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Toyo Denki Announces Revision of the Basic Policy on Internal Control Systems

Tokyo, Japan, July 12, 2016 — Toyo Denki Seizo K.K. (hereinafter Toyo Denki) today announced that it resolved, at a meeting of the Board of Directors held July 12, 2016, to revise the company's Basic Policy on Internal Control Systems. The details of the revision, which is effective immediately, are described below.

This revision accompanies the development and expansion of the Internal Control Committee, an organization under the Board of Directors, starting in fiscal 2016 (ending May 31, 2017) to ensure the stable implementation of internal control systems.

Basic Policy on Internal Control Systems: Systems to Ensure Appropriate Business Operation

Toyo Denki recognizes that the operation and improvement of internal control systems is an important management issue. Therefore, it shall implement systems to ensure that business execution is efficient, lawful, and appropriate, in accordance with the provisions of Article 362 of Japan's Companies Act and Article 100 of the Companies Act Enforcement Regulations. To ensure effective implementation of the revised policy, the Internal Control Committee, an organization under the Board of Directors, shall regularly check the actual operation of internal control systems, and conduct ongoing review of the policy.

1. System to ensure that the Directors and employees of Toyo Denki and its subsidiaries comply with relevant laws and the Articles of Incorporation in the execution of their duties

- (1) Toyo Denki's business activities are based on a business principle that "prioritizes ethics and contributes to the prosperity of customers and society as a whole." Created based on this philosophy, the Compliance Manual (Toyo Denki Seizo Ethical Standards) shall be distributed to all officers and employees of Toyo Denki and its Group companies, and awareness of its contents shall be promoted. The Group shall foster a respect for corporate ethics while enhancing the compliance knowledge of its human resources through group-wide training based on an annual training plan.
- (2) Toyo Denki shall establish internal and external hotlines for personnel to report issues, in order to discover problems in the early stages and immediately take the necessary measures.
- (3) The Audit Division shall conduct internal audits of Toyo Denki and its Group companies in order to ensure the appropriateness of business operations, and shall report its findings to the Board of Directors.
- (4) Toyo Denki and its Group companies shall introduce a self-inspection system to promote the effective functioning of internal controls, and shall enhance monitoring.
- (5) Toyo Denki shall construct effective and appropriate internal controls to ensure the reliability of financial reporting. By also continually evaluating whether the internal controls are functioning properly

and taking the necessary corrective measures, the Company shall ensure compliance with Japan's Financial Instruments and Exchange Act and other relevant laws and regulations.

- (6) Toyo Denki and its Group companies shall implement a system to ensure that there are no business or other relationships with organized criminal groups or other anti-social forces.

2. System for storage and management of information relating to the execution of duties by the Company's Board of Directors

Important information that should be stored relating to the execution of duties by the Board of Directors shall be recorded in paper and/or electronic documents and properly managed. It shall be stored for periods, and using methods, that are in accordance with internal rules and relevant laws and regulations. In addition, the Statutory Auditors must be able to access or audit the information pertaining to the execution of the Directors' duties at any time, and check the information storage and management situation.

3. Rules and other systems regarding management of risk of loss at Toyo Denki and its subsidiaries

The Internal Control Committee, established under the Board of Directors, shall analyze and assess risks faced by Toyo Denki and its Group companies, based on the Basic Rules for Risk Management. Using the reports of the committee, effective risk management systems shall be constructed according to the types and degree of risks.

4. Systems to ensure the efficient execution of duties by the boards of directors of Toyo Denki and its subsidiaries

- (1) The Company shall implement internal rules such as division of duties regulations, administrative authority regulations, and document management rules, and strive for to ensure that they are properly utilized.
- (2) Regular Board of Directors meetings shall be held every month to check the status of business execution at Toyo Denki and its Group companies, and to pass resolutions on important matters. Extraordinary meetings of the Board of Directors at each company shall be held as necessary.
- (3) In principle, the Executive Officer Liaison Meeting shall be held multiple times a month to check the status of business execution at Toyo Denki and its Group companies.
- (4) In principle, the Management Strategy Meeting shall be held multiple times a month to discuss business execution issues at Toyo Denki and its Group companies, as well as measures to address management issues.
- (5) The Audit Division shall conduct internal audits at Group companies. By recommending needed operational improvements, it shall ensure appropriate and efficient business execution at Group companies.

5. System for subsidiaries to report to Toyo Denki on matters relating to duty execution by their Directors

- (1) Based on the Basic Rules for Group Management and the Group Management and Operation Guidelines, Toyo Denki Group companies must report to Toyo Denki important matters requiring prior approval, as well as matters necessary for Group management.

- (2) In principle, National and Global Group Company Meetings shall each be held twice annually to check the status of business execution and progress on business plans at Group companies.

6. Matters relating to employees assigned to assist the Statutory Auditors, when requested by those auditors

Toyo Denki shall assign audit staff to assist the Statutory Auditors in their activities. The Statutory Auditors and the Directors shall discuss and determine the selection of the personnel concerned. The independence of such audit staff shall be maintained with regard to auditor assistant activities.

7. System for reporting to the Statutory Auditors and other systems for ensuring that Statutory Auditor audits are conducted effectively

- (1) When a director or employee discovers a fact that may cause significant damage to Toyo Denki or its Group companies, or determines that there is potential for significant business or financial impact, the person concerned must report the matter to the Statutory Auditors, and must promptly provide a full report if requested by the Statutory Auditors. Moreover, anyone reporting such matters shall not suffer any unfavorable treatment as a result of that action.
- (2) In addition to attending Board of Directors meetings, as well as other internal meetings necessary for Statutory Auditors to understand the process by which important decisions are made or the status of business execution, the Statutory Auditors may view the meeting minutes as well as *ringi-sho* (approval documents) and other important documents relating to business execution.
- (3) In addition to regularly exchanging opinions with the President, the Statutory Auditors shall cooperate with the Audit Division and Accounting Auditors, while exchanging information and receiving explanations of audit plans and accounting audit details.
- (4) Toyo Denki shall budget and pay for the regular expenses arising from the activities of the Statutory Auditors. Any extraordinary expenses generated by the Statutory Auditors shall be paid based on their claims. Separate from the legal counsel of the Company, the Statutory Auditors may have their own legal counsel for consultation on a regular basis or as necessary.