

Internal control and risk management

The EBARA Group establishes and assesses an internal control system to ensure proper operations under the policy of putting compliance foremost, and aims at sustainable development and improvement of the corporate value.

Spain



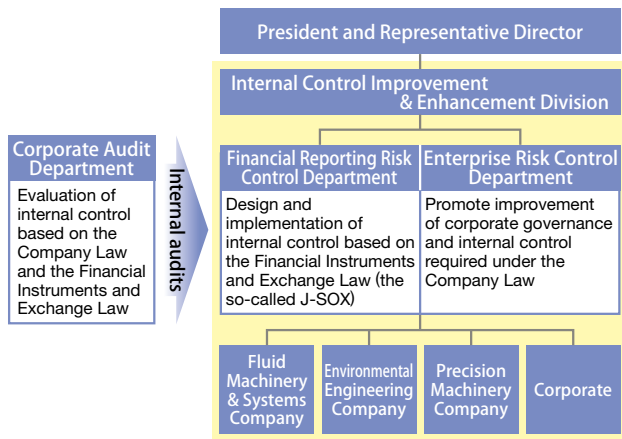
Diaz Garcia Pablo (age: 14)

Build and evaluate the internal control system and deploy it throughout the Group

Internal control promotion system

In EBARA, the Internal Control Improvement & Enhancement Division establishes and assesses an internal control system based on the Company Law and the Financial Instruments and Exchange Law.

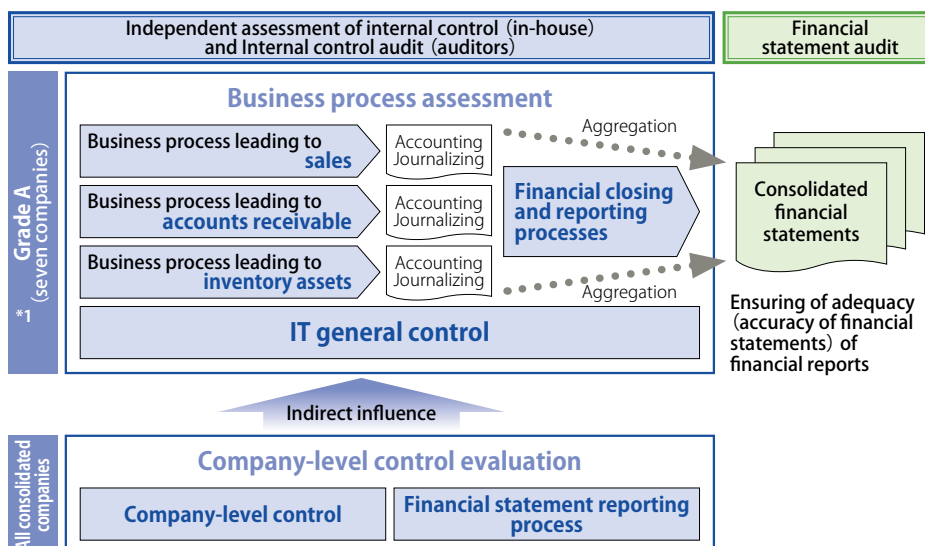
◆ Internal control promotion system diagram (As of July 1, 2009)



Internal control basic policy

In the EBARA Group, EBARA and all domestic consolidated subsidiaries have respectively passed a board resolution of the basic policy for establishing the internal control. The EBARA Group builds a system to ensure proper operations based on those basic policies, monitors if the internal control system is effectively working and continuously improves the system by thoroughly conducting the PDCA cycle.

Framework of internal control assessment



Response to the internal control report system

Based on the Financial Instruments and Exchange Law, beginning in April 2008, the system for reporting on internal controls related to financial statements reporting was applied to all listed companies in Japan. The Company has also created and assessed its internal controls in four specified areas, namely: "company level controls," "financial statements closing and reporting processes," "process control," and "IT general controls." Regarding the "company level controls," consolidated Group companies have been assessed in a multilateral way in terms of the six basic components (control environment, risk assessment and response, control activities, information and communication, monitoring and response to IT).

In relation to "financial statements closing and reporting processes," "process control," and "IT general controls," the following points were documented (visualized) for the major companies (six domestic and one overseas companies) that account for two-thirds of our consolidated sales in terms of work content and workflow:

- ◆ Process control for closing.
- ◆ Process control relevant to sales, accounts receivables, inventories assets, etc.
- ◆ IT general controls (access control, control of system development and maintenance, etc.)

Based on those, risks in financial statements reporting (misstatements and errors) were identified and tables for comparison with the required controls were created for evaluation. Furthermore, to verify whether actual controls were implemented, key controls were subjected to operational evaluation (matching with audit trails, etc.) by evaluation members.

For any deficiencies found in the process of evaluation, the person in charge was urged to make improvements for correction each time.

As a result, material weaknesses were not found in the consolidated financial statements reports for 2008 and a certain level of reliability in financial reporting was ensured, which was made into the Internal Control Report dated June 26 for submission. The audit opinion by an audit firm is also expressed as an unqualified opinion in the Internal Control Audit Report.

*1 [Grade A (seven companies)]
The seven major companies that account for two-thirds of our consolidated sales

Internal control and risk management

Exclusion of antisocial forces from the EBARA Group

The EBARA Group clearly states in the EBARA Group's Code of Conduct that it will not provide antisocial forces with any funds or any social foundations for their activities and has established a company-wide system to reject having any relationship with antisocial forces, in accordance with the internal control basic policy.

In 2008, the President and Representative Director declared the "Basic Policies on Exclusion of Antisocial Forces" and expressed the EBARA Group's commitment not to have any relations with antisocial forces. And the EBARA Group has established the Antisocial Forces Countermeasure Headquarters consisting of an External Review Committee with lawyers as committee members, in-house departments in charge and regional countermeasure departments in the Group for taking a firm attitude as an organization against antisocial forces.

Risk management

Risk management system

EBARA has an organization to supervise risk management of the Group called the "Risk Management Panel" which consists of all full-time directors and is chaired by the President and Representative Director. We also set up the "Risk Management Committee" as a subordinate organization of the Risk

Management Panel in each in-house company and corporate body. Under this risk management system, we have carried out the following as comprehensive risk management activities:

- ◆ To identify and visualize potential risks and
- ◆ To analyze and assess each risk for prioritization of risks to address
- ◆ To develop policies for risk prevention and countermeasures and appoint departments in charge
- ◆ To implement risk prevention and countermeasures and subsequent monitoring
- ◆ To foster a sense of risk through sharing of risk information

As individual risk management activities, risk assessments are made for individual transactions and supervision for action to respond to the occurrence of crises is made. One theme of crisis response taken up is the new strain of influenza, for which an action plan has been drawn up for an appropriate response in the worst-case scenario.

We also respond to specific risk themes such as export control management and environmental management by forming cross-sectional committees.

Group risk management

In the EBARA Group, we try to enhance the group risk management system by sharing information regarding specific risks, each company's inherent risks, common risks and group-wide risks to be addressed.

EBARA Group risk management system

