

Basic Policy Governing Internal Control of the Company and Subsidiaries

1. A system to ensure that executive officers and employees of Shoko Co., Ltd. and its subsidiaries comply with laws, ordinances, regulations and Articles of Incorporation

Shoko Co., Ltd. and its subsidiaries recognize that strengthening compliance is top priority for our corporate management, and the Shoko group of companies has established Corporate Conduct Guidelines and Corporate Conduct Standards that define the group's commitment for compliance.

The company provides compliance guidance through training and work sessions, and boosts awareness through education programs and practice. Executive officers and employees of the company and its subsidiaries are required to perform their work in compliance with laws, ordinances, regulations and Articles of Incorporation, in full recognition of their own responsibility to do so.

We establish the Compliance Committee appointing an executive officer heading the General Affairs Department as chair, and general managers, branch managers and managers of corporate divisions as committee members. It will ensure and improve the compliance of the group as a whole through compliance promotion leaders of the company and its subsidiaries.

In addition, the company and its subsidiaries establish an Internal Whistleblower Contact Line within the group to ensure the prevention and early detection of compliance issues and provide appropriate solutions.

The company and its subsidiaries take a firm stand against antisocial forces and organizations which threaten public order and safety by prohibiting any relationship with them and rejecting their unjust demands.

2. A system to manage the storage of information regarding the company's executive officers roles and the execution of their duties

The company ensures information security by strictly retaining and managing documents, including the minutes of the Board of Directors meetings and management meetings, and approval documents, in accordance with laws, ordinances, regulations and the company's Document Management Rules. For the handling of personal information, the company follows the Personal Information Safeguard Policy and the Personal Information Management Rules.

3. A system of rules and regulations governing management of a crisis event causing loss or damage to the company or its subsidiaries

The company holds management meetings, comprised of executive officers, auditors, and general

managers and managers appointed by the President, on a monthly regular basis to examine significant projects and proposals from multiple perspectives, closely examining level of strategic importance, risk and its extent, outcomes, etc. For risks that could impact the group as a whole, a Risk Management Committee is established with the President as chair, and under this committee are established a Compliance Committee and a Security and Export Control Committee. Risks pertinent to each committee are analyzed and assessed, and appropriate measures are taken. In addition, a Group Credit Management Committee has been established with the President serving as chair. It conducts preliminary reviews of decisions made by the President and proposals made by the Board of Directors regarding transactions of the company and its subsidiaries, before those decisions and proposals are implemented.

In the event of an urgent situation, the required response is managed by a Crisis Response Headquarters established with the President at its head. As soon as the crisis arises, the company will request advice from experts and take steps to accurately ascertain the crisis and take remedial action.

4. A system to ensure that the executive officers of the company and its subsidiaries execute their functions effectively

The company holds a regular meeting of the Board of Directors once a month to make decisions regarding important matters and supervise the business execution status by directors. In addition, an extraordinary meeting of the Board of Directors is held as necessary to ensure the effective and swift operation of the board.

The operation of the board is conducted fundamentally by clarifying the allocation of business and authorities and promoting prompt decision-making and efficient business operations in accordance with various rules.

In addition, the company and its subsidiaries formulate the Mid-term Management Plan considering future business environments and, based on the Plan, set up annual challenges and goals as an annual action plan for the performance management.

5. A system to ensure that the business group comprised of the company and its subsidiaries performs its functions appropriately

The company and its subsidiaries hold compliance as a top priority, and provide compliance guidance through training and work sessions and boosts awareness through education programs and practice. In addition, the company introduces a Compliance Help Line for its subsidiaries to enhance the effectiveness of compliance of the group as a whole.

The company also establishes the Rules for Management of Group Companies based on the Group

Governance Policy and requires its subsidiaries to report their business performance, financial position and other important information on a regular basis. Furthermore, decisions on the execution of important business of subsidiaries shall require the prior consultation.

The company and its subsidiaries recognize their grave responsibility to provide accurate financial reporting. Therefore, internal mechanisms and systems are established to ensure accurate financial reporting by the group as a whole.

In addition, the importance of financial reporting is communicated thoroughly to all employees on every occasion to ensure accurate financial reporting.

Auditors and Internal Audit Dept. conduct audits and assessments on subsidiaries as necessary. In particular, the company's auditors have regular meetings with the auditors of major subsidiaries to enhance their collaboration.

The company establishes internal control systems, while its subsidiaries conduct internal controls in accordance with the Group Governance Policy.

Transactions between the company and its subsidiaries are conducted appropriately based on market prices while ensuring the fairness and reasonableness of such transactions.

6. A system promoting employee collaboration with company auditors

Upon request of its auditors, the company may allow them to have assistant employees to support auditors' duties. In this case, independence of the assistant employees from directors shall be maintained and the effectiveness of the instructions from auditors to the relevant employees shall be ensured.

7. A system that facilitates reports to directors, employees and others of the company and its subsidiaries

Auditors attend important meetings, such as Board of Directors meetings and management meetings, to understand the important decision-making and the execution status of duties by the directors as well as review major approval documents and other important documents regarding the business execution. At the same time, the company conducts necessary reporting about relevant departments.

If any fact that may cause significant damage to the company is identified, the company reports to auditors immediately in accordance with laws, ordinances, regulations and internal rules.

In addition, executive officers and employees of the company and its subsidiaries promptly provide necessary reporting upon request from the company's auditors regarding matters related to business executions, etc.

8. A system that ensures that a whistleblower who submits a report to the company's auditors is not treated negatively for having done so

The company prohibits negative treatment of persons who submits a report (including indirect report) for having done so as prescribed in the preceding paragraph.

9. A system that ensures that audits by the company's auditors are conducted effectively

The company provides appropriate support for its auditors to enhance effectiveness of audits, including on-site audits, in compliance with Code of Audit and Supervisory Board Member Auditing Standards and based on audit policies and plans prepared by them at the beginning of each fiscal year.

The President holds regular meetings with the company's auditors to exchange opinions regarding audit-related matters, such as existing issues to be addressed by the company and its subsidiaries, important matters subject to audits and creation of the audit environment.

The Internal Audit Dept. and the accounting auditors collaborate with the company's auditors through audit reporting and regular meetings, etc.

In addition, the company bears expenses incurred from the execution of auditors' duties except those deemed unnecessary for the execution of duties.

10. Establishment, revision and abolition

The owner of this Policy shall be the General Affairs Dept., while the Board of Directors shall have the authority over the establishment, revision and abolition of this Policy.

END

[Supplementary Provisions]

Established on May 15, 2006
Revised on February 7, 2007
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