

# Internal Control / Corporate Governance

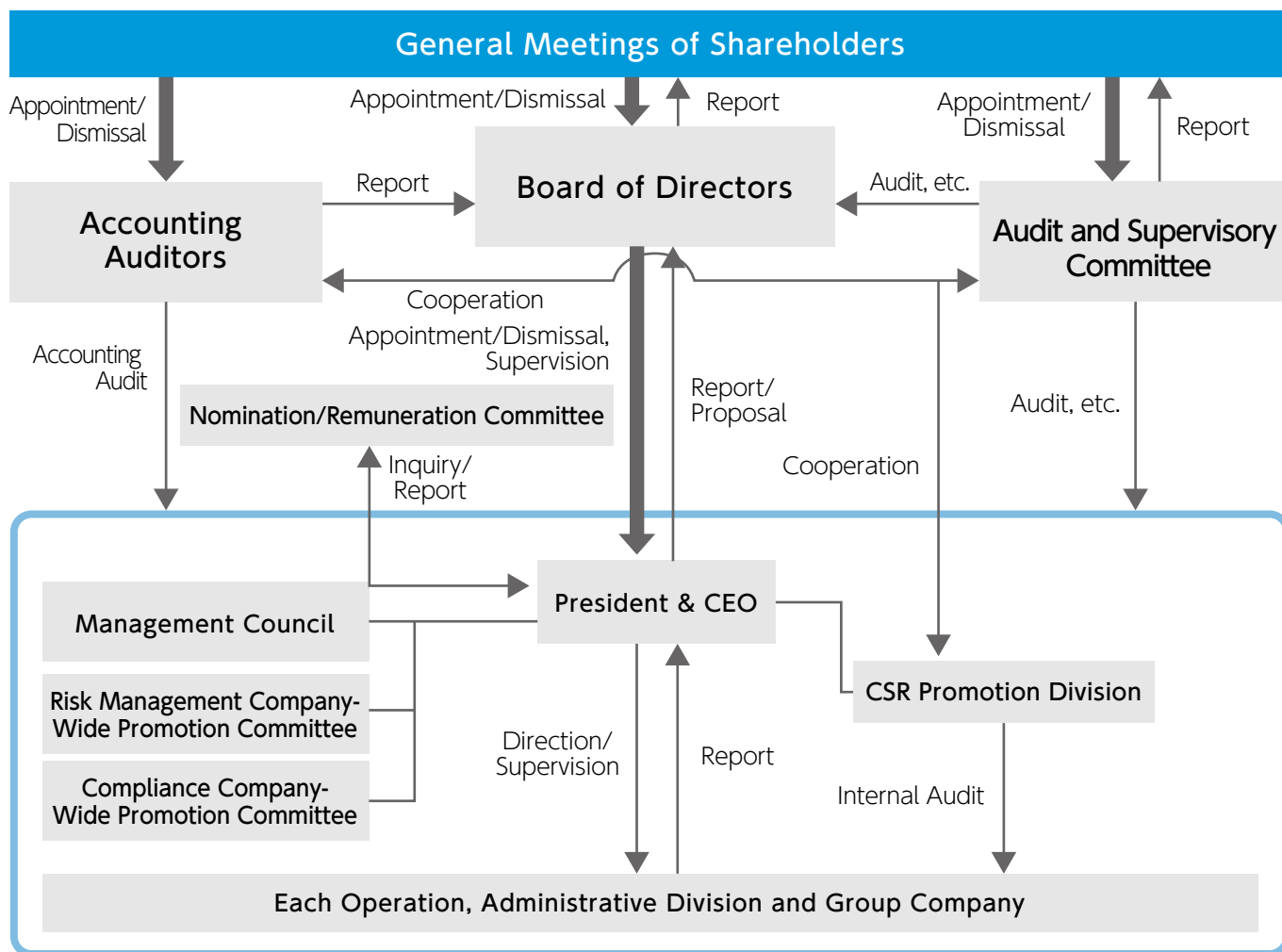
The enhancement of our Group's internal control system is undertaken through the activities focused on strengthening corporate governance and advancing compliance and risk management, which are carried out immediately under the responsible executive officer.

## Basic Views on Corporate Governance

The Group considers corporate governance to be a key management mechanism for transparent, fair, prompt and resolute decision-making, and all Group companies are thus actively committed to improving corporate governance. As part of our Group's corporate governance, we are enhancing internal control by proactively undertaking activities to advance compliance and risk management and we are expanding/strengthening the management oversight functions of our board of directors and the audit functions of our Audit and Supervisory Committee Members. These steps will enable us to construct a transparent corporate governance system worthy of the trust of shareholders and other stakeholders and fulfill our corporate social responsibilities, and will help us improve our corporate value through sustained growth.

Following a resolution at the 164th Ordinary General Meeting of Shareholders held on June 16, 2017 on the transition to a company with an Audit and Supervisory Committee, the Company will further improve its prompt decision-making structure. An additional layer of strength will be added to the supervisory functions of the Board of Director by giving Directors who are Audit and Supervisory Committee Members voting rights on the Board of Directors.

The diagram below shows the Company's corporate governance system following the transition to a company with an Audit and Supervisory Committee.



The board of directors and organization are noted in the Corporate Information (Please refer to "Board of Directors/Organization" on page 61.)

## Overview of the Corporate Governance Structure (As of June 15, 2018)

### General Description of Governance Structure

The Company has made a transition to a Company with Audit and Supervisory Committee gaining in June 2017, to make more swift decision-making structure and an additional layer of strength in the supervisory functions by the Board of Directors who is Audit and Supervisory Committee Members with voting rights.

To ensure fair and transparent company management, 6 Outside Directors attend Board of Directors meetings and there provide advice on company management. For fair and transparent procedures applied to nominate these Outside Directors and to determine their compensation, the Company has voluntarily established Nomination/Remuneration Committee. An Executive Officer System has been introduced to permit rapid management decision-making and quicker execution of operations. The Audit and Supervisory Committee has also been given robust check-and-balance functions to help them monitor decision-making by the Board of Directors and the execution of operations by representative Directors.

### Outside Directors

The Company has taken the steps necessary to ensure that six Outside Directors are assigned and permitted to provide needed insights on the agenda and deliberations of the board of directors meetings so that they can contribute to appropriate corporate governance at the Company and offer advice on our standards of conduct.

### Efforts to Strengthen the Functions of Audit and Supervisory Committee members

Audit and Supervisory Committee members attend Board of Directors meetings and other important meetings and audit Directors' performance of their professional duties, and full-time Audit and Supervisory Committee members collaborate with the Audit Group, CSR Promotion Division, the Company's internal audit organization, and with accounting auditors in conducting audits of the Company and the Group companies in accordance with all applicable laws, regulations and rules. The presence of three outside Audit and Supervisory Committee members with a considerable level of knowledge in financial, accounting matter, tax practice, and the law suitably ensures that the above functions are performed.

### Posting of Information on Securing Independent Executives

The Company has determined that Mr. Yamaguchi, Mr. Mita and Mr. Yoshihisa as outside directors and Mr. Kato, Mr. Horie and Ms. Kawai as outside Audit and Supervisory Committee members present no potential conflict of interest with general shareholders and, convinced that we can count on them to contribute to appropriate corporate governance at the Company and to offer advice on our standards of conduct, we have assigned them as independent executives.

### Roles and Responsibilities of the Board of Directors

The Company has established Rules of the Board of Directors to set down clear-cut criteria stipulating what the Board of Directors may decide and approve in accordance with laws, regulations, and the articles of incorporation. For other decision-making and the execution of operations, regulations governing organizations, job classifications and the division of duties have been established to clarify the scope of execution of corporate management.

### Overall Balance of Knowledge, Experience and Skill, Diversity, and Size of the Board of Directors

Candidates for Directors are selected from the standpoint of placing the right person in the right job, as part of comprehensive deliberation, considering a sufficient number of Board of Directors Members to make eligible and prompt decisions with an overall balance of knowledge, experience and skill among the members of the Board of Directors, while referring to the reports by the Nomination/ Remuneration Committee.

### Policies and Procedures for the Selection of Corporate Managers and the Assignment of Candidates for Directors and Audit and Supervisory Committee Members by the Board of Directors

Candidates for Corporate Manager and Directors who are not Audit and Supervisory Committee Members are selected/assigned from the perspective of placing the right person in the right job, with due consideration given to the number of people that would enable precise and prompt decision-making and to a balance of knowledge, experience and skills among the Corporate Management Team/the Board of Directors overall. Candidates for Audit and Supervisory Committee Members are also selected/assigned from the perspective of placing the right person in the right job, with due consideration given to a balance among knowledge of accounting, tax and legal matters, knowledge about the Company's business, and other perspectives pertinent to corporate management. Given the above, assignment for Audit and Supervisory Committee Member candidates was resolved by the Board of Directors after Audit and Supervisory Committee deliberated and agreed on it. Assignment for Corporate Director candidates, prior to a resolution of the Board of Directors, after it has been sufficiently deliberated by the Nomination/Remuneration Committee including Outside Directors who are not Audit and Supervisory Committee Members and reported to President & CEO.

## Guidelines on Training for Directors and Supervisory Committee Members

The Company has established a system to provide financial and other support to Corporate Directors to allow them to attend when necessary outside training sessions, seminars, etc., which will enable them to acquire the knowledge they need and better understanding of their roles and duties. The Company is encouraging newly-assigned Company Directors who are not Audit and Supervisory Committee Members in particular to participate in courses for new directors to enhance their understanding of the knowledge needed in their positions. To enable full-time Audit and Supervisory Committee Members to play a key part in corporate governance, the Company has them participate in courses and study sessions conducted by the Japan Audit & Supervisory Board Members Association (JASBA) and other organizations as well as in outside networking events so that they can acquire the knowledge they need as the members and better understand their roles and duties as the members. We are arranging courses on the Companies Act and other content suited to the circumstances at the time to be conducted by internal and external experts for Company Directors and Managing Officers who are not Audit and Supervisory Committee Members.

## Effective Utilization of Independent Outside Directors

The Company has selected six Outside Directors, including three Audit and Supervisory Committee members, who put to good use the expertise and wide-ranging experience in corporate management that they have cultivated in their careers in managing the Company. In this way, they contribute to the Company's sustained growth and development.

The Outside Directors also actively offer their views on management oversight, management policies, and management improvements based on their own knowledge, and are adequately fulfilling the roles that the Company expects of them (the attendance rate of all Outside Directors to the Board of Directors' meeting was 96%).

The Company will further consider the ratio of the number of the Outside Directors by examining the prospect of business operations, potential business fields, the company-with-committees system, and business environments whenever the need arises.

## Qualification and Credentials for Independent Outside Directors and Audit and Supervisory Committee Members

In selecting an independent Outside Director who is not an Audit and Supervisory Committee Member, we place importance on the wealth of experience and high level of knowledge regarding corporate management and our industry, in addition to the requirements stipulated in the Companies Act and the criteria established by the financial instruments exchanges on which the Company is listed. In selecting an Outside Director who is an Audit and Supervisory Committee Member, we place importance on the wealth of experience and high level of knowledge regarding tax practices, accounting and the law. The Company registers only those as independent executives, who satisfy the above conditions and who pose no potential conflict of interest with general shareholders.

## Compensation of Directors and Corporate Auditors (Fiscal Year 2017)

### Board Policies and Procedures in Determining the Compensation of the Senior Management and Directors

The compensation for the Company's Directors who are not Audit and Supervisory Committee Members, Executive Officers and Managing Officers comprises monthly compensation and bonuses. The monthly compensation for Corporate Directors who are not Audit and Supervisory Committee Members is calculated based on their job positions, within the limits approved by the general meeting of shareholders, and is approved by the Board of Directors. Bonus allotments for Corporate Directors who are not Audit and Supervisory Committee Members are based on the degree to which each Director contributed to the Company's operations, within the scope of the total amount of bonuses calculated using the stipulated formula approved by the general meeting of shareholders, and are approved by the Board of Directors.

The monthly compensation of Executive Officers and Managing Officers is approved by the Board of Directors. In determining the compensation, broad consideration is given to a suitable balance with the monthly compensation for Corporate Directors who are not Audit and Supervisory Committee Members, assessments of respective Executive Officers' and Managing Officers' job performance, and other factors. The amounts of bonuses to be paid are approved by the Board of Directors. Bonus amounts are calculated in accordance with the degree of the Executive Officers' and Managing Officers' contribution to the Company's business results and other factors. The Nomination/Remuneration Committee, including Outside Directors who are not Audit and Supervisory Committee Members, prior to a resolution of the Board of Directors, deliberates on compensation and bonus of Corporate Directors who are not Audit and Supervisory Committee Members, the Executive Officers and Managing Officers, and reports to President & CEO. Outside Directors who are not Audit and Supervisory Committee Members, because they are in positions independent of the execution of operations, are paid only a fixed, basic compensation.

The Company has also introduced 'the Stock Distribution Trust for Officers' to Directors who are not Audit and Supervisory Committee Members, Managing Officers, so that they shall make a clearer linkage between the Company's stock value and compensation for themselves and elevate their awareness of contributing to improving medium- to long term operating results and increasing corporate value.

Position		Number of recipients	Total remuneration paid (Millions of yen)	Total amount of remuneration by type (Millions of yen)		
				Basic remuneration	Bonus	Share-based payment
Directors who are not Audit and Supervisory Committee Members	Directors	9	336	211	90	34
	Outside Directors	4	31	31		
	Subtotal	13	367	243	90	34
Directors who are Audit and Supervisory Committee Members	Directors	2	50	50		
	Outside Directors	3	25	25		
	Subtotal	5	75	75		
Audit and Supervisory Committee Members	Supervisory Committee Members (Full-time)	2	16	16		
	Supervisory Committee Members (Outside)	2	5	5		
	Subtotal	4	22	22		
total		22	465	341	90	34

Notes:

1. The above includes Directors and Audit and Supervisory Committee Members who retired during the fiscal year under review. In addition, on June 16, 2017 the Company made the transition from a Company with a Board of Auditors to a Company with an Audit and Supervisory Committee (hereinafter referred to as "the Transition").
2. The number of recipients describes the total number of people, and the actual recipients are 18.
3. Of the above, the total number of Outside Directors and Outside Audit and Supervisory Committee members is nine, and the actual number of recipients is seven.
4. The amount of remuneration to Audit and Supervisory Committee members pertains to the period before the Transition, while the amount of remuneration to Directors who are Audit and Supervisory Committee members pertains to the period after the Transition.
5. The resolution setting the upper limit of remuneration for the Directors before the Transition at not more than ¥45 million per month was approved at the 154th General Meetings of Shareholders held on June 22, 2007. Of the total, the amount for Outside Directors accounts for ¥3 million or less, with the remaining ¥42 million or less paid to the other Directors. Compensation under stock option plans is set separately. The employee salaries for Directors concurrently serving as employees are also excluded from the figures.
6. The maximum limit of remuneration for Directors who are not Audit and Supervisory Committee Members was approved at not more than ¥30 million per month at the 164th General Meetings of Shareholders held on June 16, 2017. Of the total, the amount for Outside Directors accounts for ¥5 million or less, with the remaining ¥25 million or less paid to the other Directors.
7. In addition to the remuneration mentioned above in 6, at the 164th General Meetings of Shareholders held on June 16, 2017, the resolution was approved stipulating that Directors who are not Audit and Supervisory Committee members, are to receive a bonus equal to 0.5% of the consolidated profit attributable to owners of parent for the fiscal year as well as 1.6% of the total amount of annual dividends for the applicable fiscal year. However, the maximum limit was also set at not more than ¥440 million by the resolution, with amounts less than ¥1 million being rounded down.
8. Although bonuses for Directors amounted to ¥135 million based on the above calculation in 7, due to various circumstances the bonuses for Directors totaling ¥90 million were approved by the Board of Directors' meeting held on May 16, 2018.
9. The introduction of a share-based payment (stock option) plan for Directors who are not Audit and Supervisory Committee Members was approved at the 164th General Meetings of Shareholders held on June 16, 2017.
10. The maximum limit of remuneration for Audit and Supervisory Committee Members before the Transition was approved at not more than ¥9 million per month at the 159th General Meetings of Shareholders held on June 20, 2012.
11. The maximum limit of remuneration for Directors who are Audit and Supervisory Committee Members was approved at not more than ¥13 million per month at the 164th General Meetings of Shareholders held on June 16, 2017.

## Timely disclosure, Communication with Shareholders and Investors

### Relationships with Stakeholders and Timely Disclosure

Based on the Disclosure Rules help shareholders understand the Group and to facilitate proper assessments of the Group, we disclose in a fair, timely, and appropriate manner with the decision of the Disclosure Committee, consisting chiefly of the president and the information disclosure officer.

In addition to making every effort to comply with the Financial Instruments and Exchange Act and relevant rules, and the stock exchange's regulations, we maintain our social credibility in the securities market through strict management to observe regulations on insider trading in accordance with the insider trading guidelines.

### Communication with Shareholders and Investors

The Company issued approximately 140 million shares and had about 29,000 shareholders as of March 31, 2018. We held a general meeting of shareholders in the multi-purpose hall in the IBIDEN Headquarters Building on June 15, 2018. We have sought to establish a more open environment by adopting the voting rights exercise platform from fiscal year 2006 and making possible the exercise of voting rights via the Internet and mobile phones for shareholders who are unable to attend the meeting. (The ratio of voting rights exercised at the 164th general meeting of shareholders: 81.17%).

In addition, to ensure prompt disclosure, the Notice of Ordinary General Meeting of Shareholders added elements of business report is available in our website and platform by a week before mailing it to shareholders. We will continue to promote prompt disclosure such as on our website before mailing.

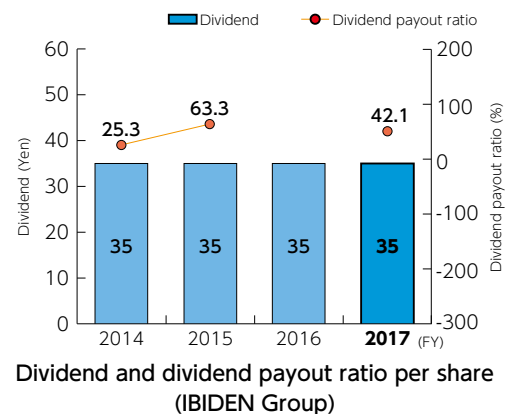
As for other IR activities, we hold periodic briefings for analysts and institutional investors after the announcement of business results for the full year and those for the interim term, and release materials for the briefings on our website. Furthermore, we take part in a range of events as briefings for individual investors, providing them with opportunities to invest in shares of the Company. (Please refer to "Disclosure of Financial Information" on page 59.)

### Policy Concerning the Decision on the Distribution of Retained Earnings

Our fundamental policy on distribution of profits to shareholders is to continue stable dividend payments by establishing a stable management base in the long term and improving performance, taking into account, in a comprehensive manner, management indicators such as the consolidated financial results, etc., of the Group, in addition to non-consolidated financial results, dividend payout ratio and ROE.

Based on this policy, our target dividend payout ratio for the medium and long term is 30%.

As for retained earnings, we strategically invest in research and development and manufacturing facilities to expand businesses for the medium and long term for the purpose of increasing the corporate value and reinforcing long-term competitiveness. We also acquire treasury stock while considering the financial conditions as part of the distribution of profits to shareholders.



## Risk Management

In expanding businesses globally, risks surrounding business management are complex and diverse, and it is essential for corporate activities that we appropriately deal with such risks. We are required to sort out potential risks such as the occurrence of a large-scale natural disaster, prevent and minimize them and appropriately handle them even when such risks become apparent.

### Basic Approach

The IBIDEN Group enables business continuity by analyzing various risks surrounding management, accurately handling losses of business resources that have a great negative impact on the ease of our business operations, ensuring the safety of our shareholders, customers and officers, and reducing and preventing losses of business resources.

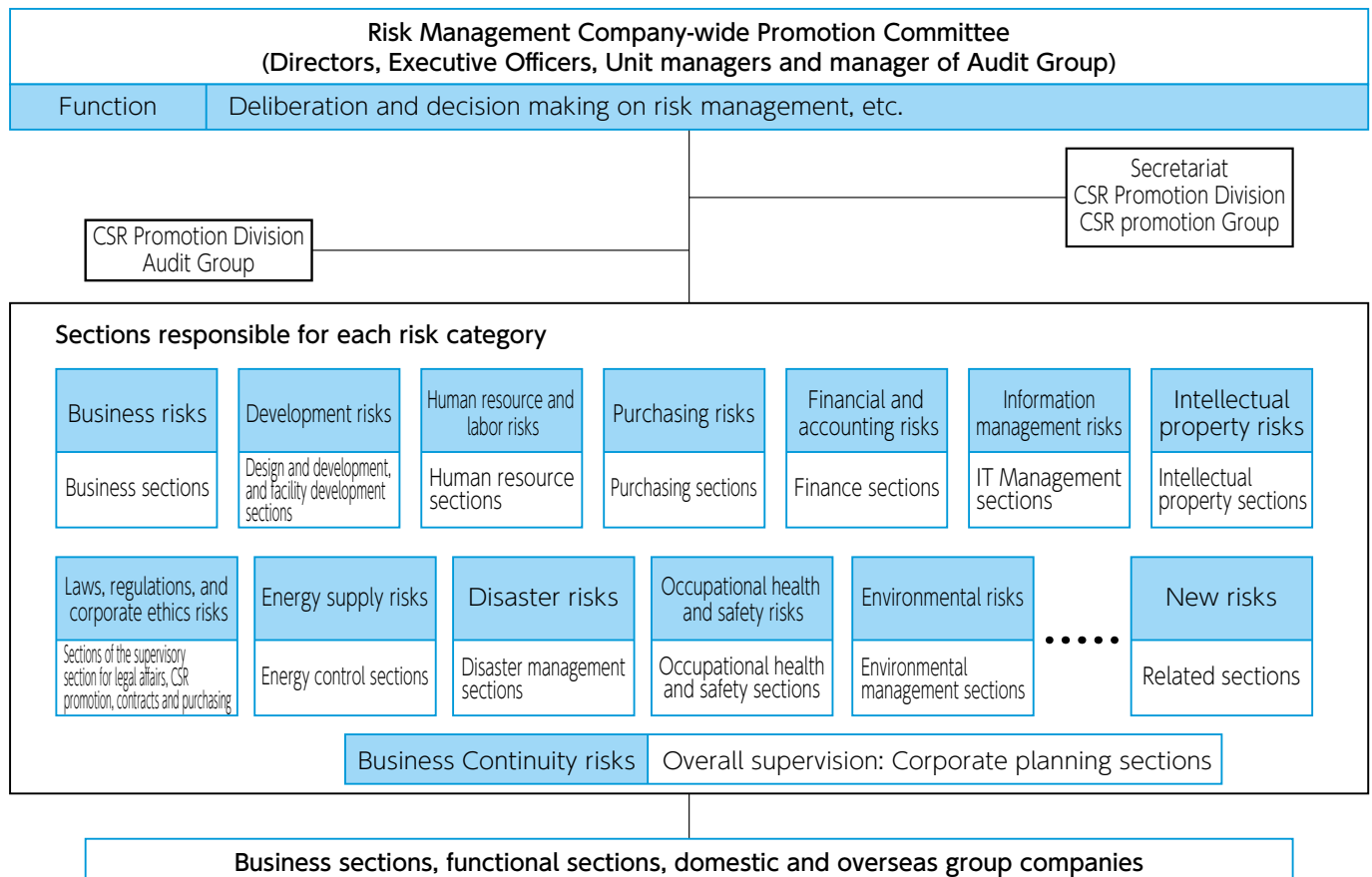
### Action Plan

1. We devote efforts to maintaining the health and safety of employees and suppliers and to conserving operating resources.
2. We conduct ourselves so as not to impinge upon the safety, health, or profits of our shareholders, customers, and local and international society.
3. In cases where risk is manifested, we work to achieve prompt response and recovery through responsible action.
4. We reflect social demands related to risk in our risk management.
5. We provide required information in order to avoid or reduce possible damage caused by misunderstanding and a lack of understanding.

### Structure for Advancing Risk Management

Based on the resolution of the Board of Directors, the Group has established Risk Management Regulations to create a risk management structure and its management process. We also created the Risk Management Company-wide Promotion Committee, which is tasked with improving risk management. The Risk Management Company-wide Promotion Committee is responsible for considering and deciding on general risk management issues. It also examines and reports the progress of actions to address major risks.

To execute the policy endorsed by this Committee, a section responsible for each risk category is established to carry out activities geared to IBIDEN's circumstances and business model, as well as with those of its Group firms.



\*A promotion manager appointed at each section

## **Advancing Risk Management**

Based on its basic policy and Risk Management Regulations, the Group is actively developing risk management promotion activities by, for example, setting up a department responsible for each risk category, strengthening the accountability structure, and offering seminars and workshops geared toward officers and employees. The managing officer of the CSR Promotion Division who also acts as the officer responsible for risk management conducts these risk-management promotion activities and reports to the Risk Management Company-Wide Promotion Committee (Secretariat: CSR Promotion Division; CSR Promotion Group) headed by the president and CEO.



**The Risk Management Companywide Promotion Committee meeting**

Should the internal audit or other mechanisms discover business actions that may create risk of loss, the managing officer of the CSR Promotion Division is immediately tasked to understand the details of the said risk as well as the scope of its potential loss. He then gives instructions on swift and systematic measures and attempts to prevent the loss from occurring. Furthermore, in case of a large-scale accident or a disaster, he immediately sets up the headquarters to thoroughly understand the situation, implement first responses, and prevent further loss to minimize the loss.

## **Risk Assessment and Addressing Risks**

The IBIDEN Group undertakes risk management activities so that we may continue to reliably conduct our business operations. We regularly detect and assess risks to reduce risks in important areas: operational divisions are working on the risks related to strengthening our business competitive edge, while functional divisions are addressing the risks bringing serious repercussions to the Company's business.

These risk management activities are implemented in conjunction with the policy management of each Division.

## **Business Continuous Plan**

We consider the risk of disruptions to production caused by the occurrence of a large-scale accident or a disaster in areas where our plants are located as an important risk theme, and are taking measures to prepare for the occurrence of a disaster. As for measures to be taken when disasters such as earthquakes occur, we believe that lifesaving comes first, followed by the early supply of products to customers.

With regard to concrete risk themes in the event of a natural disaster, including confirmation of the safety of employees, supply of materials by suppliers, equipment failure and occurrence of utility problems, we are building a response system, mainly led by divisions that cope with such risks. Assuming the occurrence of the Nankai Trough Megathrust Earthquake., we set a recovery time objective (ROT) for our plants and domestic affiliated companies that may be affected by the disaster. In fiscal year 2017, based on the assumption of damage, we re-evaluated risks of building collapse, explosion, fire and other casualties at each plant, and identified and organized potential issues.

## Compliance

To comply with laws and regulations and corporate ethics as a company is the most fundamental and important thing in undertaking business activities. We may lose our trust or business opportunities due to a material scandal or misconduct. Honest behavior is required of each officer and employee so that there is no act in violation of laws and regulations and ethics that has a significant impact on corporate activities.

### Basic Policy

By achieving thoroughgoing commitment to “compliance with domestic and international laws, our articles of incorporation, internal regulations and corporate ethics (hereinafter called Compliance)” and through open and fair corporate activities, we aim to be a company that international society relies on.

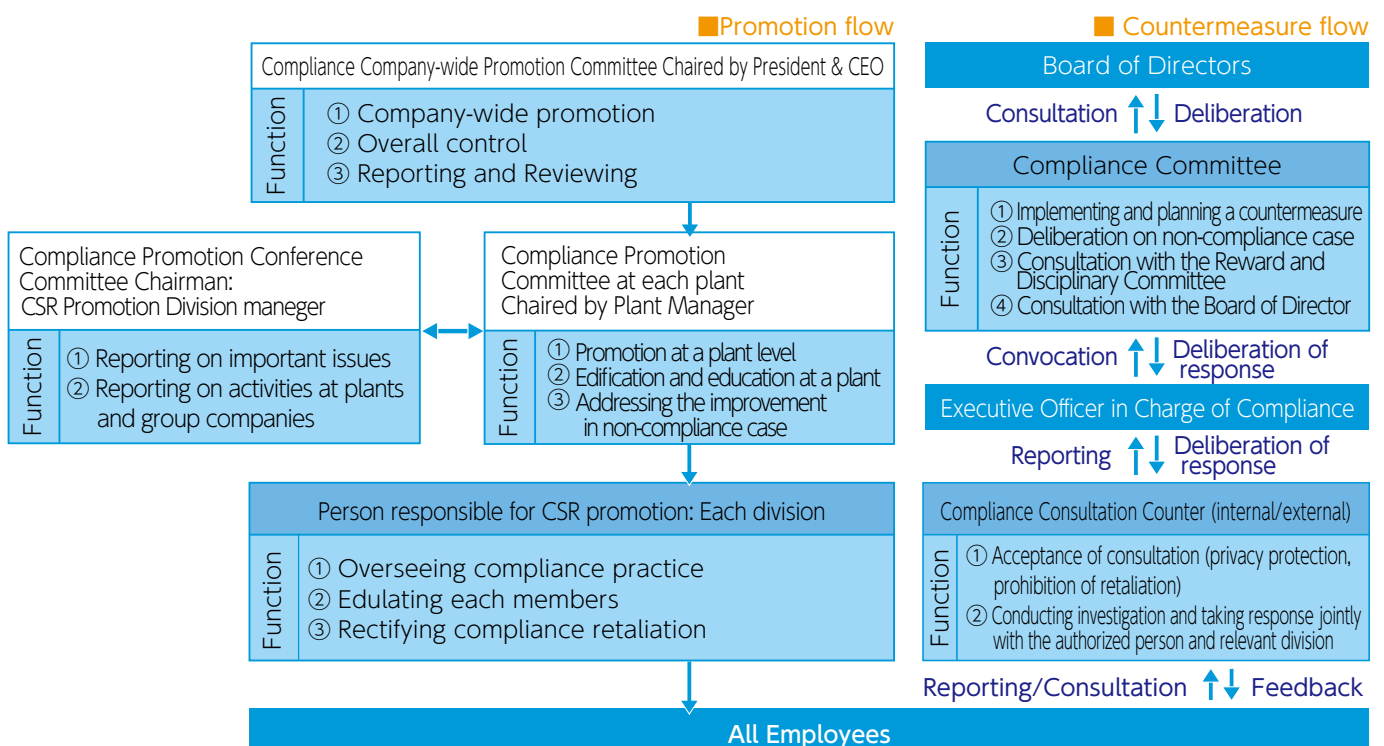
The IBIDEN Group adopted the IBIDEN Standards for Employee Behavior in December 1998 and the Compliance Promotion Regulations in August 2003, to facilitate its compliance activities. We continue to increase awareness of compliance, adopting a management approach that seeks to earn the trust and respect of all stakeholders.

### Structure for Promoting Compliance Program

The Group vigorously pursues further development of its compliance promotion activities (streamlining of the compliance-related rules and regulations, verifying the status of implementation of compliance activities, promotion activities, workshops and other functions geared toward the officers and employees) based on our basic policy and Compliance Regulations, the “IBIDEN Standards for Employee Behavior,” which sets the standards for compliance implementation. The executive officer in charge of the CSR Promotion Division as well as compliance implements promotion activities then reports to the Compliance Company-Wide Promotion Committee (Secretariat: CSR Promotion Division) chaired by the President and CEO. To promote compliance in each division and plant, a management person in charge of the promotion is designated in each division and plant, and a conference for management persons in charge of the promotion is held to promote and thoroughly implement the activities. The management persons play the role of overseeing compliance practice, educating their members and rectifying compliance violations.

In addition to the formal channel of reporting, the Group has established a compliance consultation service to facilitate reporting when an officer or employee discovers a violation of compliance. Through this service, officers and employees may report violations nominally to employees in charge of the compliance consultation service or anonymously to outside experts. The latter ensures that the rights of the whistleblower are protected by protecting his or her privacy and prohibiting prejudicial treatment. The executive officer in charge of compliance strives to educate officers and employees through training to achieve thorough understanding of the compliance consultation system. Should an incident related to compliance occur, the Compliance Committee chaired by an executive officer is called and discussions take place on appropriate actions to address the situation as well as preventative measures for future incidents. Serious incidents such as those highly relevant to directors are reported to the Board of Directors.

Flow Chart of Compliance Promotion



## Compliance Company-Wide Promotion Committee

In August 2003, the Compliance Company-Wide Promotional Committee headed by the president was formed in an effort to bolster compliance-related awareness across the Group. The committee carries out group-wide, pro-compliance activities and reviews such undertakings. Compliance-related policies and plans decided by the committee are communicated to each plant, which in turn rolls out individual actions in accordance with them. All group companies both in Japan and abroad have set up their own compliance organizations mandated to formulate and conduct individual actions.

The Compliance Company-wide Promotion Committee meets at least once each year, and a meeting was held in May 2017 during FY2017. Each plant of IBIDEN confirms the progress in its activity goals and plan, established at the beginning of the fiscal year, at the Compliance Promotional Committee at each plant held periodically every month. Other Group companies also review activity goals periodically.

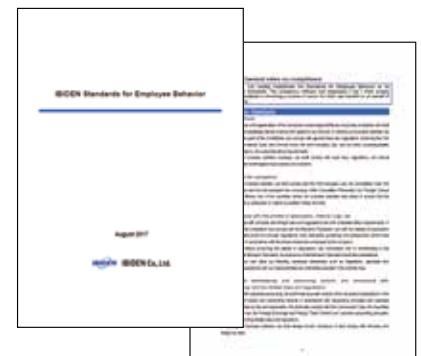
## Managing Compliance Activities

The Company, based on Compliance Regulations, put in writing internal operation rules for meetings to promote compliance activities, laws and regulations, and compliance with standards for corporate ethics. We have stipulated standards mainly for managers to appropriately establish and operate structures for compliance activities as a company in the SR Management Standards, and created specific in-house rules and guidelines. The Company has also established Standards for Employee Behavior as standards for each member of the Company, including officers and employees, to practice compliance sincerely. We revise these standards periodically based on global rules, expectations, and items requested by stakeholders, and in compliance with the laws and regulations of countries in which we operate as we expand business globally. Furthermore, we reflect revisions to the standards in in-house compliance promotion structures and education to raise the compliance level of the Company and each of its members.

## Standards for Employee Behavior

While a copy of the Standards for Employee Behavior is distributed to all officers and employees, it is also disclosed on our homepage so that everyone can access it. Copies of the Standards for Employee Behavior are also distributed to employees of contractors who work on the plants, asking them to act in accordance with the Standards for Employee Behavior.

The IBIDEN Group Companies, including overseas major manufacturing sites, have also been promoting education on compliance with each company's standards for employee behavior. In addition, the booklet we distribute to employees has information on the Division in charge and where to consult so that employees feel comfortable making an inquiry when they have questions. The IBIDEN Group is committed to becoming a corporate group and a good corporate citizen that earns the trust of the international community, while each officer and employee faithfully implements the Standards for Employee Behavior.



The IBIDEN Standards for Employee Behavior  
(August 2017 : Revised)

## Compliance Training

When promoting compliance activities, it is crucial that employee awareness is continuously maintained at a high level. The Company has been building educational system for employees to regularly receive training by job grade, in which the programs start immediately after hir[ing]. (Please refer to "Development of Human Resources" on page 23.) These programs include group discussions on causes of violations of the Standards for Employee Behavior and actions taken in response to the violations. They educate every single trainee in consciously deciding on the right action in a given situation.

We also enable new employees to deepen their understanding of CSR and what violation of compliance is through discussions based on familiar cases. In compliance training, which includes specialized education on issues such as various laws and taxes, it is important that employees understand the content of the training. We promote employees' understanding by confirming it through tests. At overseas bases, which employ many immigrant workers, training is provided on the Standards for Employee Behavior and other educational topics in workers' native language so that they can fully understand the contents of the training.

In fiscal year 2017, IBIDEN provided e-learning training to all employees in domestic plants and group companies. Going forward, we will continue to promote education for compliance and CSR across the entire Group.



Compliance Training



## Day-to-Day Compliance Training

Raising awareness through repeated training is important to thoroughly implement compliance. To deepen the understanding of the details of the Standards for Employee Behavior, we have issued Case Examples for Enlightenment (Case Book), which introduces cases of violation of the Standards and points to remember for compliance, to raise employees' awareness of compliance. We work to improve employee awareness by continuously issuing new Case Examples and posting these case examples on the CSR portal site on our intranet and in the company cafeteria, where many employees gather.

At all our domestic plants, all employees participate in reading through the Case Book during daily meetings, such as morning assembly, to learn points to be noted in daily activities.

## Compliance by the Top Management and Managers and Prevention of Misconduct

When establishing a compliance system, it is crucial that all officers and managers be at the forefront of the efforts. In the labor regulations for directors, prohibited matters, such as violation of laws and internal standards and acts of conflict of interest, as well as responsibilities that should be fulfilled are clarified. Also, the Standards for Employee Behavior are established as standards of compliance by not only general employees but also directors. The Standards for Employee Behavior include items officers need to be particularly aware of, such as restrictions on competition and transactions with conflicts of interest (directors are required to comply with this), in addition to the prevention of misconduct.

Since there are bribery prevention acts in various countries such as the Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act (UKBA), which we need to comply with in expanding businesses globally, we should re-acknowledge the impact and points to remember when doing business overseas. The IBIDEN Group's businesses do not have many direct dealings with government or municipal offices, so the overall risk of being charged with misconduct is not high according to the results of assessments of corruption risk at each site. However, we have appropriately developed a system for ensuring certain prevention of corruption in line with the current conditions of each site, such as requiring approvals from a high-level authority to entertain customers.

In fiscal 2017, in order to ensure fair business practices, all managers of the Company continually implemented workplace inspections on points to be observed in the SR Management Standards, and the Company started providing e-Learning training to managers of domestic Group companies as well and conducting patrols at each workplace.

## Whistleblowing System

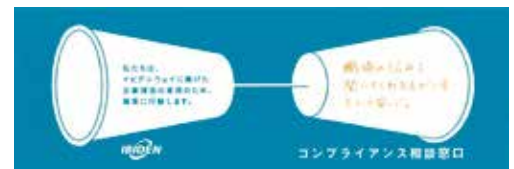
In case of learning of any suspected compliance violation in the Group, employees are generally required to report it, to consult, and to take action using the chain of command between the superior and the subordinate. We have, however, established a compliance consultation service for quickly solving any problem that cannot be reported through the usual channels.

The compliance consultation service is based on protecting the rights of whistleblowers, in ways which include securing the anonymity and privacy of persons who seek consultation, and guaranteeing that they will not be treated disadvantageously. We have established a compliance consultation service to make the service available to all those working at on-site workplaces.

To create an environment where employees feel comfortable consulting through a compliance consultation service, we endeavor to make the service known to everyone by establishing several windows for consultation within the Company, with a law firm and outside organizations, as well as distributing cards which describe how to use the service, and putting up posters.

While the consultation counter expects persons reporting to indicate their names in reporting to facilitate timely investigation as well as protection, anonymous consultation is also accepted. We have established procedures so that consultation cases can be investigated and handled while maintaining anonymity within the company. The officer responsible for compliance consultation directly investigates and handles serious cases. The results of investigations are reported to the person who sought the compliance consultation from the consultation counter that accepted the compliance consultation.

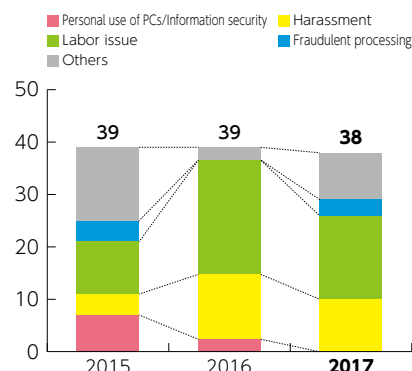
The process flow from consultation to investigation and feedback after consultation is explained to all employees through compliance education and other opportunities, in order to deepen their understanding of the consultation system. In addition, the person in charge of the consultation counter provides education for persons who conduct investigations, and checks if there were any reprisals against those who consulted or conducted an investigation, in order to enhance the reliability of the consultation counter. In fiscal 2017, the recognition rate of the compliance consultation service among employees increased to 98% according to the survey through e-Learning conducted with all employees of IBIDEN and its domestic Group companies, and the recognition rate among employees has increased to 100% as a result of our follow-up efforts to disseminate the service among employees. We make efforts to raise the awareness of employees in Japan to facilitate consultations not only by the persons concerned but also by those around them who were aware of problems, in order to detect and deal with issues, in particular harassment, early on.



Compliance consultation service card distributed to all employees

## Compliance Consultation Counter Usage Results and Responses

In fiscal year 2017, the Compliance Consultation Counter received 38 consultation cases in the entire Group in Japan (39 consultations in fiscal year 2016). Of these, 16 cases were brought by persons other than those concerned. Regarding the content of consultations, the number of cases that had the potential to lead to harassment in relationships between a superior and a subordinate, resulting from inappropriate use of words or methods of instruction, amounted to 10 (13 in the previous year) (refer to Initiatives for Preventing Power Harassment on page 21). Many consultation cases were from persons other than those concerned, which indicates that there is an increasing momentum in the company to monitor and eliminate harassment and other labor issues. All these harassment and labor issue cases have been handled by the Human Resources Division and harassment counseling staff. In many of the labor cases accepted, the content of consultation also included problems arising from superiors failing to give a sufficient explanation. Mutual understanding between superiors and subordinates is important to deal with these cases, and we are working to improve communication in the workplace to enable managers to take appropriate responses.



**Compliance consultation counter**  
 Number of consultations/whistle-blowing cases\*  
 (IBIDEN and domestic IBIDEN Group companies)  
 \*Number of consultations accepted: Including consultation cases that overlap to some degree or those that cannot be confirmed to be facts.

## Self-Check of Activities and Opinion Poll

We conduct a self-check on the status of compliance with the Standards for Employee Behavior and a survey on compliance awareness each year, covering all employees including those of domestic Group companies. In the self-check, all employees, including those holding managerial posts, diagnose the state of compliance with items of the Standards for Employee Behavior, and compliance-related challenges at each Group company or plant are clarified by summarizing the results of the diagnosis. Any problem identified in this process is addressed through remedial activities at Group companies and plants in the following fiscal year. We link little understood topics with educational programs. For instance, case studies illustrating compliance-related issues that many test-takers failed to answer correctly are published to increase their understanding.

In the opinion poll, we evaluate the degree of employee satisfaction with their workplace and superiors and compliance violation risk items from various aspects, and analyze characteristics by office organization and by Group company and plant.

We reflect the results of polls in compliance activities and education programs of the following fiscal year. We will continue to work on improving communication and addressing risk issues, take a strict stance against compliance violations in the company, and create an environment that does not allow violation of rules to occur by developing appropriate systems and providing thorough education.

## Information Security Measures

Information concerning the operation, technologies and management of the Company is a valuable asset, and for a technology-development-oriented company like us, proper management of such information and prevention of leakage are important issues and responsibilities. Also, leakage of customers' and suppliers' confidential information leads to loss of trust in us from customers and suppliers and can cause damage to the Company. In order to implement information security management, we have established a framework for information security promotion and stipulated fundamental rules to comply with in utilizing and maintaining information assets we own such as trade secrets, personal information and information technologies (IT) under the "Regulations for Information Management." In the regulations, the division that manages trade secrets, personal information and IT under the information management supervisory division (Regal section) is clarified in the information management structure. To improve the protection and utilization of information of the entire IBIDEN Group, we have established the Information Security Committee, chaired by the director in charge of Strategic Corporate Planning Operations.

As for personal information at IBIDEN, the division in charge of human resources serves as the supervisory division and properly manages personal information in compliance with relevant laws and regulations, thereby confirming and correcting issues.

We have established a personal information protection policy and stipulated procedures necessary for collection, management and utilization of personal information. Our personal information protection policy is available on our website.

Falsification of customer data, etc. has become a social problem. Against this background, the IBIDEN Group, in fiscal 2017, introduced a data integrity audit, and is working to prevent falsification and incorrect handling of data for provision to customers.



**Personal information protection policy upon the use of our website**

## System and Achievement of Legal Compliance

Compliance with laws and regulations is a fundamental requirement for corporate compliance activities, and the latest information on laws and regulations is required all the time. At the Company, based on the Compliance Regulations, the Legal sections list laws and regulations that affect the Company and monitor the status of their

revision or abolition. The Legal group also notifies divisions in charge of each law and regulation of any revision or promulgation and, when any action is required, checks the results of such action.

In particular, we extract laws and regulations that have a significant impact on the IBIDEN Group as important laws and regulations and designate those with especially considerable impact as the “most important laws and regulations”. Important laws and regulations include those concerning finance, tax matters, IT control, labor and employment, political funds, import and export and others concerning compliance. As for the most important laws and regulations, we exercise management and thoroughly implement measures to prevent legal violation by clarification of compliance rules, training to keep everyone informed, regular review of the status of compliance and audits. In fiscal 2017, we did not see any cases of legal violation relating to fraudulent acts or other dishonest acts that would have a significant impact on business activities.

## CSR Management in the Supply Chain

To earn the trust of international community while operating business globally, both the Group and the entire supply chain must responsibly take actions that respond to social demands. Although our major businesses are positioned in the midstream of the supply chain that provides parts, we believe that promotion of CSR activities based on the fundamental policy of the IBIDEN Group with suppliers that supply the Group with materials, etc., and temporary help agencies as well as contractors that provide personnel and technological support to us leads to improvement of the corporate value and sustainable growth of the entire supply chain.

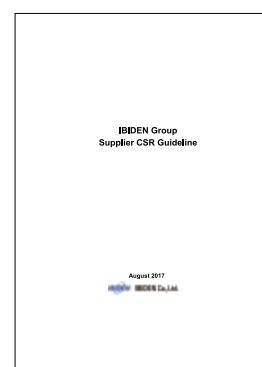
### Basic Purchasing Policy

1. We comply with laws, regulations and societal norms, and strive to build relationships of trust and mutual cooperation with suppliers.
2. We provide suppliers opportunity at a fair deal.
3. We continue to fulfill our social responsibilities including human rights and environmental protection through purchasing activities.

### IBIDEN Group Supplier CSR Guidelines

To realize the sustainable growth of globally developing business with suppliers, IBIDEN disclosed requests to suppliers based on its basic purchasing policies in 2008, and unveiled the IBIDEN Group Green Procurement Guidelines in 2009 as a system for green procurement, designed to procure parts and materials that feature reduced environment impact (refer to “Appropriate Chemical Control” on page 3 9). In addition, IBIDEN published the IBIDEN Group Supplier CSR Guidelines in 2011. These guidelines provide our suppliers with items desired for the entire supply chain by our customers, the industry and the international community and items that should be managed by the Group. The items are divided into subcategories according to themes such as labor, health and safety, environmental protection, ethics and fair business practices.

In August 2017, we reviewed requested items in the CSR Guidelines in light of changes in the external environment.



**IBIDEN Group  
Supplier CSR Guidelines  
(August 2017: Revised)**

### Communication and Cooperation with Supplier

We have released CSR guidelines on our company website to make them available for all our suppliers to view. In addition, we hold briefing sessions on CSR guidelines for our major suppliers to share specific challenges to be addressed not only within the IBIDEN Group but also with suppliers engaged in supplying materials, subcontracting, and dispatching temporary staff.

In addition, we conduct CSR surveys and CSR-related site visits and audits for suppliers to check and make improvements related to the challenges faced by suppliers.

We ask new suppliers to pledge to comply with the CSR Guidelines in the basic transaction agreement, and check the status of efforts of suppliers using the CSR survey described below before commencing business transactions.

We carry out CSR surveys of material suppliers, process contractors, on-site contractors, and worker dispatching

companies in accordance with their individual risks, taking into account risks involving the contents, value, and importance of transactions.

We conduct CSR survey every year, and in fiscal year 2017 we conducted a CSR survey on about 250 suppliers (covering suppliers whose aggregate transactions were more than 90% of the total amount of transactions). We have suppliers declare compliance with CSR guidelines and ongoing improvements when they reply to the survey. The surveys we conducted on suppliers in fiscal year 2017 revealed that the average rate of compliance of material suppliers concerning items for which we have particularly requested compliance was about 97%. If material suppliers have items for which they have not sufficiently conducted compliance activities, we request them to submit an improvement plan and ask them to further improve their activities in the following fiscal year.

We check the status of activities of suppliers that are judged to be particularly important by visiting their production sites in person to communicate with them. Such communication is done by carrying out audits on labor, health and safety, environmental conservation, ethics and fair trade, in order to improve our supply chain. In fiscal year 2017, we performed on-site CSR audits on 10 material suppliers. We did not find, in the results of surveys and audits carried out in fiscal 2017, any material infringement that would lead to a violation of the rights of employees or threaten life.

### **IBIDEN Suppliers' Compliance Counter**

In fiscal 2011, we set up a compliance counter for our suppliers to which suppliers can report any compliance problem while dealing with the Company. As with the compliance counter for our internal employees, information will be handled with the utmost care for privacy and the supplier will never suffer prejudicial treatment for contacting the counter.

In fiscal 2017, we continued to make the IBIDEN Compliance Counter for business partners known to all suppliers. As a result, the rate of recognition of the Compliance Counter among suppliers is improving, and the number of consultations is increasing, although at a low level. We will continue working to make the Compliance Counter known to every supplier at briefing sessions for suppliers toward achieving early detection and resolution of issues.

### **Responsible Sourcing of Resources (Conflict Minerals)**

Illegal mining of resources in conflict areas and high-risk areas has become a major international issue as it abets human rights violations and environmental destruction. The IBIDEN Group is very concerned about the issue of responsible sourcing of conflict minerals (tin, tantalum, tungsten and gold) and is addressing the situation with a sense of social responsibility toward the products it offers.

Our "CSR Guidelines" clearly state that the suppliers should refrain from illegal mining in conflict areas as well as procuring resources that may support human rights violations. The Company tries its best to avoid contributing to illegal operations and human rights violations by not utilizing minerals illegally mined in conflict areas. Furthermore, we will conduct reasonable investigations into the mineral supply routes and disclose the findings in good faith. Responding to the issue of conflict minerals is carried out mainly by the CSR Promotion Division in cooperation with the division in charge of purchasing. The CSR Promotion Division consolidates information collected by the division in charge of purchasing, confirms and analyzes the content and compiles the status of use of conflict materials by the Company. The business administrative division accepts inquiries from the outside and provides information after obtaining approval of the CSR Promotion Division manager.

The Company has been sharing with its suppliers the issues involving conflict minerals as well as the Company's approach during a briefing session. We also conduct supplier surveys to verify their supply routes, including the identification of smelters and refiners. We also conduct supplier surveys to verify their supply routes including the identification of smelters and refiners. Furthermore, we conduct sequential visits at some of our suppliers' facilities and other related refining companies to explain the extent of the effort as well as verify the supply routes and their traceability (history of materials, parts, and process). The Company uses Conflict Mineral Reporting Template of the CFSI\* in its investigations into subject material supply routes, and asks suppliers that use subject minerals to update their data on a regular basis.

Some of the package substrates and printed-wiring boards that we supply include tin and gold. In fiscal

year 2017, we conducted due diligence surveys on suppliers which used conflict minerals continually and verified all smelters from which minerals supplied by our suppliers were derived. Tin was mainly derived from smelters in Southeast Asia, while gold was derived from ores coming from refineries of mainly Japanese recycling manufacturers. The conflict minerals we used have been verified, by a third-party organization, to be derived from smelters/refiners that are compliant with the Conflict Minerals Free Program of CSFI or another equivalent program (as of June 2018). The Company can thus declare that no evidence has been found that the minerals we use are derived from mines that play a part in conflicts in the Democratic Republic of the Congo and conflict zones surrounding it.

We will continuously implement risk management to avoid sourcing minerals from mines that play a part in conflict and human rights violations within our supply chain by updating information on the supply chain on a regular basis and promoting the use of certified smelters.

\* RMI (Responsible Mineral Initiative): An international organization with over 350 member companies and organizations that promotes procurement of responsibly sourced minerals.