

## Basic Principles Concerning the Internal Control System

Yokowo Co., Ltd.

Yokowo has instituted the following basic principles regarding the establishment of the systems that are stipulated under the Company Law and its enforcement regulations.

### (Basic Principles Concerning the Internal Control System)

In accordance with the Company Law, the Financial Instruments and Exchange Law, and their associated laws and regulations, Yokowo, as set out below, establishes an internal control system and ensures that all Directors, Audit & Supervisory Board Members, and employees comply with all applicable laws and regulations and act in a fair and transparent manner in their corporate activities. Also, Yokowo makes every effort to maximize corporate value and stakeholders' interests.

### (System Establishment)

1. A system to ensure that, in performing their required duties, all Directors and employees comply with all applicable laws, regulations, and the Articles of Incorporation.
  - (1) Directors institute the Policy on Corporate Social Responsibility (CSR) and the Compliance Rules, and make them known to all officers and employees so that the execution of duties by Directors and employees complies with laws, regulations, and the Articles of Incorporation. Directors also ensure the legal appropriateness of corporate business, the credibility of financial statements, and compliance, etc. The Compliance Rules shall stipulate an internal hotline system to identify and correct at an early stage activities that infringe on a law, regulations, and Articles of Incorporation, and/or associated regulations.
  - (2) The Policy on CSR shall stipulate that Directors are required to take a resolute attitude against anti-social forces that threaten social order and sound corporate activities and to have no relation with them, and to familiarize officers and employees with these rules. In the event that an officer or employee receives an unlawful demand from such an anti-social force, the Personnel and Administration Department at the instruction of the Representative Director and based on the Management Crisis Control Rules shall cooperate closely with the police, lawyers, and other professional bodies to reject the demand.
  - (3) Directors instruct the section in charge of internal audits that audits the operations of departments to identify and prevent unlawful acts and to provide departments with advice on improving their operating processes.
2. A system to ensure the credibility of financial statements  
The President and Executive Officer shall create an internal control system to ensure the credibility of financial statements and appoint the section in charge of internal audit to take charge of internal auditing, assessing the implementation of the system,

and correcting imperfections.

3. Systems related to storage of information and maintenance about Directors' Business Conduct

(1) In accordance with relevant laws, regulations, and the internal rules of Yokowo, Directors ensure appropriate storage and maintenance of information related to their business activities. Any Director or Audit & Supervisory Board Member has a right to access the information at any time.

(2) To ensure the appropriate storage and maintenance of the information, Directors appoint an accountable person in each section who maintains and manages the information organizationally and systematically, and periodically monitors the status of storage and maintenance.

4. Regulations and Other Systems related to Risk Management

(1) Yokowo shall institute and develop a Risk Management System (RMS) that identifies and analyzes diverse risks of loss, and shall conduct preparations, execution, improvements, and reviews as necessary for more stable and smoother business activities.

(2) The Risk Management Rules will define risk management policies and risk management action guidelines to achieve continuous improvement of the RMS.

(3) Yokowo will establish the Risk Management Committee in which the President and Executive Officer assumes chairmanship and the Personnel and Administration Department takes charge of the secretariat. In addition, Yokowo will appoint a risk manager to each of the Headquarters and Business Divisions and a risk management promotion member to each of the departments for the Company-wide implementation of risk management.

5. Systems to ensure the efficient performance of Directors of their business activities

(1) Directors approve the corporate vision, mid-term management plan, and annual management plan. Based on the periodical review and evaluation of the plans, management strategies, such as resource allocations, are determined.

(2) Each Director's authorities and responsibilities are clearly defined and implementation of the duties is supervised by Board of Directors.

(3) Through an Executive Officer System built on a departmental structure, the duties, responsibilities, and authorities of Executive Officers are clearly defined. Operational authorities are delegated to the Executive Officers from Corporate President for efficient and speedy decision-making as well as implementation.

6. A system to ensure appropriate operations throughout the Yokowo Group, including headquarters and subsidiaries.

(1) Based on the Code of *Kansayaku* Auditing Standards, Audit & Supervisory Board Members conduct internal audits, improvements, and instruction to all of the Yokowo Group companies including consolidated subsidiaries so that our organizational system ensures comprehensive corporate governance.

- (2) Yokowo implements the necessary measures, instructions, and support required to enhance the effectiveness of internal control system in our consolidated subsidiaries.
- (3) Yokowo's section in charge of internal audit conducts periodical internal audits of headquarters and consolidated subsidiaries and reports the audit results to Yokowo's Board of Directors as well as presidents of consolidated subsidiaries.

7. Regulations regarding the employees who are requested to support the audit by Audit & Supervisory Board Members in implementing their duties and regarding the independence of the employees from Directors.

- (1) If Audit & Supervisory Board Members request certain employees to support their duties, dedicated personnel are appointed in the section in charge of internal audits.
- (2) The personnel transfer and performance evaluation of employees who supports Audit & Supervisory Board Members are to be decided under the consensus of Audit & Supervisory Board Members so that independence of the employees from Directors is secured.

8. A standard for Directors and dedicated employees in the Internal Audit Department to report to the auditors, a standard for other employees to report to Audit & Supervisory Board Members, and a standard to ensure that audits are effectively conducted by Audit & Supervisory Board Members.

- (1) Audit & Supervisory Board Members attend meetings of the Board of Directors and other meetings where major decisions are made and request periodical reporting about important subjects including the status of business activities to Directors and employees. The necessary information is exchanged at these meetings.
- (2) Not only in the periodical reporting mentioned above, Audit & Supervisory Board Members have a right to request Directors and employees to report necessary information at any time.
- (3) In addition to the legally stipulated subjects, Directors and employees must report to Audit & Supervisory Board Members the acknowledgement of any incident or possible emergence of an incident that could have a critical impact on the operation of Yokowo or consolidated subsidiaries.
- (4) Audit & Supervisory Board Members periodically exchange opinions with Representative Director (Corporate President) regarding the major issues indicated from the audits.
- (5) Audit & Supervisory Board Members maintain close relationship with the section in charge of internal audits and, if necessary, request the section to conduct investigations.
- (6) Audit & Supervisory Board Members periodically exchange information with accounting auditors and, if necessary, request accounting auditors to provide explanations or reports.