



PRESS RELEASE

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AXELL CORPORATION

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Notice of Partial Revisions of Systems to Ensure the Properness of Operations (Matters Concerning Internal Control System)

As disclosed in “Notice of Transition to a Company with Audit and Supervisory Committee and Partial Amendments to the Articles of Incorporation” on April 18, 2016, AXELL CORPORATION (the “Company”) has transitioned to a Company with Audit and Supervisory Committee based on the approval in the 21st Ordinary General Meeting of Shareholders held on June 18, 2016.

In line with this change, the Company has resolved at the Board of Directors Meeting held on the same date that partial revisions of its “Systems to Ensure the Properness of Operations” shall be made. Notification of the revised contents is made as follows. (The revised sections are underlined.)

Systems to Ensure the Properness of Operations (revised on June 18, 2016)

- (1) **Systems to Ensure that Directors and Employees of the Company Comply with Laws, Regulations and the Articles of Incorporation in the Execution of Their Duties**
 - 1) The Company’s Directors and employees shall not only comply with the laws, regulations, the Articles of Incorporation and the like in accordance with the Corporate Philosophy and the Code of Conduct stipulated by the Company, but shall also firmly maintain the virtues and ethics required by society based on the social significance of corporate existence.
 - 2) The Company shall establish a unit in charge of internal control directly under the President and Representative Director, appointing the head of said unit as the Internal Audit Implementer. The Internal Audit Implementer, incorporated into the internal organization, shall conduct audits for Directors and employees on their status of compliance with the laws, regulations, the Articles of Incorporation and the like from a perspective independent of the business execution organization.
 - 3) The Board of Directors shall make a decision on or approve statutory matters and various matters relating to business execution in an appropriate and timely manner in accordance with the stipulations of laws, regulations, the Articles of Incorporation, and Board of Directors Regulations, and the Directors comprising the Board of Directors shall oversee each other’s execution of duties. Furthermore, highly-independent Outside Directors shall

be appointed.

- 4) The Company shall establish an internal reporting office for reporting violations of laws or regulations and other incidents relating to compliance, as well as an external reporting office where an outside counsel directly receives information.
- 5) The Company, pursuant to the “Insider Trading Management Rules,” shall establish a system to prevent insider trading through thorough control over important undisclosed information as well as appropriate and timely disclosures of information.
- 6) The Company upholds the basic policy of eliminating any relationship with anti-social forces and stipulates in its Code of Conduct that “the Company shall deal with anti-social forces in a resolute attitude and shall never share profits with them.” The Company also maintains and reinforces its system of cooperation with outside specialist organizations such as jurisdictional police departments and attorneys.

(2) Systems concerning Storage and Management of Information on the Execution of Duties by Directors of the Company

- 1) As regards the storage and management of information on the execution of duties by the Directors, the following information shall be appropriately stored in accordance with laws, regulations and relevant internal regulations, and shall be managed in such a manner as to allow for inspection as necessary.
 - a. Minutes of the general meeting of shareholders; minutes of and relevant materials from the Board of Directors meetings;
 - b. Minutes and relevant materials from significant meetings organized by a Director or an important employee; and
 - c. Important documents relating to the execution of duties by Directors, such as requests for final decision and attachments thereto.
- 2) Important documents other than those listed above shall be appropriately stored and managed by the corresponding unit in charge in accordance with the relevant laws, regulations, and the like.
- 3) A backup system shall be built if information relating to the execution of duties by Directors and other important information are to be stored by electromagnetic means. The backup system built shall be enhanced in an ongoing manner.

(3) Internal Regulations and Other Systems concerning Risks of Loss of the Company

- 1) Measures to avoid the risk of loss shall be devised by establishing Crisis Control Regulations. The Company shall respond promptly and appropriately, should the risk of loss materialize.
- 2) The teams and entities in charge comprising the Company shall continually study the risks that may arise in the course of business and report the results thereof to the Board of Directors.
- 3) Company-wide measures for responding to large-scale disasters and the like shall be considered from the perspective of the Business Continuity Plan.

(4) Systems to Ensure the Efficient Execution of Duties by Directors of the Company

- 1) The Company shall establish various regulations that define office organization, organizational bodies, segregation of duties, administrative authorities, etc., for the efficient execution of business by Directors.
- 2) The Company shall hold a regular Board of Directors meeting once-monthly with the attendance, as a general rule, of all Directors for reports on the status of execution of duties by the Directors.
- 3) The Board of Directors clearly defines the job responsibilities of each Director by electing the Representative Director, the President, and Executive Officers. Further, responsibilities relating to business execution shall be clearly established through the election of Corporate Officers in charge of managing major business departments.
- 4) The Company shall hold a GM Meeting comprised primarily of Business Execution Directors, and in addition to determining significant business execution delegated to Directors by the Board of Directors, it will assist the

business execution of the President and Representative Director while conducting final decision procedures as required. Furthermore, full-time Audit and Supervisory Committee Members shall also attend the GM Meeting, and conduct surveys, evaluations, and proposals, etc., as required.

- 5) The Company shall formulate a medium-term business plan at the beginning of each fiscal year, pursuant to the instruction of the President and Representative Director and subject to the approval of the Board of Directors, for use as guidelines in the execution of duties.

(5) Systems to Ensure the Properness of Business Operations in the Corporate Group Consisting of the Company, its Parent Company and Subsidiaries

Although the Company currently does not have any subsidiaries, in the event that it establishes subsidiaries, etc. in the future, a necessary system, etc. will be established based on regulations regarding management of subsidiaries.

(6) Matters concerning Directors and Employees to be Posted as Assistants to Audit and Supervisory Committee of the Company for the Execution of Audit Duties, Matters concerning the Independence of Said Directors and Employees from Directors (Excluding Directors Serving as Audit and Supervisory Committee Members) and Matters concerning ensuring the Effectiveness of the Orders from Audit and Supervisory Committee to Said Directors and Employees

- 1) Should Audit and Supervisory Committee requests the appointment of Directors and employees to assist with their duties (hereinafter referred to as “Assistant Employees, etc.”), the Company shall, upon consultation with Audit and Supervisory Committee, appoint appropriate assistants as Assistant Employees, etc.
- 2) In the event that Assistant Employees, etc. are posted, in order to ensure the independence of Assistant Employees, etc., the Company shall, upon consultation with Audit and Supervisory Committee, make decisions on various matters relating to said independence, such as the appointment and dismissal of Assistant Employees, etc.

(7) Systems for Directors (Excluding Directors Serving as Audit and Supervisory Committee Members) and Employees of the Company to Report to the Audit and Supervisory Committee

- 1) Audit and Supervisory Committee shall receive reports from the Directors (excluding Directors serving as Audit and Supervisory Committee Members) and employees on the following matters:
 - a. Matters subject to regular reporting
 - Situations of corporate management, business and finance; situations of risk management and compliance
 - b. Matters subject to extraordinary reporting
 - Occurrence of important facts concerning corporate management
 - Fraudulent acts relating to the execution of duties by the Directors; occurrence of material facts constituting violation of laws, regulations, or the Articles of Incorporation
- 2) Audit and Supervisory Committee Members shall attend the Board of Directors meetings in order to obtain the aforementioned information in an appropriate manner. The full-time Audit and Supervisory Committee Members shall attend internal meetings of high managerial significance, in addition to inspecting such important documents as requests for final decision.
- 3) The content of a report to the whistleblower hotline shall be reported promptly to Audit and Supervisory Committee.

(8) Systems to Ensure that Whistleblowers pursuant to the Preceding Item Do Not Suffer from Any Disadvantageous Treatment due to their Reports

To ensure that whistleblowers do not receive harmful treatment as a result of making a report in the preceding Item, whistleblowers shall be appropriately protected based on the “Regulations Regarding Whistleblowing.”

(9) Matters concerning the Policies for the Treatment of Expenses or Obligations to be Incurred for the Execution of Duties by Audit and Supervisory Committee Member(s)

When an Audit and Supervisory Committee Member makes a request for prepayment of expenses or processing, etc. of liabilities that arise as a result of the execution of duties, such expenses or liabilities shall be processed promptly, based on the “Standards for Auditing, etc. by Audit and Supervisory Committee of Axell Corporation.” Additionally, Audit and Supervisory Committee Members shall consider efficiency and appropriateness when making payment for such expenses.

(10) Other Systems to Ensure the Effectiveness of Auditing by Audit and Supervisory Committee of the Company

- 1) Directors shall endeavor to improve the environment for audits by Audit and Supervisory Committee in recognition of the importance thereof to the Directors and employees.
- 2) The Company shall ensure a system that allows Audit and Supervisory Committee to collect the necessary information by regularly organizing meetings with Audit and Supervisory Committee and Representative Directors, organizing meetings with Business Execution Directors, arranging for interviews of employees and others, and arranging for regular opportunities for exchange of opinions with the Accounting Auditor.

(11) Systems to Ensure the Reliability of Financial Reporting

The Company, in order to ensure the reliability of financial reporting, shall establish a basic policy on internal controls over financial reporting as well as various regulations, and develop and operate systems of company-wide internal controls and individual business process controls. The Company shall also assess the effectiveness of such systems and implement continuous improvement thereto.