

Internal Control Systems: Basic Approach and Status for FY2024

On 18 December 2020 at the Board meeting, we amended our basic policy regarding the system to ensure the properness of the business of the Group. Additionally, minor revisions were made on 1 April 2023, in line with changes to the management structure. The specifics of these changes are shown below. We constantly evaluate the implementation and operation of the internal control system based on this policy, taking necessary steps for improvement. Additionally, we regularly review this policy to adapt to changes in the business environment, striving for even more effective development and operation of our internal control system.

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 (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 changes in the business environment, the Company, in addition to adopting the Strategic Business Unit (each referred to as the “SBU” and collectively, “SBUs”) system, shall dispatch directors to the Boards of core companies within the SBUs and the Function Unit (the “FU”) and oversee their management so as to ensure the effectiveness of the business management at the Group.
- (5) The 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 shall offer appropriate advice, recommendations, and support so that such measures are taken swiftly.

(Overview of operational status)

- The Company properly oversees the management of SBUs and FU by having established the rules and organization of the SBUs and dispatching directors to core SBU and FU companies.
 - With seven group-wide committees (Sustainability, Investment, Risk Management, Technology, Human Resources, Gender Diversity, and Staff Well-being) established under the Headquarters Management Committee (“HMC”), we seek to achieve two goals at the same time: enabling more sophisticated decision-making and ensuring group governance.
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- Regarding internal auditing, we perform internal audits in line with the audit plan, and regularly report a summary of the audit results, matters pointed out, and other reportable findings to the Board, the Audit and Supervisory Committee, and the HMC.

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 takes a resolute attitude against antisocial forces and rejects any kind of relationship with them.
- (6) The Group assigns 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)

- We have conducted Unconscious Bias Training for Executive Officers. Within domestic group companies, we distributed Compliance Handbook that address respect for human rights and privacy protection, which are part of PERSOL's commitment to materiality, as well as the revised Whistleblower Protection Act enacted in June 2022. Furthermore, we conducted company-wide compliance training for all officers and employees of domestic group companies, covering PERSOL Group's compliance, information security, and the actions to take in the event of compliance violations. Within our overseas group companies, we conducted compliance awareness and promotion activities based on unique training content developed to align with laws and regulations in each country.
 - Upon establishing our whistleblower system, we strove to raise awareness of the system through means including our intranet. Within our domestic group companies, we assessed the awareness level of our "Whistleblower Hotline" and, with the goal of further increasing awareness, we explained the overview of the whistleblower system in a "compliance training"
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session targeted at all our officers and employees. Additionally, we held "Whistleblower Hotline study sessions" targeted at whistleblower contact persons of each company. For our overseas group companies, we posted the contact information and system overview related to the whistleblower system on the Group intranet and corporate website to promote the system's prevalence.

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 periodic implementation of training.

(Overview of operational status)

- The Risk Management Committee under HMC identifies the material risks faced by the Group and monitors the risk management situation.
- To better prepare for the possibility of a large-scale disaster, we set up an alternative emergency response headquarters in the event of a major earthquake or other devastating disaster affecting the Tokyo metropolitan area. We have also been providing training to all officers and employees of our domestic group companies, including safety confirmation drills. Furthermore, we have conducted crisis management drills for Executive Officers to verify the effectiveness of our emergency response headquarters and to identify and address issues. The issues identified during these drills will be incorporated into our improvement plan for the fiscal year 2025.

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 implements 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 the Headquarters Management Committee (the "HMC") as an
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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 sets forth a set of 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)

- The Board, in accordance with the Articles of Incorporation, Corporate Governance Guidelines, and Board of Directors Rules, appropriately carries out management oversight of the Group's execution of operations.
- The HMC deliberates on critical matters related to the execution of important operations within our Group.
- In accordance with the "Group IT Governance Rules," the SBU-IT General Manager and the FU-IT General Manager, under the supervision of the Group IT Management Promotion General Manager, are responsible for IT management. Additionally, the IT Governance Division formulates and monitors IT governance policies.

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 determines the scope of internal control evaluation, updates relevant documents, evaluates the design and implementation of internal control, corrects any inadequacies identified, and reports the results to the Board.
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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, these documents etc. readily available for timely inspection when requested by directors or the Audit and Supervisory Committee.

(Overview of operational status)

- Storage periods for important documents are defined in the Document Management Rules, and proper storage and management are ensured.
- Through the development of an information infrastructure for Directors, the Company ensures that Directors can access materials and minutes of the Board meetings, HMC, and Committee meetings at any time as needed.

7. Systems regarding performance of duties of the Audit and Supervisory Committee

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

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

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

- (1) Directors, executive officers, and employees of the Group report on the status of business and internal controls as requested by the Audit and Supervisory Committee or a person who was instructed by the Audit and Supervisory Committee. The Internal Audit Division report on the results, etc. of internal audits.
 - (2) Directors, executive officers, and employees of the Group shall promptly notify the Audit and 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
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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 Audit and 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 Audit and 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 Audit and Supervisory Committee or to the internal whistleblower hotline.

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

(1) When it deems necessary, the Audit and Supervisory Committee may request directors (except directors who are Audit and Supervisory Committee members), executive officers, and important employees to report to the committee. The Audit and Supervisory Committee may also request periodic exchange of opinions with the Representative Director, President and CEO, the Internal Audit Division, and external auditors.

(2) When the Audit and 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 Audit and Supervisory Committee.

(Overview of operational status)

- To support the duties of the Audit and Supervisory Committee and its members, the Company has appointed a dedicated staff member who is independent of the management division. This staff member works under the direction and supervision of the Audit and Supervisory Committee, and any personnel transfers, performance evaluations, or disciplinary actions regarding the staff member are carried out with the consent of the Audit and Supervisory Committee.
 - The Audit and Supervisory Committee receives reports from directors, executive officers, and employees on the status of business operations, internal control, and other reportable matters.
 - The full-time member of the Audit and Supervisory Committee regularly exchanges information
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with all auditors of core SBU and FU companies.

- All matters reported to the whistleblower consultation desk by officers and employees of the Group companies are reported to the Audit and Supervisory Committee.

- In order to protect employees from ill treatment as a result of reporting to the Audit and Supervisory Committee or the whistleblower hotline, the Company has included an explicit provision to that effect in the Whistleblower Hotline Rules and has established a system to ensure that whistleblowers do not suffer any adverse treatment after reporting.

- In accordance with the basic policy, we have established an expense settlement system for the Audit and Supervisory Committee that is similar to that of our internal departments. In response to the Audit and Supervisory Committee's requests, we have appropriately covered the expenses incurred.

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