

## **Basic Policy for the Internal Control System**

Our company name “Valuence” is a coined word combining the words “Value,” “Intelligence,” and “Experience.” As the name implies, we aim at co-prosperity with our shareholders, customers, business partners, employees, and society as a whole, as well as our sustainable growth and maximization of our corporate value, as a company that appreciates value, creates new value, and provides value that changes the lives of every person involved in our business.

In order to achieve this, recognizing that the appropriate establishment and operation of an internal control system is an important management issue to enhance and strengthen corporate governance, the board of directors has decided on a basic policy for the establishment of an internal control system while establishing related internal rules.

Moreover, as a mechanism for verifying whether the established internal control system is operating as designed and producing results, in addition to checks by the board of directors, we periodically review the internal control system in order to establish and strengthen the internal discipline control system of the entire company group and to respond to external risks.

### **1. System for Ensuring the Execution of Duties by Company and Subsidiary Directors, Executive Officers, and Employees in Compliance with Laws, Regulations, and Articles of Incorporation**

- (1) The company management philosophy is to fulfill the social responsibility to shareholders, customers, business partners, local communities, employees, and all other stakeholders through achieving sustainable growth and ongoing corporate value improvement. To this end, the company has established Compliance Rules to ensure officers and employees observe a strict compliance with laws, regulations, and the articles of incorporation. Further, the Internal Audit Office conducts internal audits of the company and subsidiaries. The company strives to build stronger internal control systems by improving the risk management structure, which includes an internal reporting system.
- (2) The company has established Compliance Regulations and Code of Conduct to ensure employees comply strictly with laws, regulations, and the articles of incorporation. The company also maintains a system for the ongoing improvement of internal control functions related to compliance.
- (3) The company has established Internal Reporting Regulations to provide a system for internal reporting related to any acts discovered that are in violation of compliance. The company has established an internal contact point, as well as a third-party agent (consulting attorney), to whom reports may be made.

## **2. Systems for the Storage and Management of Information Related to the Execution of Duties by Directors**

The company practices the appropriate storage and management of the proceedings of the general meeting of shareholders and meetings of the board of directors, as well as important information and documents related to management and business execution in compliance with laws, regulations, the Board of Directors Rules, the Executive Management Meeting Rules, the Approval Regulations, the Records Management Rules, and other internal rules and related manuals.

## **3. Rules and other Systems to Manage the Risk of Loss by the Company and its Subsidiaries**

- (1) The company has established the Risk Management Committee, chaired by the representative director, which makes determinations on systems and policies for risk management and evaluates and, if necessary, improves risk management structures within the company group, including subsidiaries. The company's Legal Division serves as the risk management division, controlling risk management activities in addition to verifying and revising the Risk Management Rules.
- (2) The company shall establish an emergency response system, including a business continuity plan (BCP), to prepare against large-scale disasters.

## **4. Systems to Ensure Company and Subsidiary Directors Execute Duties Efficiently**

- (1) To ensure directors of the company and its subsidiaries execute their duties efficiently, the company has established the Board of Directors Rules, which provides for the operation of the Board of Directors. Regular Board of Director meetings are held once a month to make important decisions and oversee the status of business execution. Extraordinary Board of Director meetings are also held when deemed necessary.
- (2) By adopting an executive officer system, directors focus on management functions such as speeding up management and strengthening the supervisory function to clarify responsibilities for execution through delegation of business execution authority to executive officers.
- (3) In accordance with the Board of Directors Rules, the Board of Directors that includes outside directors determines execution policies for management, matters prescribed by laws and regulations, and other important management matters, and supervises the status of business execution.
- (4) In order to ensure fairness, transparency, and objectiveness in the decision-making process to determine matters such as the nomination and compensation of directors, etc. at the Board of Directors, as well as to strengthen accountability, the company establishes an optional Nomination

and Compensation Committee comprised of multiple independent outside directors. The committee reports the results of its deliberation on the nomination and compensation, etc. of directors, etc. to the Board of Directors.

- (5) The Board of Directors shall use technology-based information systems for rapid and accurate access to business information.

## **5. Systems to Ensure Appropriate Business Management for the Corporate Group, Consisting of the Company and its Subsidiaries**

- (1) The company, through the measures such as the compliance policy of the Valence Group, shall provide guidance and support for the development of legal compliance systems and other systems to ensure the appropriateness of operations of subsidiaries.
- (2) The company shall improve the soundness and efficiency of management by dispatching directors and members of the Audit and Supervisory Committee to subsidiaries as necessary. The general affairs department shall oversee the management of the business operations of subsidiaries, and subsidiaries shall report to the company on matters to be approved as stipulated in the Affiliated Company Management Rules, periodically report information on the progress of business operations, and share business management information and crisis management information to ensure the appropriateness of the business execution system.
- (3) Important matters related to the business operations of subsidiaries shall be deliberated by the company's Executive Management Meeting and submitted to the Board of Directors in accordance with the Affiliated Company Management Rules.
- (4) In the event that the representative director becomes aware of the occurrence of a risk of loss at a subsidiary, the director shall immediately report to the Board of Directors of the company on matters such as the nature of the risk, the extent of the loss to be incurred, and the impact on the company.
- (5) The Internal Audit Office shall periodically audit the company and its subsidiaries in accordance with the Internal Audit Rules.

## **6. Matters Related to Directors and Employees Requested to Assist the Audit and Supervisory Committee in the Execution of its Duties ("Assistants"); Matters Related to Directors Independence Who Supervise the Said Directors and Employees (Excluding Directors Who are Audit and Supervisory Committee Members); Matters Related to Ensuring Practicability of Instructions to Assistants as per Directors and Employees Requirement**

- (1) The company does not have directors or employees assigned to assist members of the Audit and Supervisory Committee in their duties. However, the company may appoint or assign directors or

employees when it is necessary.

- (2) The appointment or transfer of directors or employees assisting members of the Audit and Supervisory Committee requires approval by the Audit and Supervisory Committee.
- (3) Directors and employees assigned to assist in the duties of the Audit and Supervisory Committee shall be considered as under the authority of the committee, and directors (excluding directors who are members of the Audit and Supervisory Committee) shall not have the authority to direct the said directors or employees. Evaluations of these directors or employees shall reflect the opinions of Audit and Supervisory Committee members.

#### **7. System for Directors (Excluding Directors who are Members of the Audit and Supervisory Committee) and Employees to Report to the Audit and Supervisory Committee, Other Systems Related to Reporting to the Audit and Supervisory Committee**

- (1) Members of the Audit and Supervisory Committee attend meetings of the Board of Directors, as well as important meetings such as those of the Executive Management Meeting, and receive reports related to matters of importance to the company, matters that may have a negative impact on the company.
- (2) Directors who are members of the Audit and Supervisory Committee shall receive reports as necessary from the Corporate Planning Department and the Internal Audit Office.
- (3) Directors and employees report important matters discussed at the board of director meetings and other important meetings, the status of internal audits, and other important matters deemed necessary to the Audit and Supervisory Committee.
- (4) Directors and employees shall provide necessary reports and information promptly to the Audit and Supervisory Committee upon request.

#### **8. System for Directors, Members of Audit and Supervisory Committee, Employees of Company Subsidiaries, and Persons Receiving Reports from Such Individuals to Report to the Audit and Supervisory Committee; Other Systems Related to Reporting to the Audit and Supervisory Committee**

Directors, members of Audit and Supervisory Committee and employees of company subsidiaries shall report promptly to the Audit and Supervisory Committee upon discovery of important matters having a material impact on subsidiary management or business performance or significant violations of laws, regulations, or articles of incorporation that may cause significant damage to the company. Directors, members of Audit and Supervisory Committee and employees of company subsidiaries shall provide necessary reports and information promptly to the Audit and Supervisory Committee upon request.

## **9. System to Ensure Individuals Reporting to the Audit and Supervisory Committee are not Subjected to Disadvantageous Treatment**

The company's Internal Reporting Rules provide that individuals who submit reports shall not be subjected to any manner of disadvantageous treatment. This rule applies likewise to individuals who provide reports to the Audit and Supervisory Committee as described in the paragraph above.

## **10. Policy on Matters Regarding Expense Prepayments, Redemptions, Other Expenses, or Disposition of Debt Resulting from the Execution of Duties by Members of the Company's Audit and Supervisory Committee**

When a member of the Audit and Supervisory Committee requests that the company prepay expenses, the company shall promptly pay such expenses or debt to the said member after a discussion with the relevant department, except where such expenses or debt is proven unnecessary to the execution of duties by the Audit and Supervisory Committee.

## **11. Other Systems to Ensure Internal Audits by Members of the Audit and Supervisory Committee are Performed Effectively**

Members of the Audit and Supervisory Committee hold regular conferences with the representative director to ensure communication and exchange opinions. Further, members of the Audit and Supervisory Committee share information and exchange opinions with financial statement auditors and the Internal Audit Office as necessary for ongoing substantive improvements in audits.

## **12. Systems to Ensure Reliability of Financial Reporting**

The company recognizes the close interconnection among the four objectives of internal control system from the standpoint of financial reporting reliability: operational effectiveness and efficiency, financial reporting reliability, compliance with laws and regulations related to business activities, and asset maintenance. Accordingly, company management works to establish, evaluate, and continuously improve internal controls related to financial reporting through enacting internal control systems and reporting of overall audits by internal auditors, etc.

## **13. Establishment of a System to Eliminate Anti-Social Forces**

The company rejects and eliminates relationships with anti-social forces and their organizations that may threaten social order and safety. Further, directors and employees constantly remain vigilant of anti-social forces. When a case arises, the company establishes a system whereby the total organization can promptly handle situations in close partnership with related government institutions and legal specialists, pursuant to the Rules for Response to Anti-Social Forces and the Manual for Response to Anti-Social Forces.

#### Supplementary Provisions

1. Enacted on October 20, 2016; effective on the same date.
2. Revised on November 22, 2019; effective on the same date.
3. Revised on November 20, 2020; effective on the same date.
4. Revised on May 27, 2021; effective as of June 1, 2021.