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Listed Stock Exchange:
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Notice of Revision of Basic Policy on Establishing Internal Control System

ESPEC CORP. announced today that it was decided at a Board of Directors meeting held on April 27, 2015 to revise its basic policy on establishing an internal control system, in accordance with the Revised Companies Act and Revised Ordinance for Enforcement of the Companies Act that will come into force on May 1, 2015. Details of the revision are as follows.
(Effective additions and changes are underlined)

Description

1. System for ensuring that execution of duties by directors and employees conforms with laws and regulation and with the Company's Articles of Incorporation

(1) In accordance with its basic philosophy, management philosophy, administration philosophy, and other aspects as laid out in THE ESPEC MIND, the Company has established the ESPEC Code of Behavior and Conduct Guidelines. The guidelines have been created to ensure that the Company's directors and employees comply with laws and regulations, the Articles of Incorporation, and social norms.

To ensure that the guidelines are rigorously followed, the Administration Headquarters will supervise compliance initiatives throughout the Company, and conduct education and awareness-raising programs for directors and employees.

(2) The Company will resolutely oppose anti-social forces and organizations and have no dealing with them whatsoever. Moreover, it will refuse to comply with improper demands.

(3) To ensure the accuracy of its financial reporting, the Company will establish an internal control system for financial reporting and conduct regular assessments of the upgrade and operation status of this system, as well as striving to maintain and improve it.

(4) If a director discovers that another director's actions violate laws and regulations, or the Articles of Incorporation, he or she will promptly report this to the corporate auditors and to the Board of Directors and take appropriate measures.

(5) The corporate auditors will confirm that the procedures and execution of management's decision-making and execution of duties do not violate laws and regulations or the Articles of Incorporation. The Internal Auditing Office, which is directly supervised by the president, will audit the compliance status of each business execution division, and report the results to the president, the Board of Directors, and the Audit Committee, as necessary.

(6) The Company has established and operates internal and external Compliance Consultation Helplines as a system for Directors and employees who discover legally dubious activities to report them and quickly make corrections.

2. System for storing and managing information regarding the execution of duties by directors

Information regarding the execution of duties by directors will be recorded in documents or electronic media (hereinafter “documents, etc.”) in accordance with the document management regulations and other internal regulations, and then stored and managed appropriately. The storage period is determined separately. The directors will be able to view the documents, etc. at any time.

3. Rules concerning management of the risk of loss and other systems

- (1) Recognition and assessment of companywide risk will be conducted by managing divisions and the Investigation Subcommittee. The results will be deliberated and approved by the Risk Management Committee. Responses to risks will be discussed and decided by the Board of Directors and the relevant meeting bodies after evaluating the individual risks based on the relevant regulations and proposal standards. The responses will then be carried out by the managing divisions.
- (2) If events requiring crisis management occur, the Company will respond appropriately and swiftly in accordance with the Crisis Management Regulations.

4. System for ensuring efficient execution of duties by directors

- (1) The Board of Directors meetings will be run in accordance with the Board of Directors Meeting Regulations, and held regularly (once per month).
- (2) The convocation notices for the Board of Directors Meetings will contain the matters for discussion. In addition, The General Administration Division, in its capacity as the secretariat for the Board of Directors, will provide pre-meeting briefings and distribute materials before meetings, among other measures, to ensure efficient conduct of the Board of Directors meetings.
- (3) Important matters, such as matters for deliberation and resolution by important meeting bodies, will be transmitted without delay to the Board of Directors and each director by document, email, or other means.

5. Structure for ensuring appropriate operations in the corporate group comprising the Company and its subsidiaries

- (1) The Company will ensure rigorous adherence to the ESPEC Code of Behavior and Conduct Guidelines and to internal regulations and so forth within the Company and its subsidiaries, and will establish a department responsible for internal control with the goal of building internal control within the Company and its subsidiaries. Moreover, the Company will also designate divisions responsible for affiliate company management to build a structure that allows appropriate discussion regarding internal control between the Company and its subsidiaries, along with information sharing, instruction, and communication of requirements, and so forth.
- (2) The Company’s Internal Auditing Office will conduct internal audits of the Company and its subsidiaries. It will report the results of the audits to the audited divisions and their chief officers, and provide guidance and advice on measures for improving internal control as needed.
- (3) Based on its Regulations for Management of Affiliated Companies, the Company will request submission of materials related to the management details of its subsidiaries as necessary in order to acquire an accurate understanding.

(4) The Company will designate divisions responsible for managing affiliated companies to ensure appropriate communication and sharing of risk information at subsidiaries, and responses to it.

(5) The Company will respect the management autonomy and independence of its subsidiaries while formulating and sharing consolidated medium-term management plans, business plans, and key performance indicators to help with efficient administration of management.

6. Matters relating to employees to be appointed, and their independence from directors, in the case where corporate auditors have requested the assignment of employees to assist with their duties

(1) In cases where the corporate auditors have requested the assignment of employees to assist as necessary with their duties, such as operation of the Audit Committee and audit operations, appropriate persons will be appointed upon consulting with the corporate auditors. Appointed employees will not be subject to orders from the directors and corporate officers when they are performing duties to assist the corporate auditors.

(2) The Company will make it known to its corporate officers and employees that employees who are assisting the duties of the corporate auditors are subject to orders from the corporate auditors.

7. System for directors and employees to report to the corporate auditors and other systems for reporting to the corporate auditors

(1) Directors and employees of the Company and directors, corporate auditors, and employees of its subsidiaries will report appropriately to the Company's corporate auditors on important matters that have an impact on the Company's operations or results and statutory matters. They will also report on the performance of duties and the results of internal audits. They will report promptly in cases when they have discovered matters that could cause significant losses to the Company and cases where the actions of another director or employee violate, or are suspected of violating, laws and regulations or the Articles of Incorporation.

(2) Notwithstanding the above, corporate auditors may request these reports as necessary from directors and employees, attend Board of Directors meetings, and attend other important meetings as necessary.

(3) One of the three Compliance Consultation Helplines will be assigned to a standing corporate auditor so that the system can receive reports from directors and employees throughout the Company.

(4) The Company is prohibited from putting any of its directors or employees at a disadvantage because of making a report to the corporate auditors, and likewise for directors, corporate auditors, and employees of its subsidiaries.

8. Other systems for ensuring effective audit execution by the corporate auditors

(1) The corporate auditors will conduct audits based on the auditing standard. They will also exchange opinions regularly with the accounting auditor regarding accounting audits and maintain links with the Internal Auditing Office regarding operation audits.

(2) The Company will hold regular meetings between the corporate auditors and the representative director and president to exchange opinions on issues that the Company needs to address, risks facing the Company, and any other important issues and so forth that emerge from audits.

(3) If the corporate auditors request advance payment of fees for performance of their duties, the responsible division shall swiftly process the fee or obligation after deliberating on it. Moreover, a certain annual budget will be provided for expenses and so forth arising from the corporate auditors' execution of duties.