

Basic Policy on the Establishment of an Internal Control System

1. System for the execution of duties by directors and employees to ensure compliance with laws, regulations, and the Articles of Incorporation

- (1) Leopalace21 and its subsidiaries (“the Group”) will conduct business based on our corporate philosophy of “creating new value,” and as part of that process, have created a Corporate Ethics Charter. The Group is determined to establish legal and social compliance as the cornerstone of all of our corporate activities. This is exemplified by our President and CEO, whose role it is to continuously share the spirit of this charter with our directors and all group company employees.
- (2) The Group will secure a compliance system through the establishment of a Corporate Ethics Charter, an internal reporting system, and a Compliance Committee as an advisory body of the Board of Directors. The Compliance Committee is composed of the President and CEO as the chairman and outside experts such as lawyers. It plans and implements various measures concerning compliance such as education and training and the improvement and reinforcement of the information control system as part of measures to strengthen corporate governance. The Compliance Committee will also strengthen a monitoring system based on compliance regulations and strive to identify, understand and improve problems.
- (3) The Board of Directors is composed of independent external directors called on to strengthen the ability to oversee the legality of the decision-making and the business operations by the Board of Directors, and to ensure the transparency and fairness of management.
- (4) The Auditing Department, which unifies the internal control function and the internal audit function, will be established as a department under the direct supervision of the President and CEO. The Auditing Department will examine the business audit items and practice of operational audits and will revise the audit method in the Auditing Department if necessary. In addition, in order to maintain healthy internal control, an audit meeting has been established to perform monitoring and risk management of business activities, as well as to implement governance strengthening and promote creation of the appropriate financial statements and compliance with regulations, enabling the company to conserve assets and efficiently carry out its business activities.
- (5) The Compliance Management Division will fulfill a checks and balances function within the Group and provide guidance so that, if a compliance violation was found, it may be immediately reported to the Compliance Management Division. The Group will provide a clause about the protection of whistleblowers to the Compliance Regulations to the effect that, if an employee recognized an act, etc., which is doubtful based on laws and ordinances and the articles of incorporation, and denounced it, the employee should not be treated unfavorably.
- (6) The Compliance Regulations, related individual regulations, guidelines and manuals, etc., will continue to be developed to build a system to secure conformity of the fulfillment of duties of directors and employees with laws and ordinances and the Articles of Incorporation.

2. System for the retention and management of information on the execution of duties by directors

The President and CEO will appoint the Director in charge of Management Headquarters as the person generally responsible for the retention and management of information on the execution of the duties of directors. As to the retention and management of information on the execution of duties of directors, the information, which is recorded in documents or electromagnetic record media, will be organized and retained based on document handling regulations and information management regulations.

3. Regulations and systems concerning the management of the risk of losses

- (1) The Group will establish a Risk Management Committee as an advisory organ of the Board of Directors to identify and manage the Group’s risk in general. The Risk Management Committee is composed of the President and CEO as the chairman and members including outside experts, such as lawyers.
- (2) The Risk Management Committee will confirm the condition of the establishment and the application of risk management regulations, related individual regulations, guidelines and

manuals, etc., and make plans to train employees. The Director in charge of Management Headquarters will submit quarterly reports on risk management to the Board of Directors.

- (3) The Auditing Department will audit the conditions for the execution of business for each department. If a risk of loss was found in business operations, the Auditing Department should immediately notify the President and CEO, as well as the department in charge of its details and the degree of loss to be thereby incurred.

4. System to ensure the efficient fulfillment of the duties by directors

- (1) The Group has set up the Board of Directors, aiming to improve business results through effective decision making in a timely manner, adapting to business and economic changes. The Board of Directors will include an appropriate number of personnel, and will meet periodically once a month and otherwise whenever necessary. Decisions on important matters regarding business management will be made, and business results and progress will be monitored.
- (2) Prior to the meeting of the Board of Directors, the Corporate Management Council is held periodically to discuss important matters concerning business policies and operations.
- (3) The Group has created a group-wide medium-term management plan, and has established annual key targets and budget allocations for the entire group in order to achieve the plan.
- (4) The Board of Directors, etc., will review the progress of important business plans such as budget plans of each division and subsidiary, identify issues and execute necessary measures.

5. System to ensure appropriate business operations in the Group

- (1) Management regulations concerning affiliated companies will be applied to subsidiaries, and decisions on important matters related to the business management of each subsidiary shall be approved by or reported to the Board of Directors, the Corporate Management Council, or the Director in charge of the subject subsidiary.
- (2) The Director in charge of the Management Planning Headquarters will control the management of subsidiaries. The Director in charge of the Management Planning Headquarters should periodically hold meetings with the Affiliated Companies Liaison Committee to smoothly exchange information and promote group activities.
- (3) The Director in charge of the responsible department will generally control and manage business conducted by affiliated companies to establish a compliance system to carry out measures based on a management plan and conduct business efficiently, and a risk management system while respecting the independency of affiliated companies. The Director in charge of the responsible department will make periodic reports on the progress of the management of affiliated companies to the Board of Directors and the Corporate Management Council.
- (4) The Auditing Department will conduct a regular or special audit of affiliated companies and report to the President and CEO and the Auditing Council.

6. System to ensure independence of an employee from the Board of Directors when an Audit & Supervisory Board Member requests to assign an employee to assist the duties of the subject Member

- (1) When an Audit & Supervisory Board Member requests to assign an employee to assist with the duties of the Audit & Supervisory Board Member, the Board of Directors may nominate the employee to assist the Audit & Supervisory Board Member from the members of the Auditing Department after consultation with the Audit & Supervisory Board Member.
- (2) The right of command over the nominated employee will be transferred to the Audit & Supervisory Board Member during the period of assistance designated by the Audit & Supervisory Board Member to ensure independence from the Board of Directors. Evaluation of the subject employee will be done by the Audit & Supervisory Board, and personnel transfers and treatments will be discussed by the Audit & Supervisory Board Member and the Director in charge of the Human Resources Department.

7. System for Directors and employees to report to Audit & Supervisory Board Members, other systems of reporting to Audit & Supervisory Board Members, and other systems to secure the effective conduct of audits by Audit & Supervisory Board Members

- (1) Directors and employees should make reports on matters possibly causing serious damage and losses to the Group, illegal acts, and other necessary important matters to the Audit & Supervisory Board Members based on laws, ordinances, and internal regulations such as the Audit & Supervisory Board Regulations and the Audit & Supervisory Board Members Audit Regulation. The Audit & Supervisory Board Members may request Directors and employees to report as necessary.
- (2) The Audit & Supervisory Board Members should attend the meetings of important committees such as the Board of Directors, the Corporate Management Council, the Compliance Committee, the Risk Management Committee, and the Affiliated Companies Liaison Committee to understand the process of important decision-making and the conditions of the execution of the duties by Directors, and may peruse important documents about the fulfillment of such duties, such as circular memos for approval. The Audit & Supervisory Board Members should periodically exchange opinions with the President and CEO, and monitor and inspect each department and auditors of subsidiaries through periodic hearings and on-the-spot audits.
- (3) Auditors, by the independence and authority based on the Supervisory Board Regulations and auditors auditing standards, as well as to ensure the effectiveness of the audit, should maintain close cooperation with the Audit Department and the Accounting Auditors to promote the achievement of outcomes.
- (4) If a Director or employee of the Group reports to an Audit & Supervisory Board Member, the employee shall not be treated unfavorably due to that act.
- (5) When an Audit & Supervisory Board Member requests advance payment or redemption of expenses towards the Group, the necessary procedures to fulfill the request shall be promptly taken, unless it can be proven that the expenses are not related to the duties of the Audit & Supervisory Board Member.

8. System in the interests of reliable financial reporting

In the interests of reliable financial reporting and effective and proper submission of internal control reports as provided in the Financial Instruments and Exchange Act, the Group will set up a structure to establish and apply a proper internal control system under the command of the President and CEO, continue to evaluate whether or not the structure will function properly, make necessary corrections, and ensure conformity with the Financial Instruments and Exchange Act and other applicable laws and ordinances.

9. System development to oppose all antisocial forces

- (1) Our Corporate Ethics Charter clearly sets out our determination to "oppose all antisocial forces." The Group is committed to eliminating all ties, and dealing resolutely, with any antisocial forces or organizations posing a threat to public order or safety.
- (2) The Group will enact detailed regulations for opposing antisocial forces and establish a system that will not yield to unlawful demands from antisocial forces by appointing a person responsible for preventing unlawful demands in all offices and places of business. The General Affairs Department will be responsible for establishing the system, and the system will be established by consulting with the Compliance Committee, the Risk Management Committee, related departments and external professional organizations.