company and subsidiaries.

(3) Necessary measures shall be implemented to ensure that those who have made reports as described in the preceding paragraphs will not be treated at a disadvantage for the reason of having made such reports.

(4) The Internal Audit Office shall cooperate with audit and supervisory board members, report to audit and supervisory board members in a timely manner concerning the results of auditing and important internal information learned in the auditing process, and provide audit information as requested by audit and supervisory board members.

(5) The C&C Control Committee shall share information with audit and supervisory board members concerning the details of internal whistleblowing reports made to the Compliance Helpline and other parties in the Group and the state of responses to such reports.

**10. Matters related to costs arising from the performance of duties of audit and supervisory board members or policies related to processing of obligations**

(1) Costs recognized to be necessary for the performance of duties of the audit and supervisory board

and audit and supervisory board members shall be budgeted in advance. However, emergency or extraordinary cost expenditures may be repaid after the fact.

- (2) Remuneration to attorneys and other professionals and other expenses incurred in the performance of duties of audit and supervisory board members and the audit and supervisory board shall be borne by the Company, including those paid in advance.

#### **11. Other structures for ensuring the efficacy of auditing by audit and supervisory board members**

- (1) In addition to periodically holding meetings for exchange of opinions with representative directors, the audit and supervisory board also shall establish opportunities for exchange of information and opinions with managing executive directors and executive officers concerning management topics.
- (2) The audit and supervisory board shall periodically hold tripartite audit meetings among the accounting auditor, audit and supervisory board members, and the Internal Audit Office, to receive reports on the state of auditing and other matters, exchange information and opinions, and promote close cooperation.
- (3) The audit and supervisory board shall periodically hold four-party audit meetings among the accounting auditor, audit and supervisory board members, independent outside directors, and the Internal Audit Office to exchange information and achieve shared understanding based on independent, objective points of view and to strive to improve the auditing functions of audit and supervisory board members and the oversight functions of independent directors.
- (4) Standing audit and supervisory board members may serve concurrently as audit and supervisory board members of subsidiaries that have audit and supervisory board structures, to ascertain the state of their management. As necessary, they also may attend important meetings of the Company and subsidiaries and offer opinions.
- (5) As they judge necessary for purpose of auditing, audit and supervisory board members and the audit and supervisory board may employ attorneys, certified public accountants, and other professionals.



Record of establishment and revision

May 12, 2006: Established and applied

April 11, 2008: Revised

April 12, 2012: Revised

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May 27, 2020: Revised

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