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Prime Market
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Notice of Partial Revision of Basic Policy on Establishing Internal Control System

ESPEC CORP. announced today that it was decided at a Board of Directors meeting held on April 25, 2024 to revise its basic policy on establishing an internal control system. The Company hereby announces the details of the revised policy, as follows. (Effective additions and changes are underlined)

Description

1. System for ensuring that execution of duties by directors and employees conforms with laws and regulation and with the Company's Articles of Incorporation

(1) In accordance with its basic philosophy, management philosophy, administration philosophy, and other aspects as laid out in THE ESPEC MIND, the Company has established the ESPEC Code of Behavior and Conduct Guidelines. The guidelines have been created to ensure that the Company's directors and employees comply with laws and regulations, the Articles of Incorporation, and social norms.

To ensure that the guidelines are rigorously followed, management departments will supervise compliance initiatives throughout the Company, and conduct education and awareness-raising programs for directors and employees.

(2) The Company will resolutely oppose anti-social forces and organizations and have no dealing with them whatsoever. Moreover, it will refuse to comply with improper demands.

(3) To ensure the accuracy of its financial reporting, the Company will establish an internal control system for financial reporting and conduct regular assessments of the upgrade and operation status of this system, as well as striving to maintain and improve it.

(4) If a director discovers that another director's actions violate laws and regulations, or the Articles of Incorporation, he or she will promptly report this to the Audit & Supervisory Committee and to the Board of Directors and take appropriate measures.

(5) The Audit & Supervisory Committee will confirm that the procedures and execution of management's decision-making and execution of duties do not violate laws and regulations or the Articles of Incorporation. The Internal Auditing Office, which is directly supervised by the president, will audit the compliance status of each business execution division, and report the results to the president, the Board of Directors, and the Audit & Supervisory Committee, as necessary.

(6) The Company has established and operates internal and external Compliance Consultation Helplines as a system for Directors and employees who discover legally dubious activities to report them and quickly make corrections.

2. System for storing and managing information regarding the execution of duties by directors

The Company has established a structure for overall information management so that information regarding the execution of duties by directors will be appropriately recorded, stored or managed in documents or electronic media in accordance with internal regulations. The directors will be able to view this information at any time.

3. Rules concerning management of the risk of loss and other systems

- (1) Recognition and assessment of companywide risk, including risk based on Materiality, will be conducted by managing divisions and the Investigation Subcommittee. The results will be deliberated and approved by the Risk Management Committee. Responses to risks will be discussed and decided by the Board of Directors and the relevant meeting bodies after evaluating the individual risks based on the relevant regulations and proposal standards. The responses will then be carried out by the managing divisions.
- (2) If events requiring crisis management occur, the Company will respond appropriately and swiftly in accordance with the Crisis Management Regulations.

4. System for ensuring efficient execution of duties by directors

- (1) The Company will introduce an executive officer system as part of its efforts to bolster the decision-making and oversight functions of the Board of Directors and to establish clear accountability for business execution.
- (2) The Company will hold a management policy presentation before the start of every fiscal year, share the medium-term management plan and single-year management plan on a Company-wide basis, and implement its management strategy.
- (3) The Board of Directors meetings will be run in accordance with the Board of Directors Meeting Regulations, and held regularly (once per month).
- (4) The convocation notices for the Board of Directors Meetings will contain the matters for discussion. In addition, The General Administration Division, in its capacity as the secretariat for the Board of Directors, will provide pre-meeting briefings and distribute materials before meetings, among other measures, to ensure efficient conduct of the Board of Directors meetings.
- (5) Important matters, such as matters for deliberation and resolution by important meeting bodies, will be transmitted without delay to the Board of Directors and each director by document, email, or other means.

5. Structure for ensuring appropriate operations in the corporate group comprising the Company and its subsidiaries

- (1) The Company will respect the management autonomy and independence of its subsidiaries, and will dispatch directors to its subsidiaries and designate divisions responsible for affiliate company management and support its subsidiaries in establishing internal control systems to conduct efficient management operations. The Company will also ensure rigorous adherence to the ESPEC Code of Behavior and Conduct Guidelines and to internal regulations and so forth at its subsidiaries, as well as communicate and share important management issue and risk information, and responses to it.

- (2) The divisions in the Company responsible for establishing an internal control system will build a structure that properly allows discussion regarding internal control between the Company and its subsidiaries, along with information sharing, instruction, communication of requirements, and so forth.
- (3) The Company's Internal Auditing Office will conduct internal audits of the internal control systems at the Company and its subsidiaries. The Office will report the results of the audits to the audited divisions and their responsible officers, and provide guidance and advice on measures for improving internal control systems as needed.
- (4) The Company will formulate management plans on a consolidated basis and share them with its subsidiaries, and based on its Regulations for Management of Affiliated Companies, will request submission of materials related to the management details of its subsidiaries as necessary to acquire an accurate understanding of the subsidiaries' operating status.

6. Matters relating to employees to be appointed, and their independence from directors (excluding those who are Audit & Supervisory Committee members), along with matters relating to ensuring the effectiveness of instructions given to the employees of the Audit & Supervisory Committee, in the case where the Audit & Supervisory Committee has requested the assignment of employees to assist with its duties

- (1) The Company will assign the Audit & Supervisory Committee's Staff to assist Audit & Supervisory Committee members with their duties, such as the operation of the Audit & Supervisory Committee and audit operations. The Audit & Supervisory Committee's Staff will comply with orders from the Company's Audit & Supervisory Committee.
- (2) The Company will make it known to its corporate officers and employees that the appointed Audit & Supervisory Committee's Staff is subject to orders from the Audit & Supervisory Committee.
- (3) To ensure the independence of the Audit & Supervisory Committee's Staff, the Company will seek prior consent of the Audit & Supervisory Committee for personnel transfers and evaluations of the staff members.

7. System for directors and employees to report to the Audit & Supervisory Committee and other systems for reporting to the Audit & Supervisory Committee

- (1) Directors and employees of the Company and directors, corporate auditors, and employees of its subsidiaries will report appropriately to the Company's Audit & Supervisory Committee on important matters that have an impact on the Company's operations or results and statutory matters. They will also report on the performance of duties and the results of internal audits. They will report promptly in cases when they have discovered matters that could cause significant losses to the Company and cases where the actions of another director or employee violate, or are suspected of violating, laws and regulations or the Articles of Incorporation.
- (2) Notwithstanding the above, the Audit & Supervisory Committee may request these reports as necessary from directors and employees. In addition, Audit & Supervisory Committee members may attend important meetings as necessary.
- (3) One of the Compliance Consultation Helplines will be assigned to a standing Audit & Supervisory Committee member so that the system can receive reports from directors and employees throughout the Company.

- (4) The Company is prohibited from putting any of its directors or employees at a disadvantage because of making a report to the Audit & Supervisory Committee, and likewise for directors, corporate auditors, and employees of its subsidiaries.

8. Other systems for ensuring effective audit execution by the Audit & Supervisory Committee

- (1) The Audit & Supervisory Committee members will conduct audits based on the standards for auditing and related duties of the Audit & Supervisory Committee. They will also exchange opinions regularly with the accounting auditor regarding accounting audits and maintain links with the Internal Auditing Office regarding operation audits.
- (2) The Company will hold regular meetings between the Audit & Supervisory Committee and the representative director and president to exchange opinions on issues that the Company needs to address, risks facing the Company, and any other important issues and so forth that emerge from audits.
- (3) If the Audit & Supervisory Committee members request advance payment of fees for performance of their duties, the responsible division shall swiftly process the fee or obligation after deliberating on it.
Moreover, a certain annual budget will be provided for expenses and so forth arising from the Audit & Supervisory Committee members' execution of duties.