

Internal Control Systems

PERSOL Group

PERSOL HOLDINGS CO., LTD. (hereinafter referred to as “the Company”) stipulated the basic policy regarding the systems to ensure the properness of the business, the details of which are described below. The Company shall constantly evaluate the status of development and operation of the internal control system based on this basic policy and implement necessary improvement measures, while striving to develop and operate a more effective internal control system by continuously reviewing the policy itself in response to the changes in the management environment.

1. System to ensure the properness of the business of the Group

- (1) The Company shall stipulate the Corporate Philosophy, Group Vision, and Five Core Principles in order to ensure the properness of the business of the Company and its subsidiaries (hereinafter collectively referred to as “the Group”).
- (2) The Company shall appropriately exercise the voting rights with respect to its affiliates from the perspective of maximizing the Group’s corporate value.
- (3) The Company, in addition to stipulating the various Group basic policies for the Group’s internal control and notifying them in the Group, shall establish a system in accordance with those policies.
- (4) With the aim of responding swiftly to the changes in the business environment, the Company, in addition to adopting the Strategic Business Unit (hereinafter referred to as “SBU”) system, shall dispatch directors to the Boards of the core SBU companies and oversee their management so as to ensure the effectiveness of the business management at the Group.
- (5) Internal audit departments shall audit the effectiveness of the compliance structure of the laws and ordinances, the Articles of Incorporation and internal rules of the Group. Furthermore, if corrections or improvements are necessary, it offers appropriate advices, recommendations, and support so that such measures are taken swiftly.

(Overview of operational status)

- The Company has transitioned to the Strategic Business Unit (SBU) system and has appropriately delegated the decision-making authority over business execution to the SBU after establishing internal rules, to ensure speedy execution.
 - The Company established the rules and organization of the SBUs, and dispatched directors to core SBU companies for overseeing the management.
 - The Company also integrated the management structure in its overseas business and developed a governance structure that places PERSOL ASIA PACIFIC as a core SBU company.
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2. Framework to ensure that the directors, executive officers, and employees perform their duties in compliance with laws and ordinances and the Articles of Incorporation

- (1) The Group establishes a code of conduct and basic rules regarding compliance and strives to develop a compliance system at the Group and practice compliance.
- (2) The Company establishes a department to oversee group-wide compliance, which continually implements various compliance measures and reports on the status of these activities to the Board.
- (3) The Group continuously provides education and training on compliance to its directors, executive officers, and employees.
- (4) The Group establishes a group-wide whistleblower system to prevent and detect early any violations of laws and ordinances as well as the Articles of Incorporation.
- (5) The Group shall take a resolute attitude against antisocial forces and rejects any kind of relationship with them.
- (6) The Group shall stipulate a department primarily responsible for preparing for contingencies by gathering related information from the police in the respective jurisdiction and regional councils, etc. related to preventing violence by antisocial forces, and when circumstances arise, the department takes the lead and systematically responds in collaboration with external agencies.

(Overview of operational status)

- The Group implemented key compliance-related measures such as compliance training for all employees, conducted compliance questionnaire surveys, and created and distributed a compliance handbook.
- The Group worked on improving quality through measures such as providing education regarding whistleblower system to subsidiaries in Japan. As a result, it received approval for renewing the Whistleblowing Compliance Management System certification (self-adaptation declaration registration system) from the Consumer Affairs Agency.

3. Regulations and other systems to control the risk of financial losses

- (1) The Company establishes rules regarding risk management of the Group and develops risk management system for the Group.
 - (2) The Company establishes a department primarily responsible for risk management of the Group within the Company to manage risks at the Group in an integrated manner. The department periodically reports the risk management system regarding material risks and its operation status to the Board.
 - (3) The Group establishes crisis management rules to prepare for the occurrence of crises such as large-scale natural disasters and pandemics and develops an appropriate framework, which includes an emergency management system for the Group, contact systems in the event of a crisis, and
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periodic implementation of training.

(Overview of operational status)

- The Company established Risk Management Committee as an organization that deliberates on risks that give material impact on Group management and it identified material risks, monitoring methods, and risk owners.
- The Company established an Emergency Response Headquarters in response to the COVID-19 infection. It considered its response policy corresponding to the infection status within and outside the Group and requests from the government and administration, and formulated and disseminated guidelines.

4. Systems to ensure efficient performance of duties by directors and executive officers

- (1) The Company separates oversight and execution of management, and the Board oversees the execution of operations at the Group from an independent and objective standpoint.
- (2) The Company has implemented an executive officer system that aims to clarify the roles and responsibilities and delegates decision-making authority regarding operations, in principle, to the Representative Director, President and CEO.
- (3) The Company establishes Headquarters Management Committee (HMC) as an organization that assists the Representative Director, President and CEO to deliberate on matters regarding important business execution of the Group.
- (4) The Company formulates a Group's Mid-term Management Plan and stipulates key management objectives and budget allocations for the entire Group for each business year as a means to give concrete shape to the Group's Mid-term Management Plan.
- (5) The Company stipulates a group-wide rules regarding the division of duties, chain of command, authority, decision-making, and other organization-related standards. The Group companies create their own systems according to these standards.
- (6) The Company stipulates rules regarding IT of the Group, establishes a department responsible for it, and develops the IT governance system of the Group.

(Overview of operational status)

- Based on the criteria for submission to the Board meeting, the Company narrowed down the agenda items of the Board meeting through careful examination of proposals to be submitted and adopting written reporting for some items to enable focusing on important agenda items.
 - The Company utilized its information base and provided prior briefings to develop support systems and an environment for provision of information to independent directors.
 - The Company established Headquarters Management Committee (HMC), which has been deliberating on matters regarding execution of important operations of the Group.
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- Following multiple discussions at the Board meetings, the Company announced its Mid-term Management Plan (three years) in August 2020.
- The Company established the Technology Committee as an organization for deliberating group-wide technology strategy from the medium- to long-term perspective and held deliberations.

5. Systems to ensure the properness and reliability of financial reports

- (1) The Company stipulates basic policy of internal control over financial reporting by the Group to ensure properness and reliability of financial reporting.
- (2) The Company establishes a department primarily responsible for internal control over financial reporting and another department in charge of evaluating it to ensure effectiveness of internal control over financial reporting.
- (3) The department that evaluates internal control over financial reporting periodically reports the evaluation results of the internal control over financial reporting to the Board, etc.

(Overview of operational status)

- The Company selected the scope of evaluation of internal control, updated documents, evaluated development and operations, made improvements regarding the identified defects, and reported the evaluation results to the Board.

6. Storage and management systems of information related to performance of duties by directors and executive officers

The Company stipulates rules regarding the storage of documents, etc., in accordance with which it appropriately stores and manages important documents, etc. that contain information regarding performance of duties by the directors and executive officers such as minutes of important meetings. Furthermore, it shall make these documents etc. readily available for timely inspection when requested by directors or the Supervisory Committee.

(Overview of operational status)

- By establishing an information infrastructure for directors, the Company developed an environment where directors can access briefing materials and meeting minutes of the Board, Headquarters Management Committee (HMC), and Investment Committee, whenever necessary.

7. Systems regarding performance of duties of the Supervisory Committee

7-1. Matters regarding assigning employees to support the duties of the Supervisory Committee

Based on a request from the Supervisory Committee, the Company assigns dedicated employees as required to support its duties. Support employees receive daily instructions from the Supervisory Committee, but not from directors who are not Supervisory Committee members or executive officers.

Furthermore, personnel changes, performance reviews, disciplinary actions, etc. of support employees shall take place with the consent of the Supervisory Committee.

7-2. Systems for making reports to the Supervisory Committee

- (1) Directors, executive officers, and employees of the Group report on the status of business and internal controls as requested by the Supervisory Committee or a person who was instructed by the Supervisory Committee. Internal audit departments report on the results, etc. of internal audits.
- (2) Directors, executive officers, and employees of the Group shall promptly notify the Supervisory Committee if they notice major infringements of laws and ordinances, the Articles of Incorporation, illicit conduct, or facts that will cause significant damage to the Company or may put the Company at such risk.
- (3) When directors, executive officers, and employees of the Group notice facts that will cause significant damage to the Company or may put the Company at such risk, said facts should be promptly reported to the department in charge as stipulated by the Group. When the department in charge receives a report from directors, executive officers, and employees, a report should be promptly made to the Supervisory Committee.
- (4) The Company ensures that the scope of the whistleblower system includes the Group. An appropriate system should be firmly established to report major compliance issues to the Supervisory Committee including violations of laws and ordinances, the Articles of Incorporation, and internal rules of the Group.
- (5) The Group explicitly states in its internal rules that directors, executive officers, and employees shall not be treated disadvantageously in performance reviews or be subject to disciplinary actions or other disadvantageous treatment due to reports made to the Supervisory Committee or to the internal whistleblower hotline.

7-3. Other systems to ensure that Supervisory Committee audits are performed effectively

- (1) When it deems necessary, the Supervisory Committee may request directors (except directors who are Supervisory Committee members), executive officers, and important employees to report to the committee. The Supervisory Committee may also request periodic exchange of opinions with the Representative Director, President and CEO, internal audit departments, and external auditors.
 - (2) When the Supervisory Committee or a person who was instructed by the committee requests for prepayment or reimbursement of expenses, etc. which occur in the course of performing the duties, the Company shall comply with the request except in cases where it can be demonstrated that said expenses etc. did not occur in the course of performing the duties of the Supervisory Committee.
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(Overview of operational status)

- The Company has assigned employees dedicated to support the duties of the Supervisory Committee and has been maintaining the framework in accordance with the basic policy.
- The Supervisory Committee interviews with persons responsible for main operating departments and exchange opinions with them on a regular basis.
- A full-time member of the Supervisory Committee holds monthly information exchange meetings with all corporate auditors of core SBU companies to share information and exchange opinions within the Group.
- Executive officers who are president and above at Group subsidiaries conduct self-check on the status of development and operation of the internal control system and analyze the results.
- The content of all reports made to the whistleblower hotline by officers and employees of the Group companies is reported to the Supervisory Committee.
- The Company, in addition to making clear stipulations in the Corporate Ethics Hotline Rules, to prevent unfair treatment of employees because of reporting to the Supervisory Committee or the whistleblower hotline, has established a system to confirm that, when an employee makes such a report, he or she is not subject to unfair treatment subsequently.
- In accordance with the basic policy, the Company has adopted an expense settlement system similar to the internal departments for the expenses incurred upon execution of duties by the Supervisory Committee members, and shoulder such expenses appropriately based on requests by the Supervisory Committee.

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