

# **Basic policy on internal control system**

(Revised on June 28, 2016)

## **1. Basic policy of management**

The basic policy of Piolax, Inc. and its group companies ("Piolax Group") is, under the management principle of "Pioneer to create elasticity", to study "elasticity" of metal, resin, and other various materials and to widely contribute to automobile, life-related, and medical industries and the society.

In order to realize the basic policy, we set an action guide in conducting business in harmony with shareholders, customers, employees, business partners, local communities, and other concerned parties in order to become a company which 1) gives priority to customer needs, 2) is development-oriented, 3) aims the best rather than the largest, 4) flexibly responds to changes, and 5) has active corporate culture.

## **2. System to ensure the compliance of execution of duties by the directors and employees with laws, regulations and articles of incorporation**

As an organization to control overall compliance, "Compliance Committee" is established which the president chairs and in which directors who are Audit and Supervisory Committee members take part.

The Compliance Committee designates a director in charge of compliance, and the secretariat is placed in Planning & Management Dept.

The Compliance Committee prepares rules for building compliance system, creates manuals, draws up practical measures for information system, etc., and transmits them to relevant departments upon an approval of the board of directors and Audit and Supervisory Committee.

The Compliance Committee also instructs directors and employees to perform the activities adhering to laws, articles, and the basic policy of management.

In addition, reporting system is introduced in which any director or employee who notices

actual or possible violation of compliance reports to the head of Planning & Management Department, head of Internal Audit Department, or directors who are Audit and Supervisory Committee members.

An informant shall be protected free from any adverse action.

### **3. Rules and other systems to manage the risk of losses**

In terms of risk management of compliance, product quality, technical information, environment, disaster, etc., relevant departments set rules and manuals, provide education, and prepare an internal audit system. Concerning quality and environment, they receive periodic external audit by an international certification body for ISO, QS, etc.

Planning & Management Dept. manages accuracy of financial statement, operating results, and other financial information and their timely disclosure based on laws and rules.

An integrated computer system (ERP) is also introduced to reinforce credibility and traceability of risk management system.

Internal Audit Department, which is in charge of internal audit, audits adequacy of operations and accuracy of accounting procedures in tandem with directors who are Audit and Supervisory Committee members and accounting auditors to report to the president.

### **4. System to ensure effective execution of duties by directors**

The board of directors is regularly held once a month to decide basic management policies and important matters, and monitor performance of directors.

In an adopted operating officer system, authority of business fields is assigned to president and executive directors to speed up decision making process.

Management meeting has been newly established as a meeting structure to guide appropriate management judgment, which is held monthly joined by directors and operating officers to make a decision necessary for execution of operation based on management policies determined by the board of directors.

Moreover, managerial information will be shared between the board of directors and the management meeting in order to thoroughly implement operation policies and establish the

system sensitive to business risks.

After a mid-term management plan and then an annual policy and budget are drawn up, each Strategic Business Unit (SBU) drafts its own budget and action plan and monitor its performance based on them.

## **5. System to store and maintain information on director performance**

Documents (including electronic records) are stored and maintained according to laws and the company rules.

Directors can access them at any time.

## **6. System to ensure adequate operation in Piolax Group**

The Compliance Committee iron out differences in idea of compliance and controls compliance in Piolax Group.

Piolax, Inc. dispatches its officers and employees to subsidiaries and major affiliates as directors or auditors who supervise their performance on a constant basis.

Their performance is regularly reported in writing to the board of directors. Also, their important managerial decisions basically require a prior approval of Piolax, Inc. based on the company rules.

Internal Audit Department audits subsidiaries in cooperation with directors who are Audit and Supervisory Committee members and accounting auditors based on the company rules.

## **7. System to eradicate antisocial forces**

Piolax Group cope with undue claims by antisocial forces in a resolute attitude and never has relation with them. In coalition with specialized agencies, relevant sections gather information on them to share in-house through training, etc.

**8. Matters concerning employees to support Audit and Supervisory Committee and directors who are members of the Committee, independence of such employees from directors (excluding directors who are Audit and Supervisory Committee members), and securing effectiveness of instructions to such employees by Audit and Supervisory Committee and members of the Committee.**

Appropriate employees are assigned to support Audit and Supervisory Committee and members of the Committee. The assigned employees are not imposed any constraint by a director (excluding directors who are Audit and Supervisory Committee members) or other employees in conducting assistant work requested by Audit and Supervisory Committee and members of the Committee.

If such employees are subject to personnel reshuffles or punishment, a prior approval of Audit and Supervisory Committee is required. Directors who are Audit and Supervisory Committee members have the right to comment on their personnel evaluation.

**9. Systems to report to Audit and Supervisory Committee and to ensure effective implementation of audit by Audit and Supervisory Committee and members of the Committee**

Any director or employee who knows a fact which may bring significant damage on the company or a serious fact which is against laws or the company rules reports to Audit and Supervisory Committee immediately.

Directors and employees who make such reports shall not be subject to disadvantageous treatment at Piolax Group due to making reports.

Directors who are Audit and Supervisory Committee members attend the board of directors and other meetings in which major management decisions are made, screen important documents on work performance, and, as needed, ask explanation to relevant directors (excluding directors who are Audit and Supervisory Committee members) and employees.

Audit and Supervisory Committee holds a periodic meeting to exchange opinions with the

president and the accounting auditor.

**10. Matters concerning policies on the handling of expenses or debts resulting from the execution of the duties by the board of directors who are Audit and Supervisory Committee members.**

If directors who are Audit and Supervisory Committee members request advance payment of expenses, etc. on their execution of duties in accordance with Paragraph 4 of Article 399-2 of Companies Act, Piolax Group shall pay the amount or debt promptly except that the case is recognized as not necessary by the relevant department in charge.

If directors who are Audit and Supervisory Committee members request the hiring of outside experts (lawyer, certified public accountant, etc.) who will serve as advisors to the them, Piolax Group shall bear the expenses except in cases where it proves that such hiring is not necessary for the execution of the duties.