

Basic Views on Internal Control Systems and Progress of System Development

Internal control is a process to be carried out by everyone in a company in order to achieve its four goals: effectiveness and efficiency in business operations, credibility of financial statements, compliance with laws related to business activities, and asset safeguarding. Based on such recognition, regarding the development of systems, etc. for ensuring proper business operations, the Company has set down the “Basic Policy on Building Internal Control Systems,” as outlined below:

1. System to ensure that the execution of duties by directors/employees of the Company and its subsidiaries conforms to laws and the Articles of Incorporation

- (1) TRANSACTION Group (hereinafter, “the Group”) companies have clearly defined job authority and duties/responsibilities for sound check and balance functions to interact between and within organizations.
- (2) The Group has established the “Basic Compliance Policy” as a basic policy on compliance and a code of conduct for directors and employees and ensures to communicate that compliance with laws is the basis of all corporate activities.
- (3) The Group has established and operates the Compliance Risk Management Committee to review material matters, etc. related to Group-wide compliance and provides directors and employees with compliance training, as needed, in an effort to foster compliance awareness.
- (4) The Group has established the “Compliance Consultation Desk” (contact: General Affairs Department) as a whistle-blowing system to detect and correct compliance issues early through a self-purification process and the “Compliance Helpline,” for which the legal counsel of the Company serves as a point of contact.

2. System for the storage and management of information relating to the execution of duties by Directors of the Company

The Board of Directors meeting minutes, approval requests, and other information relating to the execution of duties by Directors are properly managed and stored in accordance with the “Document Management Rules.” Directors and Audit & Supervisory Committee members may view this information at any time.

3. Rules on the management of risk of loss to the Company and its subsidiaries and other systems

- (1) The Group has established the “Risk Management Rules,” which stipulate the management of and response to various risks arising from the execution of business to ensure the security of management and pursue enhanced corporate value.
- (2) In the event of a contingency (unforeseen situation) that causes a grave impact on management and business operations, a special task force, etc. will respond to the crisis in accordance with the “Crisis Management Rules.”

4. System to ensure efficient execution of duties by directors of the Company and its subsidiaries

- (1) In accordance with the “Regulations of the Board of Directors,” regular Board meetings are held on a monthly basis, with ad-hoc Board meetings held as necessary. As a body that receives reports and reviews

management plans and measures of the Group companies, their progress, and material matters in business operations, the Management Meeting is held on a monthly basis, with Directors (full-time), full-time Audit & Supervisory Committee members, presidents and directors of subsidiaries, and heads of departments/offices of the Group companies in attendance.

- (2) The Group companies formulate a medium-term management plan and annual budget plan for each year based on their own business environments and clarify their own targets to achieve/challenges.

5. System to ensure proper business operations in the corporate group consisting of the Company and its subsidiaries

- (1) In accordance with the “Subsidiary Management Rules,” the Company makes efforts to ensure proper and efficient business operations and make improvements across the Group and provides appropriate guidance and supervision as the parent company.
- (2) With the General Affairs Department controlling group-wide compliance management and the Corporate Planning Department controlling risk management, the Group takes appropriate measures at the Group companies in connection with these operations and provides necessary guidance and support to them.
- (3) Internal Audit Office conducts internal audits of the Group companies in accordance with the “Internal Audit Rules” and promptly submits a report on such results to President and Director. Reporting channels to the Board of Directors and to the Audit & Supervisory Committee are secured as well.

6. Matters regarding employees who assist with the duties of the Audit & Supervisory Committee of the Company when required and matters regarding the independence of such employees from Directors of the Company

When the Audit & Supervisory Committee needs employees to assist with its duties, the Company assigns staff to provide such assistance upon discussion with the Committee, and such assignment must be agreed to by the Committee. For the present, Internal Audit Office staff shall provide assistance, where necessary, upon receiving directions related to matters concerning audit operations from the Audit & Supervisory Committee. When following the directions of the Audit & Supervisory Committee, the Internal Audit Office staff member is supervised by the Audit & Supervisory Committee and thus maintains his/her independence from Directors (excluding those who are Audit & Supervisory Committee members).

7. System for directors/employees of the Company and its subsidiaries to report to the Audit & Supervisory Committee and systems for other reporting to the Audit & Supervisory Committee

- (1) Audit & Supervisory Committee members attend key managerial meetings such as the Board of Directors meetings and Management Meetings to receive reports on decisions (matters to be determined) and matters of concern to the Group.
- (2) If an event that causes a grave impact on the Group companies occurs or might occur, any illegal or fraudulent act by officers/employees is found, or any other matters for which the Audit & Supervisory Committee require reporting take place, directors and employees shall promptly report such details to the Audit & Supervisory Committee.
- (3) The Group prohibits a person who makes a report to the Audit & Supervisory Committee from being treated disadvantageously on account of the report.

8. If an Audit & Supervisory Committee member makes a request to the Company for an up-front payment of an expense under Article 399-2, Paragraph 4 of the Companies Act for the execution of his/her duties, the Company promptly processes such expense or debt, except when the expense or debt incurred in connection with the request is deemed not necessary for the execution of duties by the Audit & Supervisory member.

9. Other systems to ensure effective execution of audits by the Audit & Supervisory Committee of the Company

- (1) Directors and employees of the Group companies deepen their understanding of the Audit & Supervisory Committee audits and make efforts to develop the auditing environment in order to ensure the effectiveness of the audits.
- (2) The Audit & Supervisory Committee exchanges views with (respective) Representative Directors of the Company on a periodic basis and ensures close coordination with independent auditors and the Internal Audit Office, in an effort to communicate appropriately and carry out effective audit operations.

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