

Basic Policy on the Operation of Internal Controls System

1. Systems for ensuring compliance with laws and regulations and the Company's Articles of Incorporation in the execution of duties by Directors and employees

- (1) The Company has established the Basic Policy on Compliance and the Compliance Manual (Code of Conduct) indicating the general principles that form the standards of conduct, decisions, and evaluation for officers and employees, and has ensured that all officers and all employees are well aware of it.
- (2) In accordance with the Compliance Management Regulations, the Corporate Management Headquarters conducts integrated compliance-related management to develop, promote, and manage compliance systems.
- (3) The Company has established the Yokorei Group Whistleblowing and Consultation Helpdesk in the General Affairs Department as the internal reporting system for legal violations and other compliance-related facts, which it works to prevent. Based on the Whistleblowing Process Rules, the Company also protects providers of information, which includes not engaging in unfavorable treatment.
- (4) The Company has established the Internal Audit Department under the direct supervision of the President and Representative Director, and it conducts systematic internal audits, which include the state of compliance, based on an annual plan.
- (5) Matters related to the execution of important corporate business are determined by the regular meetings of the Board of Directors held once a month and by extraordinary meetings of the Board of Directors. The Board of Directors also oversees the execution of duties by the Directors.
- (6) The Auditors report their opinions to the Board of Directors as necessary and also advise on improvements to the execution of duties by the Directors as necessary.
- (7) The Company has no relationship of any kind with anti-social forces and the entire organization will continue its firm stance against interference and other actions by anti-social forces.

2. System regarding the retention and management of information relating to the execution of duties by Directors

- (1) The President and Representative Director has appointed the Chief of the Corporate Management Sector as the person responsible for the company-wide supervision of retention and management of information relating to the execution of duties by Directors.
- (2) The Company has established the Management Rules for Documents Relating to the Execution of Duties by Directors for the retention and management of information relating to the execution of duties by Directors. Information is recorded on documents

or electromagnetic media, retained and managed based on the rules.

(3) The Directors and Auditors may view these documents at any time.

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

- (1) The Company has ensured that all officers and all employees are well aware of the Basic Policy on Risk Management, which stipulates the basic objectives and action guidelines for risk management activities.
- (2) The Board of Directors has established the Risk Management Rules to set out the relevant departments and the emergency response for each type of risk for the priority management risks.
- (3) The Corporate Management Headquarters develops and operates the company-wide risk management system, and will continue the comprehensive and integrated management of Group-wide risk.
- (4) Auditors and the Internal Audit Department audit the effectiveness and appropriateness of risk management in each sector.

4. Systems for ensuring the appropriateness of financial reporting

- (1) In order to ensure the appropriateness of the Group's financial reporting, the Company develops and operates internal controls and evaluates their effectiveness in accordance with the Internal Control Rules and the Basic Policy on the Development, Operation, and Evaluation of Internal Controls.
- (2) Led by the development and operation team of the Internal Control Committee, the Company will endeavor to develop and operate the systems required to ensure the appropriateness of the Group's financial reporting.

5. Systems for ensuring the efficient execution of duties by Directors

- (1) Authority and responsibility are clearly specified based on the rules regarding the division of duties and authority so that the Directors execute duties efficiently.
- (2) A review of performance and execution of operations is carried out at the meetings of the Board of Directors that are held every month with the aim of efficient implementation of operations by assessing the achievement of management targets and issues.
- (3) In order to strengthen the supervisory function and accountability of the Board of Directors as well as enhance its deliberations, the Company has established the Nomination and Remuneration Advisory Committee, which has independent Outside Directors as a majority of the members, as an advisory body to the Board of Directors. The committee reports the details of deliberations on matters related to the appointment, dismissal and remuneration of Directors to the Board of Directors to ensure fairness, transparency, and objectivity in the procedures related to the

nomination and remuneration of Directors.

- (4) Important decisions on management targets and matters with a serious impact are submitted to the Board of Directors after full discussion and consideration at Management meetings in order to expedite and streamline decision-making.

6. Systems for ensuring the proper operation of the corporate group composed of the Company and its subsidiaries

- (1) System for reporting matters related to the execution of duties of Directors of subsidiaries to the Company
 - a In order to accurately understand the details of management at subsidiaries, the Company sets out the matters to be discussed and reported to the Company in advance and manages them appropriately based on the Affiliated Company Management Rules and the Detailed Rules for the Operation of Subsidiaries based on them established by the Company.
 - b The regular meetings of the Company's Board of Directors and Management meetings regularly receive reports on execution of operations, financial position, and other important information from the Representative Directors and other officers of subsidiaries.
- (2) Rules and other systems for managing the risk of loss at subsidiaries
 - a Based on the Company's Risk Management Rules, each subsidiary appoints a person with responsibility for risk management and makes efforts to prevent and detect risk.
 - b The Company stipulates that each subsidiary will report promptly to the Company's Risk Management Committee if a risk of loss is identified and has established a risk management system for the comprehensive and integrated management of Group-wide risk.
- (3) Systems for ensuring the efficient execution of duties by Directors of subsidiaries
 - a The Company formulates fiscal year plans and medium-term management plans for the Group in order to implement appropriate and efficient operations, taking into consideration the business characteristics, size, and other features of subsidiaries.
 - b The Chief of the Corporate Management Sector, who is the person with responsibility for the management of subsidiaries, receives timely reports on important decisions related to business activities and matters with a serious impact from the Representative Directors and other officers of subsidiaries, considers the content, and, when necessary, gives advice and reports to the Board of Directors.
- (4) Systems for ensuring compliance with laws and regulations and the Articles of Incorporation in the execution of duties by Directors and employees of subsidiaries.

- a Based on the Detailed Rules for the Operation of Subsidiaries, each subsidiary ensures that all officers and all employees are well aware of the Company's Basic Policy on Compliance and the Compliance Manual (Code of Conduct).
- b Based on the Company's Compliance Management Rules, each subsidiary appoints a person who is responsible for compliance to promote compliance and provide education and guidance.
- c The Company's Internal Audit Department regularly conducts audits of subsidiaries, which include the state of compliance.

7. Matters relating to employees when the Auditors request the assignment of employees to assist in their duties, matters relating to the independence of the employees from the Directors, and matters relating to ensuring the effectiveness of instructions given by Auditors to the employees

- (1) When the Board of Auditors has requested employees to assist with the duties of Auditors, the employees are appointed in consultation with the Board of Auditors.
- (2) Personnel evaluations and transfers of the employees are conducted in consultation with the Board of Auditors in order to ensure their independence from the Board of Directors. Additionally, to ensure the effectiveness of the instructions of the Auditors, the duties ordered by the Auditors are not subject to commands and orders of the Directors and persons from the organizations with which the employees are affiliated.

8. Systems related to reports to the Company's Auditors

- (1) The Company's Directors and employees and the Directors, Auditors, and employees of subsidiaries report on company business position and the status of development and operation of the internal control system at the request of the Company's Auditors.
- (2) The General Manager of the Internal Audit Department reports to the Company's Auditors on the results of audits conducted by the Internal Audit Department. The General Manager of the General Affairs Department reports to the Company's Auditors on the status of reports and consultations with the Yokorei Group Whistleblowing and Consultation Help Desk.
- (3) The Company's Directors and employees and the Directors, Auditors, and employees of subsidiaries report promptly to the Company's Auditors after learning of facts that could cause significant corporate damage, serious compliance violations, and misconduct.
- (4) The Company and its subsidiaries prohibit unfavorable treatment of any person who has made a report to the Company's Auditors for reason of having made such a report, and ensure that the Company's Directors and employees and the Directors, Auditors, and employees of subsidiaries are well aware of this prohibition.

9. Matters relating to policies on processing of audit expenses, etc.

- (1) When the Auditors request the Company to pay the expenses for the execution of their duties in advance, the Company processes the expenses or obligations promptly unless deemed unnecessary.
- (2) The Company sets a budget each fiscal year for expenses that arise related to the execution of duties by Auditors.

10. Other systems for ensuring the effectiveness of audits by the Auditors

- (1) The Auditors hold regular meetings with members of the Management meetings composed of the President and Representative Director and others to exchange opinions and communicate.
- (2) The Auditors hold regular meetings with the accounting auditor to exchange information.
- (3) The Auditors collaborate with the Internal Audit Department and endeavor to engage in appropriate communications and implement effective audit operations.

End of document

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