Shimamura Basic Policy for the Internal Controls System

We shall establish an internal controls system as follows to ensure directors, executive officers and employees execute their duties in conformance with laws, regulations and the Articles of Incorporation.

1. Structure to ensure directors, executive officers and employees execute their duties in conformance with laws, regulations and the Articles of Incorporation

1) Directors shall maintain a compliance structure on a company-wide basis based on our management philosophy and shall appropriately establish internal rules to fulfill our social responsibilities.
Directors and executive officers shall set the example for the Compliance Regulations. At the same time, they shall inform employees of our internal rules and make compliance with laws, regulations, the Articles of Incorporation and our internal rules a prerequisite of our corporate activities.

2) Audit & Supervisory Board members shall audit the situation concerning the construction and operation of the internal controls system and the situation concerning the execution of business by directors and executive officers.

3) The Audit Section (internal audit department) shall conduct internal audits on the situation concerning the construction and operation of the internal controls system.

4) We shall establish a point of contact for reporting as a means for employees and others to make reports about violations of laws/regulations, acts of harassment and other violations of the Work Regulations. The executive officer in charge of the Labor Support Department and the Legal Section shall establish and operate an appropriate system based on the Whistleblower
Protection Regulations to ensure that those who have made reports are not treated disadvantageously, and that their reports are appropriately processed to lead to the prevention of the recurrence of violations on a company-wide basis.

5) We request persons in charge of each department to periodically submit confirmation documents or other materials for the situation concerning the appropriateness of financial reporting, compliance with laws/regulations and other matters.

6) When receiving unjust demands from antisocial forces, the Shimamura Group resolutely confronts such demands without resorting to easy solutions via payoffs.
We do not conduct any business with antisocial forces, or corporations and organizations thought to be related to antisocial forces.

2. Structure for the storage and management of information relating to the execution of duties by directors

1) We shall appropriately store and manage information relating to the execution of duties by directors, such as records of proceedings and approval documents, based on the Document Management Regulations.
In addition, we shall establish a structure which enables directors and Audit & Supervisory Board members to view those documents at all times.

2) We shall establish an information security structure by enacting the Information Security Regulations and Personal Information Protection Regulations to protect and manage our information assets.
The Information Security Committee confirms the information security compliance situation, investigates and corrects problems, and provides education and information.

3. Regulations and other structures for loss risk management

1) The Board of Directors shall establish the Risk Management Regulations and determine the basic policy for risk management. It shall then establish a structure to be able to prevent risks and to respond appropriately in the event of an emergency.

2) Executive officers shall establish, operate and evaluate the risk management structure relating to the business they are in charge of based on the basic policy for risk management determined by the Board of Directors. Moreover, executive officers shall report to the Board of Directors or
Management Committee about the situation concerning risk management, risks which have newly arisen and their response to those risks.

3) Each department shall appropriately implement risk management in the operations they are in charge of.

4）The President shall promptly appoint an executive officer in charge of risks which have newly risen and take necessary measures against them.

4． Structure to ensure directors execute their duties efficiently

1）The Board of Directors shall meet at least once a month to make prompt decisions, determine important matters and hear reports on the situation concerning the execution of business by directors.
2）Directors shall periodically verify the division of duties and regulations on duties and authorities.
3）Audit & Supervisory Board members shall attend meetings of the Board Directors to monitor and verify whether directors are efficiently executing their duties.
4）Group management meetings are, in principle, held once a week by executive officers to improve management efficiency and operation speed.

5． Structure to ensure the appropriateness of operations by our company and our group companies

1）We shall establish a structure in which officers and employees of our subsidiaries make reports to our company concerning the execution of duties.
2）We shall establish regulations and other structures for loss risk management of our subsidiaries.
3）We shall establish a structure to ensure that officers and employees of our subsidiaries execute their duties efficiently.
4）We shall establish a structure to ensure that officers and employees in our subsidiaries execute their duties in conformance with laws, regulations and the Articles of Incorporation.
5）Audit & Supervisory Board members and the Audit Section of our company shall periodically conduct audits on our subsidiaries.

6． Matters relating to employees who should assist with the duties of Audit & Supervisory Board members and the independence of those employees from directors

1）The Audit Section shall assist with the duties of Audit & Supervisory Board members at their request.
2）Personnel changes in the Audit Section shall be determined upon prior discussions between the Head of Human Resources Development Department and Audit & Supervisory Board members.
3）Directors, executive officers and employees shall appropriately respond to audits by Audit & Supervisory Board members or the Audit Section and shall not impose any unreasonable restrictions.
4）Audit & Supervisory Board members shall have the authority to give instructions and orders to employees who are helping them with audits.

7． Structure for making reports to Audit & Supervisory Board members

1）We shall establish a structure for directors, executive officers and employees to make reports to Audit & Supervisory Board members.
2）We shall establish a structure for those who have received reports from officers and employees in our subsidiaries to make reports to Audit & Supervisory Board members.
3）The Head of the Audit Section shall periodically report the results of internal audits to the Audit & Supervisory Board.
4）The executive officer in charge of the Labor Support Department and the Head of the Legal Section shall periodically make reports to the Audit & Supervisory Board on the situation concerning the operation of the whistleblowing system and the contents of those reports.
5）We will not permit disadvantageous treatment of officers and employees who have made reports to Audit & Supervisory Board members due to those reports. We shall thoroughly inform officers and employees in our company and our group companies of that fact.

8． Structure to ensure the effective performance of audits by Audit & Supervisory Board Members

1）Audit & Supervisory Board Members shall attend meetings of the Board of Directors and other important meetings as deemed necessary.
2）Audit & Supervisory Board Members shall review key approval documents (ringi) and reports, and may request explanations from Directors, Executive Officers and employees as necessary.

3）Audit & Supervisory Board Members shall regularly exchange information with the Representative Director, the Accounting Auditor and the Internal Audit Section, and shall work in close coordination with them.

4）When Audit & Supervisory Board Members request reimbursement of expenses incurred in the performance of their duties, the Company shall promptly comply with such requests in accordance with internal regulations, unless it is demonstrated that such expenses are not necessary for the execution of their duties.