

News Releases

May 16, 2006

Basic Policy for Developing an Internal Control System

Taiheiyo Cement Corporation today announced that its Board of Directors established the following Basic Policy for Developing an Internal Control System at a meeting held on May 16, 2006.

Taiheiyo Cement, in accordance with the Corporation Law and the Corporation Law Enforcement Regulations, has established the following basic policy to enhance the systems in place to ensure the appropriate and efficient management of operations at Taiheiyo Cement and group companies and to provide a basis for reviewing required matters.

- I. System to ensure that directors, executive officers, and employees comply with laws and ordinances and the articles of incorporation in executing their duties
 - A. Taiheiyo Cement shall strengthen its system for ensuring that the actions of directors, executive officers, and employees comply with laws and ordinances, the articles of incorporation and other internal company rules, and conventional wisdom in accordance with the company's Mission of Taiheiyo Cement Group, Business Principles, Basic Compliance Policy, and Compliance Rules.
 - B. The CSR Management Committee, an interdepartmental committee under the direct authority of the Board of Directors, pursues policies to promote compliance awareness among directors, executive officers, and employees in accordance with the CSR Prospectus.
 - C. The Internal Auditing Department conducts audits of the business activities of each department within the company to determine whether executive officers and employees comply with laws and ordinances and the articles of incorporation in executing their duties, provides advice and recommendations after identifying items in need of improvement, and reports to the president about audit results and then notifies directors and auditors.
 - D. The company employs an internal reporting system that uses a compliance hotline to reach representatives both inside and outside the company (law firm) to enable an accurate response while protecting the informer and ensuring transparency.
- II. System to store and manage information related to the execution of duties by directors

Taiheiyo Cement documents, stores, and manages information related to the execution of duties by directors in accordance with the Board of Directors Rules, Decision Making Rules, and Document Management Rules. Directors and auditors can review these documents at any time.

III. Rules and other systems related to managing the risk of loss

- A. Taiheiyo Cement has prepared Risk Management Prospectus covering basic matters and specific responses to prevent and minimize the impact of risk items that could significantly affect the business of the Taiheiyo Cement Group. The CSR Management Committee is in charge of pursuing specific measures, and it reports to the Board of Directors about the status of these activities.
- B. In the event of an emergency, the company establishes an Emergency Headquarters led by the president to pool information and provide top-down leadership in accordance with the Risk Management Prospectus.

IV. System to ensure that directors execute their duties efficiently

- A. Taiheiyo cement delegates to executive officers the authority for certain business matters as stipulated in the Decision Making Rules and elsewhere. Executive officers, based on a Management by Objectives, set clear targets for the in-house companies and departments under their control and execute their duties efficiently.
- B. The Board of Directors efficiently allocates business resources from the perspective of optimizing companywide resources and in accordance with the medium-term business plan, and it reviews the targets of executive officer and the progress of policies being implemented.

V. System for ensuring appropriate activity within the corporate group, comprising Taiheiyo Cement and its subsidiaries

Taiheiyo Cement, in accordance with its Group Companies Management Rules, takes the following steps to provide appropriate management and support to its subsidiaries to enable the adequate functioning of their management organizations (general meeting of stockholders, board of directors, auditors, and board of auditors) and the establishment of independent management based on self-responsibility.

- A. Taiheiyo Cement assigns in principle directors, executive officers, and employees to serve as directors and auditors at subsidiaries. These auditors conduct audits of internal control systems.
- B. Taiheiyo Cement seeks to understand the business conditions of each subsidiary through in-house company meetings and other means and to share information through exchanges of opinions between Taiheiyo Cement and directors at subsidiaries (including directors serving concurrently as directors, executive officers, or employees at Taiheiyo Cement).

- VI. Matters related to the assignment of personnel to assist auditors when requested by auditors
- Personnel concurrently employed at Taiheiyo Cement assist auditors in performing their duties. The company respectfully considers the wishes of the Board of Auditors when they request the assignment of full-time personnel.
- VII. Matters related to the independence of personnel from directors in the previous item
- Taiheiyo Cement requests and respects the opinion of the Board of Auditors in matters related to the transfer and evaluation of personnel assigned to assist auditors in performing their duties.
- VIII. System for directors, executive officers, and employees to report to auditors and other systems for reporting to auditors
- A. Taiheiyo Cement employs a system in which auditors can attend meetings related to important business matters to receive information from directors and other employees about the status of the execution of their duties.
- B. Directors, executive officers, and employees report to auditors if they discover circumstances that could have serious negative consequences for the company.
- IX. Other systems to ensure effective auditing by auditors
- A. Taiheiyo Cement employs a system in which auditors are shown documents related to important decisions and can gain access to a variety of information, including management information, at any time.
- B. Taiheiyo Cement provides a venue for auditors to exchange opinions and information with financial auditors.