

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

The Nitto Group has stipulated its Mission, “Contribute to customers’ value creation with innovative ideas,” to clarify the role the Group should fulfill. The Group has also established the Nitto Way to show the values, mind-set, and code of conduct that every Nitto officer and employee should follow. These form the Group’s Corporate Philosophy. One of the principles of the Nitto Way is, “We place safety before everything else,” which refers not only to physical safety but also to the safety of management. The Group recognizes that creating a system needed to ensure the appropriateness of business operations (internal control system) and confirming their operation status are part of important management process.

Based on this view, the Nitto Group has established the Basic Policy on Internal Control as below.

1. Compliance promotion system

(Article 362, paragraph (4), item (vi) of the Companies Act; Article 100, paragraph (1), item (iv) and item (v) of the Ordinance for Enforcement of the Companies Act)

(1) Development of the Code of Conduct

The Nitto Group has established the “Nitto Group Business Conduct Guidelines” as the basis of the Group’s compliance practices that will guide the Group’s officers and employees to act ethically in compliance with laws and ordinances in their business activities.

(2) Appointment of officers and departments in charge

An officer in charge of compliance (Director or Vice President) shall be appointed and a department in charge of compliance shall be established to promote compliance in the Group.

(3) Development of a whistleblowing system

The department in charge of compliance shall function as a contact point for the Nitto Group’s whistleblowing system. In addition, an external professional organization shall function as an outside contact point to directly receive information from whistleblowers. The department in charge of compliance shall respond to reported incidents and develop a system to prevent their recurrence.

2. Risk management promotion system

(Article 100, paragraph (1), item (ii) and item (v) of the Ordinance for Enforcement of the Companies Act)

(1) Development of a business risk management system

Business execution departments shall manage risks associated with their business mix and overseas business operations, risks arising from external factors, such as foreign exchange fluctuations and country risks, and risks associated with technological competitiveness, such as capabilities to develop new technologies and intellectual property rights (hereinafter, “Business Risks”).

(2) Development of an operational risk management system

Special function departments shall manage risks associated with safety, the environment, disasters, and product quality/defects and risks associated with measures for information security and antisocial forces, and antimonopoly and export control laws (hereinafter, “Operational Risks”).

(3) Development of a risk monitoring system in each region

To build a global risk monitoring system, an officer in charge of regional management shall be appointed for each major geographic region to develop a regional oversight function.

(4) Development of a system of risk monitoring by officers

With respect to Business Risks, each business execution department shall provide reports to the Board of Directors and Corporate Strategy Meeting of Nitto Denko Corporation (hereinafter, “Nitto”) as needed. In respect of Operational Risks, an officer in charge of risk management shall be appointed and a department in charge of risk management shall be established to create a system for Nitto’s Board of Directors and Corporate Strategy Meeting to receive reports on Operational Risks.

(5) Development of a crisis management system

A system shall be developed to ensure that a report is promptly given to Nitto’s President and its officer in charge of risk management upon the occurrence of an emergency, accident, or disaster (hereinafter, collectively referred to as the “Emergency”). Upon the occurrence of an Emergency, a crisis management task force shall be created under the command of Nitto’s President to minimize the damage and to continue and promptly recover business operations.

3. Operational efficiency improvement promotion system

(Article 100, paragraph (1), items (iii), and (v) of the Ordinance for Enforcement of the Companies Act)

(1) Promotion of efficiency improvement of the Board of Directors

As a basis for the system to ensure the efficient execution of duties by Nitto’s Directors, the Board of Directors shall meet regularly, in principle, once a month, and have extraordinary meetings when needed.

(2) System to promote efficiency through the delegation of authorities

Important matters concerning the Group’s concrete management policies and strategies shall be subject to a resolution of Nitto’s Board of Directors depending on the degree of their importance.

They also shall be subject to a resolution at a meeting of the Corporate Strategy Meeting, which consists of Nitto's Directors (excluding Outside Directors) and Vice Presidents and, in principle, convenes once a month; a resolution of a meeting organized by the relevant business execution department; or an approval through a *ringi* collective decision-making process.

(3) Development of the Nitto Group's reporting system

The appropriateness of business operations of the entire Group shall be ensured by establishing a system whereby Nitto is involved in the Group companies' decision making on their management issues and other important matters. These include requiring a resolution of, prior consultations with, or reporting to Nitto.

(4) Appointment of officers in charge

The Group's decision-making regulations and standards and other instruments (hereinafter, the "Decision-Making Rules") shall be developed to clarify matters such as a decision-making entity, a responsible person, the scope of his or her responsibilities, business execution procedures, and the recipients of reports, concerning the business execution of the Group. An officer in charge of management strategies shall be responsible for developing the Decision-Making Rules and shall periodically review their contents.

(5) Development of a system for management and safekeeping of business documents

All documents associated with the execution of duties by Nitto's Directors, including, but not limited to the minutes of Nitto's general meetings of shareholders, Board of Directors meetings, and Corporate Strategy 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 shall be kept in a condition that allows inspection as necessary.

4. Internal audit system (Article 362, paragraph (4), item (vi) of the Companies Act)

An internal audit department shall be created to conduct internal audits within the Nitto Group. The results of internal audits shall be reported to the Board of Directors.

5. Policy on support for audits by Audit & Supervisory Board Members

(Article 100, paragraph (3) of the Ordinance for Enforcement of the Companies Act)

(1) Support for audits by Audit & Supervisory Board Members in general

- Nitto's Directors shall recognize and comprehend the importance and usefulness of audits by Audit & Supervisory Board Members, ensure that such recognition and comprehension are shared throughout the Nitto Group, and strive to enhance the Group's internal audit system.

(2) Appointment of staff for Audit & Supervisory Board Members

- Staff for Audit & Supervisory Board Members shall be appointed as employees who should assist

the duties of the Audit & Supervisory Board Members of Nitto.

- Staff of Audit & Supervisory Board Members shall be affiliated with an independent department and perform their duties under the direct command of Audit & Supervisory Board Members.
- The appointment and transfer of staff for Audit & Supervisory Board Members shall be determined with the approval of full-time Audit & Supervisory Board Members.
- Full-time Audit & Supervisory Board Members shall determine the evaluation of staff for Audit & Supervisory Board Members.
- Staff for Audit & Supervisory Board Members shall not hold a concurrent position that concerns business execution.

(3) Development of a system of reporting to Audit & Supervisory Board Members

- Nitto's Directors and employees shall report to the Audit & Supervisory Board Members of Nitto significant matters that may affect the operations and/or performance of the Nitto Group in accordance with the audit plan determined by the Audit & Supervisory Board and/or its Members.
- Notwithstanding the above, Audit & Supervisory Board Members of Nitto may, whenever necessary, demand reports from Nitto's Directors and employees, their attendance at important meetings, and access to the minutes of such meetings or *ringi* collective decision-making documents and other reports.
- A system shall be established to ensure that Nitto's Audit & Supervisory Board Members are reported to promptly and adequately concerning whistleblowing and the Emergency.
- A system shall be established to prevent any disadvantageous treatment of a person on the ground of him or her making a report to Nitto's Audit & Supervisory Board Members.

(4) Policy on expenses for audits by Audit & Supervisory Board Members

- When Nitto's Audit & Supervisory Board Members of Nitto demand from Nitto any 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 claimed were unnecessary for the execution of duties by the Audit & Supervisory Board Members in question.

(5) Other policies

- A system shall be established to allow Nitto's Audit & Supervisory Board Members to conduct audits efficiently in collaboration with accounting auditors, the department in charge of internal audits, and others concerned, and through exchanges of opinions and information with corporate auditors of Group companies.
- In addition to the audit described above, a system shall be established to allow Nitto's Audit & Supervisory Board Members to demand a report from corporate auditors, directors, and senior executives of the Nitto Group companies whenever necessary.

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