

# Internal Control

## Enhancement of Internal Control

The EBARA Group drives the development of a framework consistent with the Company Act, along with a scheme of internal control based on the Financial Instruments and Exchange Act, to secure the legitimacy of its operations in accordance with the Internal Control Basic Policy established in 2007. The corporate audit department under direct control from the President conducts business audits to continually review the ways this framework is continually maintained and administered. In addition, four teams have been formed to make independent assessments of the four aspects of internal control - company-wide control relating to the Financial Instruments and Exchange Act, the financial statement closing process, other business processes and IT control. As a consequence, the EBARA Group has been accredited by an external expert body for the effectiveness of its internal control each year. The EBARA Group will focus on the work of simplifying the flow of its response to legislations in FY2013 and after.

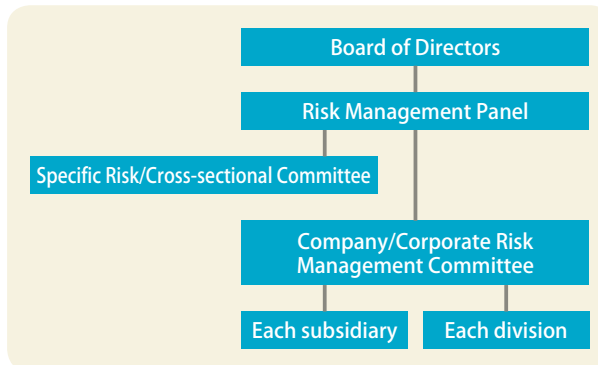
For FY2012, the EBARA Group worked on the goal of enhancing the effectiveness of internal control, as well as complying with legislations. Specifically, it took up the tasks of risk management, thorough compliance, anticorruption and so on and embarked on a package of measures to approach them in collaboration with its domestic and overseas subsidiaries. A compliance education program for overseas affiliates of the EBARA Group has been set into motion to consolidate the notion of compliance across the Group (see page 12). In the field of risk management, measures to mitigate major risks have been taken and deployed across the Group, including the formulation of a BCMS and anticorruption program to address evolving risks.

## Efforts to Mitigate Risks

### Risk Management

The Risk Management Panel (RMP), composed of the President as chairperson and full-time directors as panel members, has been set up to supervise the issues of risk management across the EBARA Group. As a subordinate organization under the RMP, the Risk Management Committee (RMC) is in place in each company to deploy risk-responsive activities. The RMC in each company meets almost every month to deliberate possibly risky matters, such as huge-sum contracts and projects involving implementations of advanced technologies. Among all matters, those that are deemed to require further deliberations from a company-wide standpoint are reviewed by the RMP. In addition, cross-sectional headquarters, committees and the like are formed to respond to specific risk challenges, such as avoiding breaches of compliance with the Construction Business Act, the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors and the like, as well as security export control, environmental management and antisocial forces control.

### EBARA Group risk management system



### Identifying and Mitigating Major Risks

Major risks are classified into six categories for management according to the Risk Management Standard.

- ① **Compliance risks:**  
Whistleblowing reception desks are open in-house and outside to speed up the time spent to detect and handle the risks that may result from our officers and employees acting to conflict with in-house rules or social norms. A workshop program has been launched in FY2012 to encourage overseas group companies to view compliance risks (see page 12).
- ② **Financial reporting risks:**  
Continual efforts to make financial reporting more reliable and cut risks properly have been promoted, including targeted approaches to improving the working quality of selected sets of relatively risky business processes and sites. Lists of outstanding risks and solutions are posted on the intranet to prevent their recurrence and promote deployment of the solutions within the Group.
- ③ **Sales project risks:**  
Engineering and commercial risks involved in the long-term umbrella projects relating to the construction and operation of waste incinerators at home and in the projects involving the delivery of large-compressors, turbines, pumps and more to petroleum refining plants overseas are quantitatively analyzed under predefined project review criteria to explore and debate ways to mitigate the risks.
- ④ **Loan and investment loss risks:**  
Our expert finance department carries on monitoring under predefined criteria to detect and resolve loan and investment loss risk challenges in their early stages of occurrence to mitigate selected sets of risks.
- ⑤ **Environmental risks:**  
An environmental management system as provided for in ISO14001 is run to identify and mitigate the environmental risks of waste water, emissions, industrial waste and other forms of refuse produced from the business activities of EBARA Group companies through environmental reviews and audits.
- ⑥ **Other business risks**  
Other risks that may arise in the course of business practice are audited by the Corporate Audit Department and also independently by Group companies. As business risks are extracted from or identified in day-to-day operations, they are approached or handled by the Enterprise Risk Control

Internal Control

ISO 26000  
INDEX

Organizational  
governance

Human rights

Labour practices

The environment

Fair operating  
practices

Consumer issues

Community involvement  
and development

Division working in coordination with the associated corporate or company departments.

◆ Global Deployment of Compliance Workshops

Starting from FY2012, a Code of Conduct Compliance Workshop program has been launched to brew a sense of compliance and infuse the EBARA Group with the EBARA Group Code of Conduct. In the first year of the program, workshops were held at 16 locations focusing on China, Southeast Asia and South America, attracting an attendance of 1,225 local officers and employees. To adapt the workshops to reflect the laws effective in the host countries, instances of violations of the Foreign Corrupt Practices Act (FCPA) and the country-specific laws relating to the prevention of bribery and monopoly, protection of intellectual property rights, and workplace environments were presented with help from the local law offices.

The founding sprits of the EBARA Group and its corporate philosophy, CSR policy and Code of Conduct were also expounded to help the participants develop a sense of awareness of being a member of the EBARA Group each and share the value of contributing to society through business practice.



A scene of a workshop held at a Taiwanese affiliate

For those overseas group companies for which workshops have been held, similar workshops will be autonomously carried on in our bid to get a compliance-centric business climate come to stay deeper across the EBARA Group.

VOICE

Participants' Voice

Enhanced awareness of compliance, a vital element of internal control



Xufeng Zhao  
Human Resources Department, Management Division,  
Ebara Machinery (China) Co., Ltd. (EMC)

EMC has set up an Internal Control Committee composed of the CEO, President and division managers to pursue the corporate top-priority goal of building a system of internal control in an all-out company effort. Further, a compliance consultation desk for employees was opened in 2012.

An EBARA Group Code of Conduct Compliance Workshop was held for one week for employees in each of the local offices in April 2012 jointly by EMC and EBARA. In the workshop, lecturers elaborated on the rules relevant to day-to-day operations and the Antimonopoly Act, laws concerning the prevention of bribery, protection of intellectual property rights and so on with reference to specific examples, followed by active question and answer sessions with EMC employees. Since enhanced awareness of compliance is a vital element of internal control, the EMC Internal Control Committee recognizes the need to carry on its efforts to promote awareness of compliance. EMC pursues a policy of building a more effective, better integrated system of internal control with supervision and assistance from EBARA.

VOICE

Participants' Voice

Contribute to sustainable development through corporate ethics, compliance and business administration

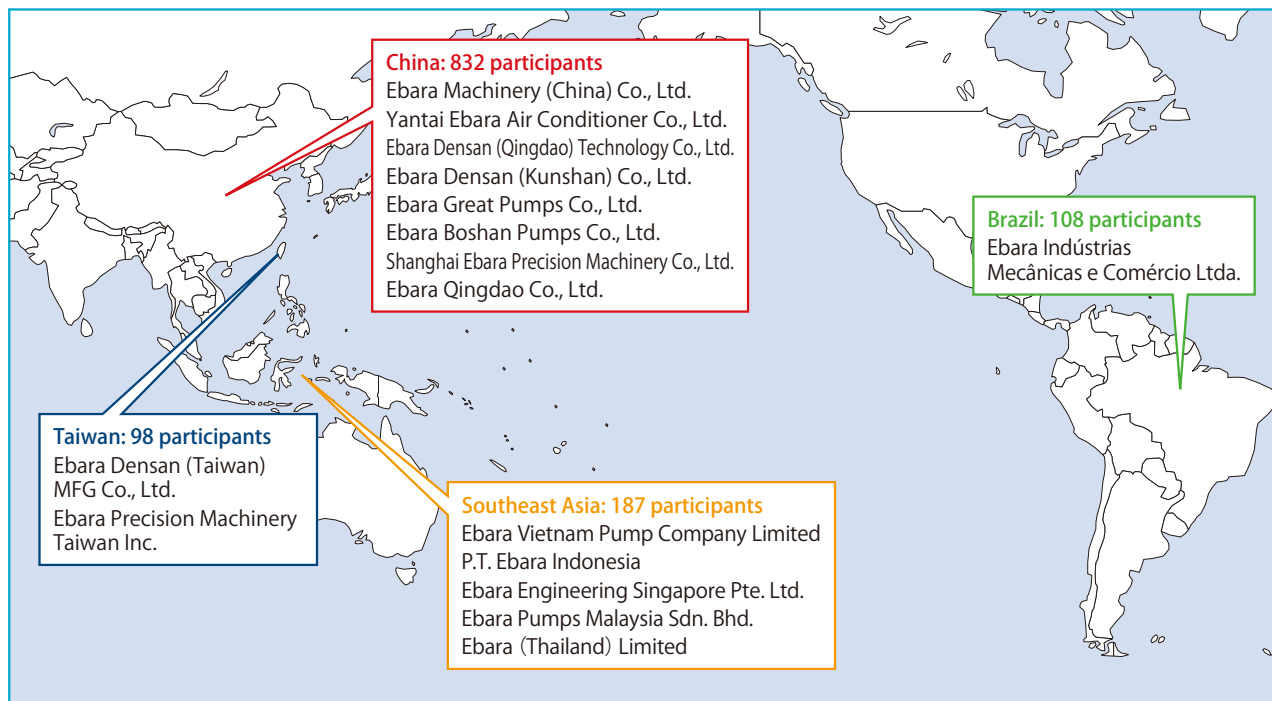


Ricardo Pegorin  
Internal control representative  
Ebara Industrias Mecánicas e Comércio Ltda.

Corporate ethics should be the basis of the EIMCO business. My challenge is to develop and maintain an efficient structure of internal control, risk management, compliance and internal audit. The accomplishment of Compliance Seminar in March 2013 reinforced the Corporate Philosophy of EBARA Group and enabled the implementation of complaint channels relating violations the code of ethics. I believe that the constant awareness about the code of ethics, compliance and management of controls contributes to sustainable development.

»» **Number of Participants in the Compliance Workshop** (FY2012)

A total of 1,225 local officers and employees from 16 companies, including the Beijing Office and the Southeast Asia Regional Office, attended the workshop.



◇ **Building a Business Continuity Management System (BCMS)**

As part of its scheme of risk management, the EBARA Group reviewed its traditional practice of crisis management in the wake of the Great East Japan Earthquake. Measures to prepare for the northern Tokyo Bay earthquakes that are predicted to occur in the near future are compiled in the BCMS\*1 (see page 14).

The existing package of infection control measures will be reviewed in the future from a BCMS standpoint to work out a more realistic plan for running the BCMS system in a PDCA cycle. Further, amid our growing sphere of our overseas presence, the EBARA Group has begun to explore more strict solutions to crisis management, as for combating terrorism and riots (page 14).

◇ **Implementation of an Anticorruption Program**

A basic policy on anticorruption calling for the prohibition of bribery, promotion of fair and free competition and severance of relations with antisocial forces was formulated and an

anticorruption declaration was announced by the President (see page 30). Domestic Group companies have maintained their own versions of this basic policy and the anticorruption declaration. Overseas Group companies are expected to phase in similar approaches in accord (page 30).

**Future Approaches to Internal Control**

In the rapidly evolving business climates at home and abroad, risks continue to grow in size and complexity, threatening successful group governance. In the circumstances, the EBARA Group seeks to build a risk management system that not only responds to individual risks but also perceives and controls them from a standpoint of the entire Group while blending achievements of the Group's practice of internal control developed and administered to date in an optimal mix. Running such a risk management system should help us toughen group governance to lead to a better sense of ethics and a higher corporate value.

\* 1 [BCMS] Business Continuity Management System