

Latest revision approved
by the Board of Directors
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Basic Policy on Internal Control

The Company, in accordance with the provisions of Article 362 of the Companies Act and of Article 100 of the Ordinance for Enforcement of the Companies Act, defines the Company's basic policy on internal control as follows.

- 1) A system necessary to ensure that the execution of duties by directors/employees of the Group complies with laws/regulations and the Company's articles of incorporation, and other systems necessary to ensure the appropriateness of operations as a business group**
 - i) A corporate philosophy and the Nitto Group Business Conduct Guidelines expressing such philosophy in concrete terms to ensure that employees make lawful and ethical decisions shall be established and communicated to all officers and employees of the Group to familiarize them with the same, and the Company's directors shall take the lead in complying with legal and ethical norms to set an example for others to follow.
 - ii) The Company's Board of Directors shall adopt an outside director system.
 - iii) In order to promote CSR activities, including the establishment of compliance and risk management systems for the Group, an executive officer (director or vice president) in charge of CSR shall be appointed and a CSR Committee shall be set up and chaired by that executive officer.
 - iv) In addition to the CSR Committee, expert committees comprising related departments shall be set up to address issues across the Group, compliance, and risk management.
 - v) An Internal Control Committee chaired by the Company's Board Member and President shall be established to confirm the operational status of the aforementioned basic policy and to consider revisions of the policy when necessary.
 - vi) A department in charge of internal audits shall be established to internally audit the appropriateness and other aspects of the operational process and operations in general at each division of the Company and Group companies. Departments specializing in such areas as safety, the environment, quality, and export control shall be established in order to conduct audits in collaboration with the department in charge of internal audits.
 - vii) An internal hotline shall be set up, in addition to a whistleblowing system through which a specialized external institution directly receives relevant information. A Legal and Ethical Compliance Committee that includes the executive officer in charge of CSR shall also be established to handle the process and develop a recurrence prevention system.

viii) A system shall be established that ensures the appropriateness, validity, and efficiency of the operational process and operations in general, including internal control necessary to ensure the reliability of financial reporting.

2) A system for safekeeping and management of information on the execution of duties by the Company's directors

All documents associated with the execution of duties by the Company's directors, including, but not limited to, the minutes of general meetings of shareholders, Board of Directors meetings, Corporate Strategic Committee meetings, and *ringi* collective decision-making documents, shall be safekept and managed in a manner that is appropriate and reliable for the chosen storage medium, such as printed paper or electromagnetic media, in accordance with the regulations on control and safekeeping of documents, and kept in a condition that allows inspection as necessary.

3) Regulations and other systems for management of risks of loss for the Group

- i) The Company's Board of Directors, Corporate Strategic Committee, and individual operating entities shall constantly manage risks associated with business mix and business operation outside of Japan, risks arising from external factors, such as currency fluctuations and country risks, and risks associated with technological competitiveness, such as capabilities to develop new technologies and intellectual property rights, and respond to them as necessary.
- ii) With regard to risks associated with safety, the environment, disasters, and product quality/defects, and risks associated with protection of information security, responses to demands from antisocial forces, and compliance with the Antimonopoly Act, Pharmaceutical Affairs Act, Export Control Act, and other acts, a competent department shall be designated to identify significant risks periodically. Each risk thus identified shall be monitored and prevented by the relevant departments and committees, and project teams that may be formed as necessary.
- iii) An arrangement shall be in place to immediately inform the Board Member and President, an executive officer in charge of CSR, and corporate auditors of the Company of any unforeseen situation that may have developed, and to prevent any damage from expanding and minimize the same by setting up a crisis countermeasures headquarters under the Board Member and President, thereby ensuring continuity and early restoration of business.

4) A system for ensuring the efficient execution of duties by the Company's directors

- i) As a basis for a system to ensure the efficient execution of duties by the Company's directors, Board of Directors meetings shall, in principle, be held periodically once a month and extraordinarily as necessary.
- ii) Corporate decision-making rules shall be developed that demand significant matters concerning the

Company's concrete management policies and strategies be subject to resolution of the Board of Directors, the Corporate Strategic Committee consisting of directors and vice presidents (which convenes once a month, in principle), or other meetings organized by each operating entity, or be subject to the *ringi* collective decision-making process, depending on the importance of such matters.

- iii) Who is responsible for the execution of what duties and to what extent and the details of procedures for the execution of duties shall be defined by an organization designated by the Board of Directors, in Group Decision-Making Regulations and elsewhere.

5) A system for reporting to the Company matters concerning execution of duties by directors and other members of the Group

- i) Group Decision-Making Regulations/Rules shall be developed to ensure that Group companies properly consult, report to, or otherwise contact the Company concerning their decisions on management issues and other significant matters.
- ii) A system shall be established whereby directors and vice presidents of the Company are briefed on businesses under their supervision by the relevant Group companies and are involved in their decision-making processes, if necessary, in accordance with the Group Decision-Making Regulations/Rules, thereby ensuring the appropriateness of duties within the entire Group.

6) A system for ensuring the efficient execution of duties by directors and other members of the Group

- i) Who is responsible for the execution of what duties of the Group and to what extent and the details of procedures for the execution of duties shall be stipulated in Group Decision-Making Regulations/Rules and elsewhere.
- ii) Should the execution of duties by individual Group companies be deemed as constituting significant matters of the Company, the same shall be subject to resolution by the Board of Directors or other committees of the Company, depending on their importance.

7) Matters concerning employees whose appointment is requested by corporate auditors of the Company to assist them in their duties, matters concerning independence of such employees from directors, and matters concerning assurance of the effectiveness of instructions given by corporate auditors to such employees

- i) A corporate auditor assistant position shall be established in order to assist corporate auditors of the Company in their duties.
- ii) A corporate auditor assistant shall be affiliated with an independent organization and perform his/her duties under the direct command of corporate auditors.
- iii) Election and transfer of a corporate auditor assistant shall be determined with consent from full-time

corporate auditors.

- iv) Evaluation of a corporate auditor assistant shall be determined by full-time corporate auditors.
- v) A corporate auditor assistant shall not hold a concurrent position that concerns the execution of duties.
- vi) Directors of the Company shall recognize and comprehend the importance and usefulness of auditing by corporate auditors, make such recognition and comprehension known throughout the Group, and strive to enhance the internal audit system.

8) A system for directors and employees of the Company, directors of Group companies, and others to report to (the board of) corporate auditors of the Company and a system for ensuring that those who have made such a report are not unfavorably treated for having done so

- i) Directors and employees of the Company shall report significant matters that may affect the operations and/or performance of the Group to corporate auditors of the Company in accordance with the auditing plan determined by (the board of) corporate auditors.
- ii) Notwithstanding the above, corporate auditors of the Company may, whenever necessary, demand reports from directors and employees of the Company, their attendance at important meetings, and access to the minutes of such meetings or *ringi* collective decision-making documents and other reports.
- iii) Directors of the Company shall ensure that the Company's corporate auditors are reported to promptly and adequately by developing a whistleblowing system and a system for reporting emergencies and incidents concerning compliance and by maintaining their appropriate implementation.
- iv) A system shall be established for ensuring that whistleblowers are not unfavorably treated for having made a report by developing a whistleblowing system in which an external specialized institution directly receives such information.

9) Matters concerning accounting policies on procedures for advance payment or reimbursement of expenses that may be incurred with regard to the execution of duties by corporate auditors of the Company, and other accounting practices for expenses or liabilities that may be incurred with regard to the execution of duties by the corporate auditors

When corporate auditors of the Company demand from the Company advance payment or reimbursement of expenses that are incurred in the execution of their duties, such expenses or liabilities shall be processed promptly after deliberations by the division in charge, unless it is proven that the expenses or liabilities thus demanded were unnecessary for the execution of duties by the corporate auditors in question.

10) Other systems for ensuring that auditing by corporate auditors is performed effectively

- i) Corporate auditors of the Company shall establish a system that allows them to conduct audits efficiently in collaboration with accounting auditors, the department in charge of internal audits, and

others concerned, or by exchanging opinions and information with corporate auditors of Group companies. They shall audit Group companies as appropriate in accordance with an auditing plan and in cooperation with the department in charge of internal audits.

- ii) In addition to the auditing described above, a system shall be established whereby corporate auditors may demand a report from corporate auditors, directors, and senior executives of Group companies whenever necessary.

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