

PricewaterhouseCoopers Japan LLC

Audit Quality Report 2024

<https://www.pwc.com/jp/en/about/member/assurance.html>





Building trust for the future of Japan

Our history

We have been, and will continue to be, committed to meeting societal expectations that change with the times

2006 >>>

Established PricewaterhouseCoopers Aarata

With a determination to refresh the audit profession in Japan, established PricewaterhouseCoopers Aarata (PwC Aarata) as a member of PricewaterhouseCoopers (PwC)

2007 >>>

Established Kyoto Audit Corporation

Kyoto Audit Corporation was established primarily by members of the Kyoto Office, with operations in Kyoto and Tokyo

2008 >>>

Business integration with PwC Advisory

PwC Aarata integrated with PwC Advisory and transformed to a new organizational structure to further contribute to the sustained growth of Japanese companies

2013 >>>

Kyoto Audit Corporation became a member firm of PwC

In 2013, Kyoto Audit Corporation became a member firm of PwC, and renamed to PwC Kyoto

2022 >>>

Published Charting our Futures: The Creating a Decade Project

Developed future scenarios that may occur in 2030 from the following four aspects: Politics and economy; Climate change; Technology; and Trust. These were used as input to formulate Assurance Vision 2030

2023 >>>

Published Assurance Vision 2030

Aim to close the broad trust gap through the integrated assurance and rebuild trust for the future of Japan and pass on a better society to the next generation

December 2023 >>>

Established PricewaterhouseCoopers Japan LLC

PwC Aarata and PwC Kyoto merged to form a new firm, PricewaterhouseCoopers Japan LLC

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We will continuously
take on challenges to build
a society with a high level of trust
and pass on a better society
to the next generation



PricewaterhouseCoopers Japan LLC

Takeshi Yamaguchi

Deputy Chief Executive Officer
(Assurance Leader/Assurance Transformation/
Planning & Management/Chief Investment Officer)



Q. Half a year has passed since we started operating as PricewaterhouseCoopers(PwC) Japan LLC (the 'Firm') on December 1, 2023. What are your thoughts so far?

Kubota : For PwC to lead the world with an eye on the future and grow together with our clients in this era of accelerating social change, we should constantly evolve and transform. We need to pave the way for a breakthrough toward greater and sustainable growth. The integration between PwC Aarata LLC (ex-PwC Aarata) and PwC Kyoto (ex-PwC Kyoto) was one of the decisions made to trigger a breakthrough. The purpose of this integration was to realise synergies by enhancing the strengths of both firms and complementing each other, and building trust in society through such synergies. On July 1, 2024, I was appointed Chief Executive Officer (CEO) and Takeshi Yamaguchi was appointed Assurance Leader and a new leadership team was formed. While embracing what Takaaki Ino, former CEO,

has passed down to us, I will also incorporate new perspectives in how we run our business to adapt to ever changing times with foresight.

Kagi : A successful breakthrough requires a fundamental and bold transformation. Taking the integration as an opportunity, we are now fundamentally reviewing our organisations and cultures and integrating the best to create a new culture.

Kubota : The element that underpins us as a professional firm is universal. We have valued, and always will value, trust.

Yamaguchi : Even if the way we provide services changes as technology evolves, trust remains the cornerstone for us. Maintaining trust with our clients, trust in our colleagues, and reliable quality. This will never change.

Kagi : As innovative tools, such as AI, emerge, the way we conduct audits will also change to keep pace with such advancement. But delivering our purpose, which is to build trust in society and solve important problems, is essential: to have an honest dialogue with clients' man-



agement and gain a deeper understanding of their businesses and risks with a broader perspective.

Kubota : While AI quickly generates excellent and exemplary responses, the value of professionals lies in that they can think outside the box and have capabilities and experiences that can exceed expectations. I think professionals who can give interesting and unique responses have true value in times of drastic change.

Kagi : When I talk with the leaders of companies, I understand why they became leaders - because they are exceptional. This holds true for each employee in an organisation. For successful growth, we need to improve the unique qualities and strengths of each person and combine such qualities.

Kubota : Yes, it is important to cultivate a culture where people with unique talent can maintain their qualities and to establish a program that can develop such qualities. This can also be applied to the integration of PwC Arata and PwC Kyoto. Both firms had good elements, but if we homogenise all the aspects without giving it much

thought, such good elements may be lost. To avoid this, we work on the post-integration integration process under the policy of harmonise but not homogenise.

Kagi : In M&A of our clients, I have seen many cases where both companies frankly exchanged views on their management philosophy and what they valued, and built a better organisation. We can achieve true harmonisation by providing opportunities to challenge and discuss the existing ways of thinking and approaches.

Yamaguchi : We will have more productive discussions with all post-integration members to jointly review and redesign what had been created ex-PwC Aarata and ex-PwC Kyoto. For example, we plan to review our behaviours guidelines.

Kubota : Ex-PwC Aarata and ex-PwC Kyoto were different firms, but we completed the post-integration integration smoothly because we share the same Purpose and foundation as PwC member firms.



Q. Changes have taken place in unprecedented pace and size, including the drastic advancement in generative AI, climate change and global fragmentation. What are the impacts on the environment surrounding audit firms, expectations towards audit firms and audit approaches? And what actions are taken to address such impacts?

Kubota : In recent years, change in society has been extremely rapid and extensive which goes beyond the economy; for example, the widespread use of generative AI, climate change and geopolitical uncertainties. In such an era, our significant challenge will be whether we can keep up with the pace of such change. As the pace of change is faster than the pace of revising or developing rules, this has created a trust gap. In Vision 2030, we communicated our commitment to solving such a gap in trust. To realise this, needless to say, ensuring quality is the most critical task as this underpins trust. But to ensure an immediate response, we also need to add the element of time to careful consideration which guarantees quality.

Kagi : I think, now, we also need to consider, to some extent, how to promptly meet the needs of audit clients and at the same time maintain audit quality required by society.

Kubota : The integrated assurance we seek to deliver aims to provide assurance in the areas where people still feel uncertain about whether or not they should place their trust (e.g. platforms and rules of generative AI, data in automated driving, or production process of cultured

meat). We intend to expand areas in which trust in society is built. We must think ahead and address future societal concerns and study cutting-edge technology to explore assurance services that will be required by society.

Yamaguchi : For example, some local governments are working on a smart city concept and are using generative AI to analyse areas prone to disasters. But generative AI may not generate expected results depending on input data or method. Therefore, there may be assurance service needs for input data and methods. If we can build a structure that can provide these new types of assurance services in the broader assurance service (BAS) practice, we will be able to adapt to changes in society and provide audit services to these areas once appropriate rules and regulations are established.

Kubota : In terms of third-party assurance of sustainability information, we should actively engage with those companies that are voluntarily taking actions and making disclosures, not only for the areas with a certain level of disclosure and assurance frameworks (e.g. GHG emissions) but also for those in the pre-development stage, such as human capital, human rights, biodiversity and other future potential agendas. This, I believe, will help such companies be fairly evaluated by society and enhance their corporate value.

Concerns over greenwashing have heightened for all kinds of sustainability information. To avoid this and ensure that sustainability information fulfils its original purpose both for companies and users, we should focus



on building trust in this area as an audit firm through advisory and assurance services. The scope of services may include advisory for the disclosure preparation process, how topics are selected, disclosed information and monitoring process.

Kagi : In this highly uncertain era, we need to identify the needs of clients and society at an earlier stage and meet them as quickly as possible. But this effort requires courage to expand into new fields.

Yamaguchi : Of course, upholding quality is fundamental from a compliance perspective. To build trust, we ourselves need to be trusted. To realise this, we must maintain and further improve our quality.

Kubota : I think adhering to traditional approaches may eventually undermine trust. We should also strive to be pioneers while maintaining and improving quality. To do so, we need to redefine our organisation and business operation models and compensation plans, as well as evaluation and recruitment programs.

Q. How will the audit profession change? As the Firm, what are your views on the next-generation audit, people strategy and investments in the future?

Kubota : We are accelerating the preparation for deploying next-generation audit tools. These tools will incorporate generative AI and will automate data reconciliation and preparation of working papers in the areas that do not require significant judgement. This effort is expected to facilitate audit process enhancement, and drive the transformation of audit delivery models. The required skills of audit team members may also change. For example, they may need to have advanced prompt engineering techniques. To adapt to this, we need to drastically review our people strategy, including people development, over the next few years.

Yamaguchi : Currently, we are considering a program to shorten the period between the on-boarding as associates and the promotion to senior associates. This does not mean that we will relax the eligibility criteria for senior associates. We intend to rely on AI to perform stan-



standardised procedures and encourage associates to learn the basics of audits more efficiently, helping them deepen their understanding of audit clients more quickly during this program. The traditional audit consists of work to accurately do what is required and work to identify clients' risks and perform procedures to address them. This strategy focuses more on the latter.

Under this strategy, they must keep improving themselves and taking on challenges to gain an understanding of true audit essence, instead of relying on knowledge learned from textbooks, which will become insufficient. Taking on new challenges will increase the possibility of failure. As an audit firm, we will provide all staff with an environment and opportunities that encourage them to deal with fear of failure and embrace failure as the stepping stone to subsequent growth.

Kagi : To understand and engage in dialogue with clients' leadership, we have to develop ourselves more quickly. I think leadership have learned a lot from their failures. It is important for us, too, to look back on our failures and leverage them as a driver of our growth.

Kubota : Developing people from a medium- to long-term perspective is one of upfront investments for the future to prepare for any potential issues.

For us, people are our assets. I think investing in people in unprecedented ways will lead to realising the Firm's breakthrough.

Our Purpose and Vision

Why

Our Purpose

Our purpose
Build trust in society and solve important problems

What

Our Vision

Strategies to realise our Purpose

The New Equation

Our community of diverse solvers in the diverse areas work together to help achieve sustained growth and build trust



Assurance Vision 2030

Build trust for the future of Japan



How

Our Fundamentals

Our fundamentals for delivering our Purpose (Culture)

Values and Behaviours


 Act with integrity



 Make a difference


 Care


 Work together


 Reimagine the possible

Behaviour Guidelines to realise our Vision


Trusted Leadership


Distinctive Outcomes

PwC Professional

Evolve

Outshine your yesterday

Collaborate

Maintain integrity with others and yourself

Challenge

Be open to all future possibilities

People strategy for realising our Purpose and Vision

PwC Professional

Five attributes required of PwC professionals





Diversity
(Embracing and pursuing diversity)



Autonomy
(Mindset that supports autonomy and respect)



Mutual Respect
(Ability to harness the power of, and develop, people)

Our people model


Supporting the transformation of clients and society and closing a trust gap in the highly uncertain times to build a high-trust and better society for the next generation


Five major global shifts driving changes in the world in which we live


We have identified the following five megatrends (climate change, technological disruption, demographic shifts, fracturing world and social instability) as drivers that have


changed the world, and are expected to be the significant drivers over a long span of time.


Five megatrends


 Climate change


 Technological disruption


 Demographic shifts


 Fracturing world


 Social instability

For details of five mega trends, see the following 2D barcode:

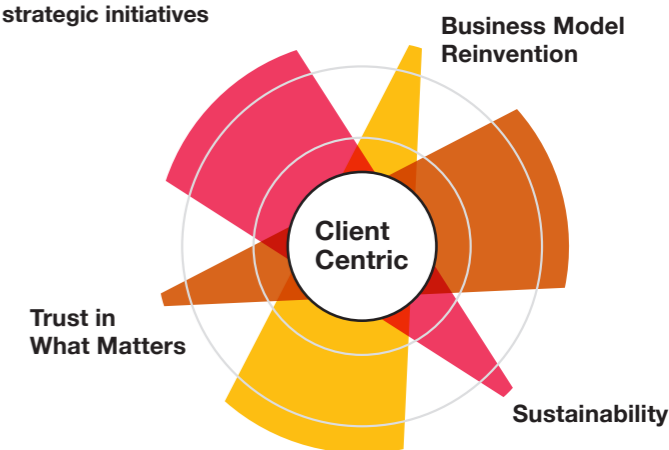


PwC Japan Group's vision for contribution to society

Megatrends have caused disruption to existing value, triggering the creation of new value and transformation. As changes in society are accelerating amid growing uncertainties, the world is facing societal problems that need to be solved urgently.

To help clients and society solve societal problems and deliver sustained growth, we will work to build trust in what matters and support companies and society for business model reinvention, including creating new industries, and addressing climate change. Through this, we will build trust in broader areas and create a high-trust society.

PwC Japan Group's strategic initiatives



For details of business model reinvention, see the following 2D barcode:



Contributing to building trust in what matters

Diverse transformations have created new challenges in building trust. PricewaterhouseCoopers Japan LLC will

be committed to building trust in what matters to close a widening trust gap.

Delivering integrated assurance services

Broader assurance services

The Firm provides services in two core areas: Audit and assurance services and broader assurance services (BAS). In BAS, we use knowledge and experience cultivated in the audit and accounting practices to provide advisory services in a wide range of areas, including:

- Financial reporting advisory (e.g. financial closing and accounting support)

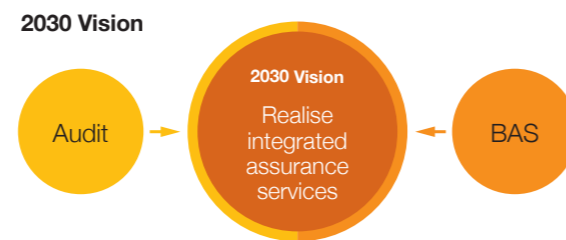
Integrated assurance services

Vision 2030 envisions the Firm's goal of closing the trust gap through integrated assurance. Integrated assurance is a comprehensive initiative to link knowledge and experience across audits and BAS and provide sustainable solutions to a number of societal problems which give rise to a broad gap with trust that society requires.

To realise Vision 2030, we will promote the enhancement of our current services and develop new services to build trust that society and our clients require, while bringing together our audit and BAS knowledge and experience

- Governance, risk management, compliance and internal audit
- Sustainability information disclosure (e.g. integrated reporting, climate change)
- Risk assurance (e.g. systems audit, digital governance, cyber security)
- Digital trust service platform
- Forensics

and complying with independence and other professional requirements. We will also establish a structure that enables professionals to smoothly implement this goal, thereby realising sustainable growth for the future of the Firm.



Examples of integrated assurance service initiatives

Initiatives for integrated assurance have already been launched, including proposals for risk assessment and control activities in relation to ERP system implementation, IPO support, promotion of co-creation with local communities, and sustainability and digital areas as described below.

In implementing an ERP system, we use knowledge of both BAS and audit in proposals for risk assessments and appropriate control activities before and after the implementation, while considering companies' accountability for operations, financial reporting and non-financial information gathering.

The key areas of IPO support are the establishment of internal controls for business planning and financial planning, and the preparation of appropriate financial information. Professionals with knowledge and

experience in both BAS and audit are involved to assist clients in building trust for stakeholders.

In promoting regional co-creation, while each local government provides support for small and medium entities, we provide solutions through mobilising a virtual team that combines knowledge and experience across operating units (OUs).

In the sustainability area, we support the development of a sustainability information strategy, risk assessments, application of disclosure standards, stakeholder engagement, and establishment of internal controls.

In the digital domain, we provide support to automate operations and improve processes, evaluate system risk management, and establish a data governance framework leveraging digital tools.

Widening trust gap and integrated assurance services

Amid rapid changes in the world, areas with a trust gap and those requiring trust are expanding. To address this,

we strive to contribute to building trust in the following areas through integrated assurance services.

Areas where trust will be needed in a 2030 society



Examples of areas to promote integrated assurance services

Reliability of autonomous driving	Reliability of 3D GPS	AI reliability	Reliability in solutions to climate change	Reliability in the private space industry
Social demand for the safety of AI autonomous driving programs is expected to increase as its use will become widespread. We are exploring services to assist the government in preparing guidance, evaluating autonomous driving algorithms, verifying internal controls over data, and validating the safety of autonomous driving.	If drone malfunctions and criminal use become concerns for 3D GPS, it is expected that the use of drones will be restricted. We are considering services including support for developing an expert committee's guidance, assessing internal controls over the process of generating and using GPS data, validating drone flights and issuing certifications.	The needs for reliable AI will heighten if AI fraud incidents occur frequently. We are considering support services for the development of an internal control framework to design and operate internal controls, testing internal controls and issuing reports. Further, we are considering a service to build a structure to validate generative AI and prevent fraudulent use.	As disasters increase due to climate change, we need to maintain and recover a reliable and sustainable society and environment. We are providing services for developing information disclosure and assurance frameworks related to climate change, supporting the establishment, operation, and testing of internal controls, and researching and providing information on good disclosure practices and examples of positive impacts on environment and society.	Many private companies have been tapping into the space industry. However, currently, regulation covers only the public sector. If a severe incident occurs at a space station, trust in the space industry may be destroyed. We are exploring services to provide advice on enhancing guidance for the private sector, as well as services for providing advice on optimisation and assurance for internal controls over the space businesses and related systems.

We aim to close the broad trust gap through these initiatives.

Feature 1 Our sustainability initiatives

Sustainability issues

Sustainability trends in 2024

In response to the growing need for sustainability information disclosure, the expectation to enhance reliable disclosure information is rising.

In Japan, discussions are underway to require detailed disclosure of sustainability information in the annual securities report. Specifically, the Sustainability Standards Board of Japan (SSBJ) has been developing Japan's first sustainability disclosure standards, discussing the scope of regulated companies, timing of application, and implementation of third-party assurance.

Such trends in Japan are affected by global trends. The EU began the phase-in application of the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) in 2024. In the U.S., the U.S. Securities and Exchange Commission (SEC) adopted climate-related disclosure rules in March

Social sustainability issues for stakeholders

To realise a sustainable society, it is necessary to make decisions based on highly reliable sustainability information and to implement, maintain and establish behavioural change across jurisdictions and generations. Material information on which decisions are made requires different levels of assurance.

In solving social sustainability issues, we need to consider the following characteristics.

Firstly, as they affect all stakeholders, it is essential to promote a concerted effort across individuals and entities targeting the investment and supply chains. Since the types of sustainability issues are wide-ranging, covering climate change, net zero, biodiversity, human capital, and cyber security, materiality needs to be set for each issue. Secondly, it requires a longer time frame. For example, the outcome of environmental initiatives may be generated only in the next generation, and those involved in the

2024 (suspended as of October 2024). The International Sustainability Standards Board (ISSB) published the IFRS Sustainability Disclosure Standards in 2023, which were endorsed by the International Organization of Securities Commissions (IOSCO) in the same year.

Regulators in several jurisdictions are currently considering adopting the ISSB's standards or implementing national standards based on the ISSB's standards. As mentioned above, in Japan, the SSBJ has been developing standards that align with the ISSB standards.

Compared to the development of accounting standards and other financial reporting requirements, the speed of the development of sustainability disclosure requirements is extremely fast. Therefore, we need to pay attention to this accelerated pace of standard setting.

initiatives may not see their outcome.

Lastly, in this fast-changing society, factors surrounding sustainability (e.g. regimes, technology, people's thinking) may change and may require the redefinition of goals.

Therefore, mutual collaboration and value co-creation among stakeholders will be the key to realising a sustainable society, not solely relying on individual stakeholders' efforts.

There are several means to respond to social sustainability issues (e.g. agile, digital, green, or sustainability transformation) and we combine each to solve issues. This combined approach will require collaboration and co-creation among stakeholders (e.g. regulators, standard-setters, investors, preparers).

Identifying areas with trust gaps and co-developing actions timely and appropriately will help maintain and increase trust. The Firm seeks to play a vital role in this effort.



Yoshitaka Sakurai
Partner of Consumer,
Industrial Products and Services

Shizue Takashima
Partner of Technology,
Media and Telecom

Takeaki Ishibashi
Partner of Technology,
Media and Telecom

Hideaki Endo
Senior Officer,
Audit General Management
Office Deputy Leader

Discussion on current trends in disclosure and assurance of sustainability information

Endo : Discussions on the disclosure and assurance of sustainability information are accelerating. Today, we will hear stories from partners who are engaged in assurance services for sustainability disclosures (sustainability assurance).

Takashima : I am leading financial statement audits for technology and entertainment companies. In the area of sustainability, we are providing our clients, including manufacturers and financial service providers, with assurance and governance services related to GHG emissions and other environmental indicators, as well as services related to the disclosure of social indicators.

Sakurai : I serve as an engagement leader for audits of non-ferrous metals, chemicals, and machinery manufacturers. In terms of sustainability assurance, we are providing assurance services mainly related to GHG emissions to the manufacturing industry.

Ishibashi : I am the engagement leader for audits of technology and entertainment companies, and was previously engaged in audits of automobile manufacturers. For sustainability assurance, we provide assurance services related to GHG emissions and other environmental indicators.

Endo : What are the challenges in the disclosure of sustainability information, and how should we, as an audit firm, respond to such challenges?

Takashima : While there are certain differences from financial reporting, the sustainability disclosure standards

also require the disclosure of social impacts, risks, and opportunities (IRO) of corporate activities. Our firm considers sustainability information as future-oriented information that supports companies' medium- to long-term management decision-making, as opposed to information that depicts the outcome of activities in the past. Also, sustainability information and the visualisation of impacts using that information is essential in making decisions that will drive corporate value over the medium to long term. Ensuring the reliability of sustainability information used in companies' initiatives to address sustainability issues is a challenge we should address as an audit firm.

Sustainability assurance has the same feature as financial statement audits in that we provide assurance on companies' published information independently and with knowledge and experience. But compared to financial statement audits, which have a long history, sustainability assurance is still being developed, and its importance is not yet widely acknowledged. Therefore, we need to fill the expectation gap between preparers and users and provide assurance on the reliability of sustainability information, which can be an important indicator for evaluating corporate value. I believe this will help all stakeholders evaluate companies' initiatives to address social sustainability issues more appropriately.

Endo : That aligns exactly with PwC's Purpose. In our capacity as an audit firm, we have a critical role to ensure the reliability of sustainability information, which will add value for clients and eventually help solve problems in society.

Endo : Are there any similarities between financial statement audits and sustainability assurance?

Sakurai : The flow from planning to execution and opinion formation is almost the same as in financial statement audits. Not only the approach, but also the composition of the working papers is similar to those of financial statement audits. Therefore, if you understand and have experience in financial statement audits, you can easily adapt to sustainability assurance.

Endo : What about differences?



Takashima : The length of history differs between financial statement audits and sustainability assurance. Accounting has a set of established standards across the world, and the audit scope and process are consistent. In terms of sustainability assurance, while the development of disclosure standards is progressing, some companies still use their own criteria. Therefore, we need to consider whether such criteria are useful for evaluating corporate value or can be assured by a third party.

Sakurai : One of the differences is the necessity to consider the reasonableness of criteria established. For example, the criteria for GHG emissions are established by companies that receive assurance based on the GHG protocols. We also need to consider whether the scope of disclosure and assurance are appropriate, which requires careful judgement similar to the scope of consolidation which is a complex issue in financial accounting.

Endo : You are both providing sustainability assurance to your financial statement audit clients. What are the advantages of providing both services to a client?

Takashima : If financial statement auditors also perform sustainability assurance, they can provide a deeper level of assurance as they have first-hand knowledge of the company subject to assurance. Only financial statement auditors are in a position to do so because they understand the client's business characteristics, which areas stakeholders are interested in, and where they want to receive assurance.

Assurance of sustainability disclosures has difficulties that differ from financial statement audits because there is no double-entry bookkeeping mecha-



nism and disclosed information is segmented for a specific period.

Therefore, the accuracy of information, such as the existence, completeness and cut-off of transactions, is more important in sustainability assurance than financial statement audits. If you pay attention to these in financial statement audits, you can perform sustainability assurance more effectively.

Ishibashi : Although the scope of assurance differs between sustainability assurance and financial statements audits, there are a lot of common areas since the figures and information are based on the same business and transactions. Many indicators subject to sustainability assurance are prepared using the indicators subject to financial statement audit (e.g. sales data), or require an analysis by using financial figures. Therefore, financial statement auditors have the advantage of efficiently performing sustainability assurance.

Endo : You are also responsible for the development of sustainability assurance talent. What programs are in place?

Ishibashi : This summer, we conducted mandatory basic training for all employees of audit operating OUs to gain sustainability literacy. This training was attended by 1,878 people. Additionally, a more specialised curriculum is provided to members engaged in sustainability assurance services. I think these programs will help develop people that can provide high-quality sustainability assurance services.

Endo : What is your thought on the development of sustainability assurance professionals?

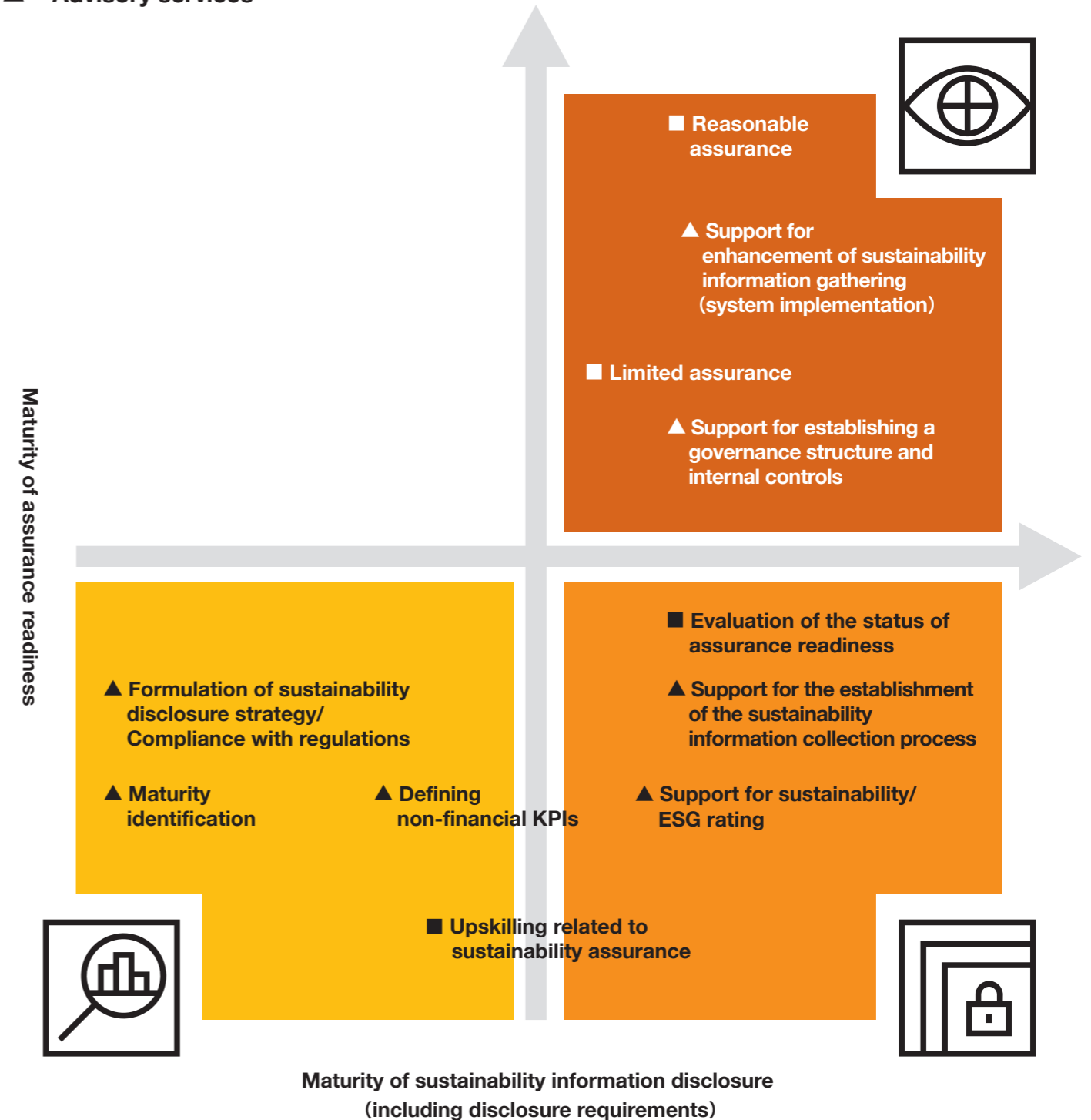
Ishibashi : Financial statement audits and sustainability assurance are highly compatible in terms of the understanding of companies' business and internal controls, the nature of the procedures and approaches. Therefore, I think it is efficient to develop accounting professionals as sustainability assurance professionals, and that the hurdle is low. But there is knowledge and expertise specific to sustainability. The challenge of the entire industry is how to encourage people to develop such knowledge as early as possible and to retain talented sustainability assurance professionals.



Our sustainability related services

■ = Assurance/Assurance-related services

▲ = Advisory services



Feature 2 Transforming assurance with technology

Our transformation toward a future that is human-led and tech-powered

The rapid evolution of technology is drastically changing our digital landscape. In particular, the evolution of generative AI has been remarkable. Technology previously used only by certain experts has now become part of our daily lives over the past year.

In response to the changing environment, we formulated

Vision 2030 and are transforming the Firm with the goal of realising a future that is human-led and tech-powered in the digital field, including audits. As technology evolves, society's expectations towards the Firm, as an assurance provider, are increasing. We will proactively deploy new technology to cater to the needs and changes in society with agility.

Our vision

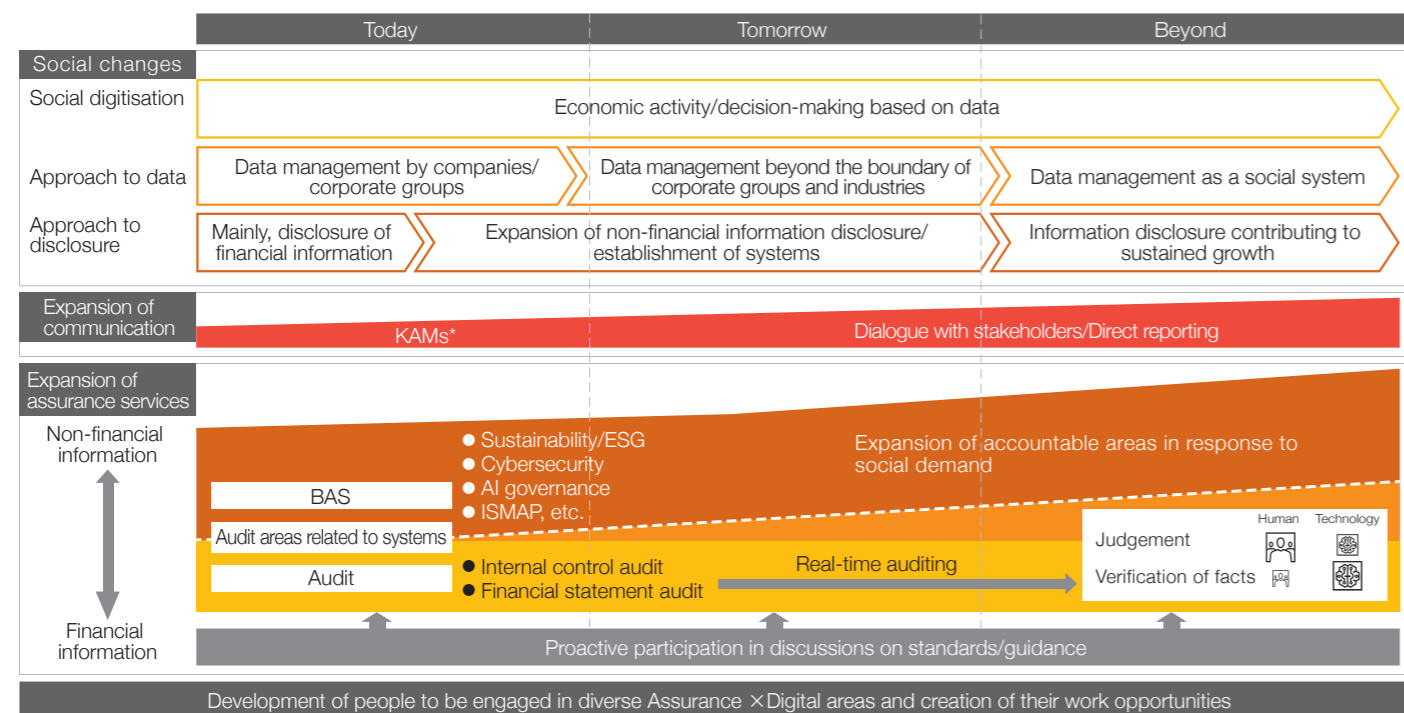
In recent years, the movement to disclose non-financial information along with financial information has accelerated. The scope of our audit services has been expanding to cover non-financial information in addition to traditional financial information. Additionally, knowledge and techniques required for audit have also expanded significantly.

As shown in the table below, the use of data has changed over time and is becoming more important. The

accuracy and reliability of data is essential for companies in making decisions and developing strategies.

In such an era, the Firm will assume the critical role of ensuring the reliability of data. We are enhancing our audit using cutting-edge technology by leveraging our diverse knowledge and experience, insights as practitioners, and objectivity cultivated over years through financial statement and internal control audits.

Trust Innovation Journey



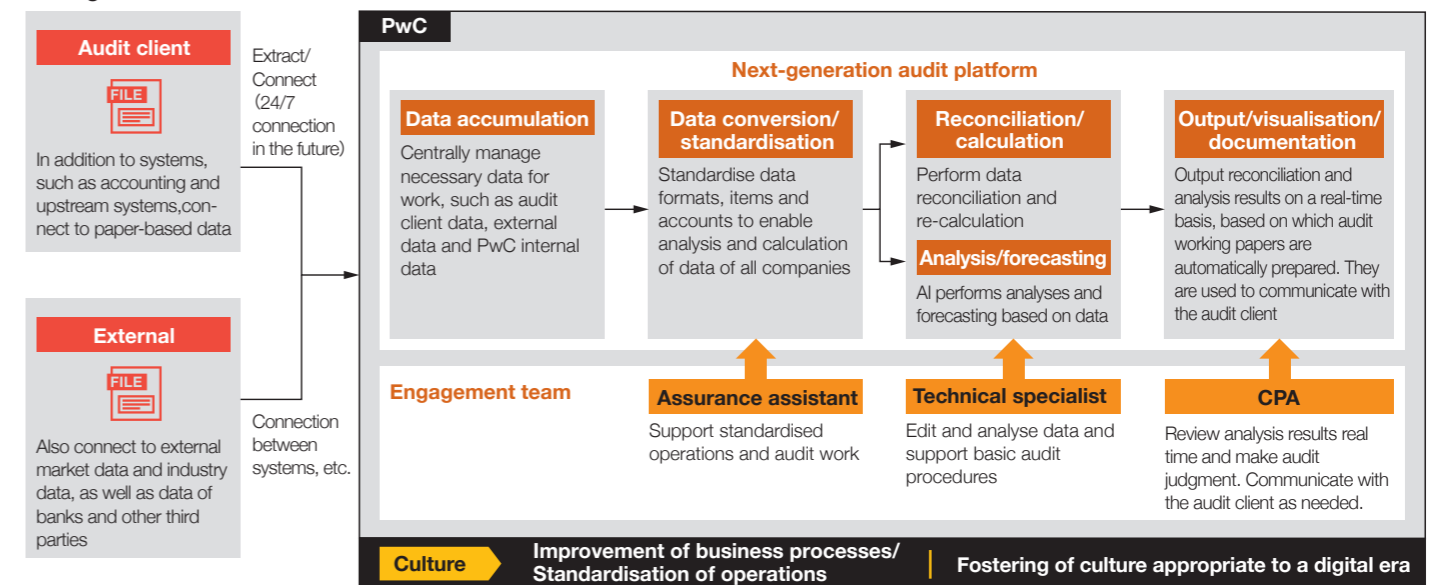
*Key Audit Matters

Investments in the future - Data-driven next-generation audit - Human-led and tech-powered

As part of our commitment to building trust and delivering sustained outcomes, the PwC network is investing in a multi-year effort to deliver a new global audit platform to power our next generation audit, ultimately replacing our legacy technologies such as Aura and Connect. By exploring and investing in new technologies and redefining underlying audit processes,

PwC will further standardise, simplify, centralise, and automate our audit work. PwC's investment will accelerate ongoing innovation and enable us to respond to changing stakeholders' needs while taking advantage of emerging technologies, including generative AI, providing a transformed audit experience focusing on continuous quality enhancement.

Next-generation audit model



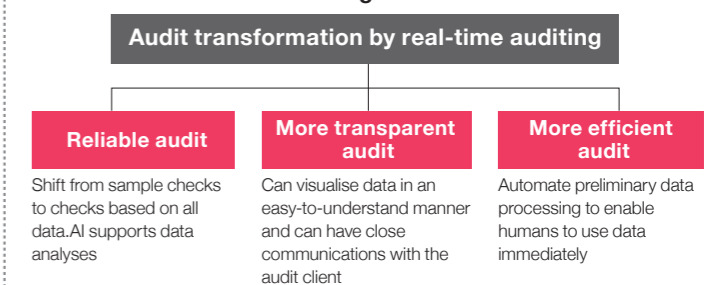
Value PwC aims to deliver through future audit Providing reliable, transparent, and efficient audit

Analytical tools using AI enable a shift from manual sample checks to testing full datasets, reducing the risk of overlooking findings. Also, automated data connectivity allows real-time data analysis and minimises unexpected events by identifying issues earlier. AI converts data into available formats and proposes useful external data and optimal analytical models, realising efficient, high-quality analyses.

An integrated platform that has all-inclusive functions not only enables real-time sharing of results and audit

progress, but also enhances data quality by consolidating information sources and facilitates communication within the engagement team and with the audit client.

Benefits of real-time auditing



Generative AI governance

To appropriately and innovatively use generative AI in our business, the Firm is working to establish a governance framework that strikes a balance between harnessing generative AI and managing associated risks.

Specifically, we are now working to build processes and platforms based on the business rules which employees must adhere to when developing, providing, and using generative AI. This is to support the accumulation, sharing, and enhancement of use cases and generative AI assets that contribute to the creation of business value.

Additionally, we provide our employees with the latest generative AI tools and help stimulate the use of ideas and know-how via domestic and global communities. We are also promoting initiatives to build a secure environment for developing and using generative AI and

to develop new generative AI assets and services supported by a dedicated team.

The Firm has also been taking measures to increase the level of understanding of generative AI and ensure compliance with the business rules by requiring employees who use generative AI or engage in its development to attend training. This training reflects the latest technological advancement of generative AI, as well as up-to-date information on risk management based on developments in related laws, regulations and guidelines.

Through these activities, the Firm will further promote the use of generative AI to streamline internal operations and accelerate the development of generative AI services that help provide new value to our clients.

Investments in generative AI

In addition to AI investments described in the topic of future audit, we also invest extensively in the use of general-purpose generative AI tools that are widely used in general operations, such as ChatPwC, generative AI tools used for specific operations, and training to promote a better understanding of the risks of generative AI and improve AI literacy.

Going forward, we will also invest heavily in the development and recruitment of process digitalisation talent, data utilisation talent, and product manager talent to expand the use of digital tools, including generative AI.

With these initiatives, we will expand the use of generative AI under a governance framework and enhance our assurance services.

Chatbot for internal information

As an interactive generative AI chatbot, IFS (Internal Firm Services) Chatbot is capable of learning and accumulating information from the Firm's portal sites and answering users' questions in natural language. It can respond in multiple languages, including Japanese and English, and is particularly good at providing information on back-office procedures. For new joiners, it plays a role like a buddy with whom they can consult freely when they need help. IFS Chatbot has significantly contributed to improving operational efficiency by providing prompt and appropriate support.

Generative AI training

To ensure appropriate and effective use of generative AI, the Firm provides comprehensive generative AI training programs.

Basic generative AI training focuses on understanding generative AI's techniques in general, risks, use cases, and internal rules and procedures. In particular, participants learn about the issues related to generative AI that use a large language model (e.g. biases and hallucinations), intellectual property rights and copyrights, information security risks, and how to address such issues in our work. This basic training program is mandatory for users of generative AI to ensure they have an appropriate level of literacy and

comply with our rules.

Through the ChatPwC Touch and Try workshop, which focuses on learning prompting (e.g. instructions, questions, and commands entered by users), participants learn the basics of how to use generative AI and its applied scenarios, as well as how to create and review effective prompting. Through this workshop, we aim to facilitate the use of generative AI throughout the organisation.

In addition, we provide training and more specialised programs for developers with a view to improving operational efficiency and quality. We also focus on risk management and compliance.

Our generative AI initiatives

Currently, we are using generative AI in our services related to non-financial information to provide more advanced analyses and insights. Below are some of our generative AI use cases.

Leveraging generative AI in Sustainability Value Assessment

Sustainability Value Assessment is a service that capitalises on PwC Japan Group's knowledge of sustainability management and integrated reporting, and diagnoses whether clients are realising sustainability management with integrated thinking by reviewing their disclosures and conducting interviews with them.

Generative AI is supplementally used in every process, from information gathering, extracting information for diagnosis, and performing diagnosis. It shortens the time required for diagnosis per company and enables prompt diagnosis. These benefits, combined with PwC Japan Group's knowledge on sustainability management and integrated reporting, are contributing to delivering high-quality reports on the diagnosis results.

Leveraging generative AI in internal audit quality assessment

We developed and are using a generative AI tool that partially automates internal audit quality assessments. It has reduced workload by standardising the criteria for making determinations and enhancing the documentation of reasons for the determination. For the use of this tool, we define the application method of the internal audit standards and assessment criteria and prompt templates. The tool is used for documents to be analysed based on the defined method and templates and generates draft assessment results and reasons for the determination. We are continuously working to improve this tool based on feedback from users to enhance both operational efficiency and quality.

Leveraging generative AI in identifying a lease under the new lease accounting standards

From September 2024, we began leveraging generative AI in support services for the adoption of the new lease accounting standards.

The generative AI tool performs a preliminary assessment to identify leases under the new accounting standards by analysing a large amount of lease contracts. This tool has significantly reduced the time spent to identify leases, including assessments based on contracts and documentation of assessment results. Our professionals can now focus on value-added work such as establishing business processes across OUs units to help provide higher-quality support.

Feature 3 People development for shaping the future

Our people strategy

People strategy for realising Vision 2030

Vision 2030 communicates the Firm's commitment to become a firm that provides integrated assurance services to solve trust gaps in society by expanding audit and advisory services and bringing together the diverse expertise of our people.

The Firm is striving to ensure unwavering quality that underpins trust and achieve growth to solve larger problems. In this effort, our people will lead the Firm in taking on challenges with the support of technology, such as AI.

With the diversification of business challenges of companies and problems in society, the challenges the Firm needs to address as a professional firm are becoming broader. As the complexity of problems increases, the level of expertise required in each area is increasing. To address the breadth and complexity of these issues, all partners and staff should be aware that we are professionals. And this is the prerequisite for the realisation of Vision 2030.

Our people model and people strategy

The Firm's people model is developed based on the following three attributes: Diversity (Embracing and pursuing diversity); Autonomy (Mindset that supports autonomy and respect); and Mutual Respect (Ability to harness the power of, and develop, people).

The goal is to motivate each employee to proactively engage in the organisational initiatives and strategies and realise their own growth. To this end, the Firm has defined the people model that realises its strategies,

fostered a culture where people take ownership in their own growth and respect others' growth, and established a people development structure that enables our people to pursue their chosen career path.

The achievement of Vision 2030 requires sustainable growth driven by concerted efforts of the organisation and individuals founded on quality. We will make additional investment in our people's professional growth.



Shaping the Firm's future through collaboration

Masahiko Nara Chief Human Capital Officer and Human Capital Planning Office Leader

The Firm has been promoting collaboration across people with diverse expertise to meet societal expectations and achieve sustainable growth as an organisation. In preparation for 2030, when social issues will be changed and our roles will be broadened, we will redesign our workplace environment so that diverse people can work energetically with motivation for further growth at organisation and individual levels.

Developing people with diverse experiences

In a fast-changing society, people with diverse expertise will be the key to fulfilling PwC's Purpose and delivering Vision 2030. People's career paths vary. To keep pace with changes in the environment and provide high-quality audits, the Firm has clarified career paths that realise our

strategies and provide diverse experience and opportunities to support continued growth.

In FY2024, we shared diverse career paths for realising career progression as a guide to our people.

Building a society where diverse professionals connect and co-create

The Firm aims to develop people who can proactively enhance their expertise, while embracing others expertise. By harnessing and combining the strengths of such people, we will solve the problems of our clients, society, and organisations.

professionals in each field connect beyond the boundaries of organisations, countries, industries, and expertise. Leveraging this connection, we will lead co-creation initiatives to design new systems and establish platforms to build trust in broader areas of society.

We also seek to create an organisation where talented

Diverse professionals in 2030 who will deliver the integrated assurance



Culture connecting diverse people

The foundation of a diverse organisation is culture. And communication made through channels suited to the times connects us with stakeholders. We believe this foundation can be built only when professionals with diverse expertise share a common culture and PwC's Purpose and Vision, regardless of differences in how

they develop their respective expertise.

The Firm has been strengthening a culture that incentivises people to take ownership of their growth in an environment that ensures psychological safety, while their coaches, team members, and leaders who respect people development actively provide support.

Our cultural initiatives

Culture for realising Vision 2030

The greatest asset of professional firms is people, and the diversity of people shapes the future of firms. In other words, the behaviour of diverse people affects the activities of the organisation.

People development and culture

The same applies to behaviour in the context of people development. For people to develop themselves to pave the career paths that lead to PwC's Purpose and Vision, they need to cultivate a mindset of taking ownership of their growth by basing their behaviour on the behaviour

Initiatives to foster culture

Culture can be fostered if each person behaves in line with the above behaviour guidelines. But there is no right answer of how to foster culture to change people's behaviour. And even if we implement initiatives, they may not lead to immediate change. Therefore, it is important to raise people's awareness by continuously and repeatedly implementing initiatives and visualising the process.

The Firm has adopted an approach to continue the cycle of encouraging people to speak up and provide feedback, analysing the feedback and developing and implementing action plans, receiving feedback on the outcome, and disclosing that process.

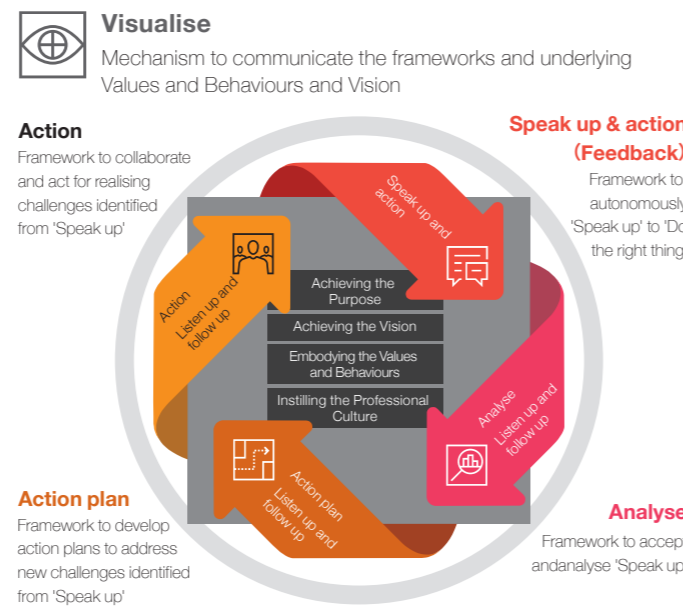
One of the tools to receive feedback is an annual employee engagement survey. In the FY2024 survey, the Firm achieved a 95% response rate and 79% for the people engagement survey, exceeding our targets and reaching a record high. This demonstrates that our initiatives, including those to promote our culture, are effective. Now the main challenges to be addressed are people-related matters, improving people's engagement in initiatives, and narrowing down initiatives to reduce the volume.

Culture, which serves as a common behaviour guideline, guides us on what we need to do for the future to embody PwC's Purpose and how we should behave to realise Vision 2030.

guidelines comprised of Evolution, Collaboration and Challenge. Those who provide on-the-job training and feedback drive growth of people by engaging in communication based on Evolution, Collaboration, and Challenge.

To foster a culture to improve engagement in initiatives, we are taking a bottom-up approach by providing opportunities for dialogue and connection through staff forums and workshops. At a staff forum, people work together to resolve issues they recognise in their day-to-day work in consultation with the leadership team. We are also continuing other initiatives, such as receiving feedback via a suggestion box, consistently communicating tone at the top messages, and holding various events.

Approach to cultural initiatives



Behaviour Guidelines for realising our vision and Evolved PwC Professional (EPP)

In FY2023, the Firm adopted the Behaviour Guidelines for Realising our Vision* (Behaviour Guidelines) for realising the Firm's vision through our people's behaviour. The Behaviour Guidelines are articulated based on the following key terms: Evolution; Collaboration; and Challenge; and are determined by taking a bottom-up approach, having all staff participate in the process.

Prior to FY2023, the Firm applied a top-down approach to promote a professional culture; however, we received comments that, although the staff understood the Firm's initiatives, they could not directly relate them to their own careers or day-to-day work. Given such feedback, we decided to shift to a bottom-up approach that encourages the participation of all staff to create the Firm's ideal future. The Firm launched bottom-up initiatives to gather voices from staff and formulated the Behaviour Guidelines. In

FY2024, we worked to further disseminate the guidelines.

In FY2025, we will promote the dissemination of EPP defined by the PwC network which lists 30 behaviours appropriate for PwC professionals and Behaviour Guidelines. The Behaviour Guidelines focus on the three elements that our people believe are necessary to realise our vision. Combined with the EPP, we believe that we can contribute to the realisation of PwC's Purpose both for the Firm and the PwC network.

Whenever people feel unsure about what to do, they can return to the three dimensions of Evolution, Collaboration and Challenge and take actions based on these. In this way, people can develop behaviour that will contribute to creating an organisation the Firm aims for.

*Referred to as Critical Few Behaviours in FY2024

Behaviour Guidelines to realise Vision

<p>[Evolution] Personal</p> <p>Outshine your yesterday</p>	<p>[Collaboration] Society</p> <p>Maintain integrity with others and yourself</p>	<p>[Challenge] Tomorrow</p> <p>Be open to all future possibilities</p>
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Initiatives as PricewaterhouseCoopers Japan LLC

In December 2023, ex-PwC Aarata and ex-PwC Kyoto merged to form PricewaterhouseCoopers Japan LLC. Both firms share the same PwC's Purpose, but there are behaviours and aspirations that they respectively embrace. As part of our efforts, we held an event to better

understand each other. We identified and selected what matters for both in determining the Behaviour Guidelines that guide us to realise Vision, and build an organisation together.



Fostering a culture where all employees are involved in building together an ideal organisation

Chikako Suzuki Chief Culture Officer/Chief People Development Officer and People Development Office Leader

Our cultural initiatives are closely related to our people strategy and are focused on disseminating the Behaviour Guidelines that realise our purpose and vision.

I believe that we can create an ideal organisation that shapes our future together with motivation by encouraging people to grow autonomously and collaborate. To achieve this, we will redefine our

people model and culture to further facilitate the realisation of an ideal organisation and continuously and diligently undertake initiatives and visualise them, including the process, to share with staff.

Communication and dialogue with stakeholders

We listen to the voices of, and engage in dialogue with, capital markets to continuously improve quality.

Basic policy and structure for information dissemination and dialogue

The Stakeholder Engagement Office (SEO), which was established in 2018, engages in information dissemination and dialogue with diverse stakeholders of the Firm.

Through ongoing dialogue, we understand expectations and needs for trust services, including audits, and identify expectations gaps.

Feedback via dialogue is reported to the Management Committee and the Public Interest Body (PIB) and is used as inputs to improve audit quality and quality management.

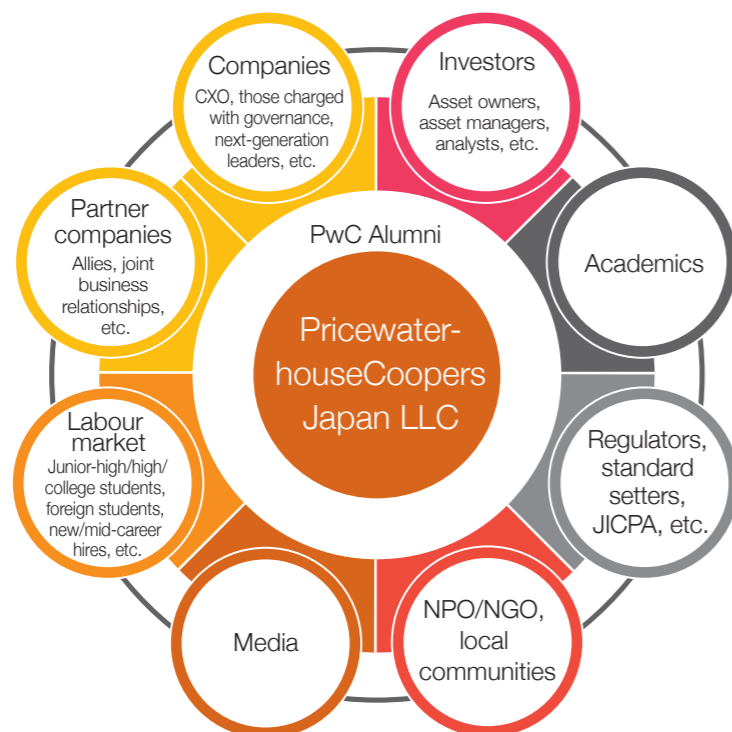
Dialogue and integrated assurance for co-creation of social value

Megatrends such as evolving AI, developments in sustainability and heightened geopolitical tensions have been accelerating changes in society. As a consequence, the emergence and expansion of a trust gap is becoming a new social issue.

The Firm understands the impact of megatrends through information dissemination and dialogue and works to restore and rebuild trust by providing audit and assurance services. It also provides integrated assurance services to support the design of processes, internal controls and frameworks to create and strengthen the foundation of trust by leveraging digital technology.

We believe these efforts will contribute to the co-creation of corporate and social value.

Overview of dialogue with stakeholders



From left, Yoshiyuki Kure (Trust Insight Center Leader), Rieko Yano (Research Labo Leader), Yoshitaka Yamada (Research Labo Vice-Leader)

Foundation of the Trust Insight Center

Progress in megatrends has triggered changes in the social structure, and the trust gap has emerged as a new issue. Strengthening governance and restoring and rebuilding trust is now an urgent challenge.

In 2023, the Firm founded the Trust Insight Center (TIC) to establish a structure for promoting the sharing of knowledge about trust in society, including the respective activities of research institutions (e.g. the Research Lab, PwC Research Institute (Japan) and AI Audit Lab), the corporate governance enhancement support teams and the audit & supervisory board members.

The TIC collaborates and cooperates with PwC's Center of Excellence (CoE), which focuses on trust around the world to understand social issues, conducts research on approaches, and disseminate opinions both domestically and globally. The TIC also conducts activities to build relationships, and engage, with various stakeholders.

Information dissemination to, and dialogue with, Academics

Research Lab

The Research Lab is a permanent organisation established in 2007 to conduct independent research on fundamental socio-economic trends that are likely to have an impact on audit services in the future.

The Research Lab has been engaged in activities of surveys, analyses, research, training, interaction, and dialogue. The Research Lab is primarily comprised of researchers with a wealth of practical experience in each field, supported by non-full time specialist researchers who help deepen knowledge.

The results of research are disseminated through PwC's View and other externally issued documents, and, in FY2024, some were published as a book. Three partners have recently joined the Research Lab to facilitate discussions on how to provide assurance services.

In FY2024, the Research Lab held internal training such as the Audit History, and is working to analyse the future of assurance from the current trends in global assurance.

Research areas

- Research on next generation accounting and audit
- Research on the implementation of agile governance and trust
- Research on sustainability
- Research on investor engagement



Basics and Technology of AI Auditing: Active Roles of Data Scientists
Shiga University (editor), PricewaterhouseCoopers Japan LLC (editor)
Issued on January 25, 2024 by Chuokeizai-sha Holdings, Inc.

Research with an eye to 10 years in the future Rieko Yano, Research Labo Leader



Since its foundation, the Research Lab has been conducting research activities with full-time and part-time researchers. In FY2025, I will assume the position of the head, and Yoshitaka Yamada will be appointed deputy-head to provide deeper insights based on broader knowledge.

We will conduct our own research to contribute to business management of Japanese companies and the development of the financial and capital markets with an eye to 10 years in the future.

Information dissemination to, and dialogue with, investors and analysts

Dialogue with investors and analysts

We have been actively engaging in information dissemination to, and dialogue with, investors and analysts, who are the main users of disclosures (including financial statements) through various opportunities such as small meetings. This is because we believe that understanding, in particular, their expectations of, and concerns about, audits is essential for continuous improvement of audit quality.

We held a number of face-to-face and remote meetings with investors and analysts with the participation of leadership members including the CEO. We received various views and questions on wide-ranging topics including the integration, governance, KAMs*, culture, BAS, and assurance on sustainability information.

The Firm has been supporting the activities of the Corporate Reporting Users' Forum (CRUF) together with overseas member firms for more than 10 years. The CRUF is a community in which investors and analysts from around the globe gather and disseminate views from the perspective of users of corporate disclosures. During the past year, the CRUF Japan held monthly meetings to discuss the standards related to accounting, audit and assurance and sustainability, and exchange views on audit quality. We also support the Open CRUF meeting which seeks to discuss wider topics related to future developments in the capital markets with capital market participants who are at the forefront in various areas. This year, the Open CRUF meeting discussed wide-ranging agenda including AI governance.

*Key Audit Matters (p. 59)

Global investor survey

The Firm jointly plans and carries out the global investor survey with the PwC network firms. We also conduct a questionnaire and interviews with investors and analysts in Japan and publish the results of survey and analysis.



Global Investor Survey 2023-Trust, technology, and transformation: Navigating investor priorities



Internal training to share trends in capital markets and voices of investors within the Firm

We share challenges of, and feedback from, investors and analysts with all partners and staff through internal training so that each staff of the Firm can understand changes in the investment chain and use it as input to improve audit quality. In FY2024, we planned and conducted training on more than 10 topics, including ESG investment, non-financial information and human capital management.

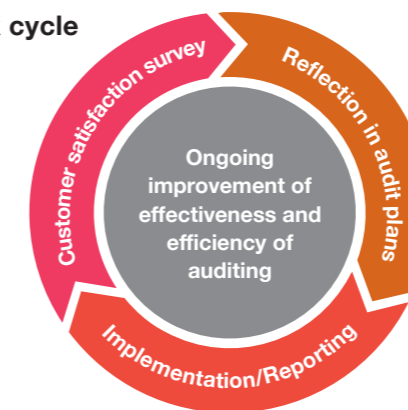
Information dissemination to, and dialogue with, those charged with governance

To deliver high quality audits, we believe it is vital to exchange opinions and discussions not only with senior management but also with those charged with governance.

Feedback from audit clients

We request management and those charged with governance of audit clients to provide feedback through a customer satisfaction survey, which is a common platform for the PwC network. All feedback is analysed and used as input to consider actions for improving audit quality by engagement teams and for decision-making and monitoring by the Management Committee.

Feedback cycle



Pursuing trust with disclosure and dialogue Yoshiyuki Kure Senior Officer, Trust Insight Center Leader and Stakeholder Engagement Office Leader



Society is now taking action to address cyber and physical related uncertainties and taking on challenges for new transformation; for example, strengthening of resilience across the entire supply chain, including responding to geopolitical risks, earthquakes and natural disasters; drastic advancement in the widespread use of generative AI; efforts to secure digital privacy and strengthening security; disclosure of sustainability information and pursuing higher reliability; and heightening interest in the circular economy.

To identify a trust gap that emerges from such changes and accelerate responses to the gap, we launched the Trust Insight Centre, which brings together PwC's knowledge and experience of trust. We will disseminate information and engage in dialogue with stakeholders with the aim of closing such a gap through high quality audit and trust services.

Forum with those charged with governance and Audit Committee Network

For continuous information dissemination and dialogue, the Firm operates a forum which includes those charged with governance of audit clients and the Audit Committee Network joined by those charged with governance of a broad range of companies.

Dialogue with PwC Alumni

PwC Japan Group has a history of more than 70 years and has produced diverse people. Alumni are at the forefront of the business, both domestically and internationally.

To realise PwC's Purpose of building trust in society and solving important problems, we receive opinions from Alumni on the quality of Firm's services, and strengthen relations and horizontal collaboration with Alumni through events and virtual communities

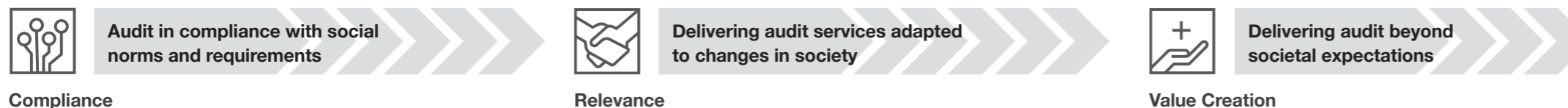
Initiatives to deliver unwavering audit quality

Our roles and audit quality target

Our purpose is to build trust in society and solve important problems. To meet societal expectations, we provide high quality audits by adapting to fast-changing digital society. We deliver value to diverse information users by performing audits that meet the requirements of auditing standards and provide assurance on the reliability of audited information

Expectations for audit constantly change as the needs of society change. Therefore, we need to engage in dialogue with stakeholders to continuously cater to their changing expectations and implement far-sighted initiatives, thereby delivering audit services that contribute to the sound development of national economy.

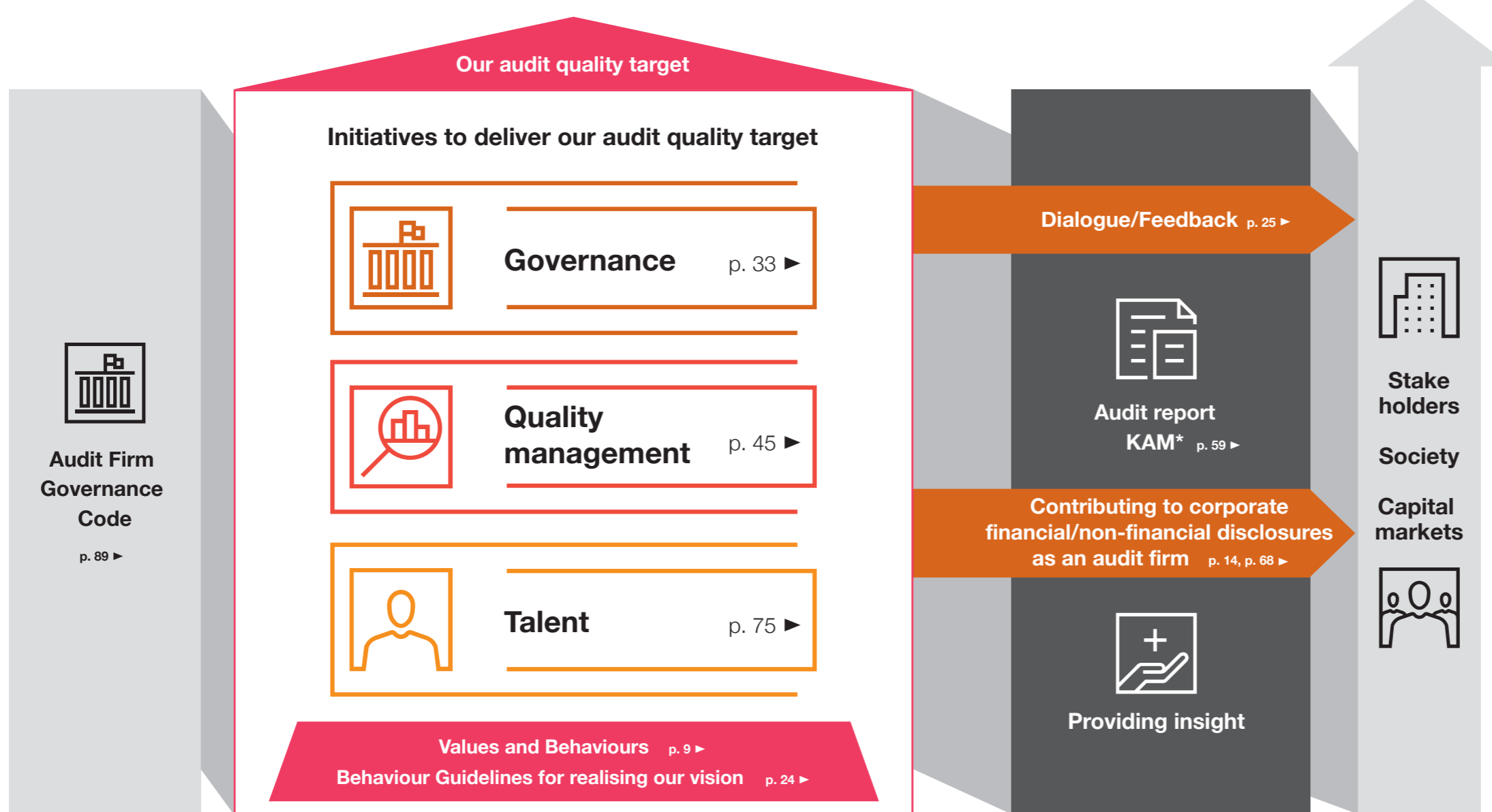
Initiatives to deliver our target audit quality and dialogue with stakeholders



Compliance

Relevance

Value Creation



*KAM(Key audit matters)

Initiatives to deliver unwavering audit quality

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Delivering high quality audit in ever-changing environment

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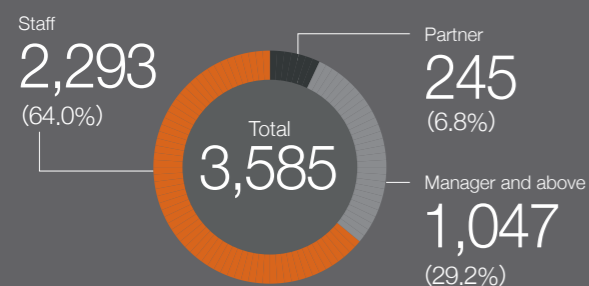
Our profile 97

FY2024 Audit Quality Indicators

The Firm has established Audit Quality Indicators (AQI) to visualise audit quality and monitors them to conduct necessary improvement activities.

People

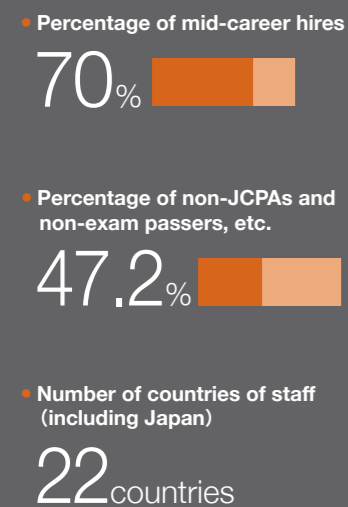
Number of people by position



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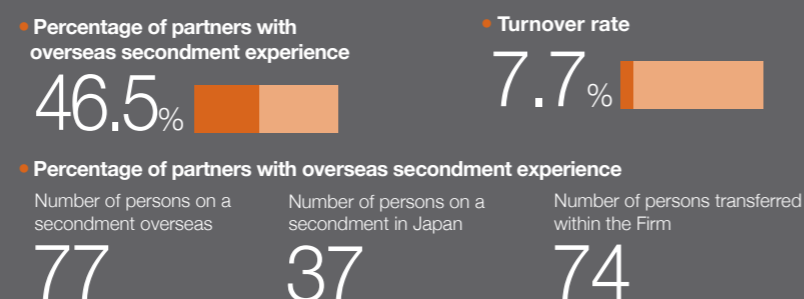
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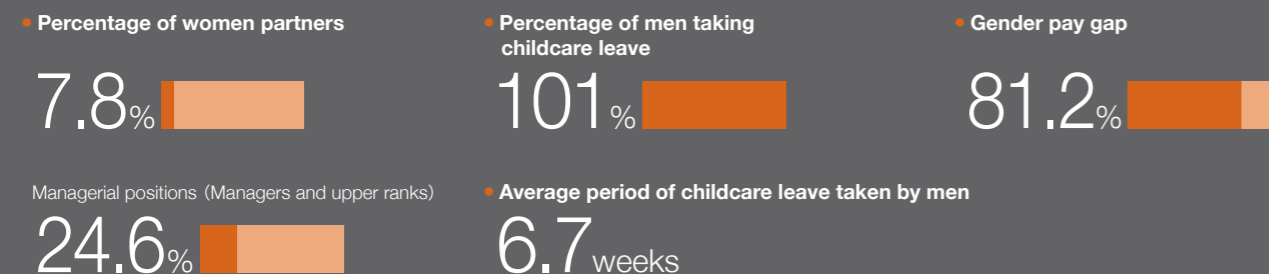
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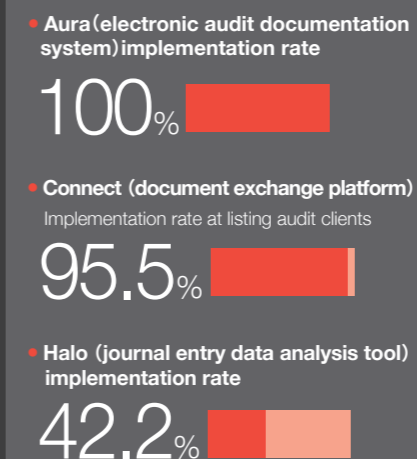


Initiatives to support audit quality

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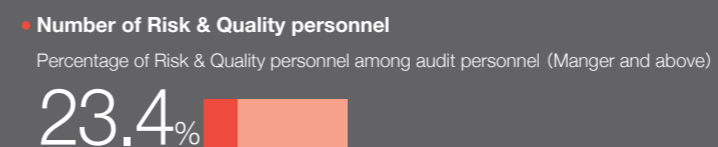


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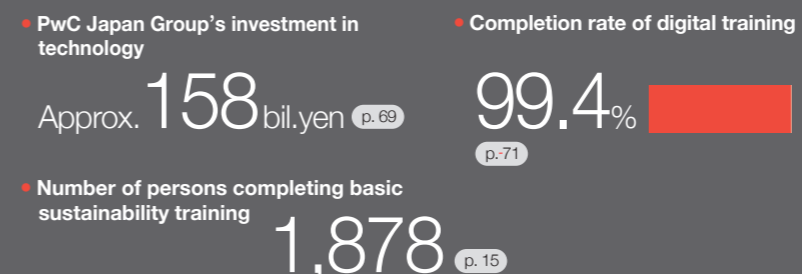


Support and monitoring by Risk & Quality

Risk & Quality's establishment of its support structure p. 52



Investments in future



(p. 47) and determined necessary to be disclosed. They are in line with the AQI research report published by the Japanese Institute of Certified Public Accountants. We are also gradually expanding our ESG disclosures in consideration of disclosure trends in the PwC network.

Audit quality monitoring

Periodic monitoring activities p. 66



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Administrative action resulting from external inspections p. 68



*Financial Services Agency

1 Governance



Our 15 quality objectives

■ Leadership and quality management process

Objective 1: Leadership and quality management process

■ Ethics and objectivity

Objective 2: Ethical requirements and values
Objective 3: Objectivity and independence

■ Client selectivity management/ Solutions and opportunities management

Objective 4: Client selectivity
Objective 5: Managing services and products
Objective 6: Engagement acceptance and continuance

■ People management

Objective 7: Recruit, develop and retain
Objective 8: Learning and education
Objective 9: Assignment of people to engagements
Objective 10: Evaluation and compensation

■ Technology management

Objective 11: Technological resources

■ Solutions delivery management

Objective 12: Support for engagement performance
Objective 13: Direction, coaching and supervision
Objective 14: Expert knowledge

■ Monitoring and enhancement process for the system of quality management

Objective 15: Quality controls in performing engagements



Message from the chair of the Oversight Board

We support the Firm's activities through the appropriate oversight and evaluation of the leadership team and exchange of opinions.

Hitoshi Kiuchi
Chair of the Oversight Board

As part of various initiatives in FY2024, the Firm strengthened the foundation for realising the vision roadmap defined in Vision 2030. With the integration between ex-PwC Aarata and ex-PwC Kyoto on December 1, 2023, PricewaterhouseCoopers Japan LLC, a new Firm, has started its operation, resulting in an increase in the number of employees. Owing to various initiatives, employee satisfaction marked a record high.

The Oversight Board also started its activities to monitor, oversee and provide advice to the new Firm. Throughout FY2024, we received reports on a broad range of topics from the leadership team, discussed these topics and provided advice. Such topics included quality-related initiatives to maintain, improve, and enhance quality, initiatives to recruit, develop and retain people, audit transformation including promotion of digital transformation (DX), and the establishment of a structure to provide assurance services for non-financial reporting which is expected to expand in the future. I believe the Oversight Board has appropriately conducted its responsibilities while maintaining independence from the leadership team.

Another activity in FY2024 was the nomination of a candidate for the next CEO by the Nominating Committee,

a subcommittee of the Oversight Board, to replace the CEO whose term was ending. This nomination process was conducted in a fair and orderly manner.

For our activities in FY2025, we will continue to monitor and oversee the Firm's quality-related initiatives, and engage in active discussions with the leadership team to fulfil our role. The agenda will include efforts to realise Vision 2030, audit transformation such as implementation of AI, initiatives related to people strategy and cultures, and expansion of audit and non-assurance services.

We will also regularly exchange views with the external members of the Public Interest Body (PIB) to promote our monitoring and oversight activities, focusing on whether the Firm's activities are moving in the right direction and meeting societal expectations from the standpoint of public interest and various external stakeholders.

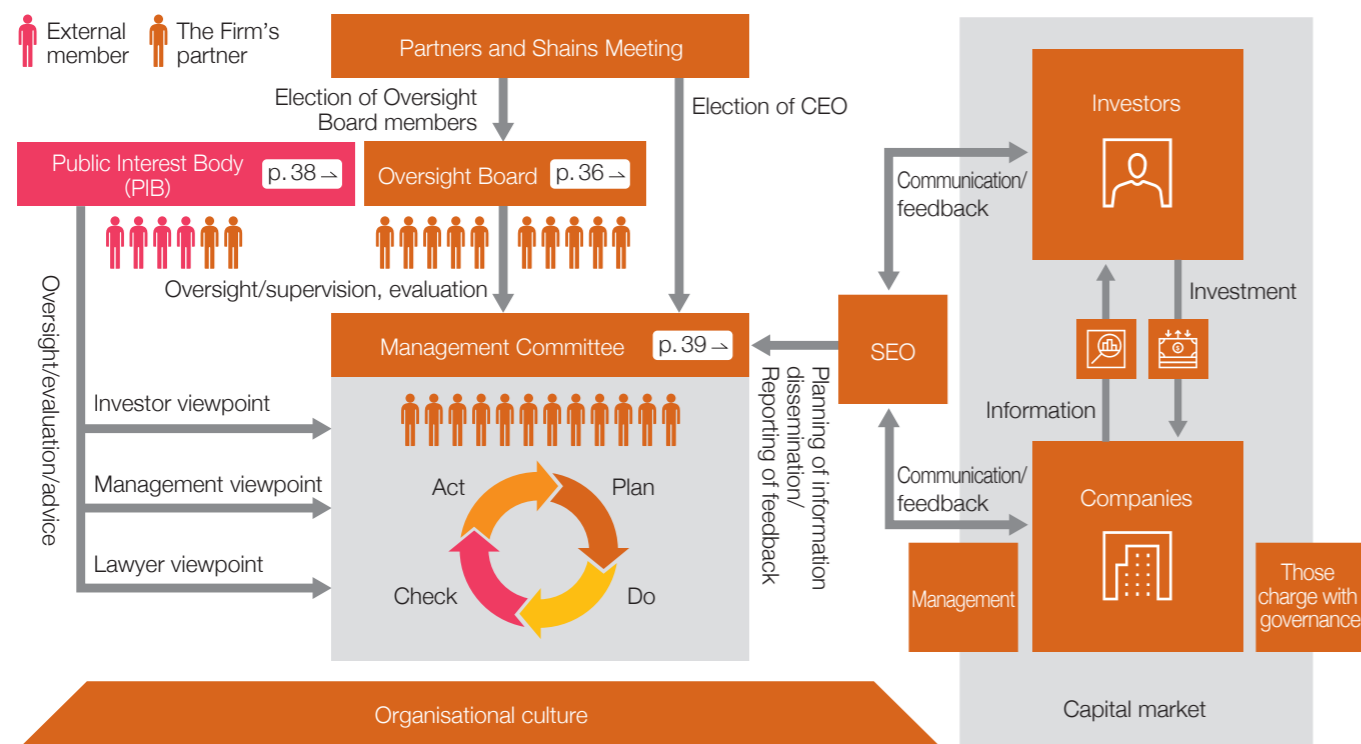
The Firm values its clients and employees and is committed to contributing to society by providing high quality trust services. The Oversight Board will closely monitor and oversee the leadership team from a governance perspective, and support the Firm's activities through exchanging opinions and providing advice.

Our governance and organisation

To continuously improve the quality of our audits and realise an effective governance structure, our firm has established three governance bodies: the Partners and Shains Meeting, the Oversight Board and the

Management Committee. In addition, the Public Interest Body (PIB) is established to oversee, assess and provide advice to the Management Committee from a public interest perspective.

Our governance structure



Partners and Shains Meeting:	The Partners and Shains Meeting is responsible for resolving matters prescribed by the articles of incorporation of the Firm as the highest decision-making body. The Partners and Shains Meeting consists of all partners, partners who make capital contributions to the Firm.
Oversight Board:	The Oversight Board consists of 10 members, and monitors and oversees the management strategies formulated by the Management Committee and their implementation.
Management Committee:	The Management Committee consists of the Chief Executive Officer (CEO), acting CEO, deputy CEO and other officers and makes decisions related to the execution of the Firm's operations.
Chief Executive Officer:	The CEO oversees the Management Committee and has ultimate responsibility for the Firm's system of quality management. The Nominating Committee established under the Oversight Board appoints candidates for CEO by holding hearings with partners of the Firm. The final candidate is proposed at the Partners and Shains Meeting and elected as the CEO with its approval.
Public Interest Body:	The Public Interest Body (PIB) consists of external experts, the Chair of the Oversight Board and the CEO of the Firm. The PIB is chaired by an external expert and oversees, evaluates and advises initiatives of the Firm's Management Committee from an objective perspective.
Planning & Management Stakeholder Engagement Office (SEO):	Planning & Management SEO is responsible for planning information to be shared with stakeholders and communicating with them, coordinating dialogue with stakeholders, reporting the status to the Management Committee, as well as coordinating organisation-wide feedback.
Internal Audit Office:	Personnel who have sufficient and appropriate experience and do not have special interests in the operations/activities of the Firm. They perform audits of the Firm's overall operations under the supervision of responsible personnel appointed by the CEO.

Oversight Board

The Oversight Board monitors the management strategies formulated by the Management Committee and their implementation, and is responsible for highly transparent governance. The Oversight Board consists of 10 members, and is operated by the Oversight Board itself and four committees. Candidates are selected based on interviews with our partners and are appointed as members by a resolution of the Partners and Shains Meeting

Chair : Hitoshi Kiuchi (also the chair of the Partner Evaluation Committee)

Vice Chair : Susumu Adachi^(*)

Members : Koichi Hamagami (Chair of the Audit Committee), Trevor Tisseverasinghe (Chair of the R&Q Committee), Ken Kawamura (Chair of the Nominating Committee)^(*), Noriko Umeki, Akinori Takemura, Yoshitaka Yamada, Shunsuke Horii^(*), Makoto Umeda^(*)

^(*) Partner of PwC Consulting LLC

^(*) Partner of PwC Advisory LLC

To leverage knowledge gained from business improvement projects for companies facing business challenges, 4 of 10 members of the Oversight Board are appointed from PwC Consulting and PwC Advisory who provide non-audit perspectives which are beneficial to the business operation of the Firm.

Appointment and composition of Oversight Board members

- The Election Administration Committee shall, in appointing a member of the Oversight Board, hold interviews with all partners who have the right to vote and select a candidate for the Oversight Board. If there

is a candidate other than the selected candidate, the member is decided by vote.

- Six of the Oversight Board members are in charge of audit, and the remaining four consist of partners in charge of advisory services (diversity in backgrounds).

Authority of the Oversight Board

- The Oversight Board has the authority to propose removal of the CEO at the Partners and Shains Meeting.
- The Oversight Board has the authority to determine an annual evaluation of the CEO and his or her remuneration based on that evaluation.
- In appointing the CEO, the Nominating Committee established within the Oversight Board has the authority to conduct interviews with all partners who have the right to vote and decide candidates for the CEO.

Sub-committees of the Oversight Board

Oversight Board
R&Q Committee
Receives reports from the CEO, deputy CEO and officer in charge of quality management on the status of the Firm's quality management activities and discusses and reviews their appropriateness.
Partner Evaluation Committee
Deliberates on matters such as partner enrollment/withdrawal, selection of CEO, evaluation and remuneration of partners.
Audit Committee
Perform audits of finance and business operations of the Firm.
Nominating Committee
Selects candidates to ensure fair and orderly nomination of candidates for the position of the CEO. The final candidate for the CEO is reported to the Oversight Board, voted on by all partners, and the result is discussed at the Partners and Shains Meeting. The CEO is appointed with the approval of the Partners and Shains Meeting.

Members of the Oversight Board (as of August 1, 2024)

Name Title	Career summary	Skill Matrix											Industry				
		Management/ Service leadership	Audit	BAS	Quality management	Business development	Digital	ESG	Accounting/Finance	HR/labour management/ People development	Legal/Compliance/ Risk management	Global		Other industries/ Sector/short experience			
 Hitoshi Kiuchi Chair (chair of the Partner Evaluation Committee)	1987 Joined Aoyama Audit Corporation/1995 Seconded to PwC U.S. New York Office/2010 Appointed leader of Accounting Support of Risk & Quality/2012 Appointed leader of the Nagoya Office/2016 Appointed deputy-CEO/2021 Appointed chairperson of the Oversight Board	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Automotive, Electronics, Entertainment
 Susumu Adachi Vice-chair	2006 Appointed managing director of BearingPoint Japan/2011 Seconded to PwC U.S. New York Office/2017 Appointed CEO of PwC Consulting LLC/2020 Appointed vice-chair of PwC Consulting LLC/2021 Appointed Global Board member of PwC Global Network, chair of PwC Japan's General Oversight Board, and vice-chair of the Oversight Board	●				●	●			●		●	●			Finance	
 Koichi Hamagami Member (chair of the Audit Committee)	1988 Joined Aoyama Audit Corporation/1997 Seconded to PwC UK London Office/2009 Appointed leader of Methodology & Technology of Risk & Quality/2012 Appointed leader of assurance training/2013 Appointed chair of the Auditing Standards Committee at the JICPA/2021 Appointed chair of the Oversight Board		●		●					●	●	●				Automotive	
 Trevor Tisseverasinghe Member (chair of the R&Q Committee)	1996 Joined PwC UK London Office/1999-2000, 2002-2005 Seconded to PwC Japan/2008 Joined PwC Aarata LLC/2017 Appointed client partner of the PwC Global Network/2021 Appointed chair of the R&Q Committee		●	●	●				●	●		●	●			Finance	
 Ken Kawamura Member (chair of the Nominating Committee)	1991 Joined Aoyama Audit Corporation/2010 Served as a part-time lecturer at the graduate school of Yokohama National University/2012 Appointed leader of TS at PricewaterhouseCoopers Co., Ltd./2017 Appointed member of the Oversight Board/2019 Appointed CFO of PwC Advisory LLC/2023 Appointed leader of Risk & Quality at PwC Advisory LLC/2024 Appointed CRO of PwC Advisory LLC	●		●	●				●	●	●			●		Trading companies	
 Noriko Umeki Member	1992 Joined Chuo Audit Corporation/2012 Appointed leader of diversity promotion of PwC Japan Group/2016 Member of the Oversight Board of the Nuclear Damage Compensation and Decommissioning Facilitation Corporation and the Supervisory Commission for Public-Private and Private-Private Competitive Tendering of the Ministry of Internal Affairs and Communications/2019 Appointed director of the JICPA (managing director in 2022)/2021 Appointed member of the Oversight Board		●						●	●						Finance	
 Akinori Takemura Member	1992 Joined Chuo Audit Corporation/2007 Appointed leader of System and Process Assurance of Kyoto Audit Corporation/2013 Member of the Oversight Board of Kyoto Audit Corporation/2021 Member of the General Oversight Board of PwC Japan Group/2023 Appointed member of the Oversight Board		●						●						●	Communication, PO	
 Yoshitaka Yamada Member	1994 Joined Chuo Audit Corporation/2007 Appointed partner for supervising quality management at Kyoto Audit Corporation/2010-2016 Director of the Association of Certified Fraud Examiners/2021-2024 Director of the Japan Auditing Association/2023 Appointed member of the Oversight Board/2023 Appointed sub-leader of the Corporate Reporting Service/2024 Appointed expert member of the business combination committee of the Accounting Standards Board of Japan		●		●				●			●				Electronic equipment, Communications	
 Shunsuke Horii Member	2008 Joined PwC Consulting/2022 Appointed leader of healthcare and medical life science business of PwC Consulting LLC/2023 Appointed leader of healthcare and medical life science industry of PwC Japan/2023 Appointed member of the Oversight Board	●		●	●	●	●			●						Healthcare, Pharmaceutical life sciences	
 Makoto Umeda Member	1988 Joined Aoyama Audit Corporation/1997 Engaged in the advisory services for M&A and business revitalization of Deals (currently PwC Advisory LLC)/2010 Served as part-time teacher at Yokohama Business School of graduate school of Yokohama National University/2023 Appointed member of the Oversight Board											●	●	●		Automotive	

Public Interest Body (PIB)

Audit firms have a public-interest role in ensuring the reliability of corporate financial information through financial statement audits and protecting participants in the capital markets, thereby contributing to the sound development of the national economy. We have established the Public Interest Body (PIB) to address issues we recognise from the standpoint of ensuring organisational operations and fulfilling our public interest role.

The PIB is comprised of external experts, the chair of the Oversight Board of the Firm and the CEO. It oversees and evaluates initiatives of the Management Committee to enhance audit quality, and provides advice to the Management Committee.

The PIB ensures transparency, strengthens accountability and improves audit quality by discussing the Firm's business management issues in a timely manner and incorporating fair and objective perspectives of experts representing the public interest in the Firm's operation. Regular meetings are held between external experts of the PIB and Oversight Board members with the aim of improving governance.

External experts are appointed by resolution of the Oversight Board at the recommendation of the Management Committee in consideration of their contributions to the financial and capital markets, their experience as management of a listed company or as a legal expert and public interest.

Members of the PIB As of June 30, 2024

Yoshinari Hara (Chair) Honorary advisor of Daiwa Securities Group Inc.

Kazuhiro Suzuki Lawyer, exsuperintending prosecutor of Fukuoka High District Public Prosecutors Office

Tadashi Shimamoto Ex-CEO and chair of Nomura Research Institute, Ltd.

Hiroshi Hitomi Chair and CEO of Kyoyu Shoji Co. Ltd. Ex-representative executive director of Bank of Kyoto, Ltd.

Hitoshi Kiuchi Chair of the Firm's Oversight Board

Takaaki Ino CEO of the Firm

To ensure independence, external experts do not assume a business execution responsibility of the Firm and periodically review whether their independence requirements are met.

Composition of PIB

- PIB has at least four members, more than half are external experts.

How to appoint PIB members

- Appointed with the approval of the Oversight Board based on the recommendation of the Management Committee.

Qualification criteria of external experts

- A person who possesses appropriate knowledge as an external expert, such as a track record of contributing to the financial and capital markets as an investor, experience and knowledge as management of a listed company or comparable experience and knowledge, experience in regulatory authorities and experience and knowledge as a stakeholder in the financial and capital markets.
- A person who does not breach the independence of the Firm and the Firm's audit clients.

Role and authority





- Deliberates on matters such as the system of audit quality management and how it is operated, opinions from the PIB and the status of the Firm's actions to address the recommendations, and provides advice and recommendations to the Management Committee.
- Has authority to receive information on the system of quality management and how to operate the Firm, which is necessary for the performance of duties, from partners and employees at any time.



Yoshinari Hara Kazuhiro Suzuki Tadashi Shimamoto Hiroshi Hitomi





Management Committee

Officers (As of July 1, 2024)

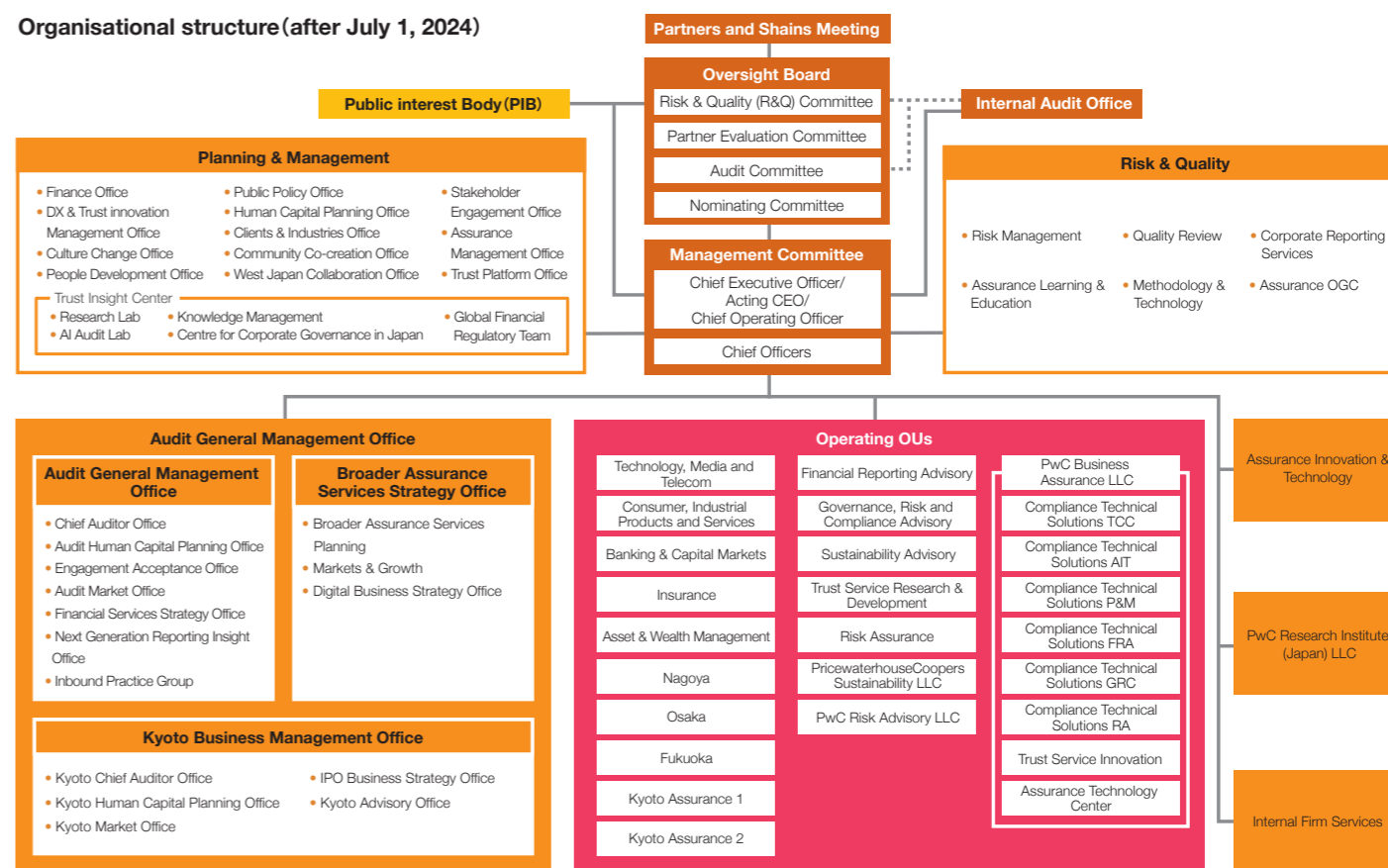
Name	Title	Career summary	Skill Matrix											Industry			
			Management/ Senior leadership	Audit	BAS	Quality management	Business development	Digital	ESG	Accounting/Finance	HR/labour management/ People development	Legal/Compliance/ Risk management	Global		Other industries/ Sector/In-house experience		
	Masataka Kubota CEO	1998 Joined Aoyama Audit Corporation/2001 Seconded to PwC Chicago Office/2019 Appointed managing officer and assurance leader/2020 Appointed Deputy CEO/2024 Appointed CEO (and the leader of PwC Japan Group)	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Technology, Entertainment, Communication
	Keiichiro Kagi Acting CEO	1994 Joined Chuo Audit Corporation/2007 Joined Kyoto Audit Corporation/ 2013 Appointed leader of HR, general affair, accounting and Management Committee secretariat/2023 Appointed managing partner of PricewaterhouseCoopers Kyoto/2023 Appointed Acting CEO	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Electronic parts and computers manufacturing, Distribution and retail, Venture
	Takeshi Yamaguchi Deputy CEO (Assurance Leader/ Assurance Transformation/ Planning & Management/ Chief Investment Officer)	1999 Joined Chuo Audit Corporation/2005 Seconded to PwC New York Office/2019 Appointed leader of asset management assurance/2024 Appointed CEO	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Finance, Automotive
	Masato Yamagami Executive Officer/ Chief Broader Assurance Service Officer	1997 Joined Aoyama Audit Corporation/2006 Appointed revenue recognition special member of the JICPA's Accounting System Committee/2016 Appointed leader of the Osaka Office/2019 Appointed	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Automotive, Electrical machinery
	Kensuke Koda Executive Officer (Chief Audit Service Officer)	1994 Joined Aoyama Audit Corporation/2012 Appointed leader of the manufacturing, distribution and services No.2/2013 Seconded to PwC U.S. New York Office/2021 Appointed head of the Audit General Management Office/2022 Appointed officer/2023 Appointed executive officer	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Chemicals, Trading companies, Pharmaceuticals and medical equipment, Electrical machinery
	Takaki Suzuki Executive Officer/ Chief Quality Officer	1993 Joined Chuo Audit Corporation/2000 Seconded to PwC U.S. New York Office/2019 Appointed leader of Chief Auditor/EPQ (4)/2022 Appointed the head of Risk Management of Risk & Quality/2023 Appointed officer/2024 Appointed executive officer * Audit process transformation program	●	●	●	●	●	●	●	●	●	●	●	●	●	Insurance	
	Katsuhiko Saito Officer (Chief Kyoto Business Management Officer)	1999 Joined Aoyama Audit Corporation/2005 Seconded to PwC China Shanghai Office/2007 Joined Kyoto Audit Corporation/2023 Appointed leader of Tokyo office of PricewaterhouseCoopers Kyoto/2023 Appointed officer and leader of IPO business strategy office	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Automotive, IPO-related
	Masahiko Nara Officer (Chief Human Capital Officer)	1994 Joined Chuo Audit Corporation/2014 Appointed head of insurance/ 2022 Appointed head of Human Capital Planning Office of Planning & Management/2023 Appointed officer	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Insurance, Banking

Observers of the Management Committee

- | | |
|---|--|
| Takaaki Ino (Chair) | Taiji Ayabe (Senior Officer (Risk Assurance Leader)) |
| Akane Yoshida (Subsidiary management) | Kenji Tezuka (Senior Officer, Nagoya Leader, West Japan Collaboration Office Leader) |
| Neil Weingarten (Senior Officer, Risk & Quality Co-Leader) | Naoko Mori (Officer, Regular Recruitment) |
| Kazuyuki Tsujimura (Senior Officer, Planning & Management Leader) | Kenichi Hayashi (Officer, Public Policy) |
| Takeshi Ishigami (Senior Officer, Assurance OGC Leader) | |

Name	Title	Career summary	Skill Matrix											Industry			
			Management/ Senior leadership	Audit	BAS	Quality management	Business development	Digital	ESG	Accounting/Finance	HR/labour management/ People development	Legal/Compliance/ Risk management	Global		Other industries/ Sector/In-house experience		
	Chikako Suzuki Officer (Chief Culture Officer/Chief People Development Officer)	1997 Joined Chuo Audit Corporation/2016 Appointed head of Fintech & Innovation office/2016 Appointed member of the crypto asset special committee of the JICPA/2022 Appointed officer (leader of the Culture Change Office)/2023 Appointed leader of People Development Office of Planning & Management	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Investment bank, Securities, Finance, Japanese, Brazilian, French, Web3.0
	Eiichi Yamanaka Officer (Chief Clients & Industry Officer)	1996 Joined Aoyama Audit Corporation/2004 Transferred to PwC Los Angeles Office/2020 Appointed leader of Japan Group automotive sector/2022 Appointed leader of client industry/2023 Appointed officer	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Automotive, Public sector, Other manufacturing
	Kazuya Miyamura Officer (Chief Digital Officer/Chief Information Officer/Trust Service Development)	2000 Joined Chuo Audit Corporation/2004 Transferred to PwC Los Angeles Office/2020 Appointed leader of Japan Group automotive sector/2022 Appointed leader of client industry/2023 Appointed officer	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Communication, Technology, Entertainment, Healthcare, Finance
	Nobuki Otsude Officer (Chief Finance Officer)	2006 Joined PwC Aarata/2015 Appointed Financial Reporting Advisory leader/2019 Appointed Chief Financial Officer/2020 Appointed officer	●	●	●	●	●	●	●	●	●	●	●	●	●	●	Finance

Organisational structure (after July 1, 2024)



Public Interest Body

Past year review

The members of the Public Interest Body (PIB) looked back on significant managerial challenges of FY 2024 and the progress of related initiatives.



Hitoshi Kiuchi
PricewaterhouseCoopers Japan LLC,
Chair of the Oversight Board

Masataka Kubota
PricewaterhouseCoopers Japan LLC,
CEO

Takaaki Ino
PricewaterhouseCoopers Japan LLC,
Chair

Hiroshi Hitomi
Chair and CEO of Kyoyu Shoji Co., Ltd.
Ex-representative executive director
of Bank of Kyoto, Ltd.

Kazuhiro Suzuki
Lawyer, ex-superintending prosecutor of
Fukuoka High District
Public Prosecutors Office

Yoshinari Hara (Chair)
Honorary advisor of Daiwa
Securities Group Inc.

Tadashi Shimamoto
Ex-CEO and chair of
Nomura Research Institute, Ltd.

1. FY2024* management initiatives

Culture

Ino : Following the establishment of Behaviours Guidelines in FY2023, our firm continued its cultural initiatives based on the PIB's advice in FY2024. With the completion of the integration between PricewaterhouseCoopers Kyoto (ex-PwC Kyoto) and PricewaterhouseCoopers Aarata LLC (ex-PwC Aarata) in December 2023, the PIB also discussed the new Firm's culture.

Hara : The integration was a milestone for the Firm in FY2024. I think it was executed at the right time, and went smoothly. Also, the Firm's revenue and number of

*FY2024 is the Firm's fiscal year from July 1, 2023 to June 30, 2024.

people have increased over the past few years, which proves the Firm's commitment to audit quality enhancement and cultural initiatives.

Suzuki : As it has not been long since the integration has been completed, whether this integration generates synergies will depend on the Firm's future efforts. But I think the post-integration integration has been proceeding successfully. When updating the Behaviours Guidelines in FY2025, the Firm should measure and verify its effectiveness and determine whether it is in the right direction.

Shimamoto : The philosophy of Behaviours Guidelines was embodied through conducting awareness raising

activities this year. This helped increase the participation rate and the results of the employee engagement survey. It is my impression that cultural initiatives are progressing well. But I perceive that there is still a gap in commitment between staff and partners. To solve this gap, partners should pay attention to the issues. The integration has given rise to the issue of how to integrate the culture of the two firms. The Firm should maintain the best attributes of both firms' culture as part of the integration.

Hitomi : I was a member of ex-PwC Kyoto's advisory board, which is equivalent to the PIB, for two years. I believe a lively discussion between the two firms contributed to the post-integration integration of both cultures. I hope good culture of both firms will be incorporated and continue to exist.

Ino : Culture is the key to success in the pursuit of quality. Therefore, we will continue and promote our cultural initiatives in FY2025.

Kiuchi : The leadership team places a priority on culture, and has been committed to cultural initiatives, including the Behaviours Guidelines, which are evaluated by the Oversight Board. The Behaviours Guidelines is an innovative, bottom-up initiative. But I think it is not sufficiently put in practice by the partners. Since the partners have a huge influence over engagements, it is important for the partners to deepen their understanding and demonstrate the Criteria.

Quality

Ino : Our quality has received good results in the external and internal inspections. Our Firm will continue its effort to maintain this quality level. We also worked on the post-integration integration of the quality management system.

Shimamoto : In integrating the approach to quality, it is important for ex-PwC Kyoto and ex-PwC Aarata to have an honest discussion to maintain good practices.

Smooth communication will drive the initiatives for truly high quality.

Suzuki : I recognise that the Firm has received good inspection results. But I am concerned with the fact that the number of cases of corrections to the annual securities reports is increasing.

As errors will undermine trust, audit staff should carry out their work with due care.

Kubota : We are investigating root causes of such cases and will take action according to the results.

Hitomi : Six months have passed since the integration, and the Firm is now standardising its operations. It is important to review whether there are any issues in the Firm's direction of this initiative.

Hara : If audit quality declines, it takes a very long time to improve it. So we must pay attention to this.

Ino : Audit quality may be affected by how resources are allocated. While continuing our initiatives to improve quality, we need to proactively change the resource allocation plan when the environment changes and risk arises.

Kubota : To further improve quality, we shifted our quality structure from a people-dependent to systematic structure by implementing an initiative called '4+1' (p. 50). Its effects took several years to produce, but we did it.

Kiuchi : In the past, there was a quality issue the Firm needed to address. One of the causes was a rapid increase in the number of staff and audit clients. At that time, the pace of disseminating our approach to quality across staff did not catch up with the rapid growth of the organisation. After appointment as Deputy CEO (Assurance Leader), Masataka Kubota implemented practical measures to improve quality.

Still, the Firm needs to continue its robust initiatives as audit quality is affected by people's behaviour, and



carelessness may cause deterioration in audit quality.

Hara : It is valuable to have experience of overcoming the issue. Even if a problem arises, the Firm can respond to this using know-how gained in such experience.

Ino : Yes, and I think we need to continue to put our soul into our quality improvement framework.

Digital

Kubota : We have established a new division to oversee DX and are working to strategically recruit, train, and develop digital talent. We have also expanded our digital tools, and begun to partially use generative AI. Our next challenge is to accelerate our implementation of Next Generation Audit (NGA), which requires the understanding of, and action by, our audit clients. We will also address this in promoting this project.

Shimamoto : Since users need to understand the purpose of promoting DX, it is important to clarify the linkage between DX promotion and specific operations. generative AI will improve the efficiency of operations and the ability to propose solutions to clients. In NGA implementation, the responsible division should show a clear policy to the organisation and communicate, and promote the understanding of, its effects and use cases.

Suzuki : To improve the efficiency of DX and accelerate our preparation for NGA implementation, the Firm needs to hire and develop people. An effective option is to review the salary structure to attract talented people with digital skills. To maximise its effect, NGA needs to be connected with audit clients' accounting systems, etc. Therefore, the Firm should engage in discussions with audit clients from an early stage. Additionally, the Firm



should make suggestions that will improve the user-friendliness of NGA as it is developed jointly with the PwC network.

Kubota : Tracking the status of tool utilisation is important for improving

the investment efficiency of DX. For example, a decision needs to be made whether to continue the use of subscription-type tools. In promoting the use of AI tools, we will communicate closely with the PwC network's development team.



Kiuchi : The promotion of DX and the strengthening and use of the Technical Competency Center (TCC) are making steady progress. While various DX initiatives are underway, their goals need to be clarified. The Oversight Board is also paying attention to NGA, and we will create an NGA implementation roadmap to monitor the progress.

Sustainability

Ino : Non-financial reporting standards, such as the EU Corporate Sustainability Reporting Directive and standards established by the International Sustainability Standards Board and the U.S. SEC, have been developed and their application framework has been rapidly established. In Japan, the Sustainability Standards Board of Japan is developing sustainability disclosure standards and assurance will be discussed. Our Firm is also developing sustainability services and investing in people development in our assurance and advisory practices.

Hara : Sustainability initiatives have aspects of both assurance services and non-assurance services. As clients will give more weight to sustainability skills in selecting an audit Firm, the Firm needs to further develop its sustainability literacy.

Ino : Integrated Assurance services defined in Vision 2030 aims for a future where the assurance team and the non-assurance team collaborate with and enhance each other.

Suzuki : Both assurance services and non-assurance services need to understand and respond to the issues and needs of individual clients.



In doing so, the effective approach is to focus on identifying and targeting issues that are not noticed by clients, not just looking at the existing issues and needs.

Shimamoto : I think the key is to clarify and enhance the Firm's strength. For non-assurance services, the Firm's strength can be combining sustainability services with other solutions and delivering them as a package by identifying target companies and responding to respective needs, instead of providing only sustainability services.

Hitomi : I also advise the Firm to develop its own strengths and set the Firm apart from competitors, including non-audit firms. Assurance services are one of the strengths, but a wider range of solutions are necessary.

Kubota : Sustainability related knowledge has been accumulated through non-assurance services, and we plan to use it to develop assurance services. We will also continue to make investments to address future revisions to regulations in Japan.

Kiuchi : As a huge trend in society, there is a societal expectation toward financial statement auditors' role in sustainability assurance. The Firm is working to develop a structure to provide sustainability assurance services, including people development and establishment of a quality management system. To provide added value by leveraging our strengths, high-quality services need to be delivered by mobilising teams with wide-ranging knowledge and experience and promoting collaboration with the PwC network.

2. Reflection and our Firm's future

Reflection

Hara : In response to the Audit Firm Governance Code that became effective 8 years ago, the Firm established the PIB to supervise, evaluate and advise on the initiatives of the Management Committee to enhance audit

quality. I have chaired the PIB since its establishment, and today will be my last meeting.

Looking back on the PIB's 8-year activities, in FY2017, the topic of the profession was the business model and role of audit firms. The Firm also reviewed its business and role. The Firm was appointed as an independent auditor for a large-scale audit engagement. In FY2018, the Firm had in-depth discussions on measures to improve audit quality to address the quality issue. The leadership team promptly responded and rolled out the '4+1' initiative. While it took several years to produce an outcome, this initiative contributed to professional development and quality enhancement.

In FY2021, KAMs were introduced, which drove the Firm's activity to enhance audit quality. During FY2020 to FY2022, in which the pandemic occurred, the focus was on work styles.

In FY2023, the Firm established the Behaviours Guidelines. The Firm's strength is its ability to put this Criteria into practice and focus on people development. Also, the Firm is heading in the right direction. For example, the development of non-assurance services in addition to the audit practice has contributed to revenue growth; quality has been enhanced, and employee satisfaction has improved. Various experiences have strengthened the Firm's growth potential.

Our Firm's future

Kubota : The foundation for further growth has been established in our Firm. The environment surrounding us is drastically changing, such as the expansion of assurance scope to include sustainability and changes in the audit methodology to address DX. To respond to these changes, we will launch far-sighted initiatives, instead of just following trends. We aim to develop the Firm into a brand that is recognised as: 'bringing the audit to the future.'



2 | Quality management



Our 15 quality objectives

■ Leadership and quality management process

Objective 1: Leadership and quality management process

■ Ethics and objectivity

Objective 2: Ethical requirements and values

Objective 3: Objectivity and independence

■ Client selectivity management/ Solutions and opportunities management

Objective 4: Client selectivity

Objective 5: Managing services and products

Objective 6: Engagement acceptance and continuance

■ People management

Objective 7: Recruit, develop and retain

Objective 8: Learning and education

Objective 9: Assignment of people to engagements

Objective 10: Evaluation and compensation

■ Technology management

Objective 11: Technological resources

■ Solutions delivery management

Objective 12: Support for engagement performance

Objective 13: Direction, coaching and supervision

Objective 14: Expert knowledge

■ Monitoring and enhancement process for the system of quality management

Objective 15: Quality controls in performing engagements



Message from leaders

New Firm will also place top priority on quality enhancement

Takaki Suzuki,
Executive Officer/Chief Quality Officer

Neil Weingarten,
Senior Officer/Risk & Quality Co-Leader

The Audit Quality Report 2024 is the first to be published by PricewaterhouseCoopers Japan LLC (the 'Firm') established on December 1, 2023.

Since ex-PwC Aarata and ex-PwC Kyoto were PwC member firms and adopted the same organisational structure for Risk & Quality, including their composition and roles, there were not many things to be aligned when compared to other integrations. Still, there were certain differences in specific operations and activities between the two firms. To solve these gaps, an integration task force was formed in each department of Risk & Quality to thoroughly conduct pre-integration preparations. As a result, the integration of Risk & Quality was successful.

As for the new Firm's governance and audit quality processes, we decided to retain the processes established and operated by ex-PwC Aarata. Thanks to the thorough pre-integration preparations, we were able to begin the integrated operation of these processes smoothly from Day 1.

In the Audit Quality Report 2023, I mentioned that evolving generative AI had enabled companies to more

efficiently create information with the same or higher level of quality than in the past. The Firm, as an external auditor, also seeks to actively use generative AI to enhance audit quality and efficiency. Currently, we do not use generative AI directly in our audit procedures but have started its use in peripheral operations. Going forward, we will identify risks associated with using generative AI in the audit procedures, sufficiently discuss how to address those risks, and use generative AI in our audit procedures.

There are also discussions on providing assurance on sustainability disclosure in a phased manner from listed companies with large market capitalisation. The Firm has already delivered voluntary review services for some of our audit clients ahead of the establishment of such a regulatory framework. In response to this trend, Risk & Quality will strengthen its structure to support and monitor the teams delivering the assurance services.

Risk & Quality, as the second line, will support and monitor our Firm's breakthrough to realise Vision 2030, and maintain and enhance quality of assurance services including audit.

Our quality management - QMSE Framework (compliant with ISQM1)

International Standard on Quality Management 1 (ISQM 1)

In December 2020, the International Auditing and Assurance Standards Board (IAASB), approved and released three new and revised standards that strengthen and modernise a firm’s approach to quality management, including ISQM 1. This standard, which became effective December 15, 2022, required all firms to have designed and implemented the requirements of the standard and evaluated their system of quality management (SoQM) under the new standard by December 15, 2023.

ISQM 1 is an objectives-based approach that expects firms to have a SoQM that operates in a continuous and iterative manner, taking into consideration the conditions, events, circumstances, actions and inactions that impact a firm. It enhances the firm’s responsibilities around monitoring and remediation, emphasising the need for more proactive, real-time monitoring of the SoQM, a more effective, efficient, and timely root cause analysis process, and timely and effective remediation of deficiencies.

ISQM 1 states that the objective of the firm is to design, implement and operate an SoQM that provides the firm with reasonable assurance that:

- The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
- Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

The standard goes on to say that the public interest is served by the consistent performance of quality engagements and that this is enabled by an effective system of quality management.

A specific focus on audit quality across the network

■ The PwC network’s Assurance QMSE framework

Delivering high-quality work is at the heart of what we do at PwC; it is what our stakeholders rightly expect of us.

To deliver services in an effective and efficient manner that meets the expectations of our clients and other stakeholders, the PwC network has established the Quality Management for Service Excellence (QMSE) framework which integrates quality management into how each firm runs its business and manages risk.

The QMSE framework is designed to align with the objectives and requirements of ISQM 1 and provides a model for quality management in PwC member firms that integrates quality management into business processes and the firm-wide risk management process. Under QMSE, our overall quality objective is supported by a series of underlying quality management objectives and each firm’s SoQM should be designed and operated so that the overall quality objective, which includes meeting the objectives and requirements of ISQM 1, is achieved with reasonable assurance.

“ Overall quality objective

To have the necessary capabilities in our organisation and to deploy our people to consistently use our methodologies, processes and technology to deliver services in an effective and efficient manner to fulfil the expectations of our clients and other stakeholders



■ Integrated and aligned in the right way

Our SoQM includes quality objectives which are identified from the following components of ISQM 1, as well as any additional objectives the PwC network has identified in the QMSE framework:

- Governance and leadership
- Relevant ethical requirements
- Acceptance and continuance of client relationships and specific engagements
- Engagement performance
- Resources
- Information and communication

To help us achieve these objectives, the PwC network invests significant resources in the continuous enhancement of quality across our network. This includes having a strong quality infrastructure supported by the right people, underlying tools and technology at both the network level and within our firm, and a programme of continuous innovation and investment in our technology. The PwC network’s Global Assurance Quality (GAQ) organisation aims to support PwC firms in promoting, enabling, and continuously improving Assurance quality through effective policies, tools, guidance and systems used to further promote and monitor quality and to build an appropriate level of consistency in what we do.

These elements have been integrated and aligned by our network to create a comprehensive, holistic and interconnected quality management framework that each firm tailors to reflect our individual circumstances. Each firm is responsible for utilising the resources provided by the network as part of our efforts to deliver quality to meet the expectations of our stakeholders.

Our 15 quality objectives

Leadership and quality management process

- ◆ Objective 1: Leadership and quality management process
 - Governance ▶ p. 33
 - Quality management ▶ p. 45

Client selectivity management/ Solutions and opportunities management

- ◆ Objective 4: Client selectivity
 - Reviewing and responding to engagement risks of audit clients ▶ p. 57
- ◆ Objective 5: Managing services and products
 - Delivering integrated assurance services ▶ p. 11
 - Our sustainability initiatives ▶ p. 13
 - Transforming assurance with technology ▶ p. 17
 - Our system of quality management ▶ p. 49

Solutions delivery management

- ◆ Objective 6: Engagement acceptance and continuance
 - Engagement acceptance and continuance ▶ p. 57
- ◆ Objective 12: Support for engagement performance
 - Support and monitoring structure at Risk & Quality ▶ p. 53
 - Using technology in a ▶ p. 69
- ◆ Objective 13: Direction, coaching and supervision
 - Engagement team-level quality management ▶ p. 58
- ◆ Objective 14: Expert knowledge
 - Support and monitoring structure at Risk & Quality ▶ p. 53

Monitoring and enhancement process for the system of quality management

- ◆ Objective 15: Quality controls in performing engagements
 - Periodic monitoring activities of audit engagements ▶ p.65

Professional ethics and independence

- ◆ Objective 2: Ethical requirements and values
- ◆ Objective 3: Objectivity and independence
 - Professional ethics and independence ▶ p. 55

Resources for operating the audit firm

- ◆ Objective 7: Recruit, develop and retain
 - Recruitment and development ▶ p. 79
 - Diversifying career paths ▶ p. 80
- ◆ Objective 8: Learning and education
 - Training ▶ p. 81
- ◆ Objective 9: Assignment of people to engagements
 - Deployment and assignment ▶ p. 82

Technology management

- ◆ Objective 10: Evaluation and compensation
 - Performance review ▶ p. 83
- ◆ Objective 11: Technological resources
 - Using technology in audit ▶ p. 69

■ The quality management process

The achievement of these objectives is supported by a quality management process established by the Firm and Assurance leadership, business process owners and partners and staff. This quality management process includes:

- identifying risks to achieving the quality objectives
- designing and implementing responses to the assessed quality risks
- monitoring the design and operating effectiveness of the policies and procedures through the use of process-integrated monitoring activities such as real-time assurance as well as appropriate Assurance quality indicators
- continuously improving the system of quality management when areas for improvement are identified by performing root cause analyses and implementing remedial actions and
- establishing a quality-related recognition and accountability framework to both set clear expectations of expected quality behaviours and outcomes and reinforce those expectations through consistent and transparent use in appraisals, remuneration and career progression decisions

Our system of quality management

Our SoQM must be designed, implemented and operating on an ongoing basis to achieve the quality objectives. This ongoing process includes monitoring, assessing, evaluating, reporting, and being responsive to changes in quality risks, driven by the firm’s internal and external environment. This is our Quality Management Process (QMP).

Our focus on quality management is therefore not to

apply prescribed rules but rather to design and implement risk responses which are fit for purpose to manage the risks we identify in our own risk assessment and achieve the quality objective taking into consideration the conditions, events, circumstances, actions and/or inactions that may impact our SoQM.

■ Our risk assessment process

The past several years have seen unprecedented challenges and our firm’s SoQM has helped us navigate and respond to the impact that identified factors had on our ability to achieve the overall assurance quality objective - to deliver quality audit engagements. Our SoQM includes the performance of a risk assessment over the quality objectives identified in the QMSE framework. We consider how and the degree to which a condition, event, circumstance, action or inaction may adversely affect the achievement of the quality objectives which may result in:

- New or changing quality risks to achieving one or more of the quality objectives
- Changes to the risk assessment of existing quality risks
- Changes to the design of the firm’s SoQM, including the risk responses

A quality risks is one that has a reasonable possibility of occurring and individually, or in combination with other quality risks, could adversely affect the achievement of one or more quality objectives.



Our monitoring and remediation process

In the section 'periodic monitoring activities of audit engagements' (p. 65), we have described the types of ongoing and periodic monitoring our firm has designed, implemented and are operating to provide relevant and reliable information about our firm’s SoQM and to help us take appropriate actions over any identified deficiencies so we can remediate those deficiencies effectively and on a timely basis. To support the timely and effective remediation of identified deficiencies, the Firm has designed, implemented and are operating a root cause analysis program that is described further on page 65.

The information gathered from our monitoring and remediation process along with other sources of information, such as external reviews, is used to help us evaluate our SoQM.

The Firm has been implementing the quality enhancement initiative called '4+1', which covers high priority remedial measures developed in the process of past QMSE initiatives.

■ Statement on the Firm’s system of quality management

During the year, we completed our evaluation of the Firm’s system of quality management under ISQM 1. On behalf of the Firm, the CEO has evaluated whether our SoQM provides us reasonable assurance that:

1. The firm and its personnel fulfil their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
 2. Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.
- Based on all the relevant information of the Firm’s SoQM, as at December 31, 2023, we believe our SoQM provides us with reasonable assurance that the quality objectives noted above have been achieved.

Our value creation activity

Assessment process of the quality management system—QMSE—



Quality improvement initiative '4+1'



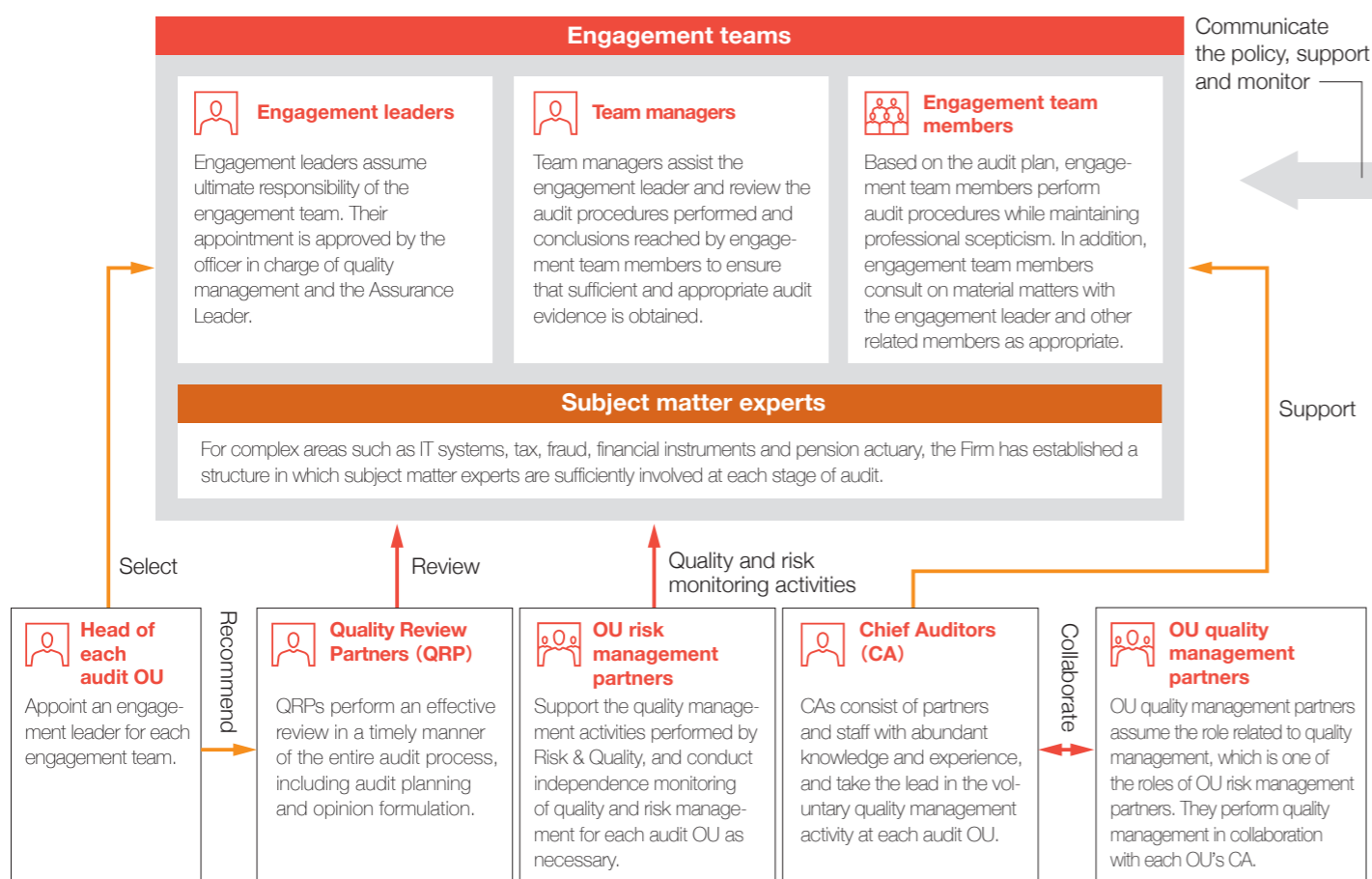
Our quality management

The Firm has established a structure to support engagement teams by bringing together all resources of the PwC network, including Risk & Quality, subject matter experts and the Japan Business Network (JBN). This structure enables engagement teams to take the initiative in solving issues through engagement team-level quality management, support and monitoring by Risk & Quality and collaboration with subject matter experts and the PwC network.

Formation of engagement teams and support structure

The engagement team is composed of professionals sufficient to perform strict and fair audits who are selected from each OU. In addition, a structure is in place to provide support from outside the engagement team, including a quality review partner, OU partner in charge of risk management, OU partner in charge of quality management and chief auditor.

Engagement team-level quality management structure



Quality management indicators at the engagement team level

Supervision of audit staff	Ratio of partners to professionals who are managers or above	1: 3.2
	Ratio of partners to all professionals	1: 12.7
Annual average working hours of audit practitioners*	Partners	2,177 hours
	Other than partners	1,918 hours

* Audit practitioner means a person who is engaged in audit work for 35 hours or more in a year.

Risk & Quality

Risk & Quality is staffed with partners and staff who are specialised in accounting and auditing, and identifies and resolves issues at an early stage by communicating with engagement teams. They also provide advice on consultations related to technical views.

Support and monitoring structure at Risk & Quality



Number of personnel engaged in quality management activity

Risk & Quality (Function)	FY2024		
	Partners	Professionals who are managers or above	Total
Supervision of Risk & Quality	3	1	4
Management of independence/professional ethics ^{*1}	2	32	34
Risk management/Oversight activities (e.g. periodic monitoring activities)	14	30	44
Legal affairs	1	2	3
Response to inquiries for technical views on accounting	7	18	25
Response to inquiries for technical views on audits	4	23	27
Education/training and people development	2	10	12
Risk & Quality in total (A) ^{*3}	33	116	149
Partners and professionals who are managers or above engaged in audits (B) ^{*2/3}	158	478	636
Percentage (C) ^{*4}	20.9%	24.3%	23.4%

^{*1} Management of independence/professional ethics is performed by the independence group and the compliance group of Internal Firm Services (p. 40), instead of Risk & Quality.

^{*2} Of partners/professionals engaged in audit work for 35 hours or more in a year, those audit practitioners who worked for the Firm as of end of June.

^{*3} Risk & Quality in total (A) and partners and professionals who are managers or above engaged in audits (B) only include those who are the members of Risk & Quality.

^{*4} Percentage (C) is derived by dividing Risk & Quality in total (A) by partners and professionals who are managers or above engaging in audits (B).

Support and monitoring structure at Risk & Quality

■ 1. Independence and contract monitoring

►►► For more information, see p. 55.

■ 2. Workload monitoring

The engagement leader is appointed by the leader of each audit OU in consideration of the competence, capabilities and experience sufficient to fulfil that responsibility. Risk & Quality objectively reviews the results of the selection. This review includes checking annual workload concentration for each partner and examining each partner's engagement portfolio. Risk & Quality also conducts detailed monitoring, including requesting a review of assignments as necessary after consulting with a related person.

■ 3. Consultation on technical views

The Firm pre-defines matters subject to mandatory consultation and requires engagement teams to obtain the views of Risk & Quality. Risk & Quality includes staff who have experience of secondment to external institutions and are specialised in technical areas and practices. Risk & Quality has detailed discussions with the engagement team to understand the nature of the consultation, the initial consideration by the engagement team and their tentative conclusion, and then conducts technical research and provides technical views.

■ 4. Survey on certain issues (Reach-out)

To support engagement teams, Risk & Quality conducts a reach-out survey to compile and analyse information on audit considerations to which special attention should be paid and the status of response by each engagement team. The scope of this survey (e.g. audit clients in certain industries) is determined on a case-by-case basis.

Risk & Quality conducts profiling based on the current status of individual audit engagements obtained through

the reach-out activity above, financial information of audit clients and information from engagement teams, and identifies engagement teams that need additional responses and support.

■ 5. Accessing electronic audit documentation to detect anomalies (Real Time Assurance)

In addition to the reach-out activity, Risk & Quality monitors the progress of audits based on automatically-aggregated data from Aura, our electronic audit documentation platform. This activity is referred to as Real Time Assurance, and helps Risk & Quality identify in real time audit engagements that are not compliant with PwC Audit methodology or engagement teams that are delayed in the audit process, and provide support. Risk & Quality also performs analysis of firm-level quality based on data aggregated using digital tools.

■ 6. Review conducted during audit (Hot Review)

In Hot Review, experienced reviewers review selected engagement teams' testing approach and results with a focus on high-risk areas, and provide advice to the engagement team during the planning and execution of the audit. The purpose of this review is to support the engagement team while monitoring audit quality.

■ 7. Support for preparing KAMs

►►► For more information, see p. 59.

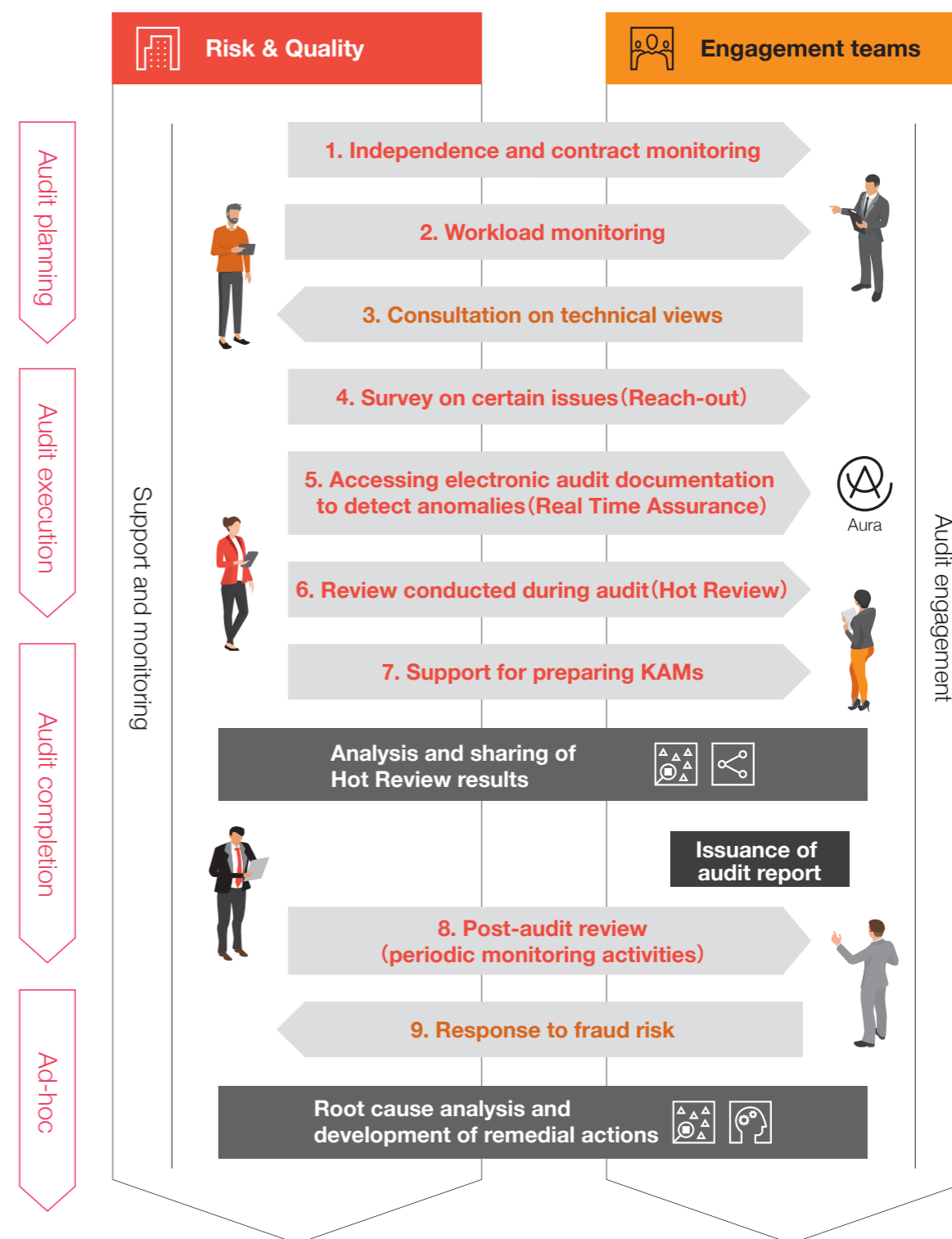
■ 8. Periodic monitoring activities

►►► For more information, see p. 65.

■ 9. Response to fraud risk

►►► For more information, see p. 61.

Support and monitoring structure at Risk & Quality in the audit process



Professional ethics and independence

Independence policies and procedures

Maintaining independence is essential for audit professionals. Building a cooperative relationship with audit clients grounded on trust will help us deliver PwC's Purpose. As a member firm of the PwC network, the Firm has established independence policies and procedures as its independence guidelines to comply with the PwC Global Independence Policy developed based on the IESBA's International Code of Ethics for Professional Accountants, applicable laws and regulations in Japan and the code of ethics of the Japanese Institute of Certified Public Accountants (JICPA). To ensure a thorough understanding of independence policies and

procedures, the Firm regularly conducts independence training for all partners and staff, and confirms that they understand and comply with the independence policies and procedures through the annual compliance confirmation procedure.

In accordance with these policies and procedures, the Firm has established a system to identify restricted entities of both the Firm and the PwC network by registering audit clients in the PwC network's client database. The Firm maintains and operates this system as a framework to ensure compliance with the independence rules.

that partners and staff do not breach various independence rules. Additionally, the Firm annually conducts an in-depth inspection for randomly selected partners and staff, as well as officers and partner candidates, to ensure their compliance with the independence policies and procedures.

To prevent inappropriate relationships with audit clients, the Firm ensures adequate rotation of engagement leaders, quality review partners and team managers who assist the engagement leader by limiting the number of consecutive years for which they can serve as the auditor, and by defining the 'cooling off' period for which they may not be involved with that audit client. This is monitored accordingly.

permissibility of the service by referring to common non-assurance services guidance of the PwC network. A permissible non-assurance service is required to be pre-approved by the engagement leader through a process called Authorisation for Services (AFS).

Actions for a breach of applicable laws, regulations, etc. relating to independence

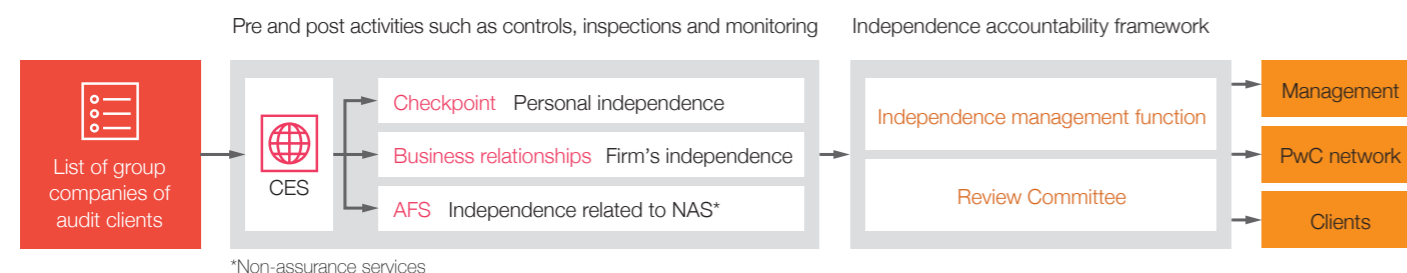
If the independence rules are breached, the Firm resolves the conflict of interest that caused the breach as promptly as possible and discusses the matters, including the breach and action, in writing with those charged with governance of the audit client. The partner(s) and/or team member(s) who are involved in the breach of internal rules, such as independence policies and procedures, or applicable law and regulation, are subject to penalties.

We have confirmed that all breaches of laws and regulations detected as a result of independence checks in FY2024 were related to monetary conflict of interest of individuals and did not affect our individual audit engagements nor the Firm's objectivity and fairness.

Independence assessment procedure

To express an audit opinion, auditors are required to continuously maintain independence from the audit client and its subsidiaries and affiliates from the beginning of the accounting period through to the audit opinion date. Due to a change in the group structure of an audit client (e.g. acquisition or integration), an entity may be newly included in the group of the audit client, and the scope of entities subject to the independence assessment (e.g. the permissibility of providing a non-assurance service, or employment relationship of family members) may increase. To address such a situation, the Firm requests all of its audit clients to cooperate and provide related information timely.

Overview of the processes for ensuring independence



Professional ethics

The Firm has established a code of conduct and related guidance for professional ethics in accordance with applicable laws and regulations in Japan and the code of ethics of the JICPA and the common Code of Conduct of the PwC network. The Code of Conduct and related guidance covers rules to address a wide range of cases, including anti-money laundering, antitrust and anti-corruption, responses to antisocial forces, information protection, prevention of insider trading and responses to illegal activities by audit clients. The Firm's partners and staff confirm their compliance with the Code of Conduct and the related guidance through the annual compliance confirmation procedure.

Further, PwC Japan Group has in place the ethics helpline (for PwC Japan Group) and the audit hotline (for the Firm) with the aim of detecting early violations of laws and misconduct.

Personal independence of partners and staff

The Firm ensures the independence of partners and staff through the annual compliance confirmation procedure and independence check conducted prior to engaging in audit. All partners and staff are also required to conduct pre-clearance and register their securities and indirect investments through insurance and pension products in a database (Checkpoint) prior to purchasing such securities and products. Through these measures, the Firm ensures

The Firm's independence

To maintain independence between the Firm and audit clients, when purchasing goods and services from external suppliers or developing a business relationship with third-party entities and individuals, the Firm's rules require pre-approval on the permissibility and nature of the transaction from the responsible division. The Firm also periodically checks that there are no issues in independence with lenders and lessors.

The Firm also registers its securities holdings in the Checkpoint database to ensure that it does not breach various independence rules.

Independence in providing non-assurance services

There are certain restrictions on the provision of services to audit clients. Therefore, when considering the provision of a non-audit service, the Firm first assesses whether there are any independence restrictions related to the client to which the service is to be provided, based on the master client database used to register and manage audit clients of the PwC network (CES), and determines the

Acceptance and continuance

Based on generally accepted auditing standards in Japan and PwC network's policy, the Firm has established a policy for accepting a new client or continuing services provided to an existing client for all services, including audit engagements.

Prior to accepting a new client or a new audit engagement, the Firm considers whether it has the aptitude and competence to perform the audit, including time and human resources (the Firm may decline a new engagement if we do not feel we have the appropriate resources). In addition to assessing conflict of interests (e.g. independence) between the new audit client and the Firm (including its partners and staff), the engagement team conducts risk assessment procedures by taking into account the company's reputation, tone at the top, the status of governance and internal controls, any issues in accounting or audit and other factors, and obtains appropriate approval according to the assessed risks.

Upon continuance, the engagement team performs a risk assessment at least annually and obtains appropriate approval based on the results.

These series of procedures are implemented through the Acceptance and Continuance assessment system used across the PwC network.

Reviewing and responding to engagement risks of audit clients

When entering into a new contract or renewing an existing contract, the Firm makes a decision on acceptance or continuance by considering factors, including profitability, to establish an environment in which high quality audits can be delivered in cooperation with audit clients.

Our response to the revisions to the IESBA Code

The Firm has applied the revised International Code of Ethics for Professional Accountants (non-assurance services and compensation) issued by the International Ethics Standards Board for Accountants (IESBA Code) as of its effective date, regardless of revisions to JICPA's Code of Ethics.

For example, the Firm has already applied the following requirements: restrictions on providing non-assurance services (NAS) to public interest entity (PIE) audit clients (i.e. prohibit the provision of NAS that may create a self-review threat to a PIE audit client and requires concurrence from those charged with governance before providing the NAS to the PIE client) disclosure of fee-related information in the independent auditor's report (i.e. provide information to stakeholders and those charged with governance to help them assess an auditor independence); and response to group audit (i.e. aims to strengthen independence of group auditors in accordance with the revised ISA 600). The Firm is also preparing for the application of rules related to the definition of PIE, tax planning and related services, technology-related revisions and development of sustainability-related IESBA Code which are scheduled to be published.

To ensure the application and effectiveness of the revised IESBA Code and revised JICPA's Code of Ethics, the Firm has amended its internal policies and guidance, shared information and provided training to its partners and staff on the revisions, and developed and enhanced various tools and templates. Alerts called IESBA Newsletter are distributed on an ad-hoc basis to share subsequent developments of the IESBA and JICPA.

To fulfil its critical roles and responsibilities for the public interest and to gain trust of audit clients and society, the Firm maintains a structure to ensure compliance with the robust rules of auditor independence.

Engagement team-level quality management

Our audit approach - PwC Audit

Engagement teams perform audits in accordance with the auditing standards in Japan and PwC Audit, which sets out the PwC network's common audit methodology and process. As a member of the PwC network, The Firm has access to and uses PwC Audit. This methodology is based on the International Standards on Auditing (ISAs), with additional PwC policy and guidance provided where appropriate. PwC Audit policies and procedures are designed to facilitate audits conducted in compliance with all requirements of ISAs that are relevant to each audit engagement. Our common audit methodology provides the framework to enable PwC firms to consistently comply in all respects with applicable professional standards, regulations and legal requirements.

PwC Audit is revised at least annually to reflect changes in auditing standards and other developments. The revised policies and guidance are incorporated into Aura, an electronic audit documentation platform used by engagement teams, enabling engagement teams to conduct audits by referencing the new requirements in a timely manner.

Engagement team's response to new standards

The revised International Standard on Auditing (ISA) 600 and Auditing Standards Committee Statement (ASCS) 600 are applied to audits of group financial statements for periods beginning on or after December 15, 2023. The revised standards require facilitation of a risk-based approach on a top-down basis by the group auditor, and strengthen in-depth two-way communication between the group auditor and component auditors. The direction, supervision and review of component auditors' work by the group auditor may

require increased discussions with the component auditors, management of the group and management of the component auditor. To address this, each engagement team identifies areas in which the involvement as the group auditor increases and areas in which the same level of involvement is sufficient, and develops a detailed audit plan based on this.

The revised Standards and Practice Standards for Management Assessment and Audit concerning Internal Control over Financial Reporting as well as the Audit of Internal Control over Financial Reporting (Financial Reporting Internal Control Auditing Standard Statement No.1), which is practical guidance of the revised standards, will be applied to J-SOX-based audits of financial statements for periods beginning on or after April 1, 2024. These revisions review the fundamental framework of internal controls and engagement teams are considering the necessity to identify and assess new internal controls. The revisions also emphasise a risk-based approach in determining the scope of management's assessment of internal controls, and requires consideration of whether to change the assessment scope in consultation with management.

Risk & Quality's response to new standards

The Firm has in place a structure that enables engagement teams to perform audits in accordance with the new standards by using various templates and resources both inside and outside of the Firm. For example, for engagements to which the new standards are applied, Risk & Quality and CAs work together to compile inquiries from engagement teams, release related guidance as well as documentation examples and templates such as audit instruction templates.

Our initiatives on key audit matters (KAMs) to meet the expectations of stakeholders

Risk & Quality's support for KAMs

The fiscal year ended March 31, 2024 is the fourth year for listed companies to describe KAMs in their audit reports. KAMs are now established as practice in Japan.

The Firm has been working on the enhancement of KAMs by considering what information is useful for stakeholders. The Firm's policy is to include specific descriptions of how the situation of each company relates to the selection of KAMs, specifics of KAMs and relevant audit response, avoiding general information common to audits of all companies as much as practicable.

Risk & Quality has been providing support to engagement teams to ensure KAMs are prepared in accordance with this policy. Risk & Quality established and implemented an easy-to-consult structure in which the KAM team is assigned to each engagement team and responds to a consultation request from them. Risk & Quality also released a video introducing good practices of KAMs, and recommended to include more specific descriptions in KAMs.

When a KAM has a significant social impact or includes unusual descriptions, the engagement team is required to go through the formal consultation procedure (i.e. consultation on technical views). However, Risk & Quality provided a number of other consultations on KAMs in FY2024 as well.

In-depth dialogue with management and those charged with governance and ongoing improvement of KAMs

KAMs are those matters that require significant auditor attention in performing the audit selected from matters communicated with those charged with governance. To prepare KAMs that are useful for stakeholders, it is essential to have deep dialogues on changes in the company's situation and risk assessment between management and those charged with governance of the audit client and the engagement team. Until KAMs are finalised, there will be discussions with the audit clients covering a wide range of topics, including not only KAMs but also corporate disclosure. As a result of this in-depth dialogue, the disclosure of companies has been expanded and contents of KAMs (e.g. the nature of KAM, why the matter is determined to be KAM and how the matter was addressed in the audit) are described more specifically.

In this process, Risk & Quality continuously supports engagement teams to ensure consistency among the footnotes, KAMs and audit response. As a result of the collaborative effort between engagement teams and Risk & Quality, the Firm has developed KAMs that appropriately reflect the judgement of the engagement teams, and are easy to understand and reliable for stakeholders. KAM case studies released by the Securities Analysts Association of Japan include a number of KAMs prepared by our Firm.

However, the issues related to KAMs (i.e. how to avoid KAM descriptions becoming boilerplate or how to reflect changes in the company's situations in KAMs) need to be continuously considered. Therefore, we will continue to work on the development of KAM practices to meet the expectations of our stakeholders.

Collaboration with the PwC network

The Firm collaborates with the PwC network to introduce audit methodologies, monitor audit engagements, and develop technology. It also coordinates audits of overseas subsidiaries of audit clients with the PwC network firms.

Global audit

In order to appropriately perform group audits of companies that operate business globally, it is necessary to identify audit risk related to overseas subsidiaries and take appropriate responses. PwC firm members apply PwC Audit which is audit methodologies commonly applied across the PwC network. While gaining a deep understanding of society, culture, legal system and language of overseas subsidiaries and other entities of companies, the Firm closely collaborates with local PwC network firms to perform global, consistent, high-quality audits while taking into account business environment surrounding overseas subsidiaries and other entities at each country.

When performing audits of companies operating globally, the Firm engages JBN members as necessary

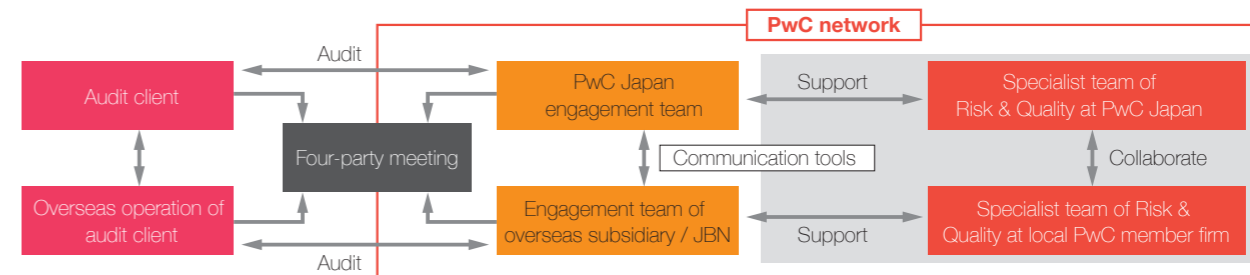
and works closely with engagement teams that perform audits of overseas subsidiaries and other entities.

In the occurrence of a serious issue, such as fraud, we hold face-to-face discussions with local management at an early stage with local auditors even if the issue has occurred overseas. Risk & Quality supports significant issues at an early stage and communicates directly with local Risk & Quality as necessary to resolve them. In addition, a four-party meeting is held among the audit client, overseas subsidiary of audit client, the Firm and local PwC member firm to reconcile views. In this way, issues are resolved promptly together with the audit client.

Japanese Business Network (JBN)

In order to support the business of Japanese companies, the PwC network has built a support network for Japanese companies consisting of accounting, auditing and other professionals in each jurisdiction across the world. As of July 1, 2024, the Firm has deployed 721 specialists in the JBN (of which 509 are capable of Japanese language support).

Global audit structure



Four-party meeting

Flexibly hold to discuss matters such as an important issue or a new significant subsidiary, as necessary

Face-to-face discussion

Hold a face-to-face discussion with local management at an early stage, even overseas, with local auditors to solve issues as soon as possible

Collaboration between Risk & Quality

Risk & Quality supports significant issues at an early stage. Risk & Quality communicates directly with the specialist team of Risk & Quality at the local PwC member firm

Mobilisation of a specialist team

When a local specialist team is mobilised, a specialist team is also mobilised in Japan, which will respond to issues together with the engagement team

Response to fraud risk

Risks of material misstatement due to fraud

Auditing standards generally accepted in Japan stipulate that auditors must pay close attention as professionals and exercise professional scepticism when performing audits. The Standards for Response to Fraud Risk in Audits also emphasises the importance of scepticism (professional scepticism) as professionals in appropriately addressing fraud risk.

Maintaining and exercising professional scepticism

The Firm believes that smooth communication within the engagement team is indispensable for team members to maintain and exercise professional scepticism, to be more attentive and take a critical stance on fraud risk. By exchanging candid opinions among engagement leaders and team members, matters that may be significant issues in the audit (e.g. the identification of audit risk, including potential fraud risk and unusual transactions) and a plan to address such issues can be shared.

To help team members obtain information to identify risks of material misstatement due to fraud, the Firm requires partners and staff with experience in leading audit engagements to attend case study training as part of the Firm's initiative to promote the understanding of actual fraud cases. The Firm also invites practitioners and legal specialists from outside the Firm as lecturers to provide training on digital risks and responses to such risks by companies, the use of AI, legal risk management and key points of internal whistle-blowing programs for early detection and response to fraud risk.

Additionally, the Firm has established an audit hotline* as a whistle-blowing program for both inside and outside the Firm.

Response to potential material misstatement due to fraud

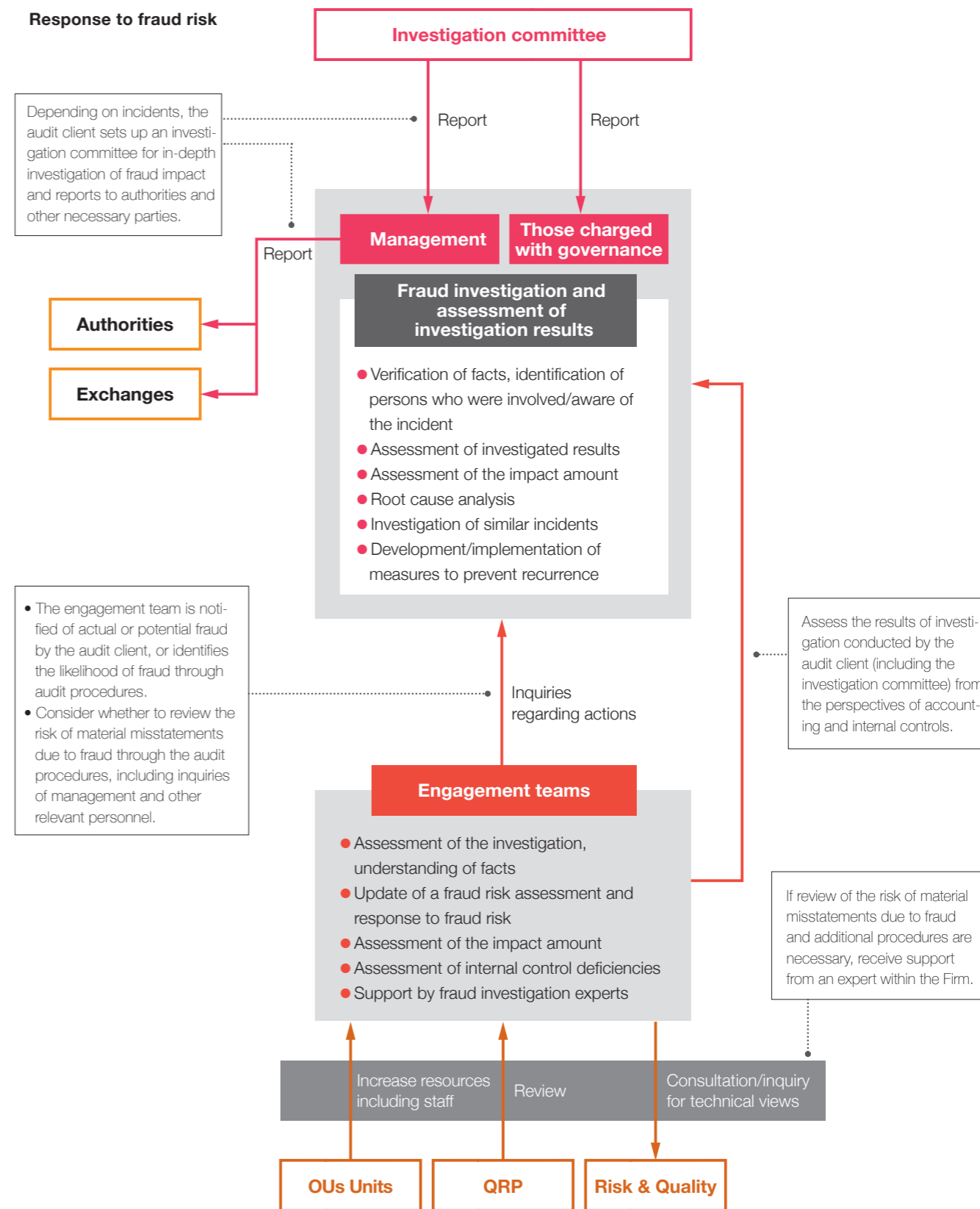
When an engagement team identifies a potential material misstatement due to fraud, this is shared within the Firm and necessary action is taken according to the circumstances shown in the figure on the right. The engagement team may receive additional review by the quality review partner, advice from the OU risk management partner or support from Risk & Quality. Furthermore, a fraud specialist may be involved.

Analyses of financial data of audit clients

The Firm has been performing various analyses to address fraud. These include (1) inquiring with the engagement team about any abnormal values using multiple analyses (e.g. multiple-year trends in financial data extracted from annual securities reports or earnings release published by the audit client, or analysis of trends in financial ratios and turnover period of accounts receivable) in reference to fraud cases, and assessing any signs of fraud; and (2) reviewing financial statements by the person in charge at Risk & Quality before the audit is completed to assess any signs of fraud in light of the nature of the audit client's business and accounts and disclosed fraud cases, and providing feedback to the engagement team.

Through discussions with the engagement teams, Risk & Quality can understand financial information and the nature of business of audit clients, which helps Risk & Quality enhance their risk profiling. Additionally, Risk & Quality has been developing AI-enabled fraud detection tools to analyse financial statements of audit clients based on corrections to annual securities reports in the past, and to use the results of analysis for the assessment of fraud and error risks.

Response to fraud risk



* How to report via the audit hotline is posted on the Firm's website. The Firm's related policy sets out that whistleblowers should not be treated disadvantageously. The leader of Risk Management appoints persons who have access authority to the information provided. Persons who are involved in the reported matter are not granted access authority to protect the confidentiality of whistleblowers and avoid putting them at unexpected disadvantage.

Technology-focused audit approach

Importance of technology in audits and changes in risks from DX promotion

The use of technology has been expanding and deepening. Many entities are using advanced technology such as cloud and RPA by promoting digital transformation (DX). The use of generative AI has also been accelerated to improve efficiency and enhance operations through the use of data. At the same time, technological advancement has posed new types of risks. For example, when using the electronic sealing system as a replacement to papers and seals, we need to consider risks specific to technology (e.g. identify theft caused by inappropriate management of accounts, falsification of electronic trail

using erroneous settings or weakness in the system).

The reliability of IT used for financial reporting needs to also be assessed for audit purposes and the importance of such assessments is increasing as digitisation initiatives of audit clients progress.

In this highly technology-dependent environment, cybersecurity risk is now a risk that occurs at all entities. Auditors need to respond to this as one of the risks associated with financial reporting since damage caused by ransomware, which occurs frequently, affects timely processing of period-end closing and disclosures.

IT application controls and IT general controls

There are two types of IT controls: IT application controls (ITACs), which are controls over the functions and processing of systems (e.g. access restriction and interfaces) and IT general controls (ITGCs), which underpin the reliability of systems, including system development, maintenance, operation and security management.

Taking a sales process as an example, the sales management system issues shipment instructions based on order data received, automatically calculates the sales amount using the amount registered in the unit price master, and interfaces the sales data to the accounting system in which journal entries are automatically prepared. Since this process is automated without human intervention, in the absence of ITACs, an inaccurate amount of sales could be booked if the interface fails to process due to a system problem or inaccurate journal entry programming.

If ITGCs that prevent and detect inappropriate programming and data updates (e.g. setting developers' access restrictions and log monitoring, problem monitoring for timely detection of errors and recovery) is not implemented, the assumption that ITACs are effectively functioning throughout the year cannot be made.

As shown in the figure on the left, ITGCs are the foundation for overall internal control over financial reporting, and therefore the evaluation of ITGCs is essential in audit.

Our audit approach related to IT

With the expansion of technology deployment by companies, auditors cannot sufficiently respond to heightening IT risks through only testing paper-based supporting documents and manual controls, and simply gaining an under-

standing and evaluating the IT environment.

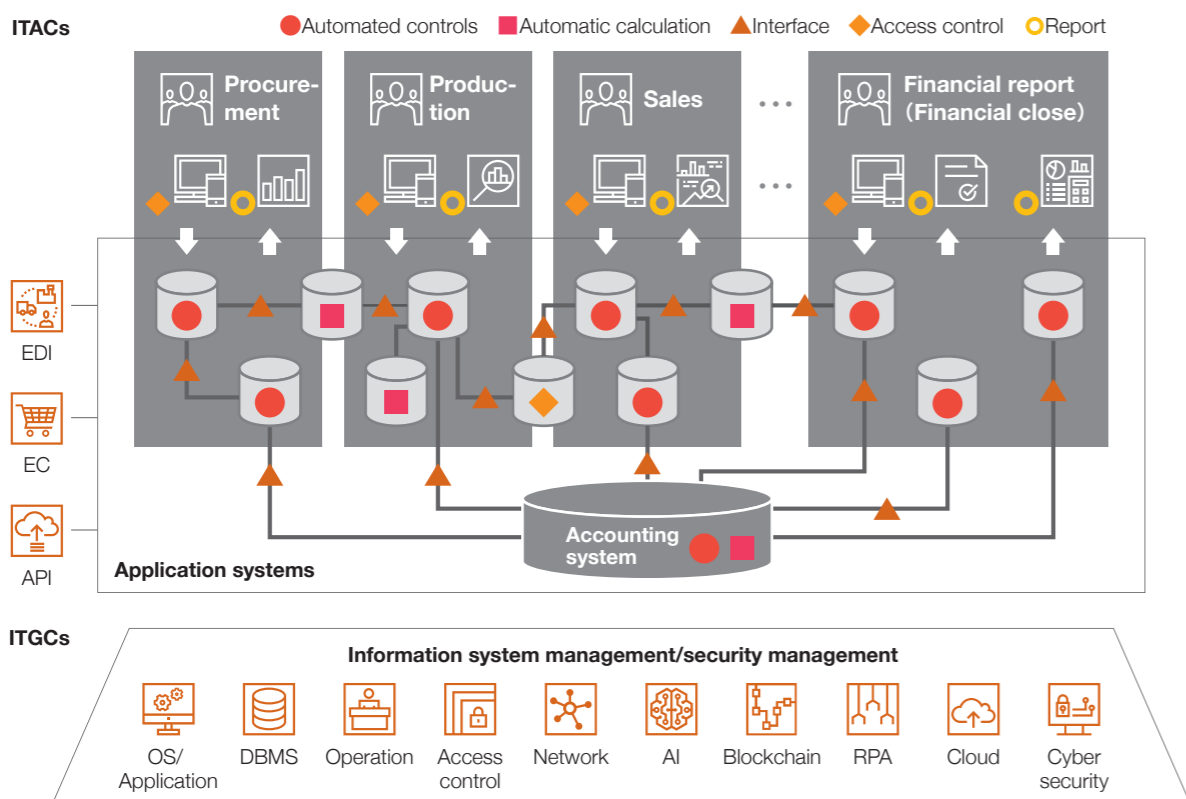
We perform in-depth audit procedures on controls over IT. For ITACs, we understand the configuration of the system accurately through inspection of specifications in addition to inquiries, and use actual data to verify whether the process is performed according to the specifications. With respect to ITGCs, we test log data of program changes and security settings to ensure the reliability of programs and data. Authority settings of complex ERP systems are also tested in a complete manner using evaluation tools developed by the PwC network.

The incorporation of technology into business processes enables the consistent processing of a huge volume of transactions and data in accordance with the rules, and helps strengthen internal controls by preventing fraudulent data alteration through limiting access only to appropriate persons. However, the use of technology also creates new risks. We believe that the auditor can perform effective and efficient audits by gaining a deep understanding of, and appropriately assessing, technology risks and related internal controls.

Since cyber security risk also has a significant impact on financial reporting, our audit approach to this risk is to perform procedures regardless of whether cyber incidents have occurred. We incorporate the PwC network's latest audit approach for cyber security risk. When there are no cyber incidents, this includes the assessment of common cybersecurity risks that may affect financial reporting and the evaluation of internal controls including intrusion detection, patch management, and backup and restoration to address ransomware attacks.

To adapt to the pace of clients' transformation and proactively respond to emerging risks arising from such transformation, we will continuously monitor changes in IT environment and trends and appropriately identify and assess risks arising from the use of technology, thereby delivering valuable audits.

IT and business process diagram



Periodic monitoring activities of audit engagements

1. Post-audit review (periodic monitoring activities)

The Firm periodically monitors the system of quality management and individual audit engagements.

As part of these periodic monitoring activities, we use a quality management review program adopted globally by the PwC network. The quality management review program is based on professional standards relating to quality management, including the International Standard on Quality Management No.1 and the PCAOB's Quality Control Standards.

Review teams are composed of staff at Quality Review and partners and managers of overseas PwC member firms, and perform monitoring using common PwC network policies, procedures, tools and guidance.

Periodic monitoring activities of the system of quality management

Periodic monitoring activities of the system of quality management review whether internal controls over the system of quality management are appropriately developed and operated in accordance with the quality management standards.

Periodic monitoring activities of individual audit engagements

Periodic monitoring activities of individual audit engagements review whether individual audit engagements are appropriately performed in accordance with applicable standards related to audits.

Partners who serve as an audit engagement leader are, in principle, subject to periodic monitoring activities of individual audit engagements once every three years. In addition, audit engagements with a high social impact

Cycle of review and root cause analysis



and those whose risks are assessed as heightened are also subject to periodic monitoring activities.

2. Assessment, communication and remediation of identified deficiencies

If the periodic monitoring activities identify a significant finding, the engagement leader is required to develop and implement a remediation plan to perform additional audit procedures. Risk & Quality monitors whether the remediation plan is developed and implemented in a timely and appropriate manner. The results of periodic monitoring activities and the set of remedial actions are also shared with the PwC network and are reflected in personnel evaluation of each audit team staff, including the partner, considering their roles and responsibilities within the engagement team.

3. Root cause analysis and thorough implementation of remedial actions

Based on the results of periodic monitoring activities and external inspections, the Firm promptly conducts a root cause analysis to help improve audit quality. Specifically,

the Firm conducts various analyses, including the analysis of matters that need improvement, comparison of audit engagements with issues identified with those with no issues, and consideration of objective factors and potential issues. The Firm assesses the results of these analyses and takes necessary actions, including reviewing the assignment policy, revising the written audit procedures, developing guidance to prevent recurrence, monitoring the progress of in-progress audit engagements, and conducting adequate education and training.

4. Reflection in next fiscal year's measures

Remedial measures are taken individually based on the root cause analyses. Findings are recognised as risks in the QMSE and are reflected in the Firm-wide quality management measures.

Results of periodic monitoring activities

In FY2024, as shown in the table below, 36 audit engagements were subject to periodic monitoring activities, and four significant findings were identified. These periodic monitoring activities covered 38% of partners engaged in audit engagements.

Initiatives to improve quality based on the results of periodic monitoring activities

Based on the results of FY2023 periodic monitoring activities, the Firm implemented initiatives to improve the

behaviour (direction, oversight and review) of engagement partners and team managers, strengthened the process to check audit reports, and developed or revised checklists. The Firm will continue its efforts for further improvement. Also, we have performed a root cause analysis for the findings identified in FY2024 periodic monitoring activities and are taking actions to address individual issues.

In terms of journal entries and accounting estimates, the Firm has been enhancing audit procedures to test these areas. However, with drastic changes in the business environment surrounding companies, audit clients will also need to continuously strengthen internal controls and provide detailed supporting documents for estimates by taking into account changes in their business environment.

The Firm encourages audit professionals to reconfirm their understanding of standards and required audit procedures and documentation. Furthermore, Risk & Quality will promote the standardisation of procedures together with the chief auditors.

The Firm has fostered a culture to understand global trends of quality improvement in audits, and to learn from findings raised in periodic monitoring activities. The Firm will continue to place top priority on improving audit quality and improve quality of financial reporting in Japan in cooperation with audit clients.

Results of periodic monitoring activities

Fiscal year	Number of in-scope engagements	Required modification of the audit opinion	No significant findings identified	Significant findings identified	Partner coverage rate
FY2024	36 cases	0 cases	32 cases	4 cases	38%

Reviewer's working hours

By review type		
Hot review (Review during audit)	Periodic monitoring activities (Post-audit review)	Total
9,049 hours	4,724 hours	13,773 hours

External inspections

Quality management reviews by the Japanese Institute of Certified Public Accountants

With a view to maintaining and ensuring societal trust in audit by maintaining and enhancing an appropriate audit quality level, the JICPA has in place a self-regulatory program to review the status of audit quality management activities conducted by audit firms (quality management reviews). The quality management reviews are generally conducted once every three years, with their results being notified to audit firms and where necessary, recommendations for remediation being issued.

Results of recent quality management review

Date of issuing the most recent report on quality management review and remediation recommendation report	December 14, 2021
Results of performing the quality management review	Results with no significant deficiencies

Inspections by the Certified Public Accountants and Auditing Oversight Board

The Certified Public Accountants and Auditing Oversight Board (CPAFOB) receives reports on quality management reviews from the JICPA, examines the details, and conducts on-site inspections at an audit firm as necessary. If the CPAFOB identifies that quality management of audits is significantly inadequate, or that the audit engagement is not in compliance with laws and regulations, the CPAFOB recommends the Financial Services Agency (FSA) to take administrative action or other measures necessary to ensure the appropriate operation of that audit firm.

The Firm was not subject to any administrative action by the FSA as of June 30, 2024.

Inspections by the Public Company Accounting Oversight Board

The Public Company Accounting Oversight Board (PCAOB) periodically conducts inspections for accounting firms that audit public companies. The results of inspections are disclosed on the PCAOB's website.

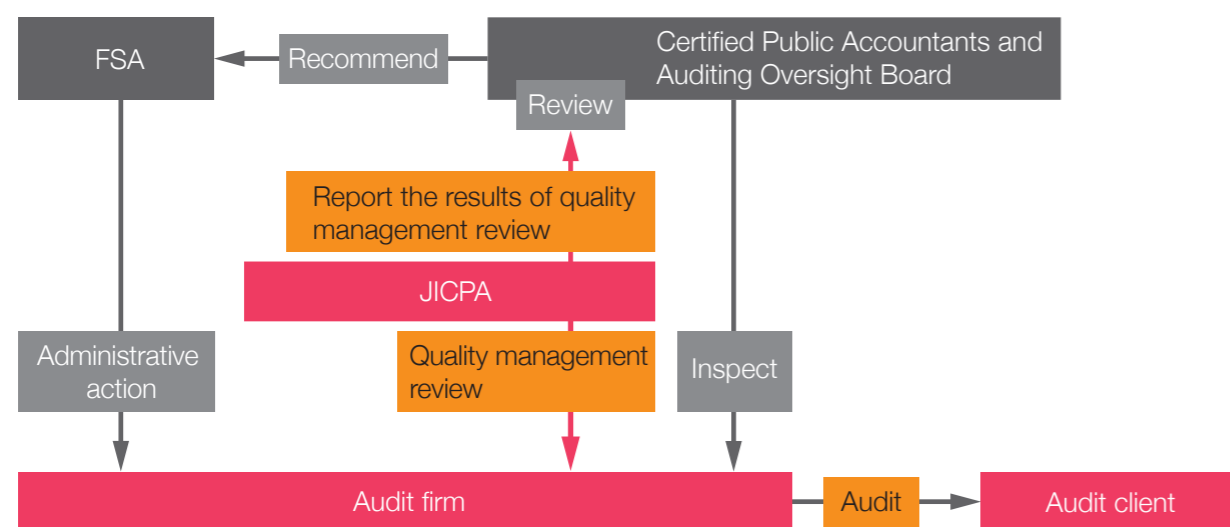
Response to findings

When findings are raised in the quality management reviews by the JICPA or inspections by the CPAFOB or PCAOB, the Firm takes appropriate measures, analyzes root causes, develops guidance to prevent recurrence, implements education and training, and takes other necessary measures.

Administrative action resulting from external inspections

Administrative action by the FSA since foundation: 0

Overview of inspections by external institutions



Sustainability issues and financial statement audit

Meteorological disasters are becoming increasingly severe in various parts of the world and many economists across the globe are beginning to tackle the issues in earnest. There is also a growing interest in climate change issues that have a financially significant impact on entities.

In response to this trend, as part of financial statement audits, we inspect the sustainability information disclosed in annual securities reports, integrated reports and other disclosure documents as necessary, inquire of management and those charged with governance about the process to identify and assess climate change issues that affect the company, and determine whether they may lead to a risk of material misstatements by assessing the likelihood and magnitude of potential misstatements.

If climate change issues relate to accounting estimates, we make careful judgments by taking into account that they may have a broad impact on future business activities and that estimates of impact involve complexity and inherent uncertainties.

For the sustainability information disclosed in the annual securities report which is regarded as the other information, we read the information and consider whether there is a material inconsistency between the other information and the financial statements and our knowledge obtained in the audit.

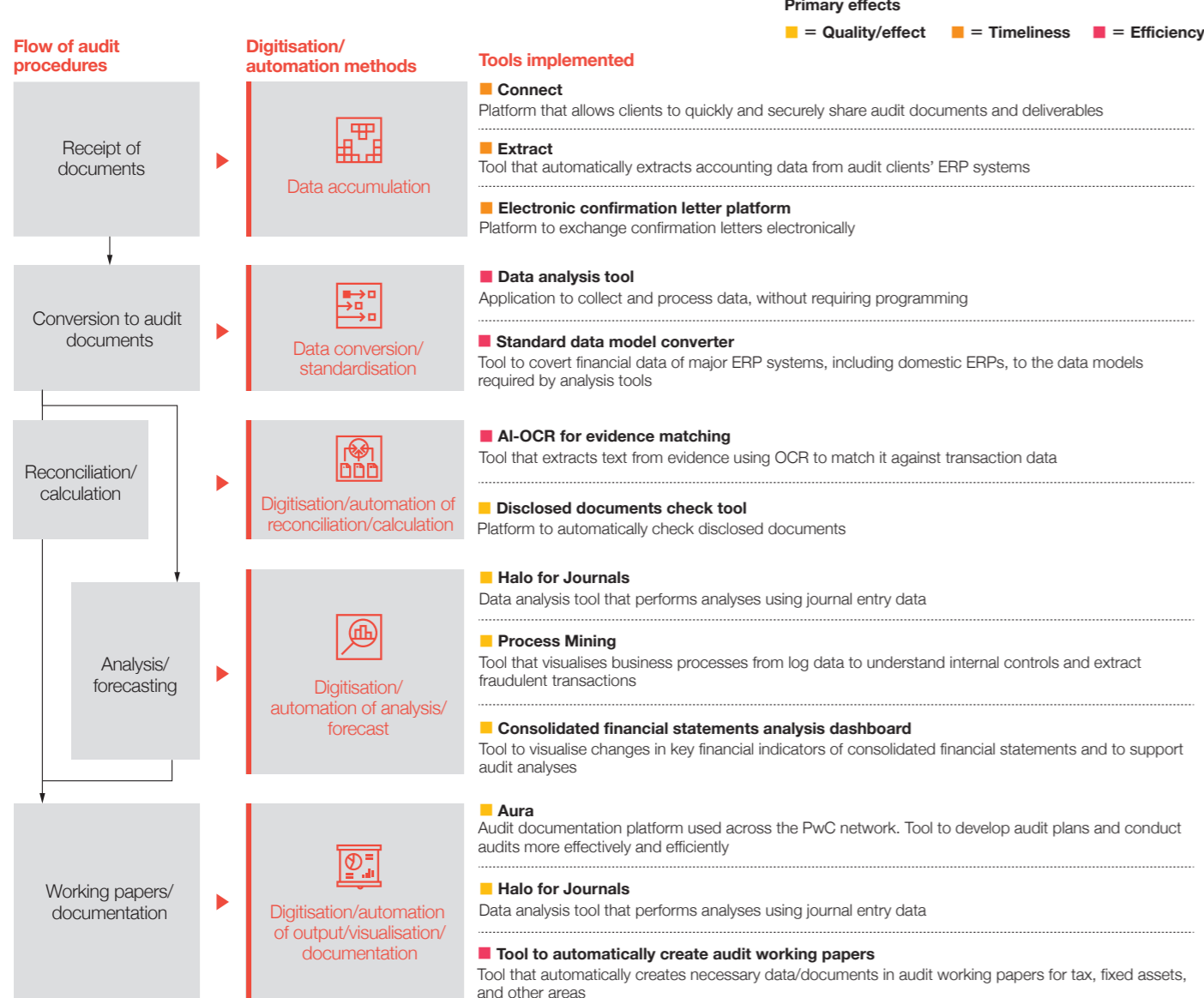
Using technology in audit

In this digital age where human beings and technology are inseparable, it is imperative to combine the power of imagination unique to humans with diverse skills and insights with innovation that relies on innovative technology. Based on this, we aim to roll out a human-led and tech-powered approach. In FY2024, approximately ¥15.8 billion of investment was made in technology at a PwC Japan Group level. The Firm also invests in technology and audit transformation efforts, as the use of technology

for audit quality enhancement leads to higher audit satisfaction not only for audit clients but for all stakeholders.

As shown in the status of technology implementation in each stage of audit procedures below, the Firm has deployed many tools to improve timeliness, quality, effectiveness and efficiency of audit.

Status of technology implementation in each stage of audit procedures



Connect

Listed audit client implementation rate **95.5%**

Connect is our collaborative platform that allows clients to quickly and securely share audit documents and deliverables. It also enables clients and auditors to visualise the status of deliverables and the progress of the audit.

Connect's progress management view

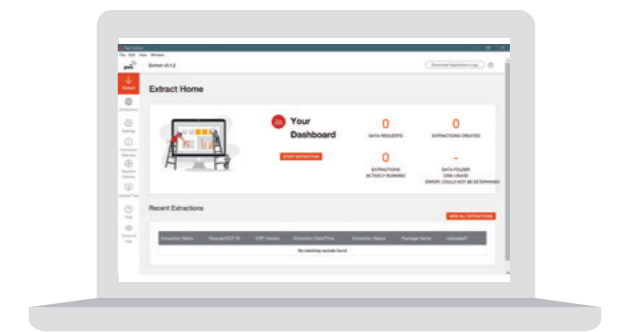


Extract

Number of implemented clients **70**

Extract is a tool developed by PwC that can automatically extract accounting data from ERP systems. By improving the efficiency of the data extraction process, the tool reduces time for both the audit client and the auditor. It enables data sharing more frequently and safely, and helps detect high-risk journal entries at an early stage.

Extract's Home view

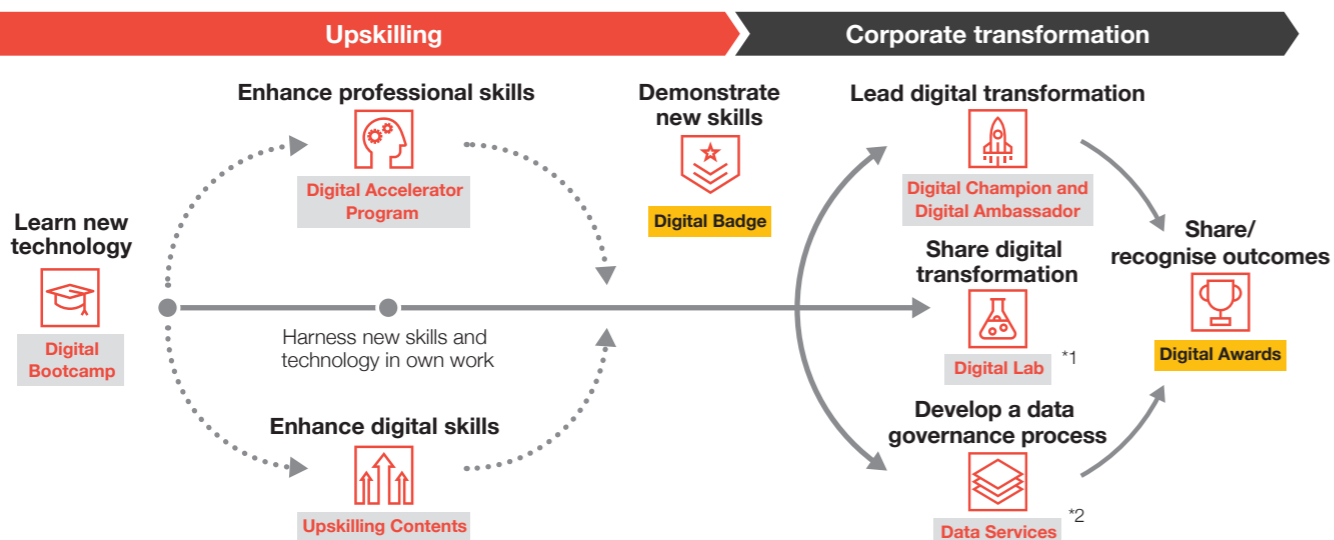


People and culture supporting Digital and Innovation

As a professional firm whose vital asset is people, PwC Japan Group has been undertaking initiatives for digital upskilling. We believe investing in our people and implementing new technology and innovations into our operations are vital in delivering PwC's Purpose. We aim to be an ever-evolving organisation through the

continuous cycle of digital upskilling and contribution to corporate transformation both within and outside PwC Japan Group. The Firm has created an environment in which everyone has an opportunity to be engaged in digital initiatives and equipped with skills to use digital tools.

Our DX journey



*1 Digital Lab: Data platform designed to collect and share digital tools created by PwC network firms, including Japan
 *2 Data Services: Cloud-based platform developed by PwC

Upskilling initiatives

Digital Bootcamp Onboarding training (mandatory)	This program is participated by all employees at the time of onboarding and is designed to have experience and learn digital thinking and technology required of the digital society by using common tools. Mainly, participants use data processing and visualisation tools and learn through that experience.
Digital Accelerator Program Training of selective people	A training program designed to develop people who will promote the digitisation of PwC Japan Group. The program is participated by those members selected from various operating OUs, and includes training on business analyses using digital tools, information security, and generative AI. • Digital Accelerator 140 persons
Upskilling Contents Self-learning contents	A number of learning contents that enable users to easily and quickly acquire new digital skills and literacy are offered. In addition to internally developed contents, external training tools are available for self-learning. Upskilling contents are readily available to enable employees to learn at any time the areas of interest for enhancing their skills.
Digital Champion and Digital Ambassador DC/DA (recommendation by others/self-recommendation)	Digital Champion (DC)/Digital Ambassador (DA) are selected from each OU and are responsible for fostering a digital culture at the OU level and the engagement team level. They are expected to refine their expertise and play an active role both inside and outside the company. • DC/DA 181 persons

Initiatives to recognise skills and share outcomes

Digital Badge	Digital Badge is a digital skill certification issued by PwC to visualise digital skills. This Badge can be shared not only within the Firm, but also through external social media.
Digital Awards	PwC aims to contribute to building trust in society through human-led and tech-powered approaches, combining the human-unique ability to think and experience with technology-driven innovation. An event called Digital Awards is held to recognise individuals and teams who have contributed to such human-led, tech-powered initiatives.

New initiatives

Looking ahead, we classified key talent into three categories and launched a development plan for each category in FY2024.

Process digitalisation talent

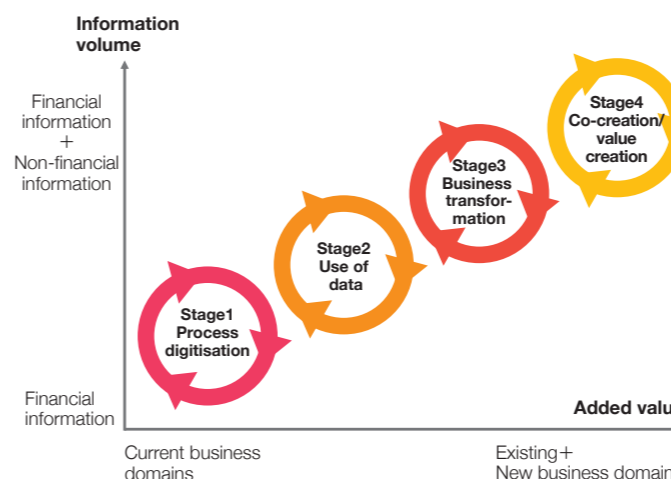
■ Skill to visualise operations and design business processes

Digital OJT was initiated in FY2024 to develop process digitalisation talent.

The program targets (i) employees who have high motivation to engage in digitisation projects but have difficulty in obtaining such opportunities, and (ii) employees with available time, and offers learning programs according to the individual skill level and opportunities to experience real projects. We expect that experiencing real digital projects after completing the programs will complement classroom learning and create synergies.

This program is easy to participate in, encouraging any employees who are willing to acquire such a skill.

Our DX approach



Data utilisation talent

■ Skill to link business and data and extract value from data

With the continued development of generative AI, the importance of high-quality data is increasing. Since FY2024, the Firm has been focusing on the development of data utilisation talent to foster a culture where all employees are equipped with data skills. In addition to providing data analysis and tool training, the Firm has enhanced specialised programs for data scientists and analysts. Technologically, we have developed a platform that handles anonymised data and shares successful cases through the PwC network, thereby raising the level of data utilisation skill of the entire organisation. Through these initiatives, we have been promoting the development of talent who can link business and data.

Product manager talent

■ Skill to design and implement new products and managed services

In an era where technology is constantly evolving, it is difficult for us to appropriately meet the needs of our clients with only our existing lines of services. Going forward, we will develop people who can produce new services and business models (product managers), thereby contributing to society.

Since FY2023, the Firm has held new people development workshops and workshops for partners to discuss the agenda for establishing a people development environment. We have also been discussing plans to create an environment where product managers can play an active role. As a next step, we will shift to the implementation phase of these plans.

Organisations supporting improvement and standardisation of business processes

Initiatives for operational standardisation and delivery model transformation

At PwC Japan Group, the Technical Competency Centre (TCC), which has more than 500 staff in Japan, is working on the standardisation of the audit process. We plan to expand the use of the TCC in other territories as well.

TCC is an organisation that works closely with the digital-tool development department and engagement teams, and comprises staff who have digital skills and/or basic accounting qualifications. In addition to improving the audit process, we aim to improve audit quality through standardisation and automation by leveraging know-how of the digital tool development department.

TCC is an organisation that centrally manages the audit and other operations, and performs audit procedures according to a standardised process. Specifically, a team set up within the department performs testing of some accounts for which required audit procedures are the

same for most audit clients, thereby ensuring quality. Every year, TCC staff and CPAs work together to review the business processes to improve the quality of the audit procedures.

We have deployed a tool to verify that the disclosure documents on EDINET match the final version of the disclosure documents agreed with the audit clients and a process to automatically verify certain disclosures in the annual securities report using XBRL data, thereby supporting engagement teams.

To support these initiatives, more than 20 dedicated CPAs are assigned as managers for the quality management within TCC. TCC's work is also subject to quality management reviews by the Firm.



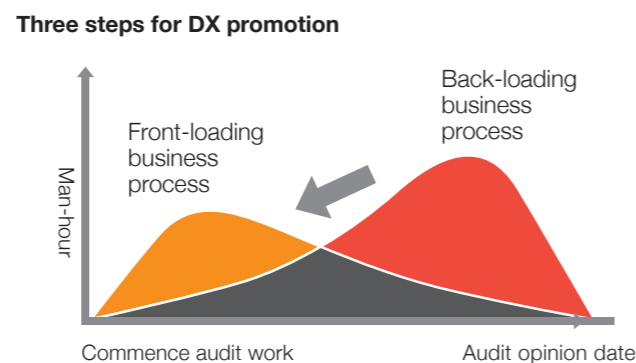
Organisation committed to quality enhancement

Engagement Performance and Quality (EPQ) initiatives

EPQ comprises '4+1' (p. 50), which is the Firm's key quality enhancement initiative by improving business processes. EPQ intends to cultivate a culture where people act autonomously by making engagement teams and their respective staff understand the benefits of accelerating the timing of performing procedures for improving audit quality.

EPQ also seeks to realise our goal of digitising the audit

by improving the audit processes and establishing systematic audit processes and standardising procedures.



Information security

Information security management structure

Through collaboration between PwC network's information security department and member firms in each territory, PwC is working to strengthen information security. Initiatives at a PwC network level enable the prompt implementation of measures using the latest advanced technology globally, and efficiently promote compliance with laws and guidelines. This ensures a higher level of information security compared to the initiatives implemented at an individual member firm level.

The Firm has promptly introduced cybersecurity measures based on PwC network's zero trust security model, and is responding to emerging new threats in a timely manner. In addition to these technological measures, we have launched organisation and individual-level information security measures. These include conducting information security assessments in accordance with PwC network's common standards, providing training and drills based on common contents, identifying information security risks arising from Japan-specific working environments and cultures, and raising awareness of

partners and employees.

Through these initiatives, we strive to continuously ensure robust information security that protects our clients' information.

* To maintain and strengthen information security, the Firm acquired ISO/IEC27001(ISMS) certification in June 2022. Primarily due to the integration, the scope of certification was expanded to cover the Kyoto Business Management Office and PwC Risk Advisory LLC in FY2024.

Cybersecurity incident management

Threats of cyberattacks, including ransomware, are increasing each year. PwC has been taking measures to identify, prioritise, and mitigate cyber risks existing in PwC network's technological environment. The Firm has also established a structure to prevent cyberattacks, such as network protection, endpoint protection, cloud protection, identity security and 24/365 monitoring. It also has a mechanism whereby the information security department deals with an incident by sharing information and collaborating with the related departments, including the risk management department, the legal department and the department where the incident occurred.

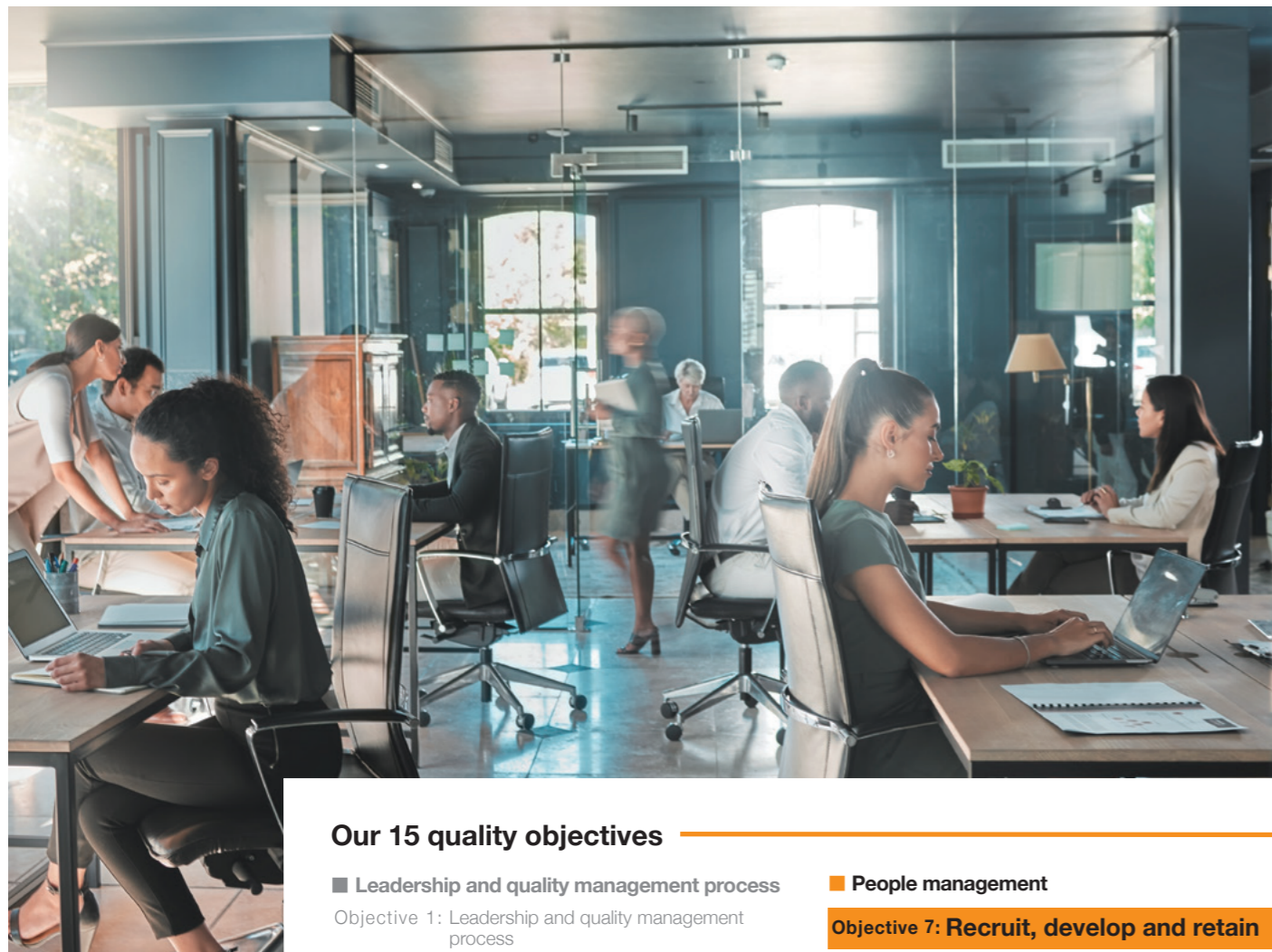
Risk management based on NIS cyber strategy



Cybersecurity management system



3 Talent



Our 15 quality objectives

■ Leadership and quality management process

Objective 1: Leadership and quality management process

■ Ethics and objectivity

Objective 2: Ethical requirements and values

Objective 3: Objectivity and independence

■ Client selectivity management/ Solutions and opportunities management

Objective 4: Client selectivity

Objective 5: Managing services and products

Objective 6: Engagement acceptance and continuance

■ People management

Objective 7: Recruit, develop and retain

Objective 8: Learning and education

Objective 9: Assignment of people to engagements

Objective 10: Evaluation and compensation

■ Technology management

Objective 11: Technological resources

■ Solutions delivery management

Objective 12: Support for engagement performance

Objective 13: Direction, coaching and supervision

Objective 14: Expert knowledge

■ Monitoring and enhancement process for the system of quality management

Objective 15: Quality controls in performing engagements



Message from leaders

The greatest asset of a professional services firm is people. And the growth of each staff is the key to each organisations' growth.

Masahiko Nara

Chief Human Capital Officer, Human Capital Planning Office Leader

Chikako Suzuki

Chief Culture Officer/Chief People Development Officer, People Development Office Leader

Due to rapid changes in the business environment, managerial and social issues have been diversifying, expanding and complicating the challenges we face as a professional services firm.

As the breadth of issues we face widens and increases in complexity, the level of knowledge and experience required in each area is increasing. To address the breadth and complexity of these issues, the Firm has been focusing on encouraging all staff to develop a professional mindset.

For example, our people strategy encourages all staff to take ownership of their professional growth and career progression and develop themselves by continuously engaging with other staff and taking on new challenges. We are also striving to foster and establish a culture that supports this. To continue to be an organisation that helps audited companies, clients and society solve their problems, the Firm's staff need to embrace and respect the knowledge and experience of other staff and bring together such knowledge and experience while enhancing their own.

The Firm has established the People Development Office and Human Capital Planning Office which assumes

HC-related roles, and appointed an officer as a leader for each office. The role of the People Development Office is to define a people model necessary to deliver our vision and strategy and to establish a people development infrastructure, while the role of the Human Capital Planning Office is to build and operate a workplace environment that helps each staff grow as professionals and create diverse values. Both offices collaborate in promoting people development by fulfilling their respective roles.

As part of our FY2024 initiatives, we strengthened our people development functions. For example, we have enhanced training programs for improving expertise and cultivating necessary knowledge and the evaluation program for obtaining feedback. We also clarified career paths and improved our programs for diverse work styles that use hybrid work and other arrangements.

With the integration in December 2023, PricewaterhouseCoopers Japan LLC has started its operation. Since then, we have discussed and taken actions as a new firm. We believe this will lead to our further evolution, individually and as an organisation. We will also continue to focus on our people development initiatives to ensure that our people grow as professionals, creating diverse values.

Our people

Our people model

To ensure the diversity and flexibility of our people and delivery of high quality audits, the Firm has defined the following three attributes as our people model: Embracing and pursuing diversity, Mindset that supports autonomy and challenge, and Ability to harness the power of, and develop, people (mutual respect).

- Diversity: Since diverse knowledge and experience is instrumental to respond to the breadth and complexity

of issues to be dealt with, each staff should recognise and develop his/her own strengths and enhance their professional skills, thereby building diverse knowledge and experience as an organisation.

- Autonomy: Each staff should take ownership of his/her own growth, pursue his/her career as a professional, and take action with courage.
- Mutual Respect: Each staff should respect, embrace and collaborate with each other, solve problems together, and build an ideal organisation that allows diverse people to proactively demonstrate their own power.

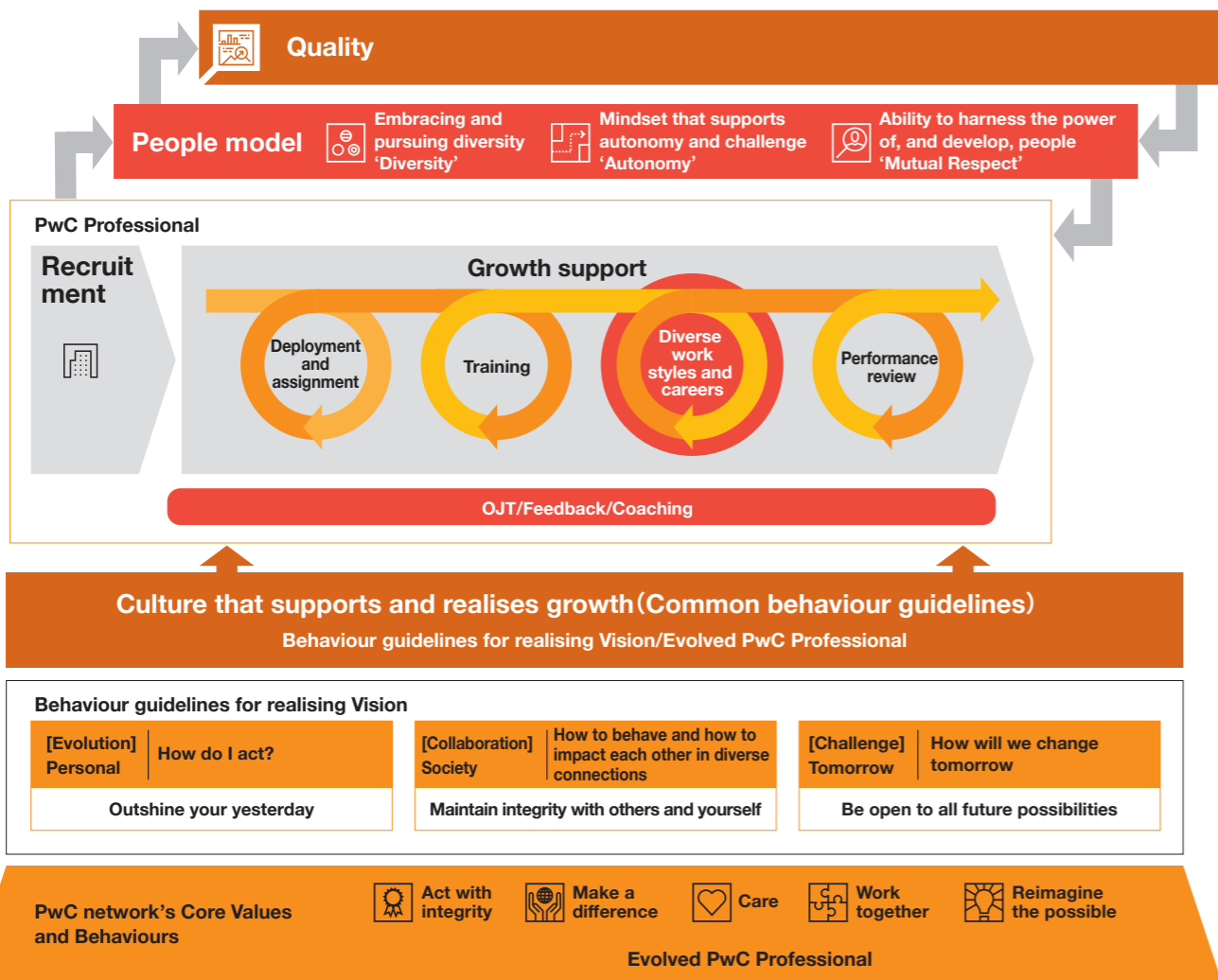
Continuous growth support

For each staff to grow his/her own career path, the Firm has established a framework for implementing programs that cover recruitment and development, training, deployment and assignment, and performance review and management through two-way communication. By continuously and repeatedly operating these programs according to the people’s lifecycle, the Firm supports continuous growth of each staff. We believe that people developed under these programs will drive distinctive, high-quality audits for the Firm.

Key initiatives related to our people strategy

Our people strategy aims to firmly establish a culture where all staff continuously grow as professionals. Our key initiatives are centred on 1. recruitment and development, 2. diverse work styles and careers, 3. training, 4. deployment and assignment, 5. performance review and management, and 6. fostering a culture, which are discussed in detail below.

Lifecycle to develop people for delivering high-quality audit



Key initiatives of our people strategy

1 Recruitment and development	In the recruitment phase, we place the utmost importance on hiring people based on their qualities and whether they relate to the Firm’s strategy and culture, without concern for achieving a target number of recruits. In the development phase, we promote the professional growth of each staff.	► p. 79
2 Diverse work styles and career	For staff to realise their career as professionals, it is important to guide them to career paths that lead to the realisation of our strategies. Further, it is essential to establish an environment and programs that enable people to choose diverse work styles according to their life stage and other factors in their career progression.	► p. 80
3 Training	Training is essential for professional growth. People need to have a minimum amount of knowledge in the fields they consider to be their strengths. The Firm provides mandatory and imperative training in a wide range of areas (e.g. sustainability, cutting-edge technology, including generative AI) and offers a subsidy program for external training expenses.	► p. 81
4 Deployment and assignment	The Firm determines assignments in a manner that ensures people gain work experience required for each career progression and considers workload balance.	► p. 82
5 Performance review and management	This is feedback to promote professional growth. Obtaining timely feedback on both strengths and improvements is imperative to professional growth.	► p. 83
6 Fostering a culture	Behaviour of each staff is critical in realising our people strategy. Fostering a culture to disseminate the common behaviour guidelines based on how each staff should act to realise our goals as an organisation.	► p. 23

Recruitment and development

Recruiting diverse people

Only people can ensure quality. Recruiting is a vital process for securing diverse people that supports audit quality and integrated assurance (p. 11). It is also important to recruit people who have knowledge, experience, integrity and share common values. In all recruitment activities, we introduce candidates to our programs and initiatives for professional growth and the people model and career plans. In recent years, we have been actively recruiting diverse people.

Recruitment indicators

Percentage of people other than JICPA or JICPA exam passers

We focus on understanding capabilities and skills of mid-career hires for recruitment and make use of such information for subsequent assignment and support of their growth.

70%

Percentage of non-JCPAs and non-exam passers

We actively hire people with diverse backgrounds, experiences and skills who are not Japanese CPAs.

47.2%

Number of nationalities (including Japan)

Against the backdrop of globalisation, we hire people from diverse countries to incorporate viewpoints and thoughts that transcend geographic and cultural boundaries.

22 countries

People development

Professional growth is generally achieved through work experience, feedback and learning from training. The Firm places priority on on-the-job training and two-way dialogue through coaching. Inquiries and consultation, feedback, proactive dialogue and suggestions from coaches for professional growth enable support tailored to each staff's growth.

In addition to regular feedback via on-the-job training and coaching, the Firm has established a development program called Global Leadership Development Experience (Global LDE) for people to acquire skills for the future. A Career Coach, who is assigned to each staff, engages in coaching that stimulates staff to take ownership of their growth based on their growth strategy and career plan.

The Firm also offers training programs to acquire skills and knowledge according to the staff's grade, thereby providing continuous support for their professional growth. These include training courses featuring trends in the business environment and changes in strategies.

Opportunities for diverse career paths

Clarifying career paths

Career paths are diversifying, and this trend has become pronounced in recent years. The Firm aims for sustainable growth both at the organisation and individual level to provide high-quality audit and integrated assurance services by adapting to changes in the environment. To achieve this, our organisation needs to provide diverse working styles and careers, and develop diverse people who bring these to life.

To ensure diversity at an individual level, the Firm has established personnel programs suited to diverse work styles and careers. In FY2024, the Firm shared diverse career models and career paths that are necessary for each model. We will continue to share information on diverse career paths and promote coaching from a medium-to-long-term perspective.

Since having diverse career opportunities is vital for the sustained growth of the organisation and individuals, the Firm offers various programs to achieve this. For example, through secondment of audit professionals to relevant domestic institutions and assignment to internal

departments such as Risk & Quality, audit professionals develop a more diversified perspective on audit, which will enable them to understand risks of audit clients in more depth. Experience in an overseas assignment enables them to acquire a global perspective cultivated through different cultures and to perform audits by taking into account global developments in audits. Experience in non-audit services and secondment to companies improves the ability to identify business risks and risks in internal controls of audit clients. We believe these experiences will expand the risk awareness of audit professionals in providing audit services and help improve audit quality.

The Firm is also expanding the interaction with former employees of PwC through the alumni network. Feedback from PwC alumni provides a valuable perspective in understanding external expectations and recognition of the Firm.

Additionally, many staff who have returned to the Firm after temporarily leaving to have experience in other organisations or locations are contributing to the Firm by leveraging their experience.

Diverse experiences for risk recognition and enhancement of audit quality



Training

Positioning of training

The Firm considers training as a learning opportunity for continuous professional growth. In addition to technical areas such as financial statement audits, the Firm offers a variety of courses that enable staff to acquire necessary skills according to their career path.

To develop professionals who can provide high-quality audit and integrated assurance services, people need to acquire skills according to their grade and role that enable them to respond flexibly to changes in environments and situations.

Training plans are reviewed annually to embody and incorporate the five attributes defined in the PwC Professional Framework to help people acquire knowledge and skills necessary to develop and improve behaviour required as PwC's staff.

In addition to mandatory training courses for all staff, we

offer imperative courses to allow staff to take as per their needs and learning motivation.

In FY2024, the Firm reduced the required minimum hours for mandatory training courses, and enhanced access to various training courses. By creating an environment in which staff can actively take ownership of their growth, the Firm supports long-term growth through a development plan formulated to realise diverse careers for each staff.

The Firm monitors the status of attendance at training courses. If an act of inappropriate attendance (e.g. sharing answers of an assessment or taking multiple courses at the same time) is detected, a strict disciplinary action, will be taken.

Knowledge gained through learning is deepened by on-the-job training and coaching, and is accumulated as experience. Through these efforts, the Firm aims to provide solutions by harnessing the power of people with diverse strengths in their respective specialty areas.

Deployment and assignment

Our approach to assignment

Under the Firm's business model, we organise OUs by industry of audit clients and assign staff to continually engage in a certain industry to enable them to accumulate business knowledge. We believe that this model helps the Firm build a foundation for high-quality audits and integrated assurance services.

In the recruitment process, we discuss with candidates their interested industry and career aspirations and, after joining the Firm, determine an OU to be assigned according to their interests. This approach encourages staff to have a high sense of purpose and motivation in work, and contributes to maintaining and enhancing the quality of audit and integrated assurance services.

After joining the Firm, staff regularly discuss medium- to long-term career goals and determine experience necessary to achieve the goals which are adjusted according to their life stage and situations. These are reflected in their assignment to ensure flexibility in response to changes in the environment.

same time, to address issues at an OU level, such as uneven workload in busy seasons, overallocation of work to certain staff and assignment inefficiency, we are working to ensure firm-wide optimal resource assignments across OUs. After the integration in December 2023, the AAO has been working to integrate the assignment of ex-PwC Aarata and ex-PwC Kyoto to solve existing resource management issues.

Going forward, we will promote flexible cross-OU assignments and encourage employees to develop knowledge and experience and flexibility to adapt to changes with the aim of becoming a professional group with optimised expertise. This approach will promote diversified assignments in line with the individual career plan.

Various training programs are available for each employee to acquire necessary skills according to their career path.

	Associate	Senior Associate	Manager	Senior Manager	Director	Partner
	PwC Culture(Purpose, Values and behaviours, Behaviour guidelines for realising Vision)					
Whole leadership	Coaching (e.g. career coach system)					
	Leadership training by grade					
Business acumen	Sustainability training					
	Project management, facilitation, upfront coaching by VR					
	Learning programs, such as MBA essential business knowledge/business skills					
Technical and digital	Digital Upskilling (enhancement of digital skills-Digital Quest/Digital training/Internal badge program/Support for JDLA's deep learning certification for engineers)					
	Annual accounting and audit training/US accounting and audit standard training/IFRS training					
	Audit tool training/OU-level subject matter training (e.g. risk assurance, regulatory compliance)					
	Fraud case study, accounting fraud experience program					
Global and inclusive	Language learning programs (grant for participation in programs offered by language schools (Japanese/English/Chinese), grant for taking an English proficiency test)					
	Global mindset/Communication					
	Inclusion and Diversity (gender, disability, LGBT + Inclusion, different culture, internal badge program)					
Relationships	Assertive communication					

Quality management indicators (AQI) related to training

Average training participation hours of audit practitioners*	90.5 hours	Result of the feedback survey on training	4.4/5 points
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* Audit practitioner means a person who is engaged in audit work for 35 hours or more in a year.

Assurance Assignment Office

Against the backdrop of increasing complexity in the audit environment affected by advancement in business and heightening expectations towards auditors, the Firm has established an assurance assignment office (AAO) to build a firm-wide optimal assignment structure.

The Firm has formulated a policy to promote the mobilisation of engagement teams that are best suited to the situation of clients. Each team develops an assignment plan in accordance with this policy. At the

Performance review

PwC Professional and performance review program

PwC defines the skills and competencies required for partners and staff under the PwC Professional, which is the PwC network's common framework. This categorises skills and competencies required for leadership to realise PwC's Purpose and act based on values into five attributes.

The performance review program requires performance review according to individual life stage and career paths. Performance review uses the PwC Professional as evaluation criteria, and focuses on strengths of each employee while embracing diversity. The results are provided to staff with sufficient explanation and feedback through coaching.

Audit quality in performance review

Performance review is performed considering each grade and based on the five attributes of the PwC Professional and the status of achieving KPIs set by each operating unit.

By defining service quality as one of the most key indicators in performance review, the Firm encourages all staff to acquire skills and competencies required to ensure

quality, and motivates them to act with a quality-first mindset in working for audits and other engagements.

Performance review and determination of compensation for partners, including leadership members, is based on the internal policy and procedures on performance evaluation and an individual plan developed annually by each partner. In the annual plan, indicators related to service quality are regarded as the most key indicators. The progress of achieving the indicators is evaluated by the leader of each operating unit and results are submitted to the Management Committee. If a partner is given a high rating for his/her contribution to quality in an external inspection, or is recognised for his/her efforts to maintain and improve audit quality, this will be appropriately reflected in performance review.

360-degree feedback

The Firm conducts 360-degree feedback with the aim of fostering an open culture and enhancing the value of each staff. The results of 360-degree feedback for partners and partner candidates are reflected in their performance review. 360-degree feedback is also available for other staff. As all staff can receive feedback from anyone at any time, timely feedback from other staff is used as input to facilitate personal growth.

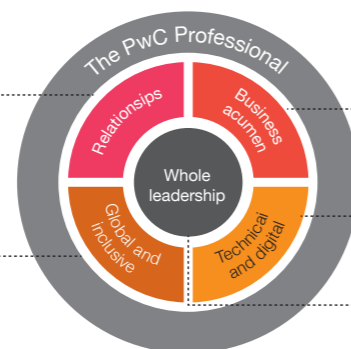
PwC Professional Framework

Relationships

Build meaningful relationships with integrity and trust

Global and inclusive

Operate and collaborate effectively with a mindset that transcends boundaries and embraces global and cross-cultural perspectives



Business acumen

Bring business knowledge, in novation and insight to create distinctive value for clients and PwC

Technical and digital

Apply a range of technical, digital and other professional capabilities to deliver quality and value

Whole leadership

Lead oneself and others to make a difference and create a positive impact in a responsible, authentic, resilient, inclusive and passionate manner

Well-being and Inclusion and Diversity (I&D)

Purpose of well-being and promotion structure

Workplaces need to provide an environment where employees feel motivated and work comfortably. Based on the results of the annual employee engagement survey, the Firm has identified well-being as an area that requires ongoing efforts.

To foster an organisational culture in which employees can demonstrate high performance while leading a healthy life, the Firm has been working on various initiatives in collaboration with the Management Committee, Planning & Management, Internal Firm Services and PwC Health Insurance Society, with the CEO serving as a leader.

Initiatives toward well-being

It is vital to meet the diverse work-style needs of diverse people. To this end, the Firm has implemented a system that enables people to design their own work style according to the needs of their life stage. With the diversification of working places, hours and arrangements, we believe that allowing people to flexibly choose a work style contributes to individual growth and organisational development.

The health management strategy map illustrates the relationship between initiatives (health investment) and target indicators, and clarifies the health management strategy. This map helps improve the effectiveness of various initiatives. As part of our initiatives to improve well-being, the Firm has established a coaching system in which a coach is assigned to each staff to appropriately consult about working hours and work style.

I&D

PwC Japan Group promotes I&D focusing on 5 domains: gender, nationality, disabilities, work style reform and LGBT + Inclusion.



【Health and Productivity Management Organisation】
In recognition of various initiatives, the Firm has been certified as a health and productivity management organisation (large enterprise category) that implements excellent health management for six consecutive years, and as a White 500 enterprise for three times, since 2019.



【Kurumin Certification】
The Firm has implemented measures and established a workplace environment to support child care. Owing to these efforts, the Firm has received the Kurumin certification (certification granted to entities who support employees for their child care) from the Minister of Health, Labour and Welfare.

Wellbeing/I&D-related indicators

Percentage of women (entire Firm)	35.2%	Percentage of women in managerial positions (Managers and above)	24.6%
Percentage of men taking childcare leave	101%*	Period of childcare leave taken by men	6.7 weeks
Average number of days of paid leave taken (excluding partners)	17.5 days	Gender pay gap	81.2%

*The percentage of men taking childcare leave is calculated based on the formula of the indicator required to be disclosed under the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members.

PwC network

Global network

In many parts of the world, accounting firms are required by law to be locally owned and independent.

The PwC network is not a global partnership, a single firm, or a multinational corporation. The PwC network consists of firms which are separate legal entities. PwC is the brand under which the member firms of PricewaterhouseCoopers International Limited (PwCIL) operate and provide professional services. Together, these firms form the PwC network. 'PwC' is often used to refer either to individual firms within the PwC network or to several or all of them collectively.

PricewaterhouseCoopers International Limited

Firms in the PwC network are members in, or have other connections to PwCIL, an English private company limited by guarantee. PwCIL does not practice accountancy or provide services to clients. Rather its purpose is to facilitate coordination between member firms in the PwC network.

Focusing on key areas such as strategy, brand, and risk and quality, the Network Leadership Team and Board of PwCIL develop and implement policies and initiatives to achieve a common and coordinated approach among individual member firms where appropriate. Member firms of PwCIL can use the PwC name and the resources and methodologies of the PwC network are made available to them. In addition, member firms may request the resources of other member firms and/or secure the provision of professional services by other member firms and/or other entities. In return, member firms agree to abide by certain common policies and to maintain the standards of the PwC network as put forward by PwCIL.

The PwC network is not one international partnership and PwC member firms are not otherwise legal partners with each other. A member firm cannot act as agent of PwCIL or any other member firm, cannot obligate PwCIL or any other member firm, and is liable only for its own acts or

omissions and not those of PwCIL or any other member firm. PwCIL has no right or ability to control a member firm's exercise of professional judgement.

Subject to the agreed common policies and the standards of the PwC network as put forward by PwCIL, each PwC member firm is responsible for its operations, including, without limitation, business decisions and planning, strategy implementation, service execution and delivery, and quality management.

PricewaterhouseCoopers Japan LLC has signed a contract with PwCIL to be a member of the PwC network and acts as a member firm of PwCIL in Japan.

The governance bodies of PwCIL are:

- **Global Board**, which is responsible for the governance of PwCIL, the oversight of the Network Leadership Team and the approval of network standards. The Board does not have an external role. The Board is comprised of elected partners from PwC firms around the world and one or more external independent directors. Please refer to the PwC Global website for a list of the current members of the Global Board. From Japan, Susumu Adachi, a member of the PricewaterhouseCoopers Japan LLC's Oversight Board (PricewaterhouseCoopers Japan LLC's partner), currently serves as a member of the Global Board, having been elected to a four-year term beginning on 24 June 2021. Adachi is also a member of the Markets Committee.

- **Network Leadership Team**, which is for setting the overall strategy for the PwC network and the standards to which the PwC firms agree to adhere.

- **Strategy Council**, is made up of the leaders of the largest PwC firms and regions of the network, agrees on the strategic direction of the network and facilitates alignment for the execution of strategy. The Managing Director of the Firm is a member of the Strategy Council which maintains our relationships with the Network Leadership Team.

- **Global Leadership Team**, which is appointed by and reports to the Network Leadership Team and the Chair-

man of the PwC network. Its members are responsible for leading teams drawn from member firms to coordinate activities across all areas of our business.

In addition to the governance bodies of PwCIL, the PwC network has established the Global Assurance Leadership Team (GALT). The GALT, which is made up of the Assurance Leaders of the Strategy Council firms, agrees on the strategic direction of the network's Assurance practices and facilitates alignment for the execution of the Global Assurance strategy. Takeshi Yamaguchi, the Assurance leader of our firm, participates in the GALT. By participating in discussions on the direction of the strategy, measures to improve audit quality, and ways to manage related issues, we are involved in establishing a system to provide input to the global network and provide consistent, high-quality audits. The GALT is not, however, a governing body and has no governance or management powers over individual PwC firms. The GALT has no authority for the execution of audits by PwC firms, nor with the professional judgment associated with execution of those audits.

System of Quality management in particular the Network Resources

In the long and global history of auditing firms, there have been cases where an audit quality problem caused by one member firm eventually gave significant damage to the reputation of the entire global network.

In order to hold us accountable for quality, each PwC member firm remains responsible for its system of quality management, including professional judgments made in the design, implementation and operation of the system of quality management. Monitoring activities are undertaken by the network across the network firms. The activities include obtaining information from the network about the overall results of the network's monitoring activities across the network firms.

The responsibility for operational risk and quality management lies with individual PwC firms. In certain

areas of quality management where a common and coordinated approach amongst individual member firms is appropriate, relevant network requirements or network services (network resources) have been made available to PwC firms to use as part of their System of Quality Management (SoQM) and in support of audit engagements. These Network resources may include, for example the Network Risk Management Policies (NRMPs) and use of certain tools and systems such as Aura and PwC Audit.

PwC firms are expected to adopt and use certain of those network resources in accordance with network requirements, and to consider what other network resources that are made available to them will be used in their member firm. Prior to use of a network resource, however, our firm identifies and assesses the appropriateness of using such resources within their firm's SoQM including any related quality risks. This includes, for example, identifying and assessing quality risks related to compliance with local laws, regulations and professional standards when using these network resources. To mitigate any identified and assessed quality risks, PricewaterhouseCoopers Japan LLC supplements or tailors the network resources used, as appropriate.

As a result, PwC requirements are in alignment with Japanese laws, regulations and related professional standards. Also, it is not efficient for audit firms in individual countries and regions to mutually monitor the quality of management and audits all over the world. Therefore, we set the common expectations and standards as a network, and operate a global system to review the quality of management and audits and share the outcomes. Representatives from audit firms in individual countries and regions join this review system and make common views on the framework and application of the level of quality. Member firms utilise this review system to improve their quality. (Since our establishment, PricewaterhouseCoopers Japan LLC's reviewers have joined this review internationally to bring our perspective on quality.)

The PwC Japan Group is a collective name for the member firms of the PwC network in Japan and their affiliates. Each firm within the PwC Japan Group conducts its business as a separate, independent business entity.

PwC Japan Group

PricewaterhouseCoopers Japan LLC	PwC Consulting LLC
PwC Advisory LLC	PwC Tax Japan
PwC Legal Japan	PwC Research Institute (Japan) LLC
PwC Sustainability LLC	PwC Business Assurance LLC
PwC Business Solutions LLC	PwC Outsourcing Services LLC
PwC Labor and Social Security Attorney Corporation	PwC Risk Advisory LLC
PwC Japan LLC	

PwC Japan Group's governance and organisational structures

We recognise that quality of professional services may have a significant impact on markets and society. We develop quality standards and rules related to governance based on strict policies established by the PwC network and pursue high quality services in close collaboration with the PwC network.

PwC Japan Group's governance structure

The General Oversight Committee, which is a consultative body composed of partners representing various areas of PwC Japan Group, monitors and supervises the activities of PwC Japan Group's leadership team and promotes governance of collaboration across the PwC Japan Group.

PwC Japan Group's leadership team

The leadership team of PwC Japan Group is composed of members who are responsible for supervising

the respective areas.

Decision making by PwC Japan Group and PricewaterhouseCoopers Japan LLC

The leadership team of PwC Japan Group discusses the cooperation across member firms in Japan and common policies, exchange information on matters such as independence, and deliberates on a framework that contributes to the development of a foundation. The governance structure of PwC Japan Group monitors and oversees discussions.

Even if our firm agrees to the results of discussions on the cooperation among the member firms in Japan and a common policy for the operation of business, this agreement is based on the determination made by the firm independently and voluntarily (i.e. decision made independently by the body of the audit firm), and is limited to the extent permitted by laws and regulations in Japan. The Oversight Board independently monitors and oversees our firm's decision making.



PwC Japan Group Chair's Message

Masataka Kubota PwC Japan Group Chair

I serve both as the Chair of PwC Japan Group and the CEO of PricewaterhouseCoopers Japan LLC (the 'Firm').

To deliver PwC's Purpose of building trust in society and solving important problems, PwC provides professional services in a wide range of fields, including accounting, tax, consulting, deals advisory and legal affairs. But trust in society has been collapsing, which has driven an increase in issues. Particularly in the past few years, unprecedented or unexpected events have been occurring. I believe such situations will continue into the future.

Climate change issues, such as global warming, the use of technology and reinvention of tech-enabled organisations and society are the issues that society must solve. However, transformation without trust can lead to confusion. We will deliver both trust and solutions to problems based on trust we have gained through our audit practice, and become a firm that helps build a better society.

I will work to create an organisation where diverse people play an active role in solving diverse issues by incorporating the PwC Japan Group's collective strengths into the Firm in my capacity as the Chair and CEO of respective organisations, and work side by side with various stakeholders for the same goal of contributing to society.



Global Chairman's message

Mohamed Kande Global Chairman of PricewaterhouseCoopers International Limited (PwCIL)

The world continues to face new challenges. This creates an increasing demand for business to build greater levels of trust with all stakeholders. At PwC, building trust with our clients, stakeholders and society is key to what we do. We're committed to maintaining a strong ethical culture, developing our people for the future and pursuing quality through investments in technology and governance.

We support our clients to do the same and our success depends on our ability to do this well. Building a strong ethical culture is a constant journey that needs focus, dedication and leadership. Transparency reports are important steps on that journey and I hope this report helps readers to understand the actions we take and the quality we deliver in Japan.

This year we are delighted that Masataka Kubota has taken on the role of Senior Partner. He is highly experienced and firmly committed to quality and transparency. We are confident that he and his new leadership team will continue to create and deliver excellence across the firm.

We are pleased to share the 2024 Transparency Report with you.



Response to the Audit Firm Governance Code

The Principles for Effective Management of Audit Firms (The Audit Firm Governance Code), issued on March 31, 2017, lay down a set of principles to be observed with respect to the organisational management of audit firms that audit large listed companies and other applicable firms. The Firm adopted this Governance-Code in FY2017.

On March 24, 2023, the revised Audit Firm Governance

Code (the Revised Code) was issued, requiring the establishment of structures to perform audits based on the Revised Code and to publish the status of application of the Revised Code, starting from April 1, 2023. The Firm has been taking action and disclosing information based on the Revised Code from the previous fiscal year.

Issues for the next fiscal year

Principles for Effective Management of Audit Firms (Principles)	Our issue
<p>Principle 1</p> <p>Role of an audit firm</p> <p>An audit firm has the public interest role to ensure the credibility of corporate financial information through the audits, seek to protect stakeholders such as participants in the capital market and thereby contribute to the sound development of the national economy. In order to accomplish this role, the audit firm should encourage its personnel to have frank and open-minded dialogue, enhance mutual development, promote their full competence, and continuously enhance audit quality on a firm-wide basis.</p>	<p>In FY2023, the Firm formulated and adopted the Behaviour Guidelines to create an ideal organisation using a bottom-up approach, by encouraging diverse people to respect each other and to act autonomously based on the shared code of conduct under the common goal of realising the Firm's Vision. The Firm plans to review the Behaviour Guidelines and implement measures to further disseminate the guidelines across the Firm.</p>
<p>Principle 2</p> <p>Organisational structure (effective management)</p> <p>Organisational structure (effective management)</p> <p>An audit firm should have effective management in order to develop its organizational operations as a whole for the continuous enhancement of audit quality.</p>	<p>On December 1, 2023, PricewaterhouseCoopers Aarata LLC and PricewaterhouseCoopers Kyoto merged and became PricewaterhouseCoopers Japan LLC. The Firm will strive to become a better organisation by bringing together the good attributes of both firms' organisational culture, create synergies, promote initiatives for delivering high audit quality, and developing people to contribute to society.</p>

Principles and our FY2024 actions/Principle 1

Principles (The Audit Firm Governance Code)	Our FY2024 actions
<p>Principle 1</p> <p>Role of an audit firm</p> <p>An audit firm has the public interest role to ensure the credibility of corporate financial information through the audits, seek to protect stakeholders such as participants in the capital market and thereby contribute to the sound development of the national economy. In order to accomplish this role, the audit firm should encourage its personnel to have frank and open-minded dialogue, enhance mutual development, promote their full competence, and continuously enhance audit quality on a firm-wide basis.</p>	
<p>1-1</p> <p>An audit firm should recognize its public interest role and clearly express the tone at the top so that the top management and the firm personnel will proactively accomplish their respective roles, as well as so that all partners of the firm duly undertake their responsibilities to develop the operational structure of the firm.</p>	<p>The Chief Executive Officer (CEO) is ultimately responsible for the Firm's system of quality management. The CEO and officers proactively communicate with partners and staff. This communication emphasises the importance of Doing the right thing and encourages staff to Speak up (everyone freely raises his/her voice to anyone regardless of when they joined the Firm). The key communication tools are:</p> <ul style="list-style-type: none"> • Vision 2030 and PwC Japan's business plan are formulated and shared within the Firm. These place the highest priority on audit quality. • At the beginning of the fiscal year, the Firm holds an All Staff Meeting to communicate the Firm's policies, including the importance of audit quality, to partners and staff. • Sessions on audit quality are held at regular partner meetings, where information on audit quality is shared among partners, and the importance of audit quality is reconfirmed. • Messages are distributed to all partners and staff by the Assurance Leader (including messages related to audit quality, which is the Firm's top priority).
<p>1-2</p> <p>An audit firm should define the values to be commonly maintained by its personnel and also develop the code of conduct to put these values into practice.</p>	<p>The Firm's Purpose is to build trust in society and solve important problems. The following approaches have been clarified as strategic measures to realise the Purpose.</p> <ul style="list-style-type: none"> • The Firm has positioned The New Equation as its management vision. The New Equation is to help clients deliver sustained outcomes by combining diverse people with the most innovative technologies. • The key goal of Vision 2030 is to deliver integrated assurance to close a diverse trust gap that is likely to exist in society in 2030. Based on this, the Firm places the highest priority on the pursuit of unwavering quality that underpins integrated assurance. <p>The Firm has built the following foundations to realise the Purpose:</p> <ul style="list-style-type: none"> • Established Values and Behaviours as a code of conduct and implemented initiatives to encourage all staff to work toward the shared goals; and • Defined the PwC Professional framework as the Firm's people model.
<p>1-3</p> <p>An audit firm should appropriately motivate its personnel in order to raise their morale and help them to fully maintain and demonstrate their professional competence and skepticism.</p>	<p>Key indicators in performance reviews of partners and staff are items related to quality management of engagements. The focused items include the appropriateness of significant audit judgements, the demonstration of professional scepticism, the appropriateness of responses to identified and assessed audit risk, and the appropriateness and timeliness of documentation. In addition to individual audit engagements, efforts to improve audit quality across the Firm and across each OU (e.g. chief auditor activities, conducting hot reviews and EPQ activities) are also considered in performance reviews of partners and staff.</p>
<p>1-4</p> <p>An audit firm should appropriately motivate its personnel in order to raise their morale and help them to fully maintain and demonstrate their professional competence and skepticism.</p>	<p>Since its foundation, the Firm has placed importance on developing a culture of openness within the Firm and engagement teams. Accordingly, the Firm has defined the following three elements as its Professional Culture and is continuing its efforts to instill this Professional Culture across the Firm:</p> <ul style="list-style-type: none"> • Each staff proactively acts and speaks up to do the right thing at all times (Speak up and Action); • Accept new or different things, and take on challenges (Listen up) • Provide support for voices raised in Speak up (Follow up) <p>By instilling a culture of Speak Up and Action, Listen up and Follow up, the Firm encourages engagement teams to actively exchange opinions between partners and staff to share problems, issues and risks recognised to improve the quality of services. Every year, the Firm employs an independent third-party vendor to conduct a survey of the Firm's staff on their professional awareness and job satisfaction (Global People Survey). The Management Committee analyses the survey results and takes remedial actions. Moreover, the Firm is working to apply Speak up and Action, Listen up and Follow up in practice through staff forum activity in which staff solve challenges and important problems in their day-to-day work together and through consultation with the leadership team. [Issue for the next fiscal year]</p> <p>In FY2023, the Firm formulated and adopted the Behaviour Guidelines to create an ideal organisation in a bottom-up approach, by encouraging diverse people to respect each other and to act autonomously based on the shared code of conduct under the common goal of realising the Firm's Vision. The Firm plans to review the Behaviour Guidelines and implement measures to further disseminate the guidelines across the Firm.</p>

Principles and our FY2024 actions/Principle 1

Principles (The Audit Firm Governance Code)	Our FY2024 actions
1-5 An audit firm should clarify not only its stance toward non-audit services (provided by the firm and its group organizations), but also what specific measures are being taken, based on the size and characteristics etc. of the firm, to address concerns related to conflicts of interest or independence. Furthermore, if employees of the audit firm are allowed to hold concurrent or side jobs, the firm should clarify what specific measures are being taken to address concerns related to conflicts of interest or independence, including the firm's approach to the people retention and development.	The Firm's Purpose is to build trust in society and solve important problems and our vision statement is to build trust for the future of Japan. To close a broader trust gap that is likely to emerge in future society, the Firm will expand the scope of its audit and advisory services and combine knowledge and experience of each service to deliver integrated assurance services with the aim of becoming a firm that will rebuild trust in society. To this end, the Firm will also engage in non-audit services as a core growth strategy. To adapt to the changing business landscape, the advancement of information processing and increasing complexity of transactions, a higher level of knowledge and experience is required in IT and other areas of audits. With a growing need for disclosing non-financial information integrally with financial information, the scope of assurance services, as well as the scope of knowledge and technology required for audit, will continue to expand. The Firm believes that the provision of non-audit service will further enhance the knowledge and experience of professionals of the Firm and other PwC member firms, which will be leveraged in audit services to further improve audit quality. To maintain independence from audit clients in the provision of non-audit services and to prevent conflicts of interest, the Firm has established restrictions on the engagement acceptance and continuance of services by member firms of the PwC network, including the Firm. If a non-audit service is to be provided to an audit client, the non-audit engagement team assesses the permissibility with the audit team. If the client is not an audit client, a conflict of interest with the service planned to be provided will be checked to determine the permissibility of offering the service. Certain non-audit services are required to be reviewed by the Compliance Office. The Firm also assesses whether there is a risk that the acceptance of an engagement may undermine stakeholders' evaluation of the Firm or other PwC firms. Employees are allowed to engage in a side job to some extent. The Firm has established side job guidelines to clarify prohibited side jobs due to conflicts of interest and independence. The Firm also requires applicants to follow an internal application procedure.
1-6 In the event that an audit firm participates in a global network or conducts group management through comprehensive business alliances with other firms etc., such an audit firm should clarify how it seeks to manage its business with regard to its relationship to and positioning within the global network or its group.	Based on Guideline 5-3, this is explained in the Audit Quality Report 2024.

Principles and our FY2024 actions/Principle 2

Principles (The Audit Firm Governance Code)	Our FY2024 actions
Principle 2 Organisational structure (effective management) An audit firm should have effective management in order to develop its organizational operations as a whole for the continuous enhancement of audit quality.	
2-1 An audit firm should establish an effective management structure to ensure its effective management and operations. Furthermore, in the event that an audit firm decides not to establish a management structure in view of its size and characteristics etc., the firm should ensure it has effective management functions.	The Firm has established the Management Committee as a structure to conduct effective management functions. The Management Committee, which is chaired by the CEO with participation by officers and observers, is held more than once a month to actively discuss the Firm's business management, audit quality, people and other material agenda items and makes managerial decisions. Officers conduct the operation of their responsible OU in accordance with the policies and decisions made at the Management Committee. The Management Committee analyses root causes of findings identified in external inspections and other reviews, and promotes remedial actions to address those findings. The Management Committee critically reviews the results of actions implemented for further enhancement. Since its foundation, the Firm has established industry-specific OUs. This enables information sharing on trends in the industry and business risks and exchange of opinions within the OU and between engagement teams, and timely collaboration with the related organisations of the PwC network including overseas member firms. As organisation-wide measures to improve audit quality of the entire Firm, the Firm reviews and monitors the workload of engagement leaders to ensure partners have sufficient time to focus on the audit. In addition, the Firm continuously reviews engagement risks of audit clients and responds to these risks. [Issue for the next fiscal year] On December 1, 2023, PricewaterhouseCoopers Aarata LLC and PricewaterhouseCoopers Kyoto merged and became PricewaterhouseCoopers Japan LLC (PwC Japan). The Firm will strive to become a better organisation by bringing together the good attributes of both firms' organisational culture, create synergies, promote initiatives for delivering high audit quality, and developing people to contribute to society.

Principles and our FY2024 actions/Principle 2

Principles (The Audit Firm Governance Code)	Our FY2024 actions
2-2 An audit firm should clarify the role of the management in important operations, including the following matters, in order to meet the public's expectations of audits and ensure its effective management and operations: <ul style="list-style-type: none"> Development of organizational structure to ensure appropriate judgments of the audit firm on important issues that potentially have a significant influence on the reliability of audit quality from the capital market, and proactive involvement in those significant issues by utilizing the structure mentioned above; The development of an environment that allows audit teams to conduct a macroscopic analysis based on an understanding of the economic environment and frank and in-depth dialogue with audited companies in order to identify the risks of material misstatements and to respond to the assessed risks appropriately; Setting an appropriate environment for people development, human resources management and performance evaluation in order to raise the morale of the firm personnel and help them to maintain and demonstrate their professional competence; and Consideration and development related to the implementation of IT infrastructure (including the proactive and effective utilization of technology) in order to enhance the efficiency and effectiveness of audits, in consideration of the improvement of the efficiency of audit-related operations and the advancement of technologies, including digitalization, at audited companies 	The Firm defines services that require particularly careful judgement, such as audit engagements with a significant social impact. Engagements that meet the definition are reviewed at the Quality Review Board chaired by the CEO with participation by the Chief Quality Officer, partners from Risk & Quality and staff with knowledge and experience of the relevant engagement. Risk & Quality, which is supervised by the Chief Quality Officer, provides support to engagement teams for audit quality enhancement. Activities include reviewing and conducting follow-up (reach-out activity) and ongoing review of working papers by dedicated staff for engagement teams' responses to specific audit risk and to audit considerations, thereby facilitating exchange of opinions with audit clients. The Human Capital Planning Office plans, implements, and monitors a high-level, firm-wide people development plan and initiatives for ensuring assignment across OUs and consistent performance review through consultations with the partners responsible for people related activities at each OU. The Firm has been proactively deploying technology such as Aura (an electronic audit documentation platform equipped with project management functions), Halo (a data-enabled audit and analysis tool), Connect (an information exchange and management tool) and Extract (a system for automatically extracting accounting data). Assurance Innovation & Technology is working on research and development to introduce audit techniques leveraging advanced IT technology. The Firm is also implementing measures to improve the digital skills of all employees.
2-3 An audit firm should appoint people who can perform the management functions not only by taking into account their thorough knowledge and experience of audit practice but also by ensuring the effectiveness of the management functions for its organizational operations of the firm.	Members of the Management Committee are appointed from those with high competencies in the Firm's strategic priority areas (e.g. quality management, audit services, non-audit services, risk, digital, assurance) in addition to the CEO and deputy-CEO. Each member of the Management Committee has audit skills and competencies to demonstrate leadership. Members are appointed from the perspective of whether they are capable of responding to the Firm's priority managerial issues and discussing issues from different viewpoints while having common value.

Principles and our FY2024 actions/Principle 3

Principles (The Audit Firm Governance Code)	Our FY2024 actions
Principle 3 Organisational structure (supervisory and evaluation of the effectiveness of management functions from the independent viewpoint) An audit firm should have a function to supervise and evaluate the effectiveness of its management from the independent viewpoint and thereby support to enhance the effectiveness of the management.	
3-1 An audit firm should establish a structure to supervise and evaluate the effectiveness of its management etc. and thereby support to enhance its effectiveness, and clarify the role of the structure. In the event that an audit firm decides not to establish a structure responsible for supervision and evaluation in view of its size and characteristics etc., the firm should ensure the function of supervising and evaluating the effectiveness of its management functions and thereby supporting the enhancement of its effectiveness.	The Firm has established the Oversight Board as the supervisory and evaluation function independent of the Management Committee. The Oversight Board supervises the activities executed by the Management Committee and has the authority to appoint the CEO, review appointment or removal of partners, audit the execution of the Firm's business operations, and monitor the Firm's quality management activities. The Firm has established the Public Interest Body as the function to provide advice to the Management Committee and supervise and evaluate the initiatives of the Management Committee with a view to improving the effectiveness of the Firm's business operation and enhancing audit quality.
3-2 An audit firm should effectively utilize the knowledge and experience of independent third persons to deal with the issues recognized by the firm from the perspective of ensuring effective management and organizational operations and accomplish its public interest role. At the same time, the firm should clarify the role expected for the third person to play and its approach to independence.	The Public Interest Body (PIB) is composed of external experts, the chair of the Firm's Oversight Board and the CEO to incorporate the perspective of external experts representing the public interest into the Firm's business management. The PIB is expected to ensure transparency and strengthen accountability, thereby improving audit quality. External experts are third parties who are independent of the Firm's management and have advanced experience, knowledge, experience and know-how as management of the companies, market participants or lawyers. To ensure independence, external experts have no business execution responsibility for the Firm and are periodically reviewed to ensure that the independence requirements stipulated by the Firm are satisfied.

Principles and our FY2024 actions/Principle 3

Principles (The Audit Firm Governance Code)	Our FY2024 actions
<p>3-3</p> <p>An audit firm should clarify the role of the members of the supervision and evaluation structure or independent third persons considering that those persons are expected to be involved in the following matters, for example:</p> <ul style="list-style-type: none"> • Advice and recommendations that contribute to improving the effectiveness of its management functions; • Oversight of the evaluation of the effectiveness of the management; • Oversight of the process of the election or appointment, retirement, evaluation and remuneration of the people who can perform the management functions or independent third persons; • Oversight of developing the policies for people development, human resources management, performance evaluation and remuneration; • Oversight of the evaluation of the status of development of policies and procedures regarding whistle-blowing from within the audit firm and external sources, and the status of verification and utilization of provided information; and • In fulfilling their oversight role, independent third persons should also be involved in dialogue with audited companies, shareholders and other participants in the capital market. 	<p>The Oversight Board receives reports from the CEO or officers on the status of business execution of the Firm, and has the authority to supervise and evaluate the initiatives of the Management Committee as described in 3-1(1) above.</p> <p>The PIB has a role of exchanging opinions on the items listed below and supervising and evaluating the Management Committee's initiatives.</p> <p>In addition, the PIB has the authority to consult with the Oversight Board and provide advice and request consideration to the Oversight Board when deemed necessary to establish a more effective supervisory and evaluation structure.</p> <ol style="list-style-type: none"> 1. Improvement in the effectiveness of management functions, including maintaining and improving audit quality; 2. Evaluation of the effectiveness of operation of the organisation; 3. Involvement in the appointment and removal of persons fulfilling the management functions or independent third parties and in the process of evaluating and determining compensation; 4. Development of policies for people development and management, performance review and evaluation; 5. Assessment of the effectiveness of internal and external whistleblowing policy and procedures, and review of how information reported is verified and used; 6. Approach for exchanging opinions with audit clients, shareholders and other capital market participants; 7. Assessment of the application of the Audit Firm Governance Code.
<p>3-4</p> <p>An audit firm should develop an environment in which necessary information is provided to the members of the structure responsible for supervision and evaluation or independent third persons in a timely and appropriate manner, and in which assistance is provided in the execution of their operations so that the supervision and evaluation structure etc. can effectively fulfill their responsibilities.</p>	<p>The Oversight Board has the authority to require the CEO and other officers to provide information. In addition, details of the Management Committee's agenda are timely provided to the Oversight Board through interviews and other means from the CEO or officers.</p> <p>The PIB has the authority to require all partners and staff to provide information. Further, the secretariat (the Assurance Management Office) provides necessary information in advance to external members of the PIB and provides direct explanations.</p> <p>The PIB and the Oversight Board hold periodic discussions to share agenda, considerations and issues to fulfill the supervisory and evaluation functions.</p>

Principles and our FY2024 actions/Principle 4

Principles (The Audit Firm Governance Code)	Our FY2024 actions
<p>Principle 4</p> <p>Operation</p> <p>An audit firm, based on the size and characteristics etc., should develop an operational structure to effectively manage its organizational operations. The audit firm should also strengthen its people retention and development and proactively engage, in dialogue and discussion within the firm and with audited companies about the possible enhancement of audit quality.</p>	
<p>4-1</p> <p>An audit firm should develop a structure that allows its management etc. to share necessary information from each audit team in a timely manner and also pervade their philosophy and defined values throughout the organization. The management should effectively utilize such a structure in the operations of the firm. In addition, a proactive dialogue and discussion for improvement of audit quality should be encouraged within the firm.</p>	<p>The Chief Quality Officer communicates with engagement teams in the following ways. In addition, the Management Committee timely shares information from engagement teams based on reports from the Chief Quality Officer.</p> <p>A policy on matters requiring action determined by the Management Committee is shared with engagement teams through the Chief Quality Officer and Risk & Quality.</p> <ul style="list-style-type: none"> • Requiring mandatory consultation with Risk & Quality on certain matters with high audit risk, such as fraud risk • Monthly meetings between the risk management partners and the quality management partners of OUs • Review and follow-up by Risk & Quality of an engagement team with matters that require special audit attention identified through a preliminary inspection of audit and continuous review by dedicated staff (reach-out activities) • Review by the Quality Review Board of issues requiring a particularly careful action for the purpose of quality management and risk management <p>Chief auditors who are assigned to each OU provide support so that the measures developed by Risk & Quality are firmly put in practice by each OU and engagement team, while ensuring the optimisation and efficiency of audit.</p> <p>Chief auditors collect opinions and ideas from engagement teams and share them with Risk & Quality as input for Firm-wide quality management activities. In addition, workshops are held with a focus on practical issues and issues with a high need of engagement teams to facilitate exchange of opinions within the OU.</p> <p>As organisation-wide measures to enhance audit quality at a Firm level, the Firm implements Engagement Performance & Quality (EPQ) activities to review the audit execution process so that professional scepticism is timely demonstrated at both individual and engagement team levels.</p> <p>To avoid a situation where significant issues are addressed only by engagement teams, Risk & Quality monitors individual audit engagements (Hot Review) before the engagement teams issue an audit opinion.</p>

Principles and our FY2024 actions/Principle 4

Principles (The Audit Firm Governance Code)	Our FY2024 actions
<p>4-2</p> <p>An audit firm should develop and operate policies for managing people development, human resources management and performance evaluation in order to raise the motivation of the firm personnel and help them to maintain and demonstrate their professional competence. In doing so, whether the firm personnel sufficiently exercised their professional skepticism should be fully taken into consideration.</p>	<p>The Firm has clearly defined the attributes partners and staff should acquire to be true professionals (the PwC Professional Framework), and implemented a program called Global LDE to support the professional growth of each staff.</p> <p>This program is not merely a performance review program, but is a two-way dialogue mechanism designed to promote professional growth with a view to enhancing audit quality of the Firm and achieving its sustained growth.</p> <p>The Firm implements consistent and objective people development and management, performance review and compensation programs through:</p> <ul style="list-style-type: none"> • feedback of evaluation to each engagement team (focused on matters related to audit quality, such as the appropriateness and timeliness of responses to audit risk identified and assessed and the appropriateness and timeliness of documentation by demonstrating professional scepticism); • development and performance review of staff by their coach; • firm-wide optimal assignment and diverse work styles by the Assurance Assignment Office (AAO); • defining service quality as the most key indicator in performance review; • conducting 360-degree feedback with the aim of fostering a culture of openness and increasing value of each staff; • adopting a promotion system (Zone system) to ensure that performance review is conducted according to the individual life stage and diverse career progression; and • recognition program for staff who have been involved in internal activities of the Firm such as training instructors and quality reviews, or who have delivered certain results such as supporting the enhancement of audit quality
<p>4-3</p> <p>An audit firm should pay particular attention to the following points:</p> <ul style="list-style-type: none"> • Well-balanced assignment of the firm personnel to respective teams in terms of the extensive knowledge and experience to allow the teams to exercise their professional skepticism; • Providing the firm personnel with opportunities to gain extensive knowledge and experience relevant to audit, such as experience in non-audit service and/or temporary transfer to companies outside the audit industry • Appropriate evaluation and well-planned utilization of the firm personnel with extensive knowledge and experience; and • Developing an environment in which the firm personnel can fully engage in capacity building alongside their work. 	<p>Each OU assigns staff for each engagement from the perspective of securing people necessary to deliver high quality services.</p> <p>Key considerations include compliance with the independence requirements by each staff, engagement risks, knowledge and experience of client's industry, skills/competencies, securing required hours, results of quality management reviews, and results of inspections by external organisations.</p> <p>The Firm has taken the following measures to enable employees to gain diverse experience and expand their knowledge, experience and connection:</p> <ul style="list-style-type: none"> • transfer to other divisions within the Firm (e.g. Risk & Quality); • secondment, assignment or transfer to a domestic or overseas PwC member firm; and • secondment to a domestic company or association (e.g. the Japanese Institute of The Firm determines the optimal resource assignment across OUs in consideration of each staff's knowledge and experience based on the results of discussions between the Human Capital Planning Office and the partners responsible for people related activities of each OU, as described in Guideline 2-2. <p>To minimise time spent taking mandatory and imperative training courses, the upper limit of these courses is set for each grade so as to allow staff to have time for learning voluntarily and autonomously. In addition, the Firm ensures that training time is secured in determining assignments.</p>
<p>4-4</p> <p>An audit firm should make efforts for audit teams to have candid and in-depth dialogue about audit risks with the top management of audited companies, such as the CEO and CFO, and those charged with governance including the members of the audit and supervisory board as well. It should also ensure to have sufficient dialogue and discussion with audited companies at each audit team level.</p>	<p>The Firm's audit approach (PwC Audit) considers the assessment of audit risk as a fundamental and critical element. To appropriately assess and address audit risk, the Firm requires teams to hold discussions on audit risk (including fraud risk) with management and those charged with governance of audit clients for all audit engagements.</p> <p>Risk & Quality encourages engagement teams to actively exchange opinions with management and those charged with governance of audit clients by conducting reach-out activity on engagement teams' responses to specific audit risk and audit considerations. For a selection of audit engagements, the Firm requests those charged with governance to provide feedback through a questionnaire after the engagement is completed, to assess whether communication with the engagement team was sufficient.</p>
<p>4-5</p> <p>An audit firm should develop and disclose policies and procedures regarding whistle-blowing from within the firm and external sources, and appropriately make use of the provided information. In doing so, the audit firm should pay particular attention to ensure that a whistleblower does not have to be concerned about the risk of disadvantage.</p>	<p>The Firm has established an audit hotline as a whistle-blowing program to collect information from both inside and outside the Firm.</p> <p>How to report via the audit hotline is posted on the Firm's website. The Firm's related policies set out that whistleblowers should not be treated disadvantageously.</p> <p>In addition, the leader of Risk Management at Risk & Quality appoints persons who have access authority to the information provided. Persons who are involved in the reported matter are not granted access authority to protect the confidentiality of whistleblowers and avoid putting them at unexpected disadvantage.</p>

Principles and our FY2024 actions/Principle 5

	Principles (The Audit Firm Governance Code)	Our FY2024 actions
	Principle 5 An audit firm should ensure such transparency as to allow stakeholders in the capital market to appropriately assess its audit quality, by explaining the status of the Code's implementation. The audit firm should also effectively utilize the internal and external assessment of its initiatives for improvement in its management and operations.	
5-1	An audit firm should explain the status of the Code's implementation and its initiatives for the enhancement of audit quality in plain language, in publicly available documents etc., to allow audited companies, shareholders and other stakeholders in the capital market to appropriately assess its audit quality.	To explain audit quality initiatives, the Firm has published the Audit Quality Report to continuously disclose issues recognised by the Firm in thoroughly implementing and enhancing measures to address the Principles, as well as remedial actions for the issues and their progress. Based on various opinions and suggestions obtained through engagement with capital market participants and other stakeholders, the Firm takes specific measures to further improve transparency and receive appropriate evaluation from stakeholders.
5-2	An audit firm should explain the following matters in terms of quality management, governance, IT and digitalization, human resources, finances, and international response, based on the firm's size and characteristics etc.: <ul style="list-style-type: none"> • The tone at the top toward the continuous enhancement of audit quality in order for the management and the firm personnel of the firm proactively fulfill their respective roles; • The defined values to be commonly maintained by the firm personnel, and way of thinking and code of conduct to put these values into practice; • Information that contributes to assessments by the capital market participants, including the audit firm's medium to long-term goals, audit quality indicators (AQI) that specify the firm's direction toward those goals, or its initiatives for the improvement of audit quality; • The status of quality management systems at the audit firm; • The composition and role of the management etc.; • The composition and role of the structure etc. to supervise and evaluate the effectiveness of the management and organizational operations, as well as the reasons for the appointment, the role, contribution and the approach to independence of independent third persons; • The stance toward non-audit services (provided by the firm and its group organizations), and the response to concerns related to conflicts of interest or independence; • The status of efforts to implement IT infrastructure (including the proactive and effective utilization of technology, fraud detection, and cybersecurity countermeasures) in order to enhance the efficiency and effectiveness of audits, in consideration of the improvement of the efficiency of audit-related operations and the advancement of technologies at audited companies; • Status of securing diverse and necessary personnel at the firm in view of its size and characteristics etc., and people development policies, including training and education; • Status of securing a financial base that is not dependent on compensation from any particular audited companies; • The status of response to audits of companies with overseas subsidiaries etc.; and • The assessment with respect to the effectiveness of the initiatives for the enhancement of audit quality, which is carried out by the firm including the members of the structure etc. responsible for the supervision and evaluation. 	Audit Quality Report 2024 explains: 1. Tone at the top towards audit quality; 2. Values and behaviours, which are values and a code of conduct shared by the Firm's partners and staff; 3. Information that contributes to assessments by capital market participants, including the Firm's medium to long-term goals and audit quality indicators (AQI); 4. Status of quality management systems at the Firm; 5. The Firm's governance structure and the roles of its bodies; 6. Reasons for appointing external experts of the PIB, their roles, contributions and report on activities; 7. Significance of providing non-audit services and addressing conflicts of interest and concerns about independence; 8. Status of using technology for audits; 9. Status of securing diverse people and people development policy; 10. Status of securing financial base; 11. Status of performing global audit; and 12. Results of periodic monitoring activities of audit engagements.
5-3	An audit firm that participates in a global network or conducts its management on a group basis through comprehensive business alliances with other firms should explain the following matters. <ul style="list-style-type: none"> • A broad outline of the global network or group and its organizational structure, and the status of the audit firm's participation in the global network or group's decision-making; • The significance and purpose of participation in the global network or of conducting management on a group basis (including an overview of benefits and risks that affect ensuring and continuously enhancing audit quality); • Measures taken to mitigate risks posed by the relationship with the global network or group with regard to ensuring and continuously improving audit quality, and their evaluation; and • An overview of contracts and others with global network or group that has a significant impact on ensuring and continuously improving audit quality. 	Audit Quality Report 2024 explains the following: 1. A broad outline of the PwC network and group and its organisational structure and the status of the Firm in the global network's decision-making; 2. The significance and purpose of participation in the PwC network and management on a group basis (including an overview of benefits and risks that affect ensuring and continuously enhancing audit quality); 3. Measures taken to mitigate risks posed by the relationship with the PwC network or group with regard to ensuring and continuously improving audit quality and their evaluation; and 4. An overview of contracts or arrangements with the PwC network or other member firms that have a significant impact on ensuring and continuously improving audit quality.

Principles and our FY2024 actions/Principle 5

	Principles (The Audit Firm Governance Code)	Our FY2024 actions
5-4	An audit firm should strive for proactive dialogue about its initiatives for the enhancement of audit quality with audited companies, shareholders, and other stakeholders in the capital market. In doing so, the audit firm should effectively utilize the knowledge and experience of the members of the structure responsible for supervision and evaluation, or of independent third persons.	The Firm holds social gatherings with those charged with governance and operates the PwC Japan Audit Committee Network to facilitate dialogue between the Firm and those charged with governance of listed companies. The Firm also conducts a survey to attendees to receive feedback and suggestions about the Firm as well as the event held. Feedback is reported to the Management Committee and shared with engagement teams to use as input for improving service quality. At PwC, the Investor Community Engagement team of the global network conducts a global investor survey, prepares a survey report, and holds workshops. The Firm participates in these PwC global activities to regularly exchange opinions with analysts and investors in Japan on accounting and auditing topics. The Firm analyses various opinions and suggestions obtained through this dialogue and implements specific quality improvement measures to enhance quality and meet stakeholders' trust. The results of a survey conducted with those charged with governance of audit clients and the results of exchanging opinions with analysts and other stakeholders are shared with engagement teams and used as input for the firm-wide quality enhancement initiatives.
5-5	An audit firm should periodically assess the Code's implementation and the effectiveness of its initiatives for enhancement of audit quality.	The status of applying the Principles is disclosed in detail on the Firm's website. In addition, the Firm has published the Audit Quality Report to disclose issues recognised by the Firm in thoroughly implementing and enhancing measures to address the Principles, remedial actions for the issues and their progress. To assess the effectiveness of the ongoing initiatives for quality enhancement, the Firm regularly reviews audit engagements, including inspections by external organisations, reviews by Risk & Quality and self-checks by engagement teams. At the Firm, the Management Committee assesses the application of the Principles based on periodic monitoring activities, internal audits and evaluations by capital market participants, by taking into account independence. Results are reported to the Oversight Board and the Public Interest Body, which fulfill the supervisory and evaluation functions to receive their feedback. Based on the results of these evaluations and feedback, the Firm has been working to improve the effectiveness throughout the year.
5-6	An audit firm should effectively utilize the useful information obtained through the dialogue with stakeholders such as participants in the capital market and the results of the assessment of the Code's implementation for improving its effective management and organizational operations.	Risk & Quality encourages engagement teams to actively exchange opinions with management and those charged with governance of audit clients by conducting the reach-out activity on engagement teams' responses to specific audit risk and audit considerations. For the selection of audit engagements, the Firm requests those charged with governance to provide feedback through a questionnaire after the engagement is completed, to assess whether communication with the engagement team was sufficient.

Our profile

Financial position and operating results

The Firm's condensed financial statements for FY2022 and FY2023 are as shown below. The Firm's financial statements have been audited by an independent auditor. For details, please access our website.

Condensed financial statements

Condensed statements of profit and loss (Millions of yen)			Condensed balance sheets (Millions of yen)		
	FY ended June 30, 2023	FY ended June 30, 2024		As of June 30, 2023	As of June 30, 2024
Business income	60,981	72,596	Current assets	23,220	25,398
Business expenses	59,923	72,382	Non-current assets	24,199	26,156
Operating income	1,058	214	Total assets	47,420	51,555
Ordinary income	3,069	1,020	Current liabilities	16,046	19,631
Net income before taxes	3,075	1,026	Non-current liabilities	8,494	6,996
Net income	2,309	1,024	Total liabilities	24,541	26,627
			Partners' capital	22,875	24,926
			Valuation and translation adjustments	3	0
			Total net assets	22,878	24,927
			Total liabilities and net asset	47,420	51,555

Figures reported in the fiscal year ended June 30, 2023 are those of ex-PwC Aarata.

Other indicators

The following tables show the breakdown of the Firm's business income and the number of clients. Most of our clients of non-audit services are non-audit clients. The Firm believes that combining knowledge and experience gained through audit services and those gained through non-audit services has the benefit of enhancing quality of both services. The Firm is striving to improve quality of these services by maintaining a proper balance while giving due consideration to independence (p. 55).

Business income (Millions of yen)			Number of clients (Unit: companies)		
	FY2023	FY2024		FY2023	FY2024
Audit fees	29,715	36,183	Audit fees	1,182	1,490*
Non-audit fees	31,266	36,413	Non-audit fees	1,215	1,239
	60,981	72,596		2,397	2,729

* Breakdown of audit services: Audits under the FIEA/Companies Act 212/
Audits under the FIEA 49/Audits under the Companies Act 534/
Audits of educational institutions 2/Other statutory audits 298/Other voluntary audits 395

The list of audit clients including listed companies is contained in our disclosure document on our business and financial position (only available in Japanese)
<https://www.pwc.com/jp/ja/about-us/member/assurance/assets/pdf/public-inspection-2024.pdf>

Purpose of this report

Purpose of this report

The Audit Quality Report is the tool to dialogue with each stakeholder including market capital participants on our initiatives to enhance audit quality. The 'Principles for Effective Management of Audit Firms' (Audit Firm GC) stipulates in Guidance 5-1 that 'An audit firm should explain the status of the Code's implementation and its initiatives for the enhancement of audit quality in plain language, in publicly available documents etc., to allow audited companies, shareholders and other stakeholders in the capital market to appropriately assess its audit quality.' In response to this requirement, we seek to provide explanations that allow an appropriate assessment by capital market participants. We will use this report to provide opportunities for dialogue with our various stakeholders, and use feedback as input for our initiatives to improve our business management and audit quality.

Major stakeholders assumed in this report

We prepare this report as a tool for dialogue with and assessment by capital market participants and other stakeholders on our

initiatives to improve audit quality. The main stakeholders are assumed to be those who are interested in the societal significance of audits, including audit clients that prepare financial statements, investors who use audited financial statements, government agencies and self-regulatory organisations that supervise audits, and academic circles that study audits from a third-party perspective. This report is also used for dialogues with our staff.

Our target audit quality

We have been performing audits that meet the requirements of audit standards and related laws and regulations, and provide comfort on the reliability of information subject to audit, thereby delivering value to a variety of information users. We believe that what is required of audits constantly changes according to the needs of society. We will strive to continuously respond to the latest expectations on audit through dialogue with stakeholders, and implement initiatives with foresight on what will be needed in the future. Through this, we will realise audits that contribute to the sound development of the national economy.

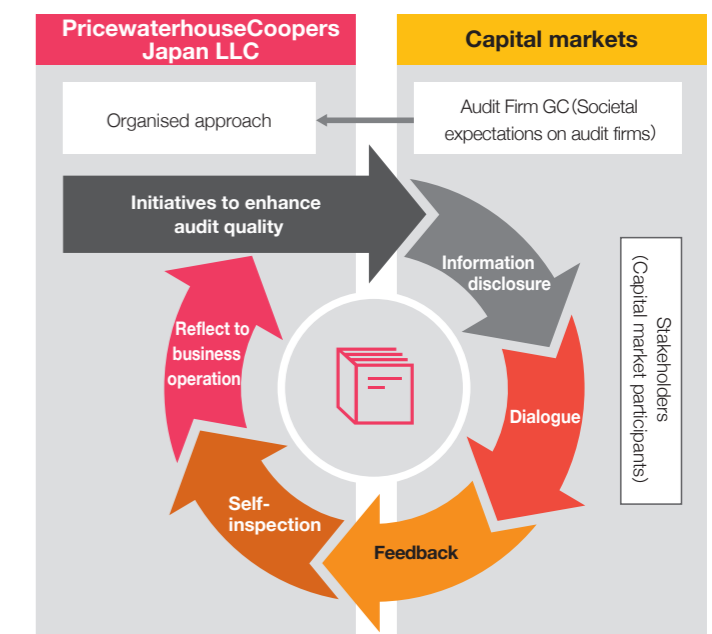
Process for preparing this report

Process for preparing this report

In preparing this report, based on feedback through dialogue with stakeholders on our initiatives to improve audit quality, we conduct self-inspections and consider action to address issues and risks recognized as managerial issues. We disclose the issues and risks recognised, and explain how we are dealing with, or plan to deal with, them, in a transparent manner. To enhance the transparency of the report, members other than the report preparation team reviews the contents of the report.

Basis for preparing this report

This report has been prepared primarily to explain our firm's application of the Audit Firm GC and the items set forth in the GC. In disclosing the Audit Quality Indicators, we refer to the 'Research Report on Audit Quality Indicators (AQI)' published by the JICPA. We also take into account overseas disclosure trends at the PwC network.



Writers and editors (in alphabetical order)

Akiko Urasaki Amy Iwanaga Atsushi Iinuma Banri Ikezaki Chisato Yamaguchi Daisuke Tezuka Hiroki Nojima Hironaga Ide Hiroyuki Mori Hitoshi Kondo Keiko Kimura Keiko Miyake Kenji Fukunaga Kentaro Yamamoto Koichiro Hiramatsu Kotaro Kuroyanagi Masato Suzuki Masumi Morita Meguri Mashimo Mutsumi Suga Ryosuku Nakamura Sachiko Furusawa Satoko Fukuyama Takeshi Kawano Tomoyuki Matsunaga Toshikazu Tanaka Yuhei Swaguchi Yukiko Yahagi

In this report, FY2024 refers to the period between July 1, 2023 and June 30, 2024. The same shall apply to other fiscal years.

Name PricewaterhouseCoopers Japan LLC
<https://www.pwc.com/jp/en/about/member/assurance.html>

Established on June 1, 2006

Representative Masataka Kubota, Chief Executive Officer

Number of Partners 245
employees Audit and other client service professionals 3,212
Other staff 128
Total 3,585
(CPAs: 1,249; Junior CPAs and accountants who passed all subjects: 643)

* As of June 30, 2024

Address

- Tokyo
Otemachi Park Building, 1-1-1 Otemachi, Chiyoda-ku, Tokyo
100-0004
Tel: 03-6212-6800 Fax: 03-6212-6801

Otemachi One Tower, 1-2 Otemachi, Chiyoda-ku, Tokyo
100-0004

Tamachi Station Tower S 13th Floor,
3-1-21 Shibaura, Minato-ku, Tokyo 108-0023, Japan
Tel: 03-6400-5561 Fax: 03-6400-5562
- Nagoya
JR Central Towers 38th Floor,
1-1-4 Meieki, Nakamura-ku, Nagoya-shi, Aichi 450-6038
Tel: 052-588-3951 Fax: 052-588-3952
- Kyoto
Kyoto Mitsui Building 7th Floor,
Shijo Karasuma, Shimogyo-ku, Kyoto-shi, Kyoto 600-8008
Tel: 075-241-1901 Fax: 075-241-1902
- Osaka
Grand Front Osaka Tower A 36th Floor,
4-20 Ofukacho, Kita-ku, Osaka-shi, Osaka 530-0011
Tel: 06-6375-2610 Fax: 06-6375-2611

Fukuoka
JRJP Hakata Building 4th Floor,
8-1 Hakataeki Chuogai, Hakata-ku, Fukuoka-shi, Fukuoka
812-0012
Tel: 092-477-7600 Fax: 092-477-7601

This report and related information are posted on our website.
<https://www.pwc.com/jp/en/about/member/assurance/transparency-report.html>



We would like to receive feedback from the readers of this report.
Please write to us at the following e-mail address.
jp_asr_assurance-management-office-mbx@pwc.com