

June 24, 2016

## **Internal Control System Design Basic Policy**

### **1. System to ensure that the duties of Directors and Employees are performed in compliance with laws and ordinances and the Articles of Incorporation.**

- 1) Carry out continuous training and education of directors, executive officers, employees, and all other equivalent personnel in the Group (hereafter "Group employees") regarding the Terumo Group's Code of Conduct in order to ensure penetration and thorough understanding that compliance to laws and ordinances and practice of corporate ethics (hereafter "compliance") is the foundation of the corporation's existence and business activities.
- 2) The Internal Control Committee, which is responsible for enacting the Internal control system within the Group in accordance with this Basic policy and the Board of Directors, shall deliberate and make decisions regarding important policies related to compliance, and regularly report the status of these activities to the Board of Directors and Audit/Supervisory Committee.
- 3) The Chief Legal Officer (hereafter "CLO") shall be the primary entity implementing the compliance system across the Group, and under the leadership of the CLO, promote a variety of measures by creating related rules, performing training and education, collecting employee oaths, and coordinating with compliance officers to quickly discover and ascertain problems.
- 4) In accordance with the provisions of the Financial Instruments and Exchange Act, in order to ensure the reliability of financial reporting, make efforts to establish a system to ensure the effectiveness of internal control of the Group, and regularly assess its effectiveness.
- 5) Build and operate a whistle-blowing system in which Group employees can, upon discovering compliance violations, etc., can report problems out of their usual line of authority and have the assurance that employees making reports will not be treated disadvantageously. Further, the divisions operating the whistle-blowing system shall report on its status to the Audit/Supervisory Committee as necessary.
- 6) In the event that significant compliance violations, etc. occur, a handling team shall be immediately created under the direction of the Chairman of Internal Control Committee, and that team shall, in addition to handling and resolving the occurrence, report or make proposals to the Internal Control Committee regarding the cause and recurrence prevention measures. In the event that in handling it is recognized that there has been a violation of Employment Rules by a Group

Employee, discipline shall be strictly rendered in accordance with related disciplinary procedures.

- 7) The Internal Audit Department shall audit to confirm the operation and effectiveness of the above activities, and shall report and make proposals to the Internal Control Committee regarding audit results while also confirming that measures to improve relevant areas are completed.

## **2. System for managing information (preservation, reading, security, disclosure, and etc.) related to Terumo director performance of duties.**

- 1) In accordance with the "Document Management Standard," information related to director performance of duties shall be recorded and saved in documents or electronic media (hereafter "Documentation").
- 2) The period that records must be kept shall be the period established by the Document Management Standard, according to Documentation type and importance.
- 3) Board of Directors, and The Audit/Supervisory Committee or Audit/Supervisory Committee members selected by the Audit/Supervisory Committee (hereafter "Selected Audit/Supervisory Committee members ") shall be able to view the Documentation at all times.
- 4) For information security and protection of personal information, confidential work information and personal information shall be appropriately and safely stored and managed under the direction of the Chief Information Officer (hereafter "CIO") and in accordance with the "Information Security Standard," "Personal Information Protection Standard," and other related regulations.
- 5) The Disclosure panel of the Internal Control Committee, which is responsible for the Group's legal and timely information disclosure procedures, shall promote timely and appropriate information disclosure.
- 6) The Internal Audit Department shall audit to confirm the operation and effectiveness of the activities established by the above clauses, and shall report or make proposals to the Internal Control Committee regarding audit results while also confirming that measures to improve relevant areas are completed.

## **3. Terumo Risk Management Regulations and system**

- 1) Established by decision of the Board of Directors, the Risk Management Committee is chaired by the President and Representative Director, and promotes the establishment of a risk management system throughout the Group based on the Risk Management Regulations set forth by the Board of Directors.

- 2) In addition to the previous item 1), the expert department dealing with separate risks categories including business, quality, product safety, disasters, and environment etc., shall perform enlightenment training and education in accordance with their respective regulations and manuals, etc.
- 3) The Risk Management Committee shall, taking into account the priority of risks which have serious effect on Group management, deliberate and determine a Risk management policy consisting of such items as preventive measures, continuous enlightenment training and education, and emergency handling of occurrences.
- 4) The Internal Control Department shall regularly or appropriately ascertain and identify risks related to the Group, analyze and evaluate those risks for their likelihood of occurrence and level impact, and then report and make proposals to the Risk Management Committee.
- 5) The Internal Audit Department shall audit to confirm the operation and effectiveness of the activities established by the above clauses, and shall report and make proposals to the Risk Management Committee regarding audit results while also confirming that measures to improve relevant areas are completed.

#### **4. System for ensuring efficient director performance of duties**

- 1) In order to increase the Group's corporate value and benefit to shareholders, the Executive Management Meeting, Market Product Strategy Meeting, and other deliberated or specialized bodies composed of the directors and executive officers shall offer support, leadership, and oversight to business departments for efficient and rapid performance of duties toward achievement of the mid-term management plan and annual plans approved by the Board of Directors.
- 2) Make decisions rapidly and efficiently based on the "Regulations on Proposals to Official Meeting Bodies and on Corporate Authorization System," which clarify company decision-making.
- 3) Based on the "Department Job Description Regulations." and other several regulations, execution for the duties systematically and effectively.
- 4) The Internal Audit Department shall audit to confirm the operation and effectiveness of the activities established by the above clauses, and shall report and make proposals to the Internal Control Committee regarding audit results while also confirming that measures to improve relevant areas are completed.

**5. System for ensuring appropriate work within a group composed of the Company, its parent company, and its subsidiaries.**

- 1) Group companies shall report execution of duties in accordance with Terumo Group Company Management Regulations and other several regulations, in a timely and appropriate manner.
- 2) The Internal Control Department shall provide leadership and support to Group companies in building risk management systems, in accordance with the Risk management policy established by the Risk Management Committee.
- 3) Group companies shall perform decision-making according to importance as prescribed by the Regulations on Proposals to Official Meeting Bodies and on Corporate Authorization System.
- 4) The CLO shall, in accordance with the Terumo Group's Code of Conduct and related regulations, closely coordinate with the compliance officers of Group companies to promote compliance enlightenment training and education
- 5) The Internal Audit Department shall audit to confirm the operation and effectiveness of the activities established by the above clauses, and shall report and make proposals to the Internal Control Committee regarding audit results while also confirming that measures to improve relevant areas are completed.

**6. Items relating to directors and employees who assist with the duties of the Terumo Audit/Supervisory Committee**

- 1) The Audit/Supervisory Committee Office, consisting of two or more dedicated employees (hereafter "dedicated employees") shall be established as an organization to assist the Audit/Supervisory Committee.
- 2) The Board of Directors may assign Director with Special Assignment (Audit/Supervision) from among directors who are not Audit/Supervisory Committee members, who will have the duty to assist the Audit/Supervisory Committee in audits and supervision.

**7. Items related to independence of a Director with Special Assignment (Audit/Supervision) and dedicated employees from directors who are not Audit/Supervisory Committee members**

- 1) Submitting a proposal for election of a Director with Special Assignment (Audit/Supervision) to Shareholders meeting, shall require the prior approval of the Audit/Supervisory Committee. In the election of a Director with Special Assignment (Audit/Supervision), candidates' experience, knowledge, and behavior,

etc. shall be carefully considered in light of the important role they will play as participants in audit/supervisory functions.

- 2) Selection, performance evaluation, salary, placement, and discipline of dedicated employees shall require the prior approval of the Audit/Supervisory Committee. In the selection of dedicated employees, candidates' experience, knowledge, and behavior, etc. shall be carefully considered in light of the important role they will play as participants in audit/supervisory functions.

**8. Items for ensuring the effectiveness of direction given from the Audit/Supervisory Committee to a Director with Special Assignment (Audit/Supervision) and Dedicated employees**

Director with Special Assignment (Audit/Supervision) and dedicated employees shall perform their duties according to the direction and mandates of the Audit/Supervisory Committee and Selected Audit/Supervisory Committee members, and shall not receive direction or mandates from directors who are not Audit/Supervisory Committee members, or any other Group employees.

**9. System for Group employees (hereafter "reporting personnel," and this includes those receiving reports as well) to report to the Audit/Supervisory Committee**

- 1) In addition to legal items, directors or employees shall make timely and appropriate reports to the Audit/Supervisory Committee or Selected Audit/Supervisory Committee members according to Bylaw on Reports by Directors and Employees to Audit/Supervisory Committee.
- 2) The Audit/Supervisory Committee or Selected Audit/Supervisory Committee members shall regularly receive reports on the operation status of, and content of incidents reported under, the internal reporting system established at the Group companies, and shall give direction and advice as appropriate.

**10. System for ensuring that reporting personnel do not receive disadvantageous treatment by reason of making reports**

- 1) Group directors and employees, in the event that a report has been made to the Audit/Supervisory Committee or Audit/Supervisory Committee member(s), shall prohibit any human resources-related or other type of detrimental treatment of the reporting person by reason of the person having made a report, and directors and employees shall thoroughly communicate this prohibition to all Group employees.
- 2) The Audit/Supervisory Committee or Selected Audit/Supervisory Committee

members may require from directors disclosure and explanation of the reasons regarding the placement, performance evaluation, or discipline, etc. of a reporting person.

**11. Items regarding policy for prepayment or reimbursement procedures for expenses related to performing Audit/Supervisory Committee duties, and processing of expenses or liabilities relating to performance of other duties**

- 1) The Audit/Supervisory Committee or Selected Audit/Supervisory Committee members may invoice the Group for expenses related to performance of their duties, as established by laws and ordinances.
- 2) The Audit/Supervisory Committee and Selected Audit/Supervisory Committee members may obtain the services of external experts when such are deemed necessary to the performance of their duties. Further, the expenses associated with obtaining these services shall be applicable under 1) above.

**12. System for ensuring that other audits of the Audit/Supervisory Committee are performed effectively**

- 1) The Representative Director shall regularly hold meetings to exchange opinions with Audit/Supervisory Committee.
- 2) Selected Audit/Supervisory Committee members may attend important meetings such as Executive Management Meeting.
- 3) In addition to regular reporting meetings with internal audit departments and with external auditors, the Audit/Supervisory Committee or Selected Audit/Supervisory Committee members shall hold meetings as necessary with these departments or bodies.

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