

Basic Policies for Internal Control System concerning Financial Reporting

(Revised on June 20, 2016)

In order to establish a system to ensure appropriateness of statements on finance and accounting and other information in accordance with Article 24-4-4 of Financial Instruments and Exchange Act, Piolax has decided on the basic policies for the internal control system concerning financial reporting as follows.

1. Procedures to ensure appropriate financial reporting

- (1) We draw up and implement rules and regulations based on these basic policies for appropriate financial reporting in the company.
- (2) The board of directors makes efforts for smooth operation of the internal control system concerning financial reporting in the company.

2. Appropriate assessment of and proper response to the risk of misstatement in financial reporting

We identify the risk of critical misstatement in our financial reporting, striving to reduce the risk of misstatement in Piolax and its group companies.

3. A system to mitigate the risk of misstatement in financial reporting

To ensure appropriate internal control activities, office regulations and operation manuals are prepared. They will be improved, as needed, as a result of actual implementation of internal control.

4. A system to communicate information and for monitoring

We establish the system to ensure appropriateness of information regarding our financial reporting and, at the same time, the system to correct problems or flaw of internal control system by monitoring.

5. Appropriate use of IT for the internal control concerning financial reporting

In implementing the policies and procedures 1 to 4 above, we promote correct understanding of IT environment and useful and effective use of IT based on such understanding.