



PricewaterhouseCoopers Japan LLC

Audit Quality Report

2025





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

Guided by the fundamental philosophy of being a trusted auditor and audit firm, Kyoto Audit Corporation was established, with operations in Kyoto and Tokyo

2008

Business integration with PwC Advisory

PwC Aarata integrated with PwC Advisory and transformed to a new organisational 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 PricewaterhouseCoopers Kyoto (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



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

Assurance Leader

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Executive summary

Section 1

Our Purpose and Vision

Purpose

Build trust in society and solve important problems

Assurance Vision 2030

Deliver integrated assurance to close a diverse trust gap anticipated in society in 2030

Management Discussion ▶ p.11

► Responding to megatrends

Responding to five megatrends: climate change, technological disruption, demographic shifts, a fracturing world and social instability

► Reflecting on FY2025

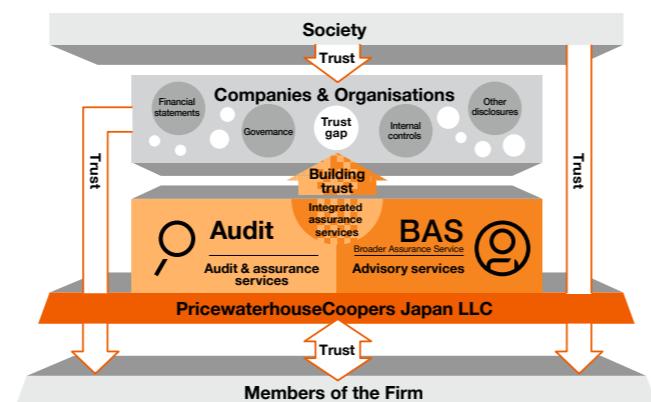
Working as one and fostering trust in the initial post-integration year, making significant advancements in both quality and operations and establishing a solid foundation for future transformation

► Looking ahead to FY2026

Strengthening governance, taking on challenges to realise further transformation and organisational evolution built on the foundation of trust we established through integration



Diagram of Trust



► Diagram of Trust

Engaging in both audit and broader assurance services (advisory services) and delivering trust to society by leveraging the strengths of both

► Priority areas

Leveraging AI, transitioning to a next-generation audit platform, developing the ability to harness such technology and creating new value through technology

Delivering integrated assurance services ▶ p.15

► Our service areas

► Examples of areas where trust is needed

► Dialogue: What is integrated assurance? Why are we uniquely positioned to deliver it?



Yoshihisa Chiyoda
Audit General Management Office Leader

Hiroaki Naganuma
Broader Assurance Services Strategy Office Leader

Key Topics ▶ p.17

Key Topic 1 Our sustainability initiatives

- Sustainability trends in 2025
- How audit firms can play a key role in ensuring reliable sustainability information
- Sustainability issues and financial statement audit

Key Topic 2 Technology-driven assurance transformation

- Our transformation towards a human-led, tech-powered future
- Transforming assurance through generative AI
- Digital & Innovation

Key Topic 3 People development for shaping the future

- People strategy for realising Vision 2030
- Our cultural initiatives
- Culture for realising Vision 2030

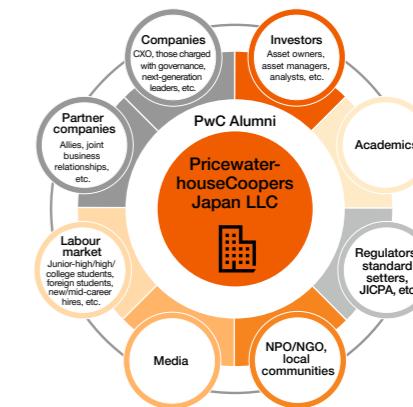
Communication and dialogue with stakeholders ▶ p.31

► Enhancing the basic policy and structure for information dissemination and dialogue

► Information dissemination to, and co-creation with, Academics

► Information dissemination to, and dialogue with, investors and analysts

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



Section
2

Initiatives to deliver unwavering audit quality

1. Governance ► p.39-50

► Message from the chair of the Oversight Board



Takeaki Ishibashi
Chair of the Oversight Board

We are dedicated to enhancing audit quality through sound governance by ensuring effective oversight of the leadership team and fostering constructive dialogue among members from diverse backgrounds who offer fresh perspectives.

- Renewing members and strengthening governance
- Toward the success of audit quality

Contents

- Our governance structure
- [Dialogue: Public Interest Body] Past year review

2. Quality management ► p.51-78

► Leadership message



Neil Weingarten
Senior Officer/
Risk & Quality Co-Leader

Takaki Suzuki
Executive Officer/
Chief Quality Officer

To adapt to a changing era, we will relentlessly evolve and deliver unwavering trust to society.

- Responding to rules on the system of quality management
- Leveraging AI and introducing a next-generation audit platform
- Integrating people

Contents

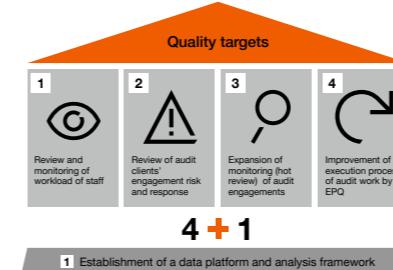
- Quality management: QMSE Framework (compliant with ISQM1)
- Our monitoring and remediation process
- Our quality management structure
- Professional ethics and independence
- Engagement team-level quality management
- Our initiatives on key audit matters

► Our value creation activity

Assessment process of the quality management system
—QMSE—



Quality improvement initiative 「4+1」



- Response to fraud risk
- Technology-focused audit approach
- Periodic monitoring activities and external inspections of audit engagements
- Collaboration with the PwC network
- Using technology in audit
- Initiatives for business process improvement and quality enhancement
- Information security

3. Talent ► p.79-86

► Leadership message



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

Daisuke Tanaka
Human Capital Planning Office
Co-leader

The power to shape the future lies within each of us
— Becoming professionals who build trust and value through expertise and collaboration —
• Cultivating professionals who enhance their expertise and solve complex problems
• Embedding Behaviour Guidelines and culture
• The new personnel review program and future of people development

Contents

- Recruitment and development
- Training
- Career and assignment
- Performance review
- Well-being and Inclusion and Diversity (I&D)

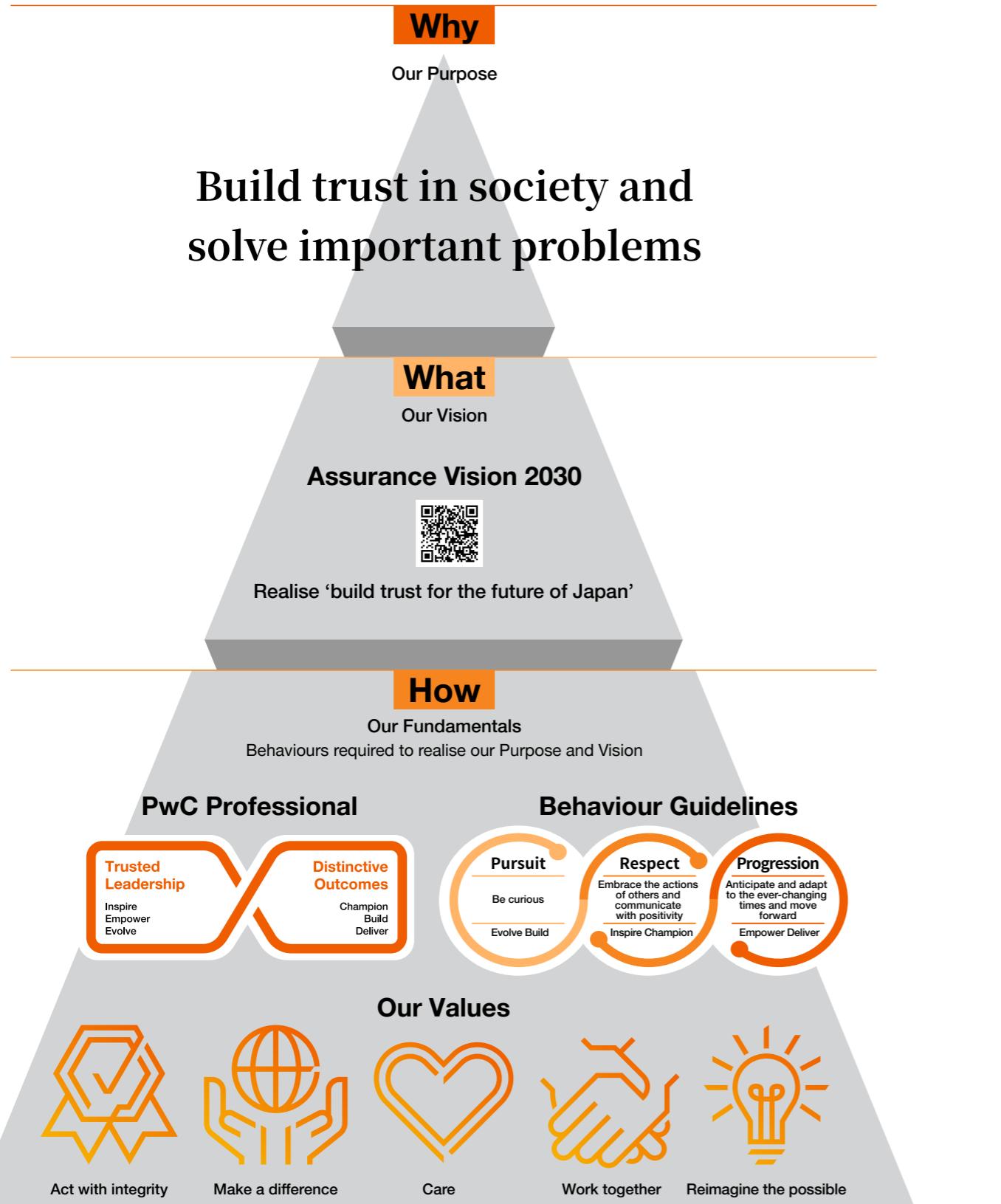
FY2025 Audit Quality Indicators ► p.37-38

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

Collaboration with the PwC network ► p.87-90

Response to the Audit Firm Governance Code ► p.91-96

Our Purpose and Vision

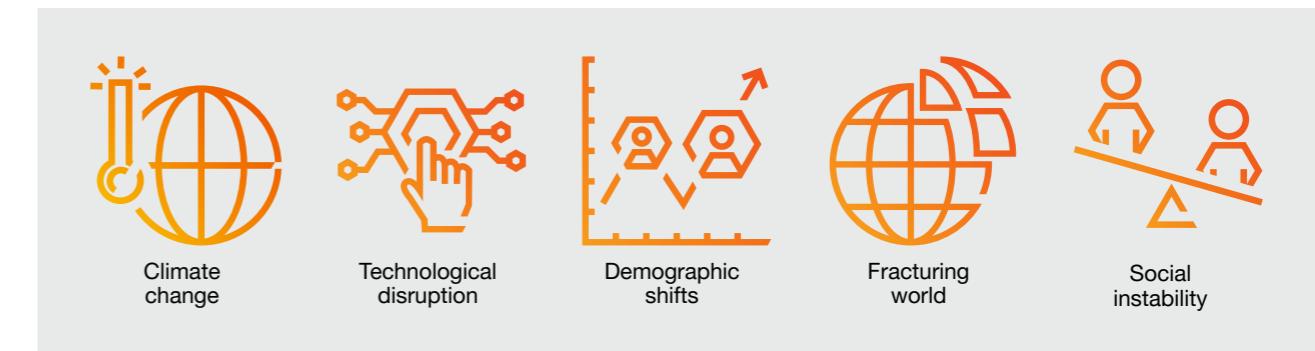


In an era of profound uncertainty, we are committed to supporting clients and society navigate their transformation, closing trust gaps and laying the foundation for a high-trust, better future for generations to come

Five major global shifts driving changes in our world

We have identified five megatrends—climate change, technological disruption, demographic shifts, fracturing world and social instability—as drivers that have transformed the global landscape and will continue to drive significant change over a long span of time.

Five megatrends



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



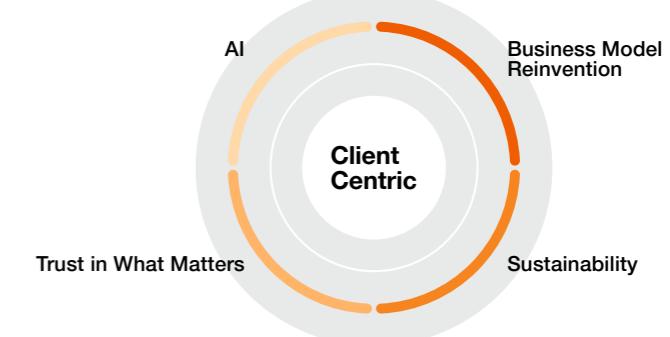
PwC Japan Group's vision for contribution to society

Megatrends have disrupted existing value, triggering the creation of new value and driving transformation. As societal changes accelerate amid growing uncertainty, the world faces urgent societal problems that demand immediate solutions.

To help clients and society solve these societal problems and achieve sustained growth, we will build trust in broader areas and shape a high-trust society through our four strategic areas: Trust in What Matters, Business Model Reinvention, Sustainability and AI.

PwC's strategic areas

In response to societal problems, PwC has identified the following as key business areas that should be strategically addressed:



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.

Management discussion

Keiichiro Kagi
Acting Chief Executive Officer



Masataka Kubota
Chief Executive Officer



Takeshi Yamaguchi
Deputy Chief Executive Officer,
Assurance Leader and Chief Investment Officer



Evolving beyond breakthrough: The value of trust delivered by assurance

Society and trust: Medium- to long-term outlook

Q Society is undergoing drastic change, driven primarily by climate change and increased use of generative AI. In this environment, how should audit firms foster relationships with society and companies?

Kubota: In the past, PwC identified five global megatrends: climate change, technological disruption, demographic shifts, a fracturing world and social instability. I feel these predictions are rapidly becoming reality. They are no longer distant possibilities, but are present-day challenges. We must now consider how to respond to them.

Kagi: Japan is also entering a new era of transformation and uncertainty, moving away from stagnation and stability. Amid the sweeping changes happening around us, it is essential for audit firms to reflect on what is expected of them and how they can play a part in ensuring safe and secure lives for people, sustainable growth for businesses and development for the country. To do so requires fairness, transparency and integrity.

Kubota: Responding to these megatrends requires us to change, but it is natural to feel uneasy. In times when established order is disrupted, trust becomes even more critical. For example, societal transformation often involves sharing personal data, which carries risks of information leakage and misuse. In order to share data, the trustworthiness of people handling that data is key.

Yamaguchi: In today's world, where information and data are of paramount importance, PwC can make a difference by ensuring information and data accuracy and providing support for its respon-

sible use. This is one of our greatest strengths and our core responsibility to society.

Our Diagram of Trust ► p.14 illustrates this concept. One of the Firm's defining features is our dual engagement in both audit and broader assurance services (BAS: advisory services). Our mission is to build trust in society by leveraging the strengths of both. In audits, we provide trust by independently verifying the appropriateness of financial statements and internal control reports. Through BAS, we help clients build trust by supporting their efforts in data creation, collection, retention and internal control development.

By delivering trust through both audits and BAS, we believe we can make a meaningful contribution to society. But first, it is essential for us to earn trust—from society, our clients and our own people. That trust is built through consistently delivering high-quality services that are recognised and valued.

Kubota: It is important to create a chain of trust.

Yamaguchi: Trust begins with a culture that values quality and compliance, and is built on a track record of consistently meeting the expectations of stakeholders.

Kubota: Building trust with the Firm's staff is also crucial. Merely implementing policies in a top-down manner will not earn their trust.

Yamaguchi: Maintaining mutual respect with our people and sharing information transparently is crucial to building trust with our staff. It is essential to foster a culture where people feel empowered to speak up for what they believe is right and consistently do the right thing. Trust within the organisation is built on a foundation of integrity.

Kagi: Trust is not something we create alone; it is something others grant us based on our daily actions. I believe trust is cultivated through strong thinking and beliefs, open communication and genuine empathy.

Kubota: Management must first place trust in our people. That is the only way to foster a cycle of trust and extend it across the Firm.

Reflecting on FY2025* and looking ahead to FY2026

Q How will the achievements from FY2025's breakthrough initiatives direct the Firm in implementing changes for FY2026?

► **FY2025: Meaning and achievement of 'breakthrough'**

Kubota: In FY2025, the Firm set the goal of executing initiatives aimed at breakthroughs, which involved laying the groundwork for major changes such as brand renewal and organisational redesign. The most significant achievement was the trust we have fostered across the organisation, which gave us confidence in bringing different organisations with distinct cultures and values together to work as one.

Yamaguchi: PricewaterhouseCoopers Aarata LLC and PricewaterhouseCoopers Kyoto integrated in December 2023. FY2025 marked our first full year operating as a unified organisation, and it served as a year of foundation-building.

Kagi: About six months after the integration, our new structure began to take shape. Throughout FY2025, we witnessed significant advancements

in both quality and operations. Most importantly, the integration established a solid foundation for future transformation.

► **FY2026: Year of transformation – Driving integration and its impact**

Kubota: FY2026 will be the year to realise transformation built on the foundation of trust we established in FY2025. Of course, change comes with risks, but the experiences we gained last year have equipped us with the confidence to move forward without fear.

Yamaguchi: The sequence matters: it is the breakthrough that makes us embrace change. The breakthrough achieved in FY2025, centred on organisational integration, has given us the confidence to embrace transformation in FY2026. In FY2025, we stood firmly on the launchpad; FY2026 will be the year we take off. I am truly excited about what lies ahead.

Kagi: The confidence in moving forward together continues to guide us as we implement changes in the next fiscal year. FY2026 offers a meaningful opportunity to reaffirm our purpose of building trust by strengthening the relationship between our clients and us—those who choose us and those we support.

Kubota: Regarding integrated assurance services ► p.15, the separation of audits and BAS into different operating units is merely a formality. What truly matters is our ability to ultimately help our clients build trust. Integration in this context is not about the methodology but about the outcome. Even if the audit team and the BAS team start from separate paths, true integration will be realised if they share knowledge and experiences along the way and meet at the finish line.

* FY2025 is the Firm's fiscal year from July 1, 2024 to June 30, 2025.

Yamaguchi: I agree. Our goal is to help our clients build trust in society. The key is not to determine whether audit or BAS is better suited to fill the trust gap. What is more important is how we can leverage the knowledge and experience of both to best meet our clients' needs. By understanding and respecting each other's knowledge and experience within the Firm, we not only enable smooth operations but also positively influence growth and mobility among our people.

Kubota: From an organisational perspective, we have consolidated and redesigned our operational units to allow members to share and engage in a broader range of work. However, as the organisation expands through consolidation, there is a view that we may not be able to give adequate attention to certain industries or regions, which could potentially lead to a decline in service quality.

Yamaguchi: Regarding this view, I actually see value in the organisation's expansion, as it facilitates knowledge-sharing across different industries. This can lead to fostering a group of professionals with broad perspectives to deliver solutions.

Kagi: I also believe that, by consolidating organisations while understanding and leveraging the unique characteristics of each region, we can close the trust gap and provide the best solutions that will earn our clients' trust.

Yamaguchi: As our organisation expands, some members may feel they are not receiving adequate attention. In building an environment to address this concern, it is crucial to establish smaller teams to reduce the sense of distance and foster communication that allows people to perceive the direction of the organisation. Starting this year, we have embraced the message 'Grow here. Go further' for our people-focused initiatives. Our goal is to build a foundation that empowers our staff to grow as professionals, so that their growth contributes meaningfully to society.

► Strengthening governance and significance of external perspectives



Kubota: We view FY2026 as a year of transformation. As our organisation continues to grow, it is essential that we remain true to our core values. This is why external perspectives are

indispensable. Beginning in FY2026, we will introduce a new governance system by inviting external members from the Public Interest Board (PIB) to join the Oversight Committee.

Yamaguchi: Third-party perspectives allow us to identify issues and areas for improvement that we might otherwise overlook. This input is particularly valuable as we navigate upcoming changes.

Kagi: When you are inside the organisation, it is easy to overlook deviations. This is why maintaining a structure that welcomes candid feedback from external voices should remain a priority for us.



Yamaguchi: Beyond our firm, collaboration with other firms within the PwC Japan Group, including those providing consulting, deal advisory and tax services, is becoming increasingly important. Expanding our perspectives and delivering value from multiple angles lead to enhanced services. I believe our ability to maintain open relationships that empower people to speak up and professionally challenge one another across different business lines is a major strength of our organisation.

Kubota: The Oversight Committee also includes members from outside the Firm. This diversity is essential in engaging in meaningful monitoring and dialogue, helping us to maintain fairness in governance and to prevent internal bias.

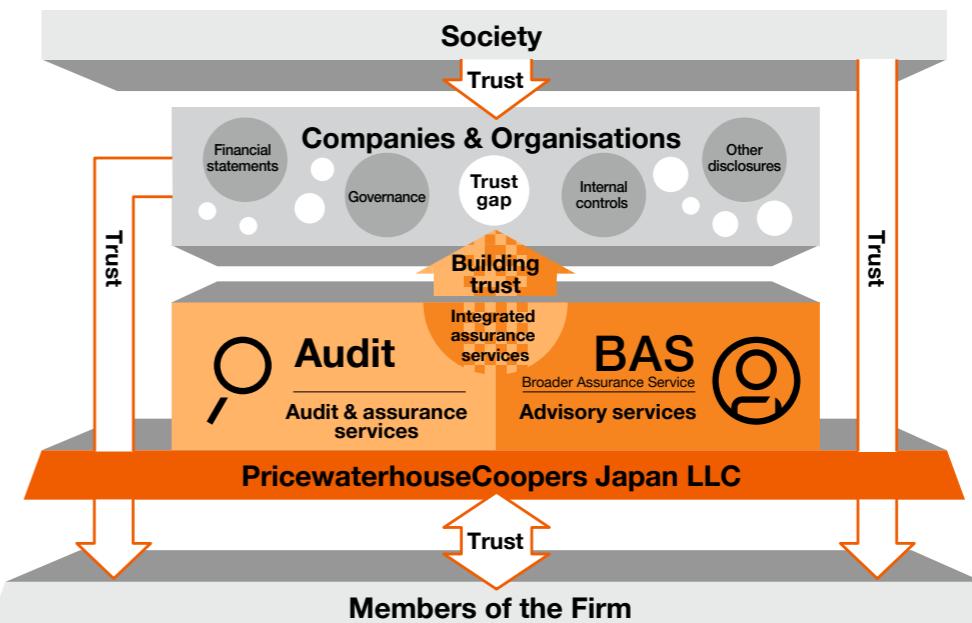
Future-focused investments for high-quality services

Q Which areas are being prioritised for future investments to ensure the delivery of high-quality services?

Kubota: In terms of business management, stakeholders are increasingly focused on technology and people. A major priority is leveraging technology to enhance the efficiency of our operations and service delivery. The key is to realise audit transformation by using next-generation audit tools designed to automate many audit tasks, which are currently under development, as well as generative AI (e.g., ChatPwC).

Yamaguchi: We are planning to transition from our current audit platform to a next-generation plat-

► Diagram of Trust



form. The next-generation audit platform will use AI agents, freeing professionals from routine tasks. Functions such as data entry, market and industry research and comparative analysis will be handled by these audit tools. ChatPwC is already providing support for tasks such as e-mail responses, translation and information gathering. Going forward, we aim to introduce more tools across the Firm that will help us work more accurately, effectively and efficiently.

Kubota: While the budget allows for system development, technology only delivers true value when it is actually used, a journey that takes time. To support this, we may need to establish a mechanism that encourages people to invest time in exploring tools like AI. By dedicating time to learning and applying these tools during the implementation phase, we can save time in the long run. The effective use of next-generation audit tools will have a significant impact on productivity and is therefore a management priority.

Yamaguchi: Some members of the Firm are not yet fully utilising AI. This is likely because they are unfamiliar with its capabilities and have not experienced the extent to which it can enhance the efficiency of work. I encourage our staff to explore, experiment and discover new ways to use these tools, thereby gradually expanding their use.

Kubota: The ability to harness technology will be a key focus in our people development strategy from FY2026 onward.

Yamaguchi: To embody the changes society expects of us, our people need to transform into professionals who can create new value through technology, beyond performing tasks faster and more accurately. This requires not only a shift in individual mindset, but also an organisational structure that actively supports such transformation. This is a critical management challenge.



Kubota: These kinds of professionals will deliver high-quality audits and services, which in turn build trust, achieving our purpose of building trust in society.

Kagi: High quality expected from an audit firm is underpinned by trust — trust that clients feel confident in our services, with PwC delivering services that not only meet but exceed expectations. No matter how advanced the tools and systems we implement, it is ultimately people who use them and make final judgments. Therefore, developing professionals capable of engaging sincerely with clients and earning their trust, whether in audit or BAS, is essential. In this regard, investing in both human capital and systems remains a critical theme we must continue to work on.



Delivering integrated assurance services

Our service areas

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 assurance and accounting practices to provide advisory services in a wide range of areas, including:

- **Financial reporting advisory (e.g., financial closing and accounting support)**
- **Governance, risk management, compliance (GRC) 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**

Integrated assurance services

Assurance Vision 2030 (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. We believe it is essential to close the trust gap for clients and society by selecting the most appropriate approach, whether through audit or BAS, and delivering assurance where it matters most. We define services that build trust required by clients and society with agility and precision as the integrated assurance services.

To realise Vision 2030, we will enhance 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 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 areas where trust is needed

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.

Reliability of autonomous driving	Reliability of 3D GPS	AI reliability	Reliability in solutions to climate change	Reliability in the private space industry
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Yoshihisa Chiyoda
Audit General Management Office Leader

Hiroaki Naganuma
Broader Assurance Services Strategy Office Leader

Chiyoda: Through conversations with many companies, I recognise that expectations for audit firms as professional organisations are evolving. Beyond traditional financial statement audits, our insights and experience are increasingly sought across a broader spectrum of a company's operations, including corporate governance, internal controls and cybersecurity. Naturally, due to independence requirements, the services we can offer to audit clients are restricted; however, for non-audit clients, we are able to offer a wide range of services.

Naganuma: BAS delivers a wide range of client-centric services across key domains vital to a company's operations. These include support for the implementation of financial and sustainability reporting (financial reporting advisory, sustainability advisory), support for the development and enhancement of governance and compliance frameworks (GRC), assurance over cybersecurity and IT controls, AI governance (risk assurance) and response and framework development to address misconduct (forensics). Where appropriate, we collaborate with PwC Consulting LLC, PwC Advisory LLC and PwC Tax Japan to harness the full capabilities of the PwC Japan Group to help our clients address their issues.

Chiyoda: From a corporate perspective, financial statement audits are merely one element within the financial reporting framework to convey assurance about a company's operations to internal and external stakeholders. To build and maintain trust,

What is integrated assurance?

Why are we uniquely positioned to deliver it?

companies must engage in initiatives across a wide array of areas that extend beyond audits.

Naganuma: At our firm, our engagements are nearly evenly divided between financial statement audits and BAS. This structure allows us to provide our services which are tailored to each client's objectives, whether they require financial statement audits or BAS, thereby enabling us to respond to their diverse expectations. Since both practices operate within the same audit firm, there is an active exchange of people between Audit Service OUs and BAS OUs. Some members who are initially engaged in financial statement audits have transitioned to BAS, while others who primarily work on BAS perform financial statement audits. The knowledge and experience gained in each area can be leveraged in various ways to help solve problems faced by other clients. In addition, our internal training programs are well-developed, covering not only audit and assurance topics but also BAS topics.

Chiyoda: In today's uncertain society, the areas where companies seek trust are diverse and constantly evolving. We are committed to delivering services that respond to their needs, and this is precisely what we aim to achieve with integrated assurance services.



Key Topics



Key Topic
1

Our sustainability initiatives

Sustainability trends in 2025

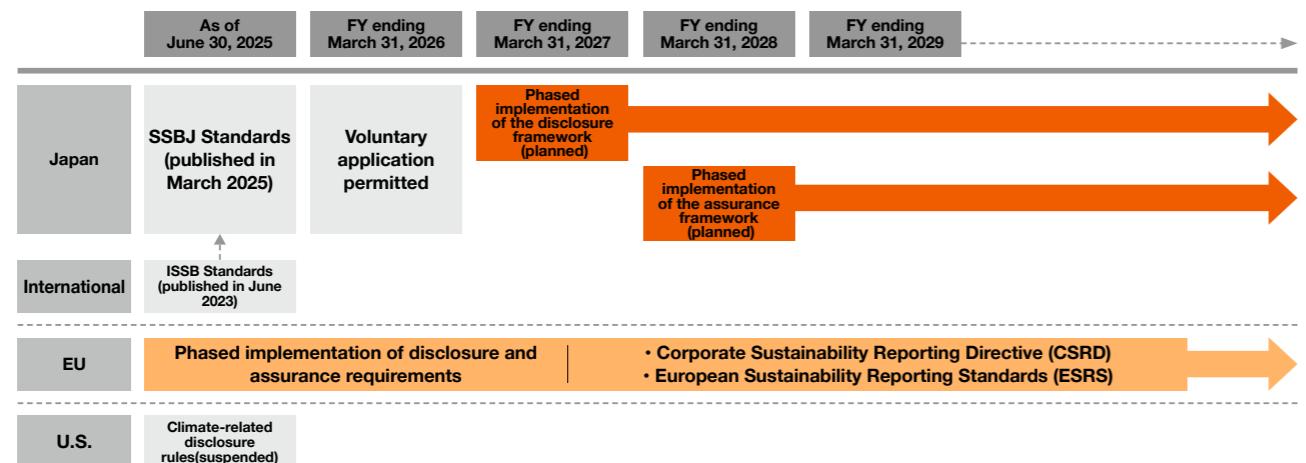
In response to the growing need for sustainability information disclosure, Japan is moving toward institutionalising detailed disclosure and assurance of sustainability information. In March 2025, the Sustainability Standards Board of Japan (SSBJ) issued its inaugural sustainability disclosure standards. The standards will become mandatory in a phased manner for companies listed on the Prime Market of the Tokyo Stock Exchange, with a market capitalisation of ¥3 trillion or more, starting from the fiscal year ending March 2027. Subsequently, they will be applied in a phased manner based on the size of market capitalisation.

Once the SSBJ standards take effect, companies will be required to disclose sustainability information in their annual securities reports in accordance with the standards. Third-party assurance of the disclosed information is expected to be required from the year following the initial application.

These developments in Japan are affected by global trends. The EU began the phased implementation of the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) in 2024, both of which require third-party assurance. In the U.S., although climate-related disclosure rules adopted by the U.S. Securities and Exchange Commission (SEC) in 2024 are currently suspended, California has enacted a climate disclosure law. The International Sustainability Standards Board (ISSB) published its inaugural IFRS Sustainability Disclosure Standards in 2023. The SSBJ standards align with the ISSB standards.

As we approach mandatory disclosure and assurance of sustainability-related information in Japan, companies subject to the SSBJ Standards need to assess whether they have a framework in place to ensure the disclosure of reliable information. This assessment should consider both the intent of the standards and the company's own circumstances.

■ Disclosure and assurance systems of sustainability information



Dialogue

Kentaro Konishi
Partner, Risk & Quality

Ryosuke Nakamura
Director, Sustainability Advisory

How audit firms can play a key role in ensuring reliable sustainability information



Moderator Hideaki Endo
Senior Officer
Sustainability Assurance Group
Leader of Audit General Management Office

Endo: To begin, could you share your current division, responsibilities and professional background?

Nakamura: After engaging in financial statement audits and conducting research on accounting standards as a Risk & Quality member, I was seconded to PwC Consulting LLC, where I supported IFRS adoption and corporate turnaround projects. Currently, I am a member of Sustainability Advisory, working on engagements related to sustainability disclosure.

Konishi: I began my career in financial statement audits and IFRS adoption support, followed by quality management activities as a Risk & Quality member. I was then seconded to the Accounting Standards Board of Japan (ASBJ) and the Sustainability Standards Board of Japan (SSBJ), where I was involved in standard development. Now, I am engaged in quality management and assurance activities related to sustainability disclosures.

Endo: In Japan, the likelihood of sustainability information being included in annual securities reports is increasing. What types of advisory services are currently in demand?

Nakamura: The inclusion of such information in statutory filings, such as annual securities reports, requires a higher level of reliability. As a result, there is growing demand for advisory services that help clients comply with the SSBJ standards and establish processes to enhance the reliability of disclosures. More companies are voluntarily disclosing information on topics such as human capital and biodiversity, which are expected to be incorporated into statutory reporting in the future. We provide

services tailored to these diverse needs.

Endo: You were deeply involved in developing the SSBJ Standards. What is the purpose of sustainability-related financial disclosures?

Konishi: Similar to financial statements, the primary intended users of sustainability disclosures under the SSBJ Standards are capital providers, such as investors. Sustainability disclosures are designed to provide contextual information that helps users better understand financial statements, which is why the connectivity between the two is considered essential. Sustainability disclosures require companies to identify risks and opportunities that could reasonably be expected to affect future cash flows or financing, thus requiring a management perspective. For this reason, in providing assurance on sustainability disclosures, gaining a deep understanding of both the company and its financial statements is essential.

Endo: What are the benefits for companies from enhancing their sustainability disclosures, and what challenges do many companies face in the process of preparing these disclosures?

Nakamura: Sustainability information plays an increasingly important role in the decision-making of stakeholders, including investors. Complying with the relevant disclosure requirements is part of a company's responsibility to address such stakeholder needs. At the same time, it presents an opportunity to take a more holistic view of business management; for example, reflecting on the company's vision for value creation. However, those in charge of preparing disclosures at companies often come from diverse professional backgrounds, which makes it challenging to align perspectives across the organisation. This is a common issue observed in many companies.

Endo: What is the significance of obtaining third-party assurance for sustainability disclosures?



of information useful for business management. Additionally, the SSBJ Standards include many disclosure items that require a management perspective. For example, risks and opportunities covered in sustainability disclosures are considered key management issues. Through discussions between management and assurance providers, companies may also benefit from more accurately identifying key management issues.

Endo: We are witnessing a shift in the landscape of voluntary disclosures with numerous disclosure frameworks to mandatory disclosures governed by regulations. What kind of impact will this have on companies?

Nakamura: Some companies seem to misunderstand the situation, assuming that simply disclosing existing sustainability information in their annual securities reports will suffice. The SSBJ Standards and other disclosure standards are designed to serve as a minimum common baseline to meet the expectations of a wide range of stakeholders. To meet these expectations, companies need to fully comply with the standards. I believe that a fundamental change in mindset is one of the most significant impacts companies will face.

Endo: Can you explain the similarities and differences between audits and sustainability assurance?

Konishi: In essence, they are quite similar. Both follow a set of common procedures, including understanding the company's environment, assessing the risk of misstatements, and planning and performing procedures based on assessed risks. However, sustainability disclosures cover a broader range of information, and the approach to assessing materiality can differ. Still, financial statements and sustainability disclosures are considered one set of disclosures. Therefore, financial statement auditors need to read sustainability disclosures and assurance providers need to read financial statements to assess whether there are any significant inconsistencies between the information on which they are expressing an opinion. Because of this,

the knowledge and skills required for both largely overlap.

Endo: How is our firm building the capacity to provide sustainability assurance?

Konishi: We have already provided mandatory training to approximately 2,000 professionals, which represents most of our audit staff. Since they already have fundamental knowledge of audit and assurance practices, the training has been highly efficient. In addition, our firm published a book titled 'Practical Guide to Sustainability Assurance' (the publisher is CHUOKEIZAI-SHA, available in Japanese only) in March 2025. We are also working to establish and strengthen the system of quality management for sustainability assurance.

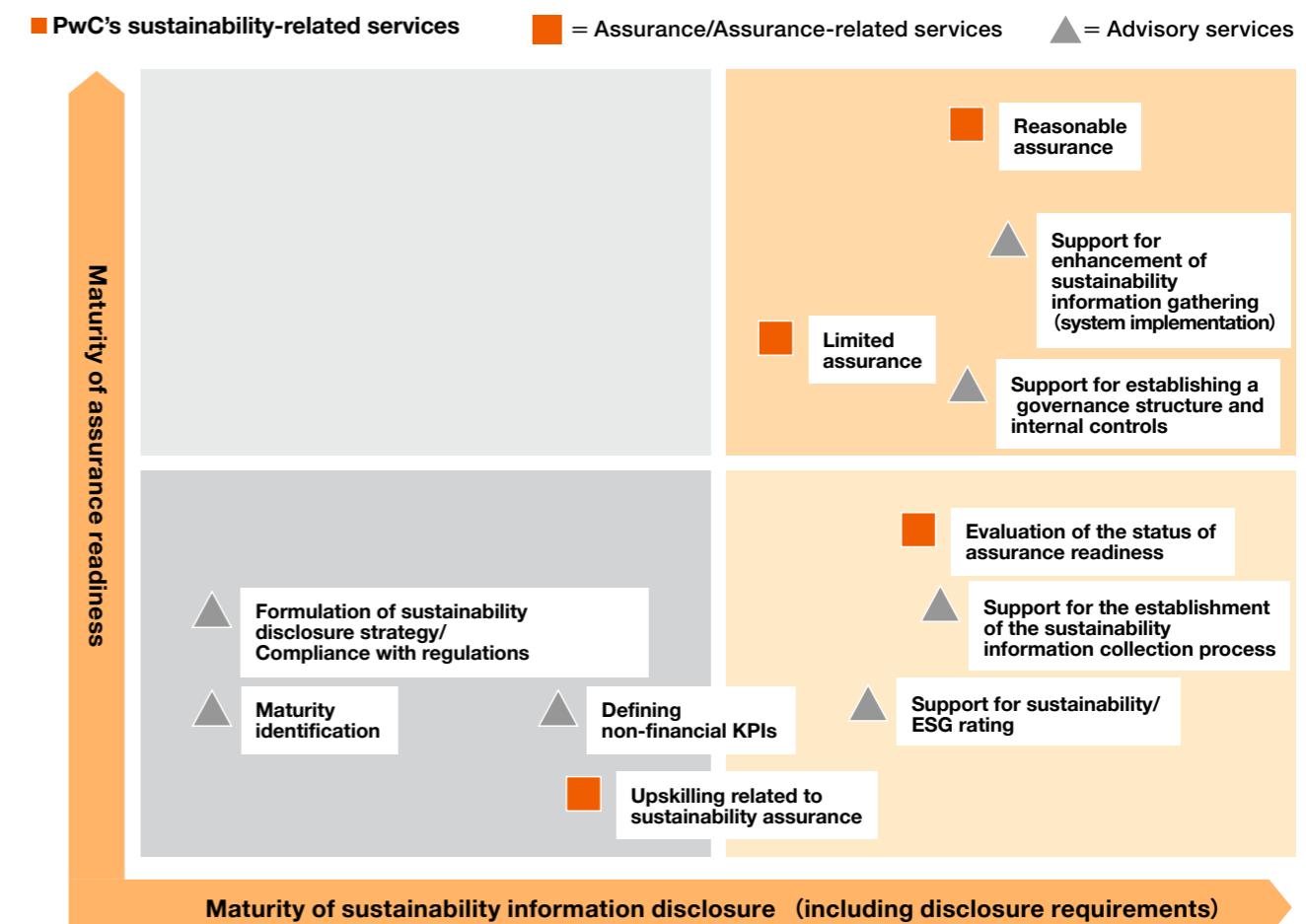
Endo: What are the strengths of our firm's sustainability advisory services?

Nakamura: In terms of disclosure information, our strength lies in providing support by combining digital platforms and AI tools with the knowledge and experience we have cultivated through financial reporting. Our firm's expertise can also add value to clients in helping their efforts to achieve net zero, as this requires not only disclosure but also concrete action. We also respond to clients' needs to proactively address future mandatory disclosures such as those related to biodiversity and human capital.

Endo: Could you share your thoughts on sustainability disclosures?

Konishi: Disclosures under the SSBJ Standards are just the starting point. These standards will continue to improve over the next few years. If sustainability disclosures are established as sources of useful information for capital markets and contribute to a better society, there would be no greater joy for me as a member of the standard setting body for the SSBJ Standards.

Nakamura: Human history, including but not limited to climate change, can be seen as a history of adaptation. And adaptation takes time to try fail and try again. But if we want to adapt, the most important thing is to start now.



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 issue 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 '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.

Key Topic **2**

Technology-driven assurance transformation

Our transformation towards a human-led, tech-powered future

The rapid advancement of technology is fundamentally reshaping our digital landscape. The evolution of generative AI in particular has been remarkable. Technology, which was once the domain of a select group of experts, is now an integral part of our daily lives, leading to significant transformation in our everyday experiences. In response to these societal changes, the Firm is evolving with a clear vision

to shape a human-led, tech-powered future. As technology progresses, there are increasing societal expectations for auditors providing assurance services. We are committed to proactively deploying new technology to swiftly meet the evolving needs of society.

Our vision for the future

We envision the next-generation audit as efficient and high-quality, with one goal being to achieve a 'real-time' audit. This will be enabled by automatically feeding data from audit clients and external sources to PwC's next-generation audit platform, which will process data conversion, reconciliation, analysis and visualisation.

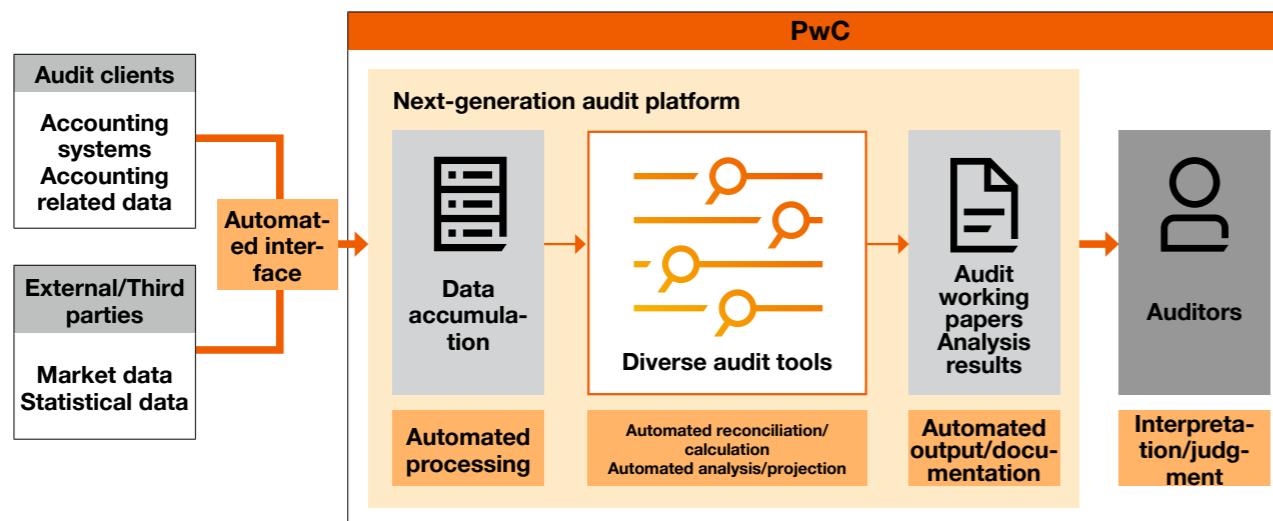
AI-powered analytics tools are transforming our audit from manual sample checks to testing entire datasets, significantly reducing the risk of overlooking key findings inherent in sampling. Automated data feeds enable real-time analyses, allowing early identification of material issues and minimising audit surprises.

AI automatically converts data into usable formats

and recommends optimal external datasets and analytical models, facilitating more efficient and higher-quality analyses. Our new integrated platform comprehensively handles the entire processes, from data acquisition to conversion and analysis. This platform enables real-time sharing of analysis results and audit progress, improves data quality by consolidating information sources and enhances communication within engagement teams and with audit clients.

By harnessing cutting-edge technology, we are elevating our audit engagements to deliver audits that are more transparent and efficient.

Our vision for the future



Investment in the future | Next-generation audit platform

The PwC network has been investing over several years to launch a new global audit platform that will replace traditional technology such as Aura (electronic audit documentation platform) and Connect (document exchange platform), and to strengthen the foundation of next-generation audit. Through the exploration of new technology, investment and redesign of the audit process, PwC is driving further standardisation, simplification, centralisation and automation of audit procedures. By harnessing emerging technology, including generative AI, and investing in the innovation of the audit experience with a focus on continuous quality enhancement, PwC is accelerating ongoing innovation and responding to stakeholders' evolving needs. The vision for PwC's next-generation audit is to deliver efficient, robust and independent assurance and audit insights across both financial

and non-financial information, helping to build trust and solve important problems for stakeholders.

As PwC advances its next-generation audit program, new functionalities will continue to be introduced to enhance both quality and the overall audit experience. To redefine how human capabilities are maximised using the power of AI, the PwC network has made significant investments. We remain committed to closely monitoring developments in AI, including generative AI, and promoting the development of potential use cases, while fostering a culture of responsible AI usage.

Advantages of next-generation audit

The implementation of next-generation audit brings advantages to both audit clients and our firm.

Audit clients	Our firm
► Prompt response through real-time audit	Early identification of accounting and audit issues
► In-depth risk assessment and comprehensive testing of entire populations	Increased detection rate of fraud and errors
► Advanced analyses and elimination of bias	Access to multi-angled insights
► Reduced pre-processing tasks through automation	Time savings when preparing materials
► Consistency in quality across engagement teams	Reduced audit workload that may otherwise arise from team member replacement
► Ensuring information security throughout the audit cycle	Strengthened information security
	Strengthened information security

Initiatives towards next-generation audit

To realise a real-time audit, we are collaborating closely with the PwC network to support the implementation and operation of digital tools in Japan, which will be integrated into the next-generation global audit platform currently under development.

Additionally, we have established a dedicated community where current engagement team members, who will be future users of the platform and its embedded digital tools, can provide feedback.

Transforming assurance through generative AI

Initiatives to promote the use of generative AI

The Firm is actively promoting the use of generative AI through a variety of initiatives. We provide comprehensive information—from basic knowledge of generative AI to practical applications—on our internal website. The site features an overview of generative AI, guidance on crafting prompts, introductions to available tools, use case examples and archives of past training sessions.

The following trainings and other programs, designed with objectives targeting specific user groups, have received high satisfaction ratings:

- ▶ Touch&Try workshops focused on learning how to craft generative AI prompts
- ▶ Prompt design workshops tailored to individual OUs
- ▶ Informal Q&A sessions addressing questions about generative AI
- ▶ Practical workshops supporting day-to-day use of generative AI
- ▶ Sharing sessions for staff with high digital literacy

Through these programs, the level of generative AI utilization has steadily increased. As a result, ChatPwC, our internal interactive AI assistant, has achieved a 96% internal awareness^{*1} and an 80% usage rate^{*1}.

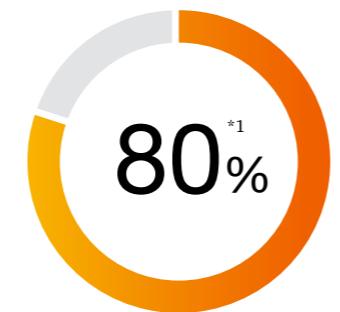
^{*1} Survey period: June 2025, Target respondents: 350 employees randomly selected from all staff members belonging to assurance, Aggregation condition: Collate all responses from the aforementioned target respondents who participated in the survey.

Launch of AI Factory

In October 2025, PwC Japan Group established the AI Factory as an organisation dedicated to developing and operating AI for both industry transformation and internal transformation. The AI Factory aims to respond swiftly to the needs of each firm within the group and accelerate the development of AI solutions across the entire organisation. By participating and collaborating in this initiative, the Firm's members will advance the development of AI tailored to the Japanese language and local environment, which are areas that global development alone cannot fully address, and apply these solutions to assurance services.

Use of ChatPwC

Usage rate of ChatPwC



ChatPwC is an advanced interactive AI assistant launched across the PwC network. Available to all employees since July 2024, it enables the use of generative AI in PwC's proprietary secured environment. Equipped with advanced AI models from various providers, users can upload client data based on the rules to receive accurate, data-driven responses. Prompts and data are never shared externally, and no data is used for model retraining, thereby ensuring security.

Beyond standard interactive functions, ChatPwC incorporates AI agents that operate autonomously to achieve goals. These agents are capable of retrieving information from previously inaccessible external websites, handling multimodal data^{*2} input and output and executing programs for data analysis. These enhancements have significantly expanded the scope of available support, facilitating a more tailored use of generative AI in daily work.

^{*2} Data that combines multiple types of information, such as text, images and audio

Expanding the use of generative AI: Batch-processing AI tools and knowledge sharing between audits and BAS

Harnessing and building upon interactive generative AI, the Firm is advancing the use of batch-processing AI tools across various service lines. Unlike interactive generative AI, which requires users to input prompts, batch-processing AI tools can analyse and evaluate multiple documents or items

simultaneously. Specific use cases include extracting necessary data from contracts for accounting purposes, reviewing whether financial statements comply with relevant requirements and analysing trends in internal survey results.

To address challenges in interpreting abbreviations and terminology, which were identified in applying the use cases of general-purpose language models, we employ a Retrieval-Augmented Generation (RAG) mechanism. RAG retrieves additional information from databases and incorporates it into outputs.

Similar to the previously mentioned ChatPwC, RAG operates within PwC's proprietary secured environment, with no data shared externally or used for model retraining.

To mitigate potential inaccuracies in AI-generated responses, the business rules require users to verify the correctness of the tool's outputs. Therefore, AI may be used in drafting items such as analysis results, rationale and references, in compliance with these business rules, thereby enhancing efficiency and quality.

The batch-processing AI tools, initially developed to enhance the efficiency of BAS services, have now been extended to audit services.

Activities to promote the use of generative AI in audits

While generative AI has the potential to deliver significant benefits in audits, its use also involves inherent risks. To mitigate these risks, PwC has established specific rules for the use of generative AI in audit engagements.

Generative AI also plays a key role in our next-generation audit platform. The platform's global development team has crafted prompts that are useful for audits and made them easily accessible to users. To ensure the appropriate use of generative AI across audit teams, the Risk & Quality and Digital Transformation Office offer support to audit teams on new use cases, ensuring responsible use of generative AI in audits.

Generative AI governance

The Firm is committed to establishing a governance framework that ensures responsible and innovative use of generative AI. Given that all employees have access to ChatPwC, they are required to understand the business rules deployed globally across the PwC network and complete training prior to use. This training program covers measures to address key risks, such as hallucinations and data bias, underscoring our commitment to the responsible use of AI.

In developing tools that incorporate generative AI, we have implemented a rigorous risk-based review process. This process is designed to unlock new value while ensuring an optimal balance between innovation and risks. Our approach accelerates the safe and effective deployment of generative AI services to both clients and internal OUs.

Use of AI by audit clients

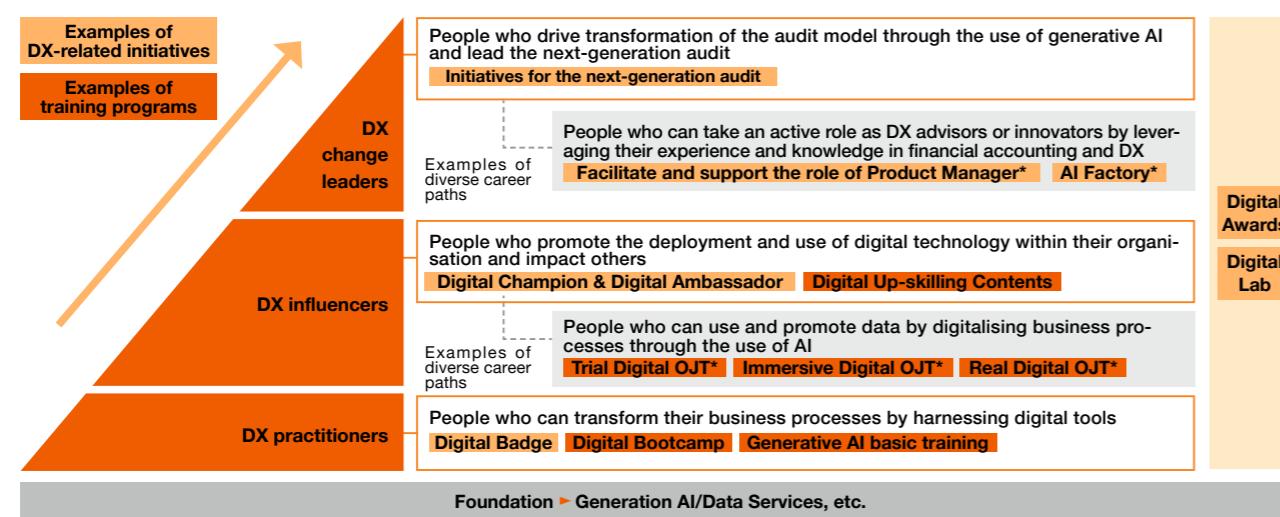
AI adoption is being promoted not only by audit firms but also by audit clients. When assessing the risks associated with the use of AI by audit clients, the Firm evaluates how companies manage risks associated with AI and data governance, as well as the controls in place for the companies' models. This assessment covers aspects such as accuracy, completeness, reliability, explainability, data bias, automation bias and accountability. Based on this evaluation, we develop procedures to address the assessed risks.

Digital & Innovation

People and culture supporting Digital & Innovation

As a professional firm whose vital asset is people, the 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 the 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



* Product Manager placement and support: A project that fosters an environment and supports initiatives that empower people who drive business innovation through digital to take an active role.
 * AI Factory: A collaborative initiative among member firms of the PwC network, including Japan, to promote the use of generative AI across the organisation.
 * Trial Digital OJT/Immersive Digital OJT/Real Digital OJT: A hands-on program designed to develop people capable of digitising business processes or leveraging generative AI.

Examples of programs

Digital training programs	We have built a learning environment that enables employees to continuously enhance their skills. This includes both in-house content, such as the Digital Bootcamp in which all employees participate upon onboarding, and external training tools. In response to the growing focus on generative AI, we have intensified our efforts in this area. Specifically, we offer a variety of training programs, including basic training to understand risks and business rules, Touch & Try sessions to experience practical usage and Prompt Design Workshop to learn how to craft effective prompts.
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Examples of DX initiatives

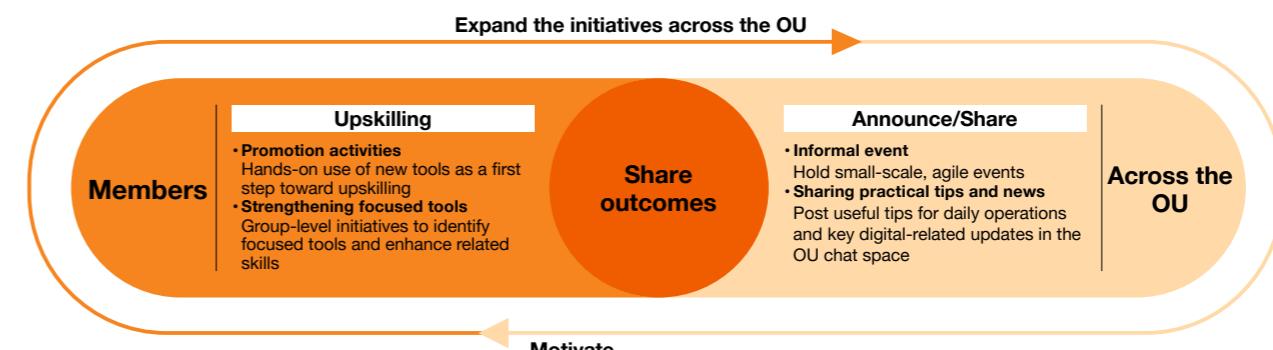
Digital Badge	Digital Badge is digital skill certification issued by PwC to visualise digital skills. This Badge can be shared not only within the Firm, but also through external social media.
Digital Champion & Digital Ambassador	Digital Champions & Digital Ambassadors are selected from each OU and are responsible for fostering a digital culture at the OU and engagement team level. They are expected to refine their expertise and play an active role both inside and outside the company.
Initiatives for next-generation audit	To realise real-time auditing, we are collaborating with the PwC network to support the implementation and operation of digital tools in Japan. These tools are being integrated into the next-generation audit platform currently under development globally. We have also established a community where current audit team members—who are the future users—can share feedback on both the next-generation audit platform and the digital tools incorporated into it.
Digital Lab	Digital Lab is a platform designed to collect and share digital tools created by the PwC network firms, including Japan.
Digital Awards	An event called Digital Awards is held to recognise individuals and teams who have contributed to human-led, tech-powered initiatives*. * PwC aims to build trust in society through human-led and tech-powered approaches, combining the human ability to think and experience with technology-driven innovation.

Examples of activities as Digital Champion & Digital Ambassador

East Japan

Our OU has established an overarching policy to strengthen intrinsic motivation and promote voluntary digital adoption by supporting digital talent development and driving cultural transformation. Specifically, we have fostered a positive cycle by sharing outcomes of individual skill-building achievements and disseminating digital tool use cases across the OU. This approach helps members recognise the benefits of digitalisation, further motivating them to engage proactively in digitalisation initiatives.

Digital promotion by upskilling and cultural cultivation



West Japan

While the expanded use of digital tools brings benefits such as standardisation, increased efficiency and improved quality, it also requires transformation of practices, which may involve temporary challenges. This transformation calls for collaboration between leaders, including partners and managers who lead engagement teams, and engagement team members responsible for implementing changes in practice.

Our OU has taken a comprehensive approach involving not only engagement teams but also various other functions. Key activities included support from the Technical Competency Centre (TCC) and the tool implementation support team, standardisation of audit processes and Digital Champion & Digital Ambassador' activities. As a result, within approximately a year and a half after the integration between PricewaterhouseCoopers Aarata LLC and PricewaterhouseCoopers Kyoto in December 2023, the implementation of Halo (journal entry data analysis tool) by engagement teams that joined from PricewaterhouseCoopers Kyoto has reached a level comparable to other OUs. This achievement demonstrates how collaboration through integration and the adoption of technology can lead to successful implementation.

Financial Services

Our OU has efficiently organised and structured a substantial volume of internal and external communication data related to domestic investment trust audits by leveraging generative AI. This project uses ChatPwC to analyse and assess the context of the data, implementing functionality that automatically generates appropriate titles and relevant keywords based on accounting and auditing standards as well as classifications of financial instruments. Through this approach, we have consolidated data into a single structured dataset. As a result, we have successfully developed a high-quality and user-friendly dataset that serves as a foundation for internal knowledge management.

Our junior staff members have been leading initiatives such as the data structuring project illustrated above and the development project of a topic search tool powered by generative AI's code generation capabilities. These efforts not only enhance operational efficiency and audit quality for engagement teams, but also foster a culture of understanding and utilising generative AI, thereby contributing to the development of professionals who will lead the next generation audit.

Key Topic **3**

People development for shaping the future

Our people strategy

People strategy for realising Vision 2030

Vision 2030 communicates the Firm's commitment to provide integrated assurance services to solve trust gaps in society by expanding audit and assurance 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 diverse business challenges faced by companies and problems in society, the scope of challenges the Firm needs to address continues to expand. As the complexity of problems increases, the level of expertise required in each area also increases. To address the breadth and complexity of these issues, it is essential that all partners and staff recognise the importance of acting as professionals. This is a prerequisite for realising Vision 2030.

The goal is to inspire each employee to proactively engage in organisational strategies while pursuing

their own personal growth. To support this, the Firm fosters a culture that encourages people to take ownership of their own growth and respect others' growth. We have also established a people development structure that empowers our people to pursue their career paths.

To realise Vision 2030, we will further invest in the professional growth of each employee, building on the foundation of quality and people that have underpinned our sustainable growth. These efforts aim to achieve sustainable growth in a unified and purposeful manner, driven by the commitment of the organisation and each employee.

Under the philosophy of 'Grow here, Go further,' our organisation is committed to providing an environment where every member can achieve personal growth.

We strive to promote a people strategy that seamlessly links individual development with organisational growth.



A future of trust built through the pursuit of expertise and a culture of collaboration

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

We have contributed to society by offering integrated assurance services that bridge gaps in trust, through collaboration among professionals with diverse areas of expertise.

As we work toward realising Vision 2030, we will establish learning and education programs that empowers each staff member to take ownership of their professional growth and pursue their expertise.

Promoting Inclusion & Diversity (I&D) is essential for both organisation and staff to attain this sustainable growth.

Collaboration among people with diverse backgrounds and values, while embracing each other's differences, will lead to more creative and flexible problem-solving, ultimately enabling the delivery of trusted services.

We will create an environment where everyone can work with peace of mind and be their authentic selves, thereby deepening knowledge and experience and enhancing organisational resilience.

Key initiatives for continuous growth support and people strategy

The Firm systematically operates an integrated program — ranging from recruitment to people development, training, assignments and performance review — to ensure that every staff member can continue to grow as a professional. Through this approach, we support the ongoing development of our people and contribute to delivering high-quality audits.

In particular, we have introduced specialised train-

■ People development life cycle to deliver high-quality audits



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

Initiatives to foster culture

Culture can be fostered if each person behaves in line with these behaviour guidelines. But there is no right way to foster a 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 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 FY2025 survey, the Firm achieved a 91% response rate

Approach to cultural initiatives



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 Purpose and Vision, they need to cultivate a mindset of taking ownership of their own growth by basing their behaviour on guidelines comprised of Pursuit, Respect and Progression. Those who provide on-the-job training and feedback drive the growth of people by engaging in communication based on Pursuit, Respect and Progression.

Behaviour Guidelines for realising our vision and PwC Professional

The Behaviour Guidelines play a vital role in connecting the organisation and individuals as we work toward realising Vision 2030: Building trust for the future of Japan. Previously, these guidelines were developed through a top-down approach, which posed challenges in its effectiveness due to inconsistency with actual practices. To address these challenges, in FY2023, we adopted a bottom-up approach that incorporated feedback from staff across all grades. This led to the selection of behaviour guidelines that embodied the vision of Evolve, Collaborate and Challenge. The implementation of guidelines was promoted throughout the Firm.

In FY2025, to align the Behaviour Guidelines with the direction of the integrated firm and the behavioral examples of the PwC Professional ► p.85

*1, we held workshops at offices nationwide, with participation from many employees. In these workshops, we developed new guidelines centred on the keywords Pursuit, Respect and Progression*2, further enhancing alignment with the PwC Profes-

sional.

When staff are uncertain about how to act, these three elements serve as a guide for actions to take. This will enable each staff member to embody the organisation's vision and play a key role in fulfilling the Purpose of the entire PwC network. In FY2026, we will continue to promote the implementation of the Behaviour Guidelines and the PwC Professional through ongoing workshops and other initiatives.

*1 Referred to as 'Evolved PwC Professional' until the end of FY 2025.
*2 Pursuit: Be curious
Respect: Embrace the actions of others and communicate with positivity
Progression: Anticipate and adapt to the ever-changing times and move forward



Workshop for discussing Behaviour Guidelines held at the Fukuoka Office

Behaviour Guidelines



Voice of each staff member will shape the future of our organisation

— How our culture evolves to deliver our Purpose and Vision —

Daisuke Tanaka Co-Leader of the People & Culture Office

Our cultural initiatives are deeply aligned with our people strategy, forming the foundation for delivering our Purpose and Vision. To build our ideal organisational model, we should consider the types of people we need and the behaviors we expect. By involving each staff member in the process of defining these guidelines and encouraging them to share their perspectives, we foster an environment where everyone takes ownership of their growth and is empowered to take on new challenges together with their colleagues.

We will be committed to engaging in these initiatives as we work together to shape our ideal organisation.

Communication and dialogue with stakeholders

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



Enhancing the basic policy and structure for information dissemination and dialogue

A wide range of domestic and global transformation is creating new trust gaps. These include the widespread adoption of various forms of AI, such as generative AI, and the growing expectation of its reliability; global developments in disclosures, assurance and dialogue on sustainability information; expectations for cybersecurity and securing privacy in both digital and analogue contexts; escalating geopolitical tensions; and the pursuit of human well-being. These trust gaps, which may lead to important societal challenges, are increasing.

To address this evolving landscape, the Trust Insight Centre, launched in 2023, has identified several trust gaps and engaged in ongoing collaboration with diverse stakeholders through investigation, analysis, research, capacity building and dialogue. Specifically, the Firm has strengthened collaboration among the Research Lab, AI Audit Lab and PwC Research Institute (Japan) LLC—a PwC group company—to promote the sharing of insights on global trust gaps. In addition, the collaboration with the Public Policy Office^{*1} and Stakeholder Engagement Office^{*1} has been reinforced. Other initiatives include deepening

the collaboration and cooperation with the PwC network's trust and knowledge management functions, as well as continuously communicating our perspectives through publications such as PwC's View, which is the Firm's opinion paper.

The Evolution of Transformation and the Pursuit of Trust

Designing the future of an evolving society
<https://www.pwc.com/jp/ja/knowledge/column/transformation-and-trust.html>

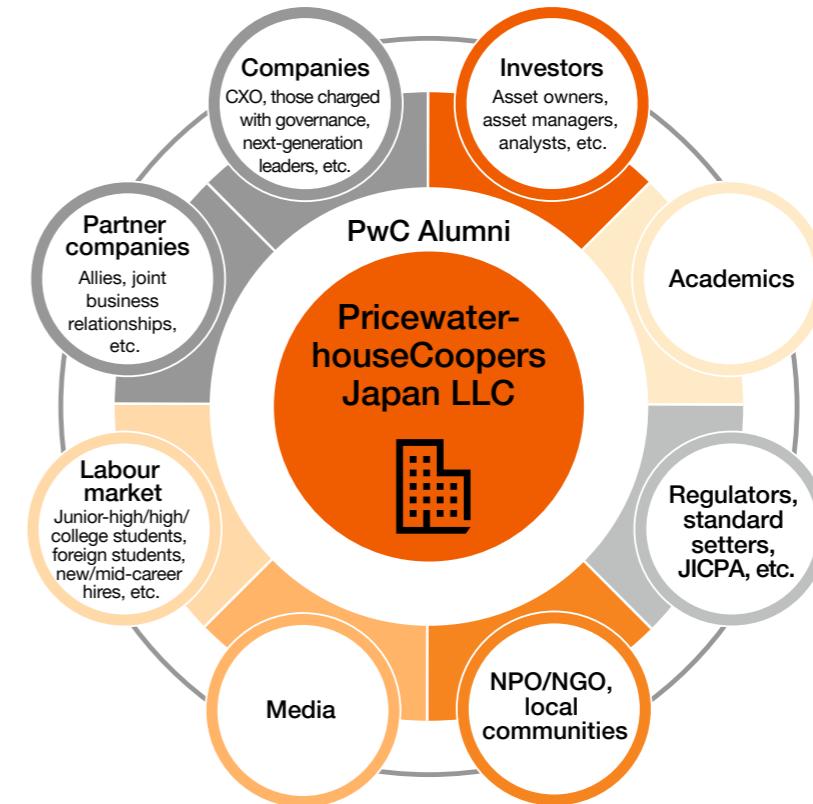


By engaging in communication and ongoing dialogue with a diverse range of stakeholders, we strive to understand expectations and needs for various trust services, including audit and assurance, and to identify potential expectation gaps. Feedback obtained through this dialogue is reported to the Management Committee, the Oversight Board, the Public Interest Board (PIB)^{*2} and Partners and Shains Meetings, and is also utilized for staff training and for enhancing the quality of audit, assurance and advisory services.

*1 In FY2026, the Public Policy Office and Stakeholder Engagement Office will be integrated into the Trust Insight Centre.

*2 In FY2026, as part of a structural redesign, external PIB members will be invited to join the Oversight Board as independent non-executive (INE) members, and the PIB will be integrated into the Oversight Board.

Overview of dialogue with stakeholders



Information dissemination to, and co-creation with, Academics

Research Lab and AI Audit Lab

Established in 2007, the Research Lab operates as a permanent organisation conducting independent research on fundamental socio-economic trends expected to impact audit services with a view toward the next decade. Launched in 2016, the AI Audit Lab focuses on surveys and research related to AI utilization and next-generation audits for financial statement audits. These labs are primarily comprised of researchers with extensive practical experience, supported by external specialists and guest

researchers, enabling discussions from diverse perspectives and fostering deeper knowledge. The outcome of these activities are published through PwC's View, training, lectures, contribution and presentation inside and outside the organisation.

Key research areas

- Next generation accounting and audit (including AI usage)
- Education required for auditors using AI
- Implementation of agile governance and trust (including the use of data analysis)
- Sustainability
- Investor engagement

Information dissemination to, and dialogue with, investors and analysts

Dialogue with investors and analysts

We have been actively engaged 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 post-integration governance, leadership transition, KAMs ► p.66, people and culture, integrated assurance services, assurance on sustainability information, data analysis and usage of AI.

The Firm has been supporting the activities of the Corporate Reporting Users' Forum(CRUF) for more than 15 years. CRUF is a community in which investors and analysts gather and disseminate views from the perspective of users of corporate disclosures. CRUF Japan holds 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. The Open CRUF meeting discusses wide-ranging agenda including the use of sustainability information in investment decision making, use of generative AI and AI governance.

Global Investor Survey

The Firm collaborates with PwC network firms to design and implement the Global Investor Survey, and continuously conducts research and analysis to identify similarities and differences between CEO and investor perspectives. We also conduct a questionnaire and interviews with investors and analysts in Japan. In FY 2025, alongside the global analysis, we undertook an additional in-depth analysis of trends specific to Japan's capital markets, and contributed and published insights gained in PwC's View (<https://www.pwc.com/jp/ja/knowledge/prmagazine/pwcs-view/assets/pdf/56-04.pdf>).



Global Investor Survey 2024
Cautious yet optimistic
Investors anticipate growth.



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

Each member of the Firm is encouraged to recognise changes in the investment chain as a matter of personal responsibility and leverage these insights to enhance the quality of audit, assurance and advisory services. We share challenges and feedback from investors, analysts and other stakeholders through internal training programs. In FY2025, we designed and delivered training sessions on topics such as sustainable finance, the use of generative AI and stewardship activities.

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

To deliver high quality audits, we believe it is vital to exchange opinions, and have discussions, with not only 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.

Forum with those charged with governance and Audit Committee Network

The Firm hosted forums in Tokyo and Kyoto attend-

ed by those charged with governance at our audit clients. To facilitate ongoing information dissemination and dialogue, we also plan and manage the Audit Committee Network joined by those charged with governance from a broad range of listed companies.

Engagement with PwC Alumni

With a history spanning over 75 years, PwC Japan Group has nurtured a diverse array of professionals. Our alumni are at the forefront of business both in Japan and globally. We consider the planning and operation of a community that fosters interaction and values mutual connection among alumni members as an essential part of stakeholder engagement. We actively gather views from alumni on the quality of our services, and work to strengthen relationships between current PwC Japan Group members and alumni.

Partners leading initiatives to build trust through dialogue and co-creation with stakeholders



Tomoyuki Ashizawa
(Knowledge Management)

Kenichi Hayashi
(Public Policy Office)

Naoaki Kobayashi
(Chief Editor of the Audit Quality Report)

Takashi Sasaki
(PwC's View)

Hideki Ishii
(PwC Research Institute)

Koichi Ito
(Leader of AI Audit Lab)

Yoshiyuki Kure
(Leader of Trust Insight Centre/
Stakeholder Engagement Office)

Rieko Yanou
(Leader of Research Lab)

Yoshitaka Yamada
(Vice-leader of Research Lab)

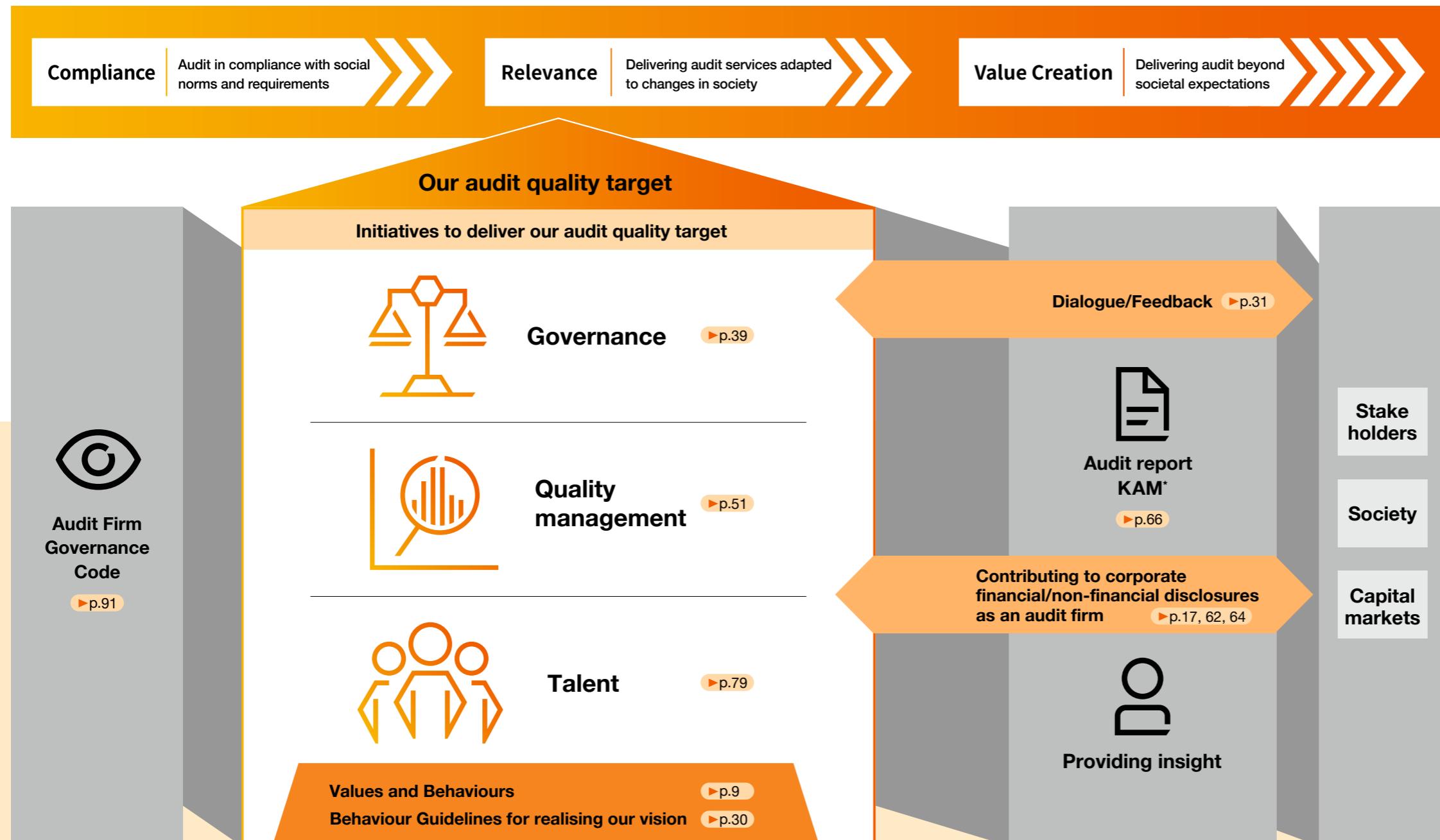
Initiatives to deliver unwavering audit quality

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 information

Expectations for audit constantly change as 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



Initiatives to deliver unwavering audit quality

Audit Quality Report 2025 37

1 Governance 39

System of monitoring, oversight and providing advice to continuously meet stakeholders' expectations

2 Quality management 51

Delivering high quality audit in ever-changing environment

3 Talent 79

Developing professionals of solving problems

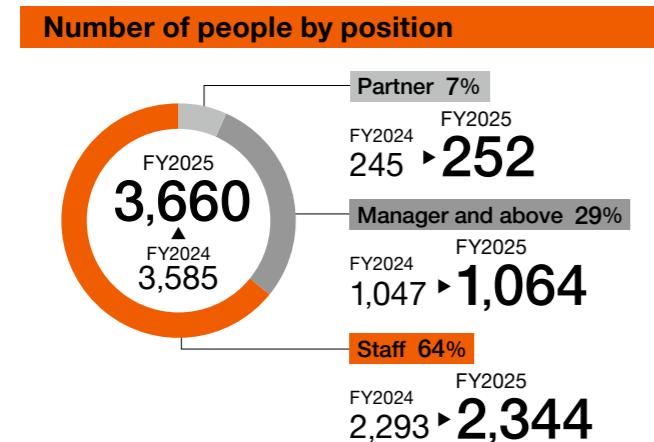
Collaboration with the PwC network 87

Response to the Audit Firm Governance Code 91

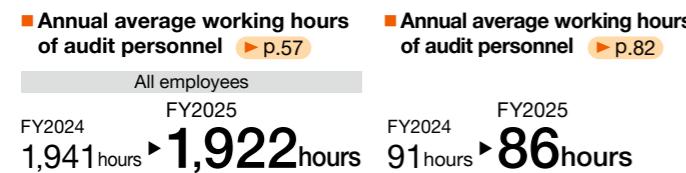
FY2025 Audit Quality Indicators

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

People

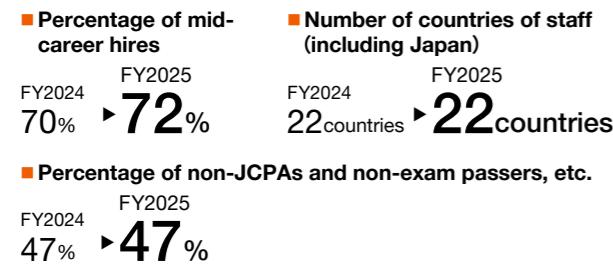


Support for development



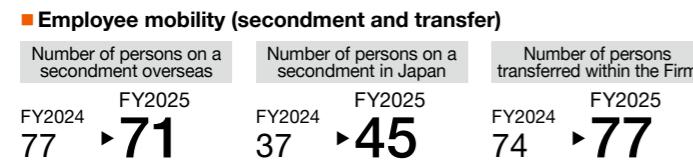
A certain level of training hours is maintained. In addition to mandatory training for all employees, we have established a program that allows individuals to voluntarily take courses based on their specific needs and motivation, thereby encouraging participation in training.

Hiring

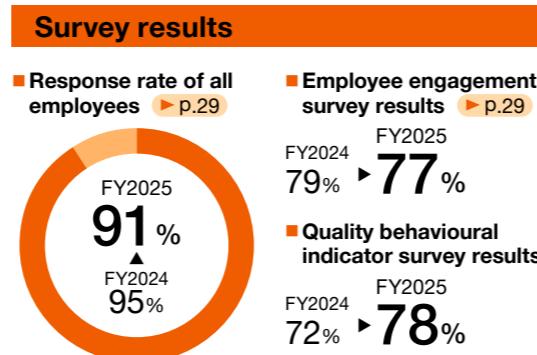


We are promoting recruitment practices that value diversity in employment types, areas of expertise and nationalities, resulting in a workforce with a broad range of capabilities.

Diverse experience

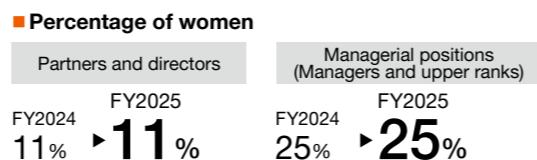


We continue to provide diverse career opportunities and promote employee mobility. Although the number of persons on overseas secondment has temporarily decreased due to the timing of overseas assignment, our initiatives to expand mobility opportunities are ongoing.

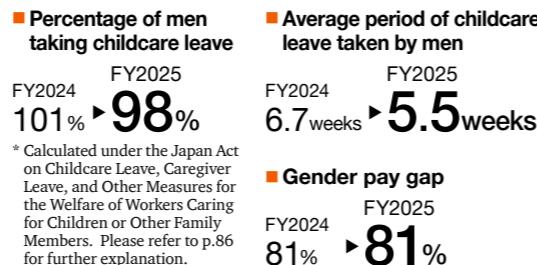


The response rate, employee engagement survey results and the quality behavioural indicator survey results have met their respective targets and continue to remain at a high level.

Inclusion and Diversity



Our efforts to support female employees in becoming partners or moving into managerial positions have shown positive results. We will continue these efforts for further achievement.



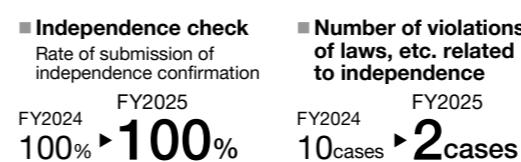
The percentage of men taking childcare leave has nearly reached 100%, and we are working to ensure sufficient childcare leave periods. Furthermore, we maintain a consistent gender pay gap and strive to foster a balanced workplace environment.

Audit work goes through a process that combines various elements, including fostering of culture, governance, quality management activities and use of technology, before the issuance of audit reports.

The following figures show the AQIs established based on our quality management framework called QMSE (p.53) 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.

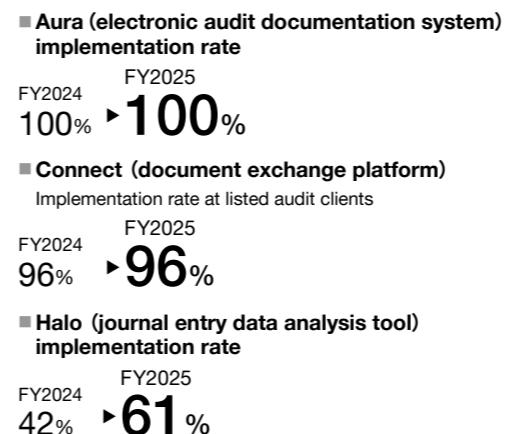
Initiatives to support audit quality

Professional ethics and independence



We have confirmed that all violations of laws were solely due to individuals' financial interests and did not compromise the objectivity or fairness of our audit engagements or the Firm.

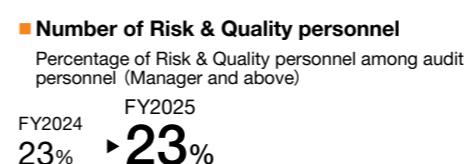
Use of technology



Since the use of the next-generation audit platform requires the implementation of Halo, we have worked to increase the implementation rate across all audit clients, resulting in a significant improvement. Going forward, we will intensify our efforts to implement Halo at audit clients that have not yet adopted the tool.

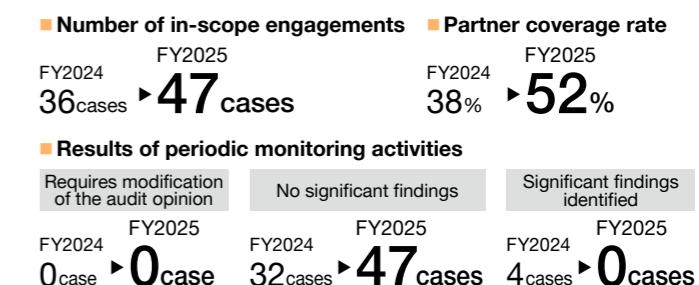
Support and monitoring by Risk & Quality

Support structure at Risk & Quality

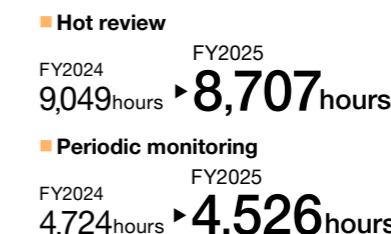


Audit quality monitoring

Periodic monitoring activities



Reviewers' working hours



The use of translation tools has facilitated efficient reviews by non-Japanese reviewers and significantly reduced the time required from support reviewers.

Administrative action resulting from external inspections



Investments in future

PwC Japan Group's investment in technology



Completion rate of digital training



Governance

1

Message from the chair of the Oversight Board

We are dedicated to enhancing audit quality through sound governance by ensuring effective oversight of the leadership team and fostering constructive dialogue among members from diverse backgrounds who offer fresh perspectives.



Our 15 quality objectives ► p.54

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

Renewing members and strengthening governance

In December 2023, PricewaterhouseCoopers Aarata LLC and PricewaterhouseCoopers Kyoto successfully completed their integration and began operating as a unified organisation. FY2024 was a pivotal year in laying the foundation for our firm's competitiveness and future growth. This year also marked a leadership transition, with Masataka Kubota, the former Assurance Leader, assuming the role of CEO, and Takeshi Yamaguchi stepping into Assurance Leader position.

At the same time, as we assess the current landscape from a holistic viewpoint, it is evident that our industry is in a new era of a new audit model, driven by digital technology and generative AI. Our firm now stands at the forefront of this transformative era.

Amidst this backdrop, the Oversight Board underwent its first member renewal in four years. As a result, two-thirds of its members have changed, bringing greater diversity in backgrounds to the team. In addition, we welcomed external members from the Public Interest Body, who previously offered public interest perspectives from outside the Oversight Board framework, to participate directly on the Oversight Board. This change enabled us to engage in more timely and in-depth discussions, further strengthening the governance function of the Oversight Board.

Toward the success of audit quality

Audit quality remains our enduring and ultimate goal and is a source of professional pride for any audit firm. At the same time, the mechanisms, models and people required to achieve audit quality are profoundly influenced by changing times. Societal expectations continue to evolve, like the flow of a river. In this context, we recognise the emergence of a new era where audit quality is more



Takeaki Ishibashi
Chair of the Oversight Board

directly linked than ever to three key factors: (1) maintaining dialogue with a wide range of external stakeholders to remain alert, ensuring that public interest remains at the core of our thinking, (2) accurately capturing the momentum of digital technology and generative AI, and reflecting them timely in our audit tools and methodologies, and (3) flexibly recruiting, training and motivating people (who may not necessarily fit our traditional recruiting model) who are capable of fully leveraging these tools and methodologies.

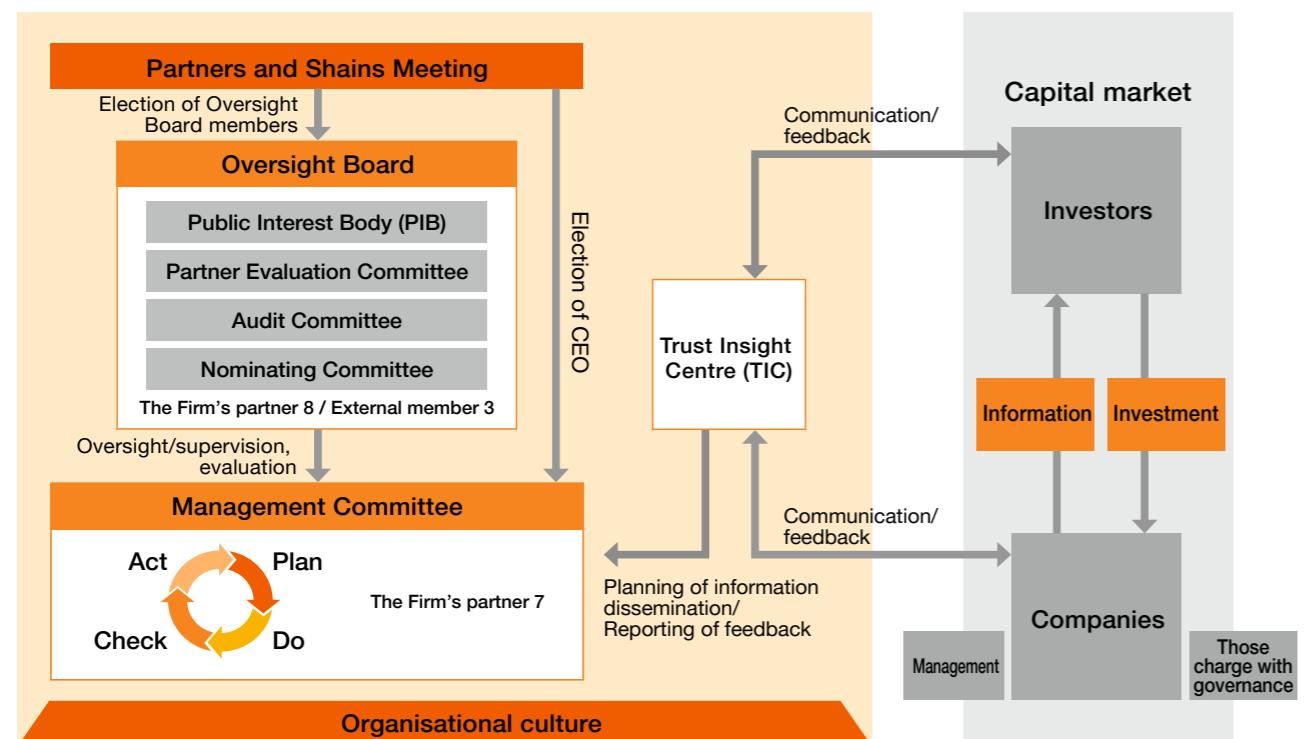
We will continue to monitor and oversee with calm and objectivity how the leadership team navigates the audit firm in this new era. At the same time, we will engage in dialogue and offer advice with fresh perspectives and sincere passion, thereby working in tandem with the leadership team to successfully enhance the Firm's audit quality.

Our governance structure

Our governance and organisation

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

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.

Oversight Board:

The Oversight Board consists of the Chair of the Oversight Board and the Oversight Board members, and monitors, oversees and evaluates the management strategies formulated by the Management Committee and their implementation. Independent Non-Executives (INEs) participate in discussions at the Oversight Board.

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 in 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.

Trust Insight Centre (TIC):

TIC aims to consolidate insights on trust and, through dialogue with stakeholders in the capital markets, listen to and identify both current and future trust gaps, and explore and examine ways to address them.

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 discussions include eight Oversight Board members and two partner observers, as well as three INEs appointed externally, and is operated by the Oversight Board itself, three committees and the PIB.

Strengthening the governance structure of the Oversight Board in FY2026

Until FY2025, the Public Interest Body (PIB), consisting of external experts, the Chair of the Oversight Board and the CEO of the Firm, has been responsible for overseeing, evaluating and advising on initiatives undertaken by the Management Committee to enhance audit quality. In FY2026, the external members of the PIB have been appointed as Independent Non-Executives (INEs) for the Oversight Board to further strengthen governance effectiveness. In addition, the PIB has been integrated into the Oversight Board as part of a structural reform. This change is intended to promote more timely and in-depth oversight, evaluation and advice by INEs, while enhancing the objectivity of those serving on the Oversight Board.

(As of July 1, 2025)

Chair: Takeaki Ishibashi (also the chair of the Partner Evaluation Committee)

Vice Chair: Ryuichi Nagano^{*1}

INE: Kazuhiro Suzuki (Chair of the PIB), Tadashi Shimamoto, Goro Kumagai

Members: Yoshitaka Yamada (Chair of the Audit Committee), Yoshiyuki Kure (Chair of the Nominating Committee), Trevor Tisseversasinghe, Daisuke Abe^{*1}, Masaji Hamanoue^{*2}, Shizuko Akama^{*2}
Observers: Hiroyuki Koga^{*1}, Shunsuke Horii^{*1}

^{*1} Partner of PwC Consulting LLC

^{*2} Partner of PwC Advisory LLC

Appointment and composition of Oversight Board members

The Oversight Board establishes an Oversight Board Member Nominating Committee for the

selection of the Oversight Board members. The Oversight Board Member Nominating Committee selects candidates for the Oversight Board members, who are then formally appointed by a resolution of the Partners and Shains Meeting.

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

Appointment and qualification criteria for INEs

► Individuals who meet certain criteria are appointed as INEs and invited to join the Oversight Board.

Qualification criteria for INEs

► A person who possesses appropriate knowledge as an INE, 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 complies with the Firm's independence requirements.

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

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 annually evaluate the CEO and determine 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 soundings with all partners who have the right to vote and decide candidates for the CEO.

Sub-committees of the Oversight Board**Oversight Board*****Public Interest Body (PIB)**

Is comprised of INEs and the chair of the Oversight Board, and 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 or the Oversight Board. The PIB has the 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.

Partner Evaluation Committee*

Deliberates on matters such as partner enrollment and withdrawal, selection of CEO, evaluation and remuneration of partners.

Audit Committee*

Performs audits of finance and business operations of the Firm, and approves the internal audit execution plan and the internal audit results report submitted by the chief audit executive. Where remedial actions are deemed necessary, the Audit Committee requests the CEO to implement them. Additionally, the Audit Committee evaluates the audit plan and audit results provided by the financial statement auditor.

Nominating Committee*

Selects candidates to ensure fair and orderly nomination of candidates for the position of the CEO. The selected 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.

FY2025 Members of the PIB

As of June 30, 2025

Kazuhiro Suzuki: Lawyer, ex-superintending 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

Masataka Kubota: CEO of the Firm



Kazuhiro Suzuki

Tadashi Shimamoto

Hiroshi Hitomi

Members of the Oversight Board

(as of July 1, 2025)

Name / Title	Career summary*	Skill Matrix									
		Management/ Senior leadership	Audit	ESG	Digital	Business development	Quality management	Finance	People development/ HR/Labour management	Technology, Entertainment/ Automotive	Industry
Takeaki Ishibashi Chairperson (chair of the Partner Evaluation Committee)	1996 Joined a US accounting firm/2007 Joined the staff of PCAOB/ 2017 Joined PwC Arata LLC, appointed partner/2018 Appointed head of Quality Review of Risk & Quality/2022 Appointed client partner of the PwC global network/2025 Appointed chairperson of the Oversight Board		●				●			●	Global
Ryuichi Nagano Vice-chair	1994 Joined a Japanese audit firm/1998 Seconded to PwC US Chicago Office/2006 Appointed partner of PwC U.S./2016 Appointed partner of PwC Arata LLC, seconded to PwC Singapore/2021 Transferred to PwC Consulting LLC/2025 Appointed member of the Oversight Board, appointed X-LOS Financial Service Leader	●	●	●	●	●	●	●	●	●	Finance
Yoshitaka Yamada Member (chair of the Audit Committee)	1994 Joined Aoyama Audit Corporation/2007-2011 Partner for supervising quality management at Kyoto Audit Corporation/2023-2025 Sub-leader of the Corporate Reporting Service/2023 Appointed member of the Oversight Board/2024 Appointed expert member of the business combination committee of the Accounting Standards Board of Japan, appointed board member of the Japan Auditing Association/2025 Appointed member of the PwC network Global Board	●		●			●			●	Electronic equipment, Communications
Yoshiyuki Kure Member (chair of the Nominating Committee)	1997 Joined a business management consulting firm/ 2006 Joined PwC Arata/2015 Appointed partner/ 2018 Appointed leader of the Stakeholder Engagement Office, responsible for Research Lab/ 2023 Appointed leader of the Trust Insight Centre/ 2024 Appointed leader of the Centre for Corporate Governance in Japan/2025 Appointed member of the Oversight Board	●	●	●	●	●	●			●	Technology, Media, Entertainment, Pharmaceuticals, Energy, Trading
Trevor Tisseverasingthe Member	1996 Joined PwC UK London Office/1999-2000, 2002-2005 Seconded to PwC Japan/2008 Joined PwC Arata LLC/2017Appointed client partner of the PwC global network/2021 Appointed member of the Oversight Board	●	●	●			●	●	●	●	Finance
Daisuke Abe Member	2004 Joined BearingPoint Japan/2019 Appointed partner of PwC Consulting LLC/2025 Appointed member of the Oversight Board	●			●	●	●		●	●	Automotive
Masaji Hamanoue Member	1996 Joined PwC US New York Office/ 2001 Transferred to Japan's Deals Advisory unit/2019 Seconded to PwC UK London Office, appointed leader of PwC UK Japanese Business Network/2024 Returned to PwC Advisory/2025 Appointed member of the Oversight Board		●								Electrical energy, Resources
Shizuko Akama Member	2009 Joined PwC Advisory/2022 Appointed partner/2025 Appointed member of the Oversight Board		●								Materials, Chemicals

* The INEs and observers do not have the right to vote.

* The organisation names described in "Career summary" reflect their names at the time.

Management Committee

Officers (as of July 1, 2025)

Name / Title	Career summary*	Skill Matrix												Industry	Technology/Entertainment, Communication
		Management/ Senior leadership	Audit	BAS	Quality management	Business development	Digital	ESG	Accounting/ Finance	HR/Labour management/ People development	Legal/Compliance/Risk management	Other industries/ Sector/Client experience	Global	Industry	Technology/Entertainment, Communication
 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)	●	●	●		●	●	●		●		●	●	Global	Industry
 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	●	●	●		●	●	●		●		●		Electric parts manufacturing, Distribution and retail, Entertainment	Technology/Entertainment, Communication
 Takeshi Yamaguchi Deputy CEO (Assurance Leader/ 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	Finance, Automotive
 Takaki Suzuki Executive Officer (Chief Quality Officer)	1993 Joined Chuo Audit Corporation/2000 Seconded to PwC US New York Office/2019 Appointed leader of Chief Auditor/EPQ (*)/2022 Appointed head of Risk Management of Risk & Quality/2023 Appointed officer/2024 Appointed executive officer (* Audit process transformation program		●		●					●	●	●		Insurance	Insurance
 Yoshihisa Chiyoda Executive Officer (Chief Audit and Assurance Service Officer)	1997 Joined Aoyama Audit Corporation/2004 Seconded to PwC US Boston Office/2020 Appointed head of Technology, Media and Telecom/2025 Appointed executive officer		●	●				●		●		●		Technology, Entertainment, Communication	Technology, Entertainment, Communication
 Hiroaki Naganuma Executive Officer (Chief Broader Assurance Service Officer)	1998 Joined Chuo Audit Corporation/ 2007 Seconded to PwC US New York Office/2019 Appointed head of Financial Reporting Advisory/2025 Appointed executive officer				●	●					●	●		Finance	Finance
 Naoko Mori Executive Officer (Chief Planning & Management Officer)	2001 Joined Chuo Aoyama Audit Corporation/ 2010 Seconded to PwC US New York Office/2025 Appointed executive officer			●					●	●	●	●		Finance, Automotive	Finance, Automotive

* The organization names described in "Career summary" reflect their names at the time.

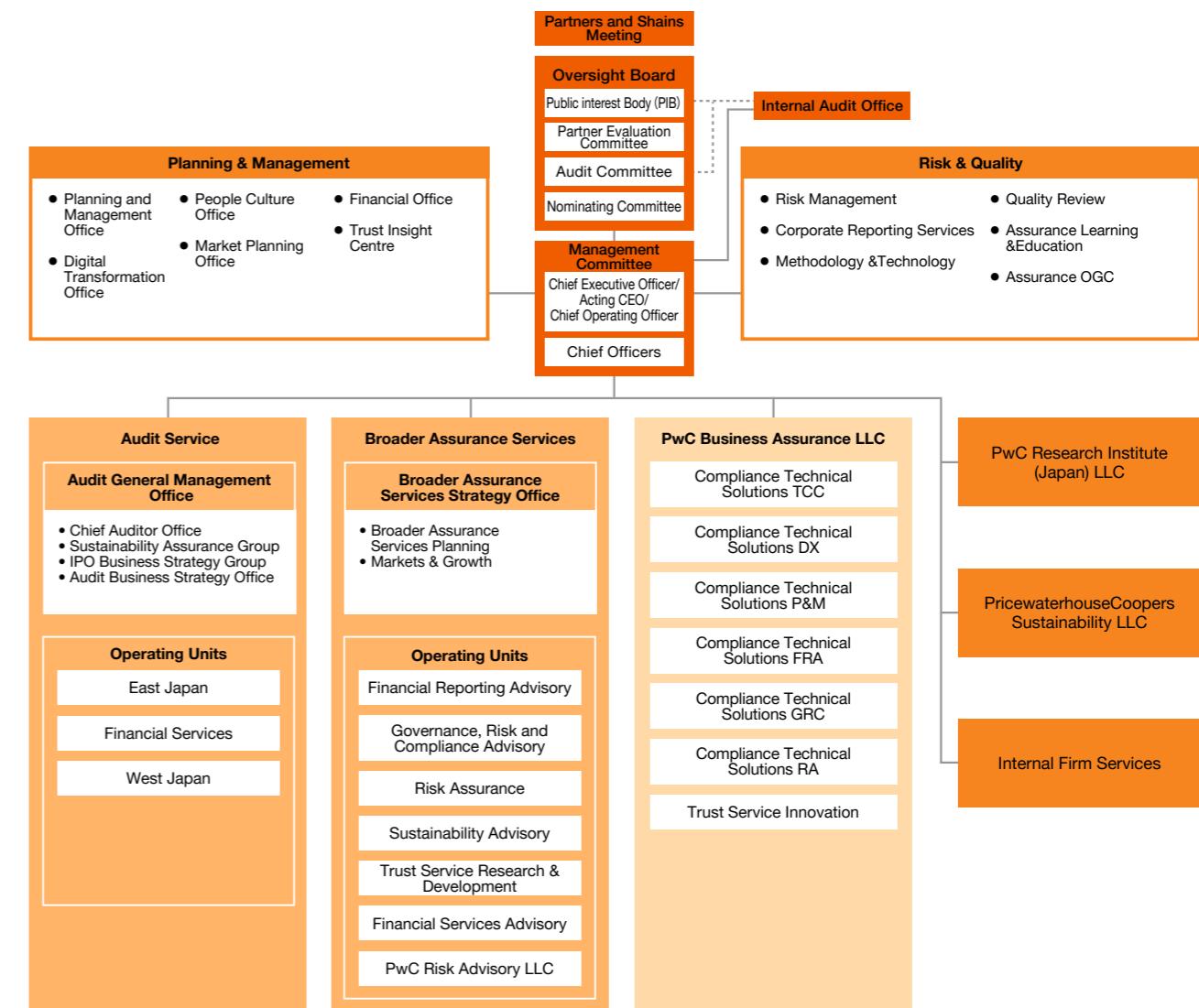
Advisers of the Management Committee

Masahiko Nara (Senior Officer, Head of People and Culture Office)
Eiichi Yamanaka (Senior Officer, Head of Market Planning Office)
Nobuki Otsude (Senior Officer, Head of Finance Office)
Kazuya Miyamura (Senior Officer, Head of Digital Transformation Office)

Observers of the Management Committee

Akane Yoshida (Subsidiary management)
Neil Weingarten (Senior Officer, Risk & Quality Co-Leader)
Takeshi Ishigami (Senior Officer, Assurance OGC Leader)
Taiji Ayabe (Senior Officer, Risk Assurance Leader)
Kenichi Hayashi (Officer, Planning and Management Office)

Organisational structure (after July 1, 2025)





* The titles described above are as of July 1, 2025.

Past year review

The Public Interest Body reflected on the key managerial challenges in FY2025 and assessed the progress of related initiatives.

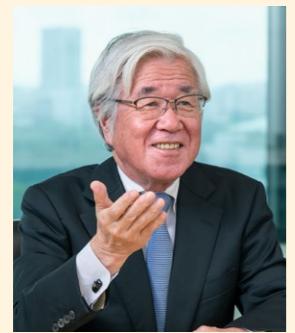
1.FY2025 management initiatives

► Quality

Kubota: We have successfully completed the integration of the system of quality management of PricewaterhouseCoopers Kyoto (PwC Kyoto) and PricewaterhouseCoopers Aarata LLC (PwC Aarata). However, we observed some inconsistencies in how well this system is understood and embedded across the Firm. Therefore, we will continue to

undertake initiatives to further enhance quality. The integrated firm has been favorably evaluated in both external and internal inspections.

Suzuki: I believe the results of our past quality-related efforts are



beginning to materialise. During the integration, we had concerns about its potential impact on quality, but I feel we have moved in a positive direction. We will continue to ensure that the integration of the quality management system yields effective results. We hope this integration will foster synergy and drive further quality enhancements in the future.

Kubota: The integration has gone more smoothly than anticipated, but we still need to focus on harnessing synergy effects.

Shimamoto: Given the difference in organizational size between PwC Kyoto and PwC Aarata, we were initially concerned that PwC Kyoto might superficially accept the integration without fully embracing it. I expect the Firm to conduct verification efforts to ensure that the system of quality management is not only aligned superficially but also substantially integrated.



Hitomi: I have continued serving as an external member since the time of PwC Kyoto. When the integration was announced, I had two primary concerns. One was the potential negative impact on quality, and I've seen promising results in

that regard. The other was how the post-integration approach to quality—its mindset and culture—would be effectively embraced within PwC Kyoto. I have observed positive progress in this aspect as well through various post-integration initiatives. Looking ahead, I hope the Firm will take further steps to build a structure that brings out the synergy effects of the integration.

Kiuchi: When I first participated in the Public Interest Body (PIB), there were some issues in quality. In response, we launched the '4+1' initiative to enhance quality across the Firm. Today, I believe the Firm's quality is at a high level, but maintaining that level is challenging. It is crucial to implement initiatives that ensure leadership and staff remain deeply committed to quality. Additionally, for the Firm and its people to continue to grow, a certain level of profitability is necessary. However, if the focus on growth becomes excessive, it may negatively impact quality. I believe we should continue initiatives that bolster both growth and enhance quality simultaneously.

► Responding to a fast-changing society

— Sustainability

Kubota: In Japan, discussions regarding sustainability disclosure and assurance frameworks are advancing. The Firm is focused on developing people and establishing a system of quality management for two areas: assurance and non-assurance services. Our strategy is to first cultivate expertise through non-assurance services, and then apply this knowledge to assurance services.

Suzuki: From an independence standpoint, my understanding is that sustainability-related assurance and non-assurance services cannot be offered simultaneously. Given this, what people strategy is in place for audits and broader assurance services (BAS)?

Kubota: As you understand, we cannot simultaneously provide both assurance and non-assurance services to the same company. However, even BAS, which offers non-assurance services, needs to offer advice that anticipates future assurance engagements. Similarly, audit OUs can deliver higher-quality assurance services by gaining firsthand experience from the preparer's perspective. Therefore, it is essential for both audit and BAS teams to have a comprehensive understanding of both assurance and non-assurance services. For this reason, I believe that people development initiatives should include personnel exchanges between OUs to allow people gain experience in both types of services.

Shimamoto: Having a competitive edge in the sustainability field could add value for existing clients. I believe that sustainability services will become increasingly vital for audit firms going forward.

Kiuchi: I completely agree. Our firm has been highly responsive to promoting sustainability services. Initially, developing a structure for assurance services was an urgent priority. However, over the past few years, the leadership team has focused on acquiring and developing talent, which has significantly furthered the progress of building our structure. The Oversight Board acknowledges and appreciates these efforts.

— Digital



Kubota: We are currently advancing digital initiatives within both audits and BAS. For audits, we are in the process of implementing next-generation audit tools, which utilise a platform powered by AI, in a phased approach.

Regarding BAS, the development of generative AI is expected to transform the nature of business operations. As such, we will consider our future staffing strategies to align with potential shifts in our business model. In the following section, we will discuss the use of digital technology in audits.

► **Developing a structure to respond to social changes**

— **Use of digital technology in audits/Technical Competency Centre (TCC)**

Kubota: The phased implementation of next-generation audit tools is expected to significantly transform the audit process in the future. In preparation for this change, TCC has been promoting both standardisation and digitalisation. Our goal is to evolve our delivery model through further standardisation.



clearly define what we aim to achieve through their use, and then consider how to leverage the digital tools as efficient and effective enabler. As for the delivery model, a necessary approach may be to explore the optimal roles of TCC in driving operational efficiency and standardisation, while taking a broader perspective to clearly identify where digital technology and AI can deliver added value.

Suzuki: As for digitalisation, I think we should also consider how tasks should be divided between digital tools and humans. For example, once the next-generation audit tools automate document reconciliation, we could allocate more people to areas requiring judgement, thereby enhancing audit quality. It would be important to recognise this cycle.

Kubota: I agree. Investing in individuals who can effectively utilise these systems will be crucial.

Hitomi: As TCC continues to advance the standardisation and centralisation of operations, alongside automation facilitated by the next-generation audit tools, striking the right balance between investment in systems and investment in people has become a critical issue. Given that multiple initiatives are being implemented in parallel, I hope these efforts will be approached with careful consideration.

Shimamoto: We are observing two key themes emerge: digitalisation and the delivery model. Digitalisation serves as a means to achieve goals. For instance, an effective approach to implementing the next-generation audit tools would be to

clearly define what we aim to achieve through their use, and then consider how to leverage the digital tools as efficient and effective enabler. As for the delivery model, a necessary approach may be to explore the optimal roles of TCC in driving operational efficiency and standardisation, while taking a broader perspective to clearly identify where digital technology and AI can deliver added value.

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Hitomi: As TCC continues to advance the standardisation and centralisation of operations, alongside automation facilitated by the next-generation audit tools, striking the right balance between investment in systems and investment in people has become a critical issue. Given that multiple initiatives are being implemented in parallel, I hope these efforts will be approached with careful consideration.

— **People and Culture**

Kubota: We are currently implementing PwC Professional. PwC Professional redefines our people model by placing greater emphasis on independent thinking and proactive action. Since it was originally designed as a global framework, we have tailored the Behaviour Guidelines (Critical Few Behaviours) to reflect what is valued in Japan, which have been determined using a bottom-up approach. We are working to embed them throughout the organisation.

Our efforts extend to transforming the people development model for audit services, with the goal of accelerating the growth journey for associates. On the digital front, the Firm has started using generative AI, but I perceive a shortage of people who can adapt to this new business model.

Shimamoto: When considering how to accelerate the people development model, the systems industry, which is my area of expertise, offers a useful example. Some argue that designing systems requires coding skills, while others contend that it is not necessarily the case. Similarly, in the audit field, opinions may differ on the extent of hands-on experience required during the development process.

Kubota: I believe a certain level of on-site experience is essential before we can delegate tasks to TCC. Therefore, I think it is beneficial to differentiate and define how much hands-on experience TCC members should gain in specific audit procedures during their development.

Kumagai: People are also a relevant factor in discussing AI. Since AI outputs are essentially generated from a black box, I believe professional skepticism of auditors who use these tools are vital. While AI will continue to improve in accuracy,

it is ultimately humans who are responsible for ensuring the quality of information. By combining AI with auditors' professional skepticism, we can enhance audit quality.

Kiuchi: The evolution of technology and the development of TCC are reshaping our approach to recruitment and team composition within audits,

ultimately transforming the business model itself. As these elements are interconnected, it is crucial to monitor them closely as we progress. It is also essential to increase the number of people who can embrace change and are motivated to capitalise on it. In this context, this year's employee engagement survey revealed a particularly high score in the people engagement index (PEI), which reflects the level of positive engagement by our employees. I attribute this to the leadership team's efforts in fostering a culture of Speak Up, Listen Up and Follow Up.

2. Structure in FY2026

Kubota: The pace of societal change shows no signs of slowing down; in fact, it is accelerating. In FY2026, we plan to redesign our organisation, with a focus on audit OUs, to promote further integration among our people. We will also revise our HR system to establish a framework that enables our employees to fully leverage their diverse expertise. Additionally, we will upgrade our core systems to improve operational efficiency.



Kiuchi: On the governance front, to meet stakeholder expectations for stronger audit firm governance, we plan to integrate the PIB and the Oversight Board beginning in FY2026. This integration will facilitate more timely and in-depth oversight, evaluation and advice, while enhancing the independence of the Oversight Board.

Suzuki: The integration of the PIB and the Oversight Board will increase opportunities for discussions. Topics such as audit acceptance and diversity that have been addressed at the PIB should continue to be discussed.

Shimamoto: In terms of governance, there is value in having Independent Non-Executives (INEs) join the Oversight Board, as it makes the structure more understandable externally. While there will likely be operational challenges, I am looking forward to seeing how this unfolds. Also, I hope management will continue their efforts to maintain the positive PEI results in FY2026.

Hitomi: It is great to have more frequent opportuni-

ties to participate in discussions as external members and to engage more with the Firm. I anticipate that substantial discussions will take place, while maintaining neutrality.

Kumagai: I am honored to have been appointed as the next INE, drawing on my experience in the capital markets. For capital markets to function effectively, the reliability of information is absolutely essential, making the proper operation of audit firms important. I have previously been involved in discussions concerning audit and assurance system reforms as an investor. As an INE, I seek to contribute to the public interest through active participation in discussions within the audit firm.

Ishibashi: I will assume the chairmanship of the Oversight Board. The landscape surrounding sustainability, AI and people development is evolving rapidly. These are critical challenges for us, and we intend to address them with a strong sense of urgency

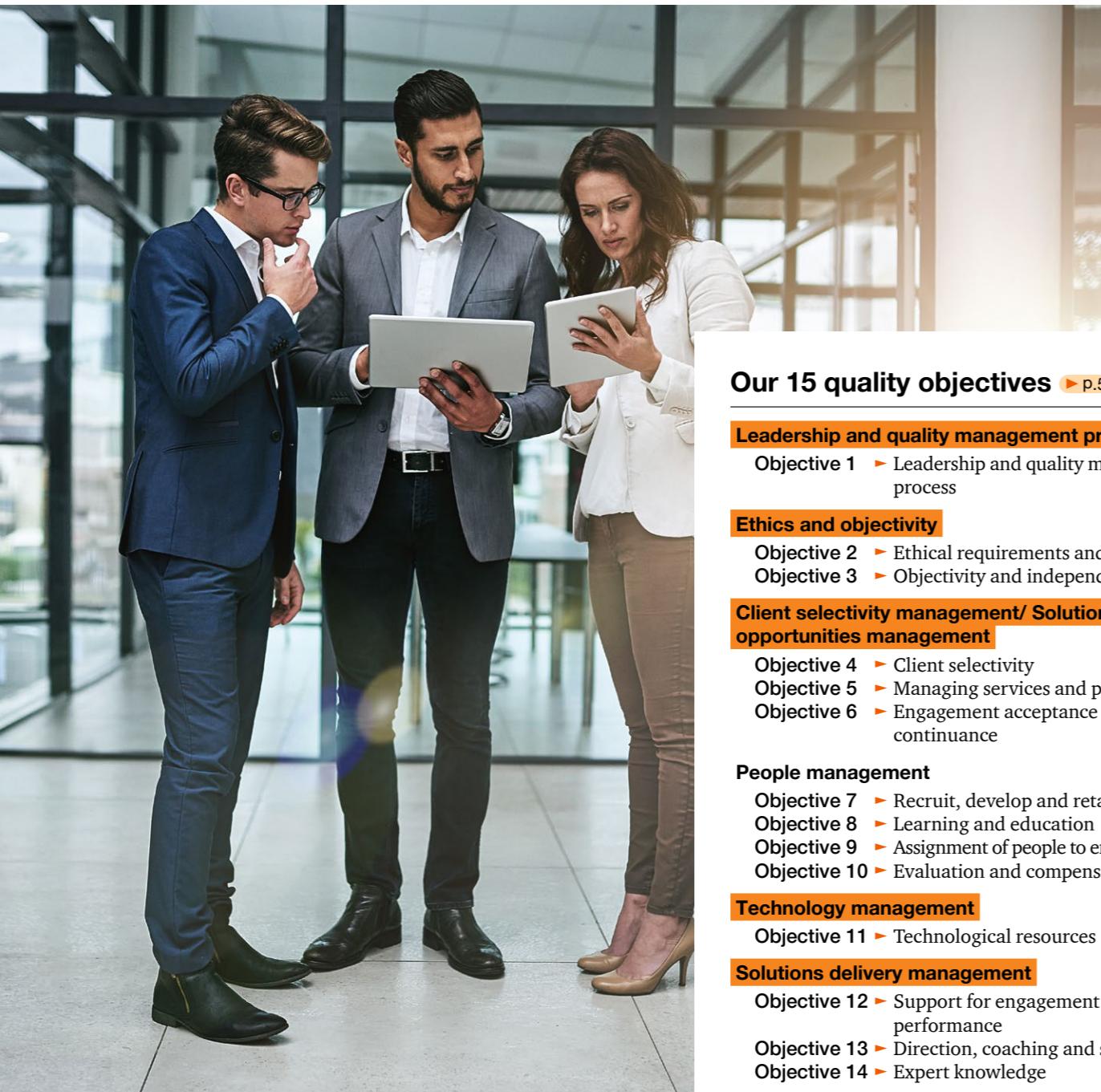
by engaging in discussions that lead to concrete initiatives. Meanwhile, societal expectations for audit firms are rising, alongside international calls for stronger governance. In such an environment, merely aiming for high-quality audits is insufficient. We need a governance structure that continuously redefines the Firm's purpose through the lens of public interest. In this regard, I believe the PIB and the Oversight Board have integrated at a highly opportune moment.

Kiuchi: Since assuming the role of chair of the Oversight Board four years ago, I have witnessed significant improvements in both audit quality and people, thanks to the continued efforts of the leadership team. As we move forward, I hope for continued open communication and discussions between the leadership team and the Oversight Board.



Quality Management

2



Our 15 quality objectives ► p.54

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

Leadership message

To adapt to a changing era, we will relentlessly evolve and deliver unwavering trust to society.

Responding to rules on the system of quality management

Japan is entering an era of uncertainty characterised by climate change, rapid technological advancements and growing social and economic instability. In this dynamic environment, people are seeking trust more than ever in everything around them. To meet these expectations, we provide high-quality assurance across various domains, including financial statements.

We have established, and are operating and evaluating, our system of quality management to ensure the appropriate execution of such assurance services. Since last year, we have begun disclosing our evaluation results externally, in accordance with the International Standard on Quality Management (ISQM) 1. In preparation for QC1000, issued by the U.S. Public Company Accounting Oversight Board (PCAOB) and effective December 15, 2026, the Firm is taking proactive actions to ensure readiness.

Leveraging AI and introducing a next-generation audit platform

The use of AI is crucial not only for improving efficiency but also for enabling more effective audits. The PwC network is actively promoting the use of generative AI. The Firm began utilising tools such as ChatPwC in audit engagements in December 2024. While the current scope of use is limited, the next generation audit tools scheduled for future deployment will be equipped with AI capabilities, which are expected to significantly broaden the range of AI usage.

Risk & Quality is committed to carefully managing the risks associated with AI usage and supporting the enhancement of audit quality.

Integrating people

It has been over a year and a half since the integration of PricewaterhouseCoopers Aarata LLC and



Neil Weingarten
Senior Officer/Risk & Quality Co-Leader

Takaki Suzuki
Executive Officer/Chief Quality Officer

PricewaterhouseCoopers Kyoto. From the outset, we have operated under PwC's unified quality management framework; however, since quality management is ultimately conducted by people, the most critical factor is the trust between individuals. To foster this trust, we recognised the importance of face-to-face interaction. Over the past year, Risk & Quality members from our Tokyo office have made regular visits to Kyoto to establish an on-site support desk, strengthening the connection between Kyoto audit team members and Risk & Quality.

As environmental shifts and technological advancements accelerate, fulfilling our mission to build trust in society requires each of us to transform and evolve ourselves. Risk & Quality will continue to actively support these changes.

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) published three 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 design and implement the requirements of the standard and evaluate their system of quality management (SoQM) every year.

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.

ISQM 1 further emphasises 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 meet 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 tailored 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.39
- Quality management ► p.51

Client selectivity management/Solutions and opportunities management

Objective 4: Client selectivity

- Reviewing and responding to engagement risks of audit clients ► p.63

Objective 5: Managing services and products

- Delivering integrated assurance services ► p.15
- Transforming assurance with technology ► p.21
- Our system of quality management ► p.55

Objective 6: Engagement acceptance and continuance

- Engagement acceptance and continuance ► p.63

Solutions delivery management

Objective 12: Support for engagement performance

- Support and monitoring structure at Risk & Quality ► p.58
- Using technology in audit ► p.75

Objective 13: Direction, coaching and supervision

- Engagement team-level quality management ► p.57

Objective 14: Expert knowledge

- Support and monitoring structure at Risk & Quality ► p.58

Monitoring and enhancement process for the system of quality management

Objective 15: Quality controls in performing engagements

- Periodic monitoring activities and external inspections of audit engagements ► p.71

Professional ethics and independence

Objective 2: Ethical requirements and values

Objective 3: Objectivity and independence

- Professional ethics and independence ► p.61

Resources for operating the audit firm

Objective 7: Recruit, develop and retain

- Recruitment and development ► p.81
- Career path and assignment ► p.83

Objective 8: Learning and education

- Training ► p.82

Objective 9: Assignment of people to engagements

- Career path and assignment ► p.83

Objective 10: Evaluation and compensation

- Performance review ► p.85

Technology management

Objective 11: Technological resources

- Using technology in audit ► p.75

Our monitoring and remediation process

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 responses which are fit for the purpose of managing the risks we identify in our own risk assessment and achieving the quality objectives 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 responses to quality risks

A quality risk is defined as 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.

In the section 'Periodic monitoring activities and external inspections of audit engagements' [► p.71](#), we have described the types of ongoing and periodic monitoring our firm has designed, implemented and operates 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 any identified deficiencies, the Firm has designed, implemented and operates a root cause analysis program [► p.71](#).

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 implemented the quality enhancement initiatives 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, 2024 and June 30, 2025, 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'



1 Establishment of a data platform and analysis framework

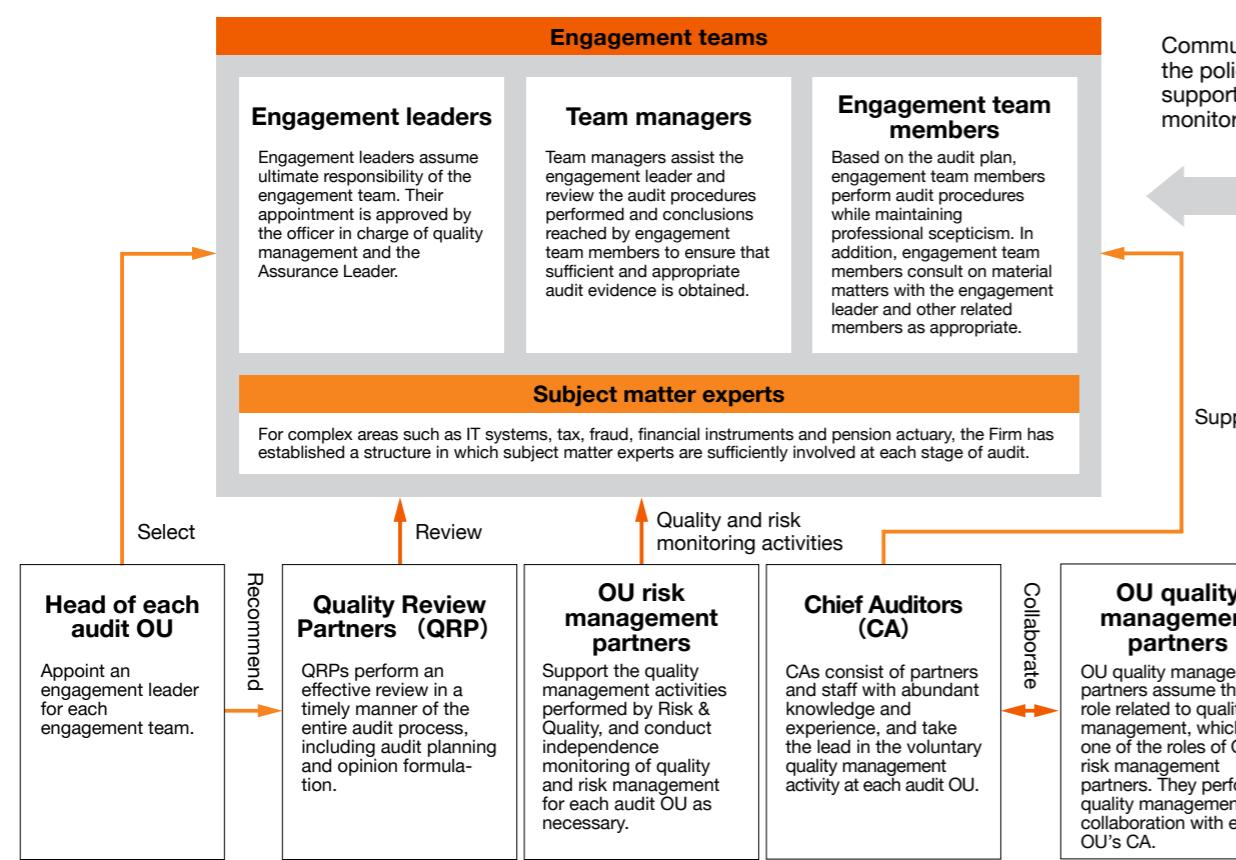
Our quality management structure

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 solve issues through engagement team-level quality management, support and monitoring by Risk & Quality, and collaboration with subject matter experts and the PwC network.

Forming engagement teams and support structure

The engagement team is composed of professionals sufficient to perform high quality audits. In addition, a structure is in place to provide support from outside the engagement team, including a quality review partner and chief auditor.

Engagement team-level quality management structure



Quality management indicators at the engagement team level

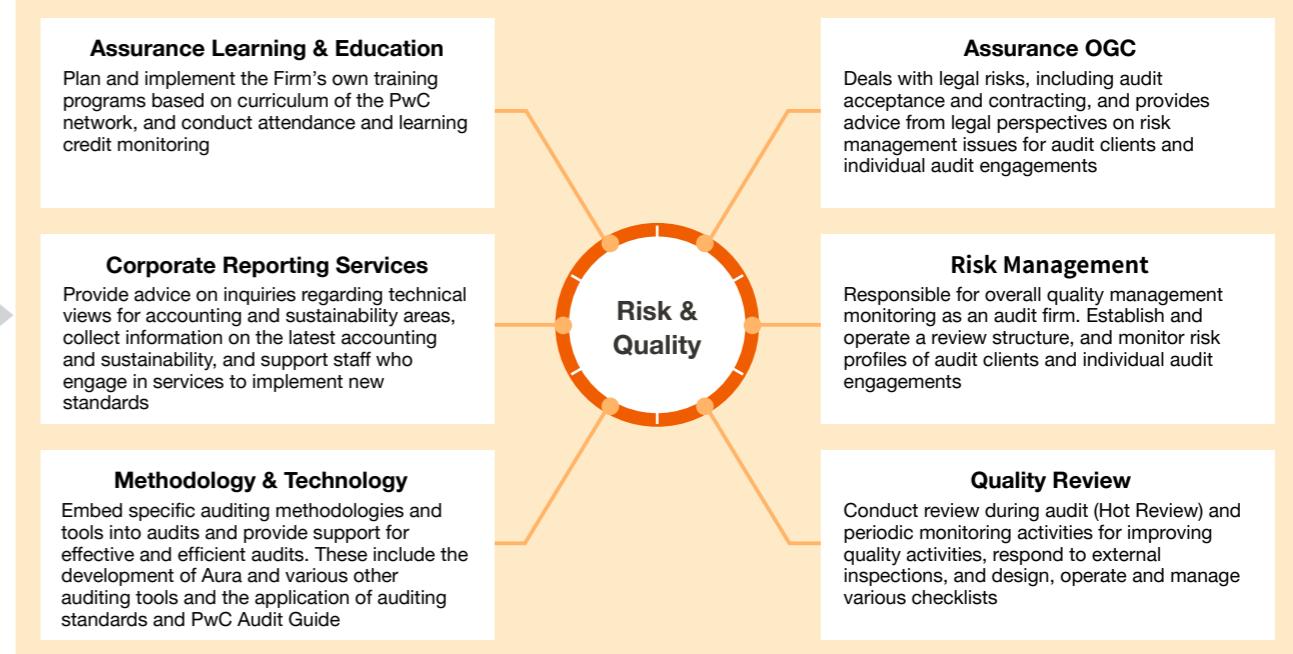
Quality management indicators at the engagement team level		FY2024	FY2025
Supervision of audit staff	Ratio of partners to professionals who are managers or above	1:3	1:3
	Ratio of partners to all professionals	1:13	1:12
Annual average working hours of audit practitioners*	Partners	2,177 hours	2,110 hours
	Other than partners	1,918 hours	1,904 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 specialists in accounting and auditing. They identify and resolve issues at an early stage by communicating with engagement teams. They also respond to consultation related to technical views.

Support and monitoring structure at Risk & Quality



Number of personnel engaged in quality management activity

Risk & Quality (Function)	FY2025		
	Partners	Professionals who are managers or above	Total
Risk & Quality in total (A)* ¹	21	121	142
Supervision of Risk & Quality	2	1	3
Management of independence/professional ethics* ²	2	36	38
Risk management/Oversight activities (e.g. periodic monitoring activities)	7	32	39
Legal affairs	1	2	3
Response to inquiries for technical views on accounting	6	15	21
Response to inquiries for technical views on audits	2	24	26
Education/training and people development	1	11	12
Partners and professionals who are managers or above engaged in audits (B)* ³	161	467	628
Percentage (C)* ⁴	13%	26%	23%

*1 Risk & Quality in total (A) only includes those who are the members of Risk & Quality.

*2 Management of independence/professional ethics is performed by the independence group and the compliance group of Internal Firm Services ►p.46, instead of Risk & Quality.

*3 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.

*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).

1. Independence and contract monitoring

See ► p.61 .

2. Workload monitoring

The engagement leader is appointed by the leader of each audit OU, which takes into consideration the competence, capabilities and experience necessary. Risk & Quality reviews the results of these selections. 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.

3. Consultation on technical views

The Firm defines matters subject to mandatory consultation for which engagement teams are required to obtain the views of Risk & Quality. Risk & Quality includes staff who have previously been seconded to external institutions and are specialised in technical areas. 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 conclusions, 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 areas to which special attention should be paid. 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 this reach-out activity, financial information of audit clients and information from engagement teams, and identifies engagement teams that may need additional 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 may not be 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 a Hot Review, experienced reviewers review selected engagement teams' testing approach and results with a focus on higher 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. Response to fraud risk

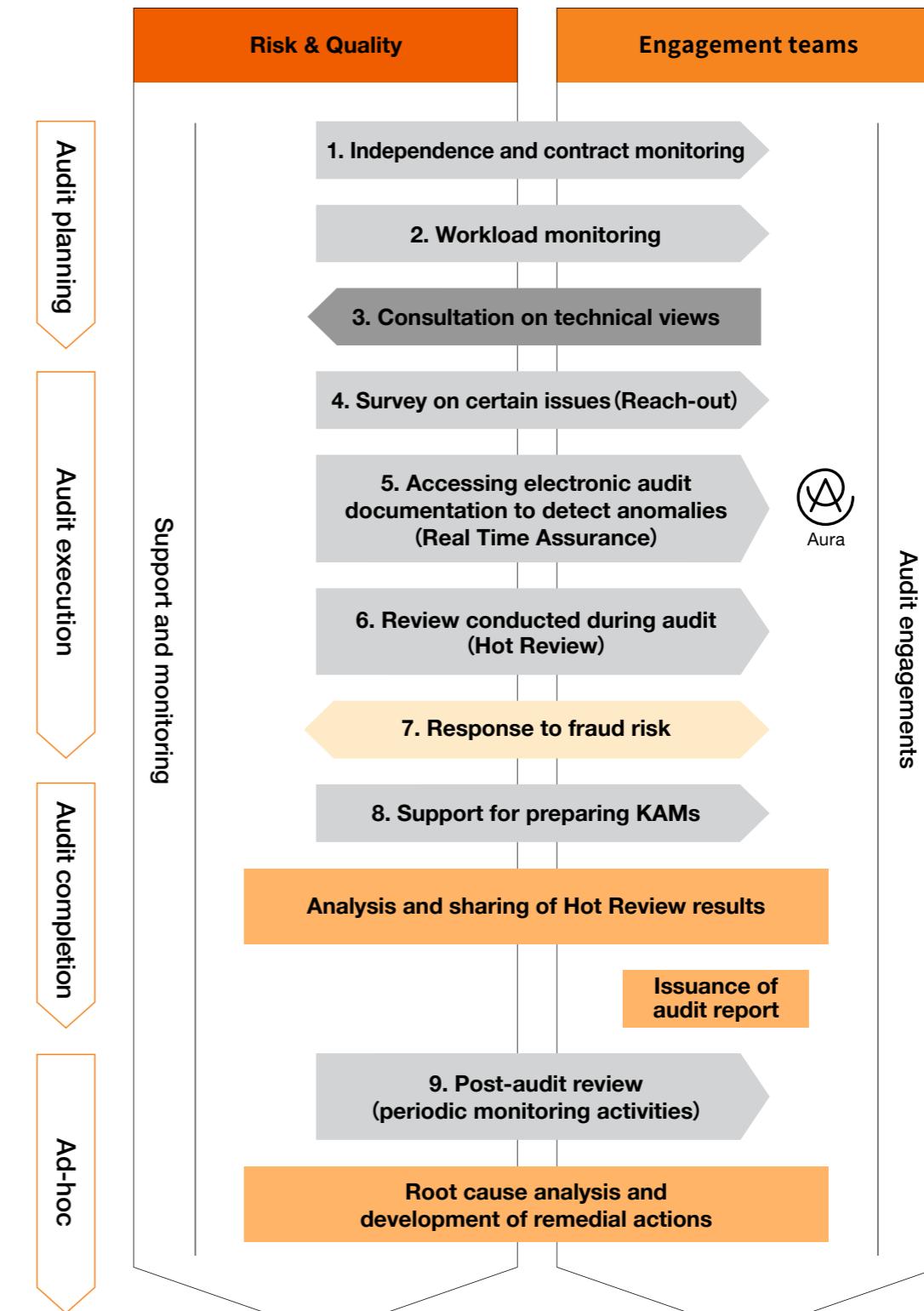
See ► p.67 .

8. Support for preparing KAMs

See ► p.66 .

9. Post-audit review (periodic monitoring activities)

See ► p.71 .

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

Professional ethics and independence

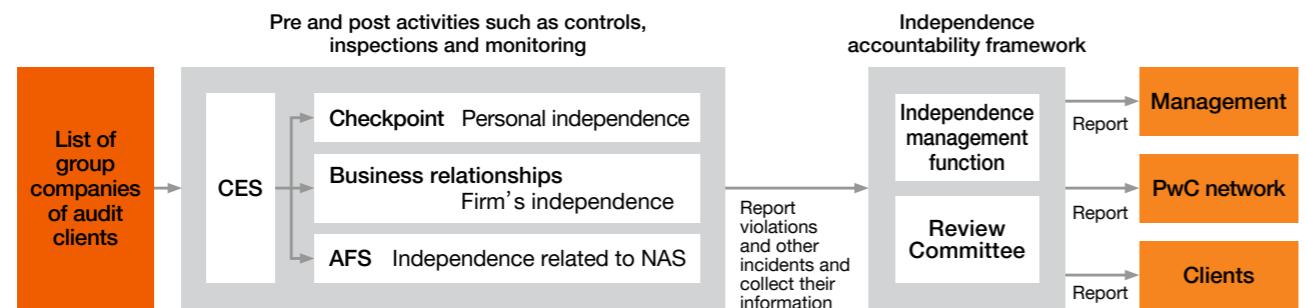
Independence policies and procedures

Maintaining independence is essential for audit professionals. Building a cooperative relationship with audit clients grounded in trust helps 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 International Ethics Standards Board for Accountants' (IESBA) 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 an annual compliance confirmation.

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 master client database (CES). The Firm maintains and operates this system to ensure compliance with the independence rules.

■ 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, 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 protec-

tion, 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 an annual compliance confirmation.

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 an annual compliance confirmation and an independence check conducted prior to engaging in an 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 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.

The Firm's independence

To maintain independence between the Firm and its 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. 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 permissibility of the service by referring to guidance from 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 FY2025 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 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.

Acceptance and continuance

Based on generally accepted auditing standards in Japan and PwC network's policy, the Firm has established a policy for accepting new clients or continuing services provided to existing clients 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 consider 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 taking into account the company's reputation, tone at the top, 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 renewing an existing contract with audit clients, the Firm makes a decision on continuance by carefully considering engagement risks of audit clients and other factors, including profitability, to maintain an environment in which high quality audits can be delivered.

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 IESBA (IESBA Code) as of its effective date, regardless of revisions to JICPA's Code of Ethics. With increasing societal expectations regarding compliance, including independence, several revision projects pertaining to the IESBA Code are currently underway.

Recently, the Firm has applied rules related to the definition of a public interest entity (PIE), tax planning and related services and technology-related revisions. Additionally, the Firm is preparing for the upcoming initial application of the IESBA's ethics and independence standards for sustainability assurance, as well as rules related to using the work of an external expert.

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 maintain the trust of audit clients and society, the Firm will maintain a structure to ensure compliance with the robust rules of auditor independence.

The IESBA's ethics and independence standards for sustainability assurance

Due to the recent surge in demand from the markets and society for sustainability information, the volume of readily accessible sustainability information has rapidly increased. Alongside this trend, there is a growing and urgent need to ensure public interest in addressing the risks of fraud and errors in sustainability information. Against this backdrop, and to meet strong societal expectations for assurance that supports transparent, relevant and reliable sustainability information, the IESBA has developed the International Ethics Standards for Sustainability Assurance (IESSA), which includes the International Independence Standards. The IESSA sets out ethics (including independence) standards for practitioners engaging in sustainability assurance that meet certain criteria.

Key features of the IESSA are as follows:

- It applies to all sustainability assurance practitioners, including those who are not professional accountants, and is designed to be profession-agnostic.
- It is compatible with all reporting and assurance frameworks and is designed to be framework-neutral.
- It serves as a robust standard for sustainability assurance engagements, meeting a level of public interest equivalent to that of financial statement audits.
- It is an independent standard, introduced as a new Part 5 of the IESBA Code.

Except for certain provisions applicable to value chain components that will take effect on or after July 1, 2028, the IESSA will become effective for sustainability assurance engagements for periods beginning on or after December 15, 2026, or as at a specific date on or after December 15, 2026. At PwC, a working group has been established to prepare for the implementation of the IESSA, with a focus on policies, systems, processes, training, assurance, methodology and communications. Additionally, an update to the global independence policy is planned for early 2026.

The Firm will continue to address revisions to Japan's code of ethics while effectively leveraging

resources from the PwC network. We plan to implement guidance within the Firm from the beginning of 2027 onward, including PwC's assurance engagement tools and group instructions aligned with the IESSA. Since many of the IESSA requirements closely align with those for audits, we aim to facilitate a smooth and practical implementation, while developing supplementary requirements and guidance specific to sustainability assurance engagements. Specific considerations related to value chains and the use of other practitioners will also be addressed. Assuming that the Firm will conduct IESSA-compliant assurance engagements primarily for audit clients, we will additionally develop guidance on the provision of non-assurance services. For related systems and processes, we will build on existing frameworks while introducing more robust mechanisms. In addition, we plan to deliver effective training at appropriate times by utilising resources from the PwC network.

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. 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.

In recent years, key auditing standards have been revised annually. In 2025, the IAASB issued the revised ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. Meanwhile, the audit environment continues to evolve year by year, driven by technological advancements and the growing demand for sustainability-related disclosures. PwC Audit is revised at least annually to reflect changes in auditing standards, changes in the audit landscape and other relevant developments. The revised policies and guidance are incorporated into Aura, an electronic audit documentation platform used by engagement teams, enabling engagement teams to perform audits by referencing the new requirements in a timely manner.

Engagement team's response to environmental changes and other developments inside and outside the Firm

Engagement teams respond to environmental changes and other developments inside and outside the Firm that affect audits as described below:

The Firm utilises the latest audit support system implemented by PwC. When employing technology in audit, engagement teams are required to appropriately assess the logic and programming behind the technology, as well as the reliability of the data. In addition, reviewers of audit working papers should focus on the appropriateness of the technology's intended use and its functionality when supervising and reviewing work performed.

The use of AI is becoming increasingly prevalent among companies, both in Japan and overseas. Many companies are disclosing risks associated with AI usage in the section highlighting business risks in their annual securities reports. Concurrently, cyber incidents, such as business email compromises and ransomware attacks, have been frequently reported in recent years, leading to heightened cybersecurity risks. In response to these environmental changes, and in accordance with ISA 315 *Identifying and Assessing the Risks of Material Misstatement* and Auditing Standards Committee Statement (ASCS) 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, which are standards addressing the identification and assessment of risks, engagement teams are gaining an understanding of the risks above and identifying and assessing the relevant risk of material misstatement, considering a potentially significant impact that the use of AI by companies and cybersecurity risks could have on companies' financial statements.

In response to the growing demand for assurance on sustainability disclosures, the Firm is also providing sustainability assurance services. These services cover a wide range of topics, such as greenhouse gas emissions and human capital indicators, and are conducted in accordance with the International Standard on Assurance Engagements (ISAE) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*. For the execution of these engagements, PwC Audit provides policies and guidance specific to sustainability assurance. Engagement teams plan risk assessments and assurance engagement procedures and perform procedures for the topics in accordance with the applicable standards and PwC Audit.

Risk & Quality's response to environmental changes and other developments inside and outside the Firm

To respond to environmental changes affecting audits and comply with new standards, Risk & Quality has been promoting various initiatives in collaboration with Chief Auditors. These initiatives include compiling inquiries gathered from engagement teams, releasing related guidance, documentation examples, FAQs and templates as well as providing updates on audit considerations. Through these activities, implemented in close collaboration with engagement teams, Risk & Quality has established a framework that enables audits to remain responsive to environmental changes and comply with new standards.

Our initiatives on key audit matters (KAMs)

The Firm's KAM preparation policy

The Firm continues to enhance 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's support for KAMs

Risk & Quality provide 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 a KAM team member is assigned to each engagement team. Risk & Quality also introduces good practices of KAMs, and recommendations 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 a formal technical inquiry procedure. Risk & Quality responded to a number of other technical inquiries on KAMs in FY2025 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 and are selected from matters communicated with those charged with governance. To prepare KAMs that are useful for stakeholders, it is essential to have deep dialogue 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 are discussions with audit clients covering a wide range of topics, including not only KAMs but also corporate disclosure. As a result of this in-depth dialogue, companies' disclosures have been enhanced 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 clearly.

In this process, Risk & Quality continuously sup-

ports engagement teams to ensure consistency among the footnotes, KAMs and audit response. Due to the collaborative effort between engagement teams and Risk & Quality, the Firm can develop 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 the Firm.

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. We will continue to work on the development of KAM practices to meet the expectations of our stakeholders.

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 communication within the engagement team is indispensable for team members to maintain and exercise professional scepticism. 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. 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.

* How to report via the audit hotline is posted on the Firm's website. The Firm's policy sets out that whistleblowers should not be treated disadvantageously. The leader of Risk Management appoints people who have access to the information provided. People who are involved in the reported matter are not granted access to protect the confidentiality of whistleblowers.

Response to potential material misstatement due to fraud

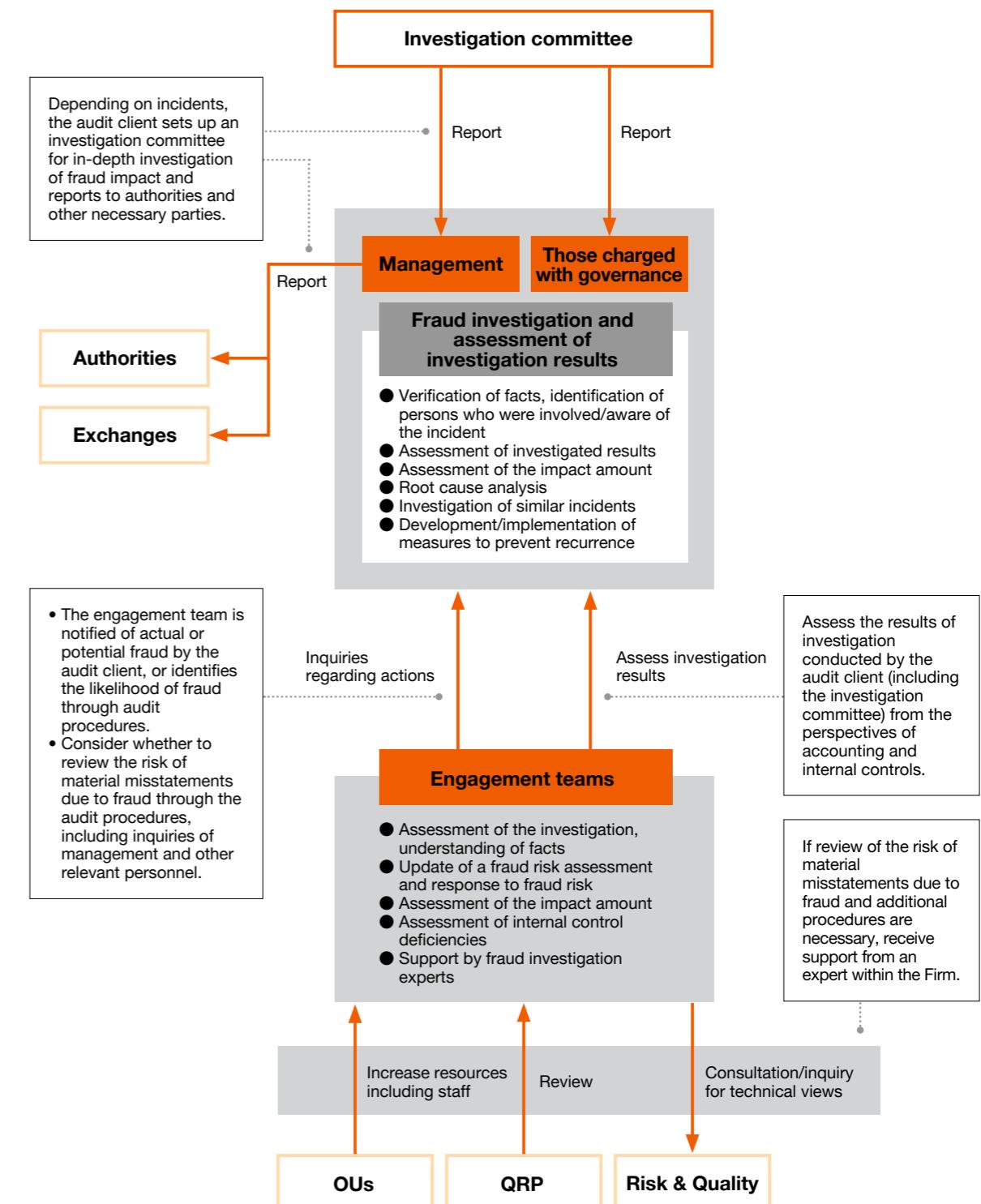
When an engagement team identifies a potential material misstatement due to fraud, this is shared within the Firm and necessary action is taken according to the circumstances shown in the figure on the right. The engagement team may receive additional review by the quality review partner, advice from an 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 performs various analyses to address fraud. These include 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.

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



Technology-focused audit approach

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

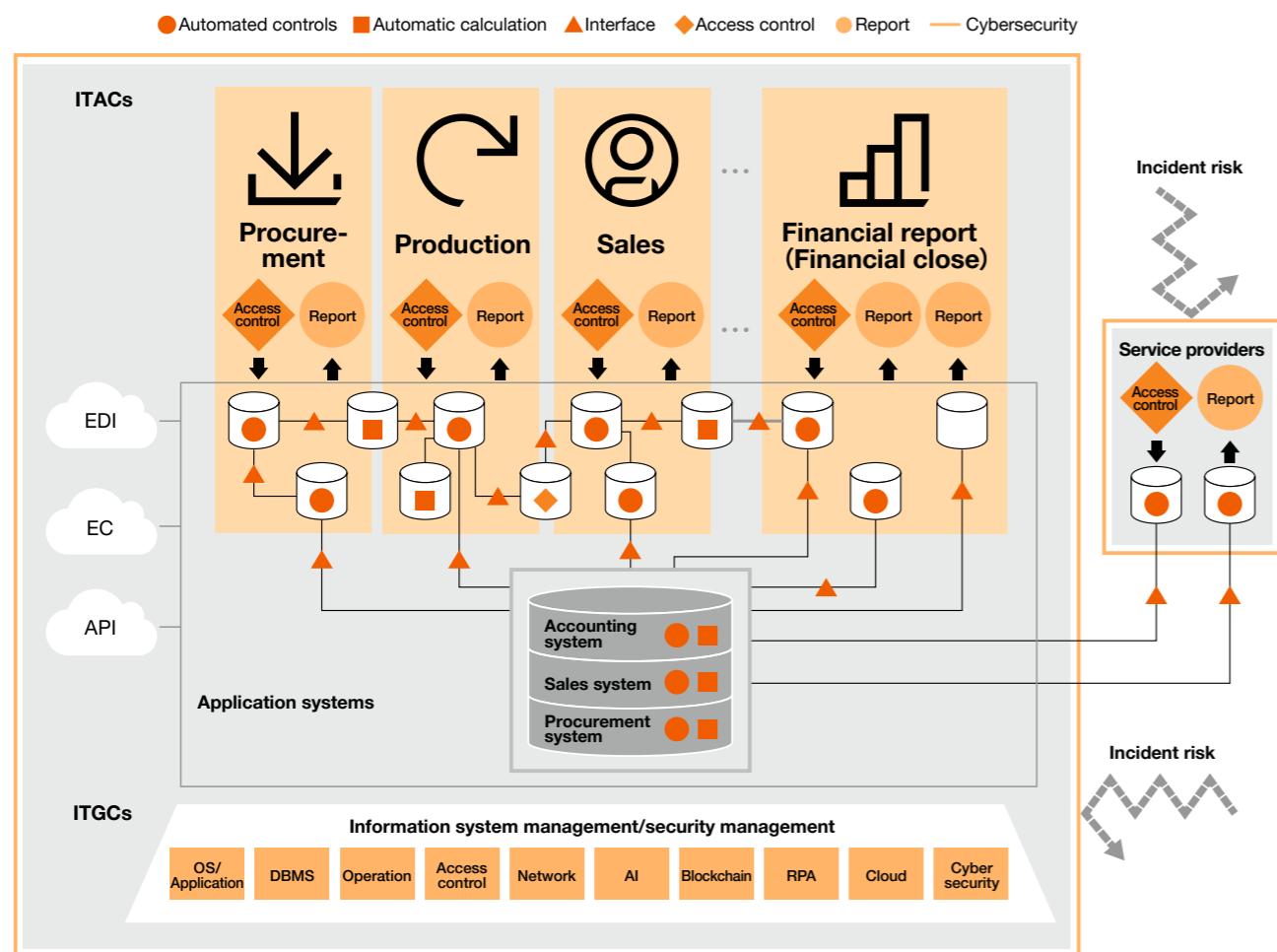
The use of technology has been expanding and deepening. Many entities are using advanced technology such as cloud and RPA by promoting digital transformation (DX). The use of generative AI and Blockchain has also been accelerated to improve efficiency and enhance operations through the use of data. At the same time, technological advancement has posed new types of risks.

In today's highly technology-dependent environment, third-party management and cybersecurity risks, such as those associated with the use of cloud services, are prevalent across all entities. Recently,

complex risk events, including damage caused by ransomware, misconfigurations in cloud-specific environments and deficiencies caused by third parties, have occurred with increasing frequency. Auditors need to address these as risks associated with financial reporting since such incidents affect the timely processing of period-end closing and disclosures due to the extended recovery period after such incidents, and lead to system failures that disrupt business activities.

To respond to these incidents, the reliability of IT used for financial reporting needs to be assessed for audit purposes and the importance of such assessments is increasing as digitisation initiatives of audit clients progress.

IT and business process diagram



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. In the context of IT controls, it is crucial to understand the roles these two types of controls play.

Taking a sales process as an example, the sales management system generates shipment instructions based on order data received and automatically calculates the sales amount using the amount registered in the unit price master. In this scenario, if a series of processes up to interfacing the sales data to the accounting system where journal entries are auto-generated is automated without human intervention, interface failures in processing due to a system problem or journal entry programming errors can result in inaccurate sales figures. This series of processes form ITACs. Inappropriate implementation of these controls can lead to risks that directly impact financial figures.

To prevent inappropriate updates to the individual programs and data that comprise the processes above, it is also essential to implement controls over system development, maintenance and operation. This includes setting access restrictions for developers, log monitoring and problem monitoring for timely detection of errors and recovery. These are ITGCs and failure to implement ITGCs throughout the year without giving rise to significant deficiencies raises doubts about the effectiveness of ITACs that relies on the effectiveness of ITGCs. Consequently, other business process controls that depend on the effective ITACs may also be affected, thereby indirectly impacting financial risk.

Given the above, as shown in the figure on the left page, ITGCs are the foundation for internal controls over financial reporting. Therefore the evaluation of ITGCs is essential in audits.

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 understanding and evaluating the IT environment.

We perform in-depth audit procedures on controls over IT. For ITACs, we understand the configuration of the system 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 other risks.

Since, in recent years, 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 contributing to valuable audits.

Periodic monitoring activities and external inspections 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, directors and senior 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 and those whose risks are assessed as heightened are also taken into account when selecting those 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. 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 engagement 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 FY2025, as shown in the table on the right, 47 audit engagements were subject to periodic monitoring activities, without any significant findings. These activities covered 52% of the partners engaged in audit engagements.

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

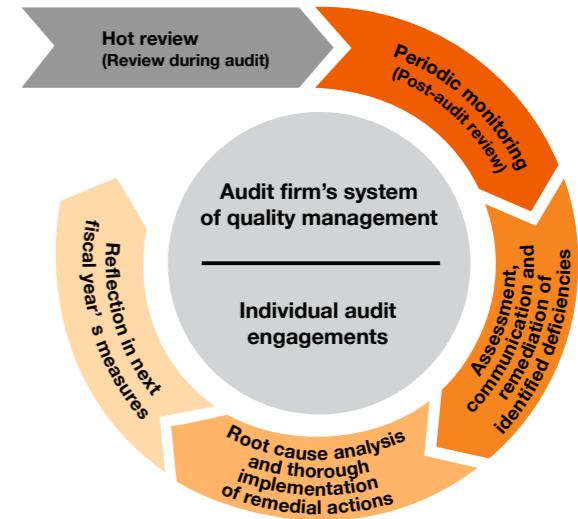
Based on the results of FY2024 periodic monitoring activities, the Firm implemented initiatives to improve the behaviour (direction, supervision and review) of engagement partners and team managers, releasing audit alerts on specific areas and providing follow-up training. The Firm will continue its efforts for further improvement. We have also performed a root cause analysis for the findings identified in FY2025 periodic monitoring activities and are taking actions to address individual issues.

The Firm has been enhancing audit procedures in the areas of journal entries and accounting estimates. Given drastic changes in the business environment surrounding companies, it is increasingly important for audit clients to enhance their business management frameworks. This includes continuously strengthening internal controls and creating 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, together with the chief auditors, promotes the standardisation of procedures.

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 continues to place top priority on improving audit quality and, in cooperation with audit clients, improve quality of financial reporting in Japan.

Review and root cause analysis



Results of periodic monitoring activities

Results of periodic monitoring activities	FY2024	FY2025
Number of in-scope engagements	36 cases	47 cases
Required modification of the audit opinion	0 cases	0 cases
No significant findings identified	32 cases	47 cases
Significant findings identified	4 cases	0 cases
Partner coverage rate	38%	52%

Reviewer's working hours

By review type	FY2024	FY2025
Review during audit (Hot review)	9,049 hours	8,707 hours
Post-audit review (Periodic monitoring activities)	4,724 hours	4,526 hours
Total	13,773 hours	13,233 hours

Collaboration with the PwC network

Quality management reviews by the JICPA

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 quality management review report	April 30, 2025
Review results	Results with no significant deficiencies

Inspections by the Certified Public Accountants and Auditing Oversight Board

The Certified Public Accountants and Auditing Oversight Board (CPAAOB) 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 CPAAOB identifies that quality management of audits is significantly inadequate, or that the audit engagement is not in compliance with laws and regulations,

the CPAAOB 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, 2025.

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.

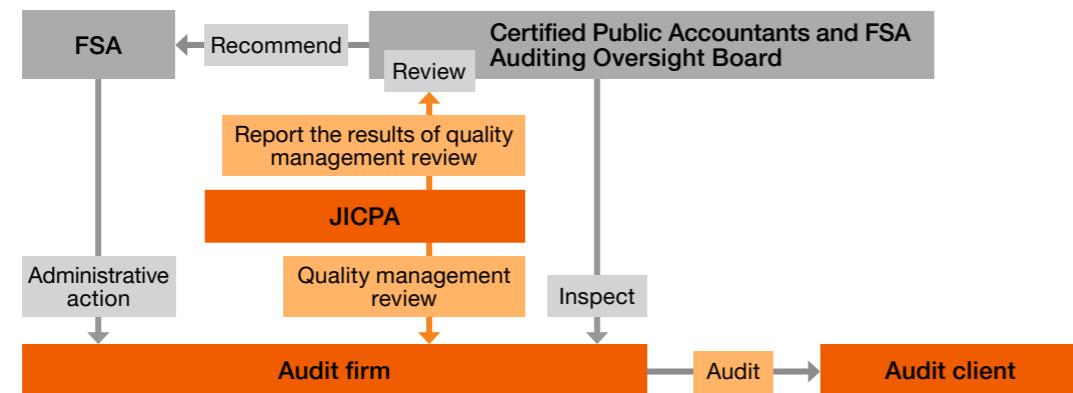
Response to findings

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

Administrative action resulting from external inspections



Overview of inspections by external institutions



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.

PwC Japan Group Annual Review

<https://www.pwc.com/jp/ja/about-us/annual-review.html>



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.

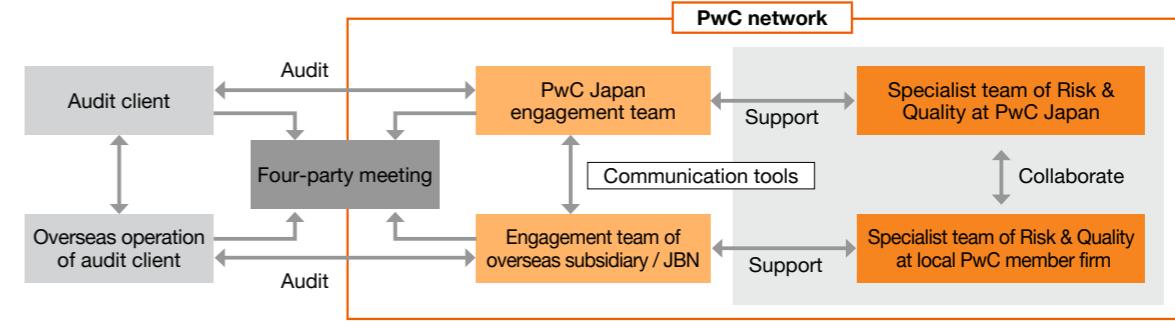
When performing audits of companies operating globally, the Firm engages the Japan Business Network (JBN) members as necessary and works closely with engagement teams that perform audits of overseas subsidiaries and other entities.

If a serious issue, such as fraud, were to occur, 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. Additionally, four-party meetings are conducted involving the audit client, its overseas subsidiary, the Firm and the local PwC member firm for discussions to promptly address and resolve issues with the audit client.

Japan 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 territory across the world. As of July 1, 2025, the Firm has deployed 658 specialists in the JBN (of which 447 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

Using technology in audit

■ Technology-enabled audit processes

Flow of audit procedures	Digitisation/automation methods	Tools implemented	Primary effects		
			■=Quality/effect	●=Timeliness	▶=Efficiency
Receipt of documents	▶ Data accumulation	<ul style="list-style-type: none"> ● Connect Platform that allows clients to quickly and securely share audit documents and deliverables ● Extract Tool that automatically extracts accounting data from audit clients' ERP systems ● Electronic confirmation letter platform Platform to exchange confirmation letters electronically 			
Conversion to audit documents	▶ Data conversion and standardisation	<ul style="list-style-type: none"> ▶ Standard data model converter Tool to convert financial data of major ERP systems, including domestic ERPs, to the data models required by analysis tools 			
Reconciliation/calculation/analysis	▶ Digitisation and automation of reconciliation, calculation and analysis	<ul style="list-style-type: none"> ■ Disclosed documents check tool Platform to automatically check disclosed documents ■ Halo for Journals Data analysis tool that performs analyses using journal entry data ■ Consolidated financial statements analysis dashboard Tool to visualise changes in key financial indicators of consolidated financial statements and to support audit analyses 			
Working papers/documentation	▶ Digitisation and automation of output, visualisation and documentation	<ul style="list-style-type: none"> ■ Aura Audit documentation platform used across the PwC network. Tool to develop audit plans and conduct audits more effectively and efficiently ■ Halo for Journals Data analysis tool that performs analyses using journal entry data 			

The Firm 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 demonstrated in each stage of the audit procedures below, the Firm has deployed many tools to improve the timeliness, quality, effectiveness and efficiency of audit.

Data acquisition and conversion

Data from audit clients, as well as various external third-party data, are automatically fed into PwC's systems and converted.

Tool example ▶ Extract

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

Analysis of accounting figures and performance of audit procedures

By utilising a variety of audit tools, auditors can identify potentially significant audit matters earlier and engage in discussions with audit clients to enable efficient and high-quality audits.

Tool example ▶ Halo for Journals

Halo for Journals is an audit tool designed to handle large volumes of journal entry data and analyse entire populations. Based on predefined extraction criteria, it identifies relevant journal entries for analysis and facilitates exploration and visualisation to initiate testing procedures.

Tool example ▶ Consolidated financial statements analysis dashboard

Consolidated financial statements analysis dashboard developed by the Firm is a tool that supports audit analyses and visualises changes in key financial indicators. When this dashboard is used in our communication within teams and with audit clients, we deliver dialogue informed by data and data-driven audits, thereby transforming the audit experience for audit clients.

Working papers and documentation

By generating the results of reconciliations and analyses and preparing audit working papers based on those results, auditors can focus on their professional activities, such as interpretation and judgement.

Tool example ▶ Aura

Aura is a global audit documentation platform used across the PwC network that clearly links risks, required procedures, controls and risk response procedures. By providing comprehensive guidance and project management capabilities, Aura supports the effective application of audit methodology and facilitates the development and implementation of audit plans.

Initiatives for business process improvement and quality enhancement

Initiatives for operational standardisation and delivery model transformation

At PwC Japan Group, the Technical Competency Centre (TCC), which comprises more than 500 members in Japan, is enhancing the standardisation of the audit process and provides audit procedure support to other territories as well.

TCC is an organisation that works closely with the digital-tool development department and engagement teams, and is composed of 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.

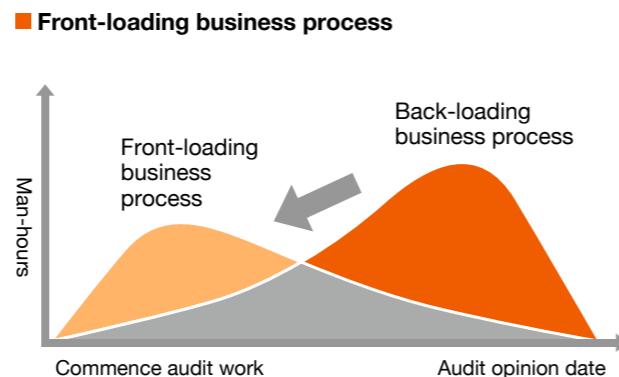
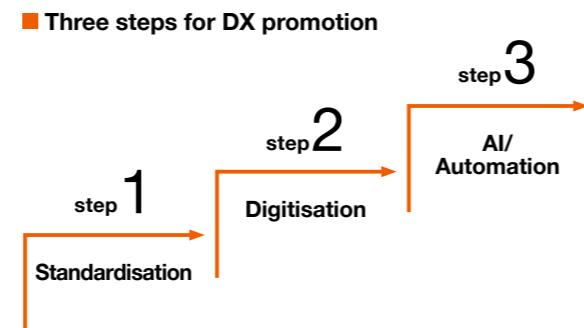
TCC centrally manages the audit and other operations and performs audit procedures according to the standardised process. Specifically, a team within the department performs testing of certain accounts for which the required audit procedures are the same for most audit clients, thereby ensuring quality. Every year, TCC staff and CPAs collaborate to review the business processes to improve the quality of the audit procedures.

Engagement Performance and Quality (EPQ) initiatives

EPQ is the Firm's key quality enhancement initiative, known as '4+1' [p.56](#), which focuses on improving business processes. EPQ aims to cultivate a culture where people act autonomously by helping engagement teams and their respective staff members understand the benefits of accelerating the timing of performing procedures to improve audit quality.

We have implemented a tool to verify that disclosure documents on EDINET match the final version agreed with audit clients. Additionally, we have established a process to automatically verify certain disclosures in the annual securities report using XBRL data, thereby enhancing support for engagement teams.

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



Information security

Information security management structure

Through collaboration between the PwC network's information security department and member firms in each territory, PwC is working to strengthen information security. Initiatives at the 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 the 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 information security measures at both the organisation and individual levels. These include conducting information security assessments in accordance with the PwC network's common standards, providing training and drills based on common contents, identifying information security risks arising from Japan-specific working environment and culture,

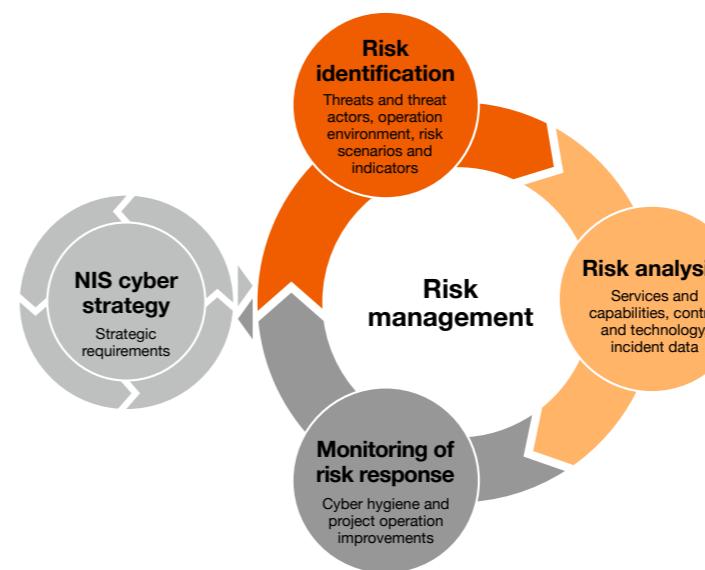
and raising awareness among partners and employees.

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/IEC 27001 (ISMS) certification in June 2022.

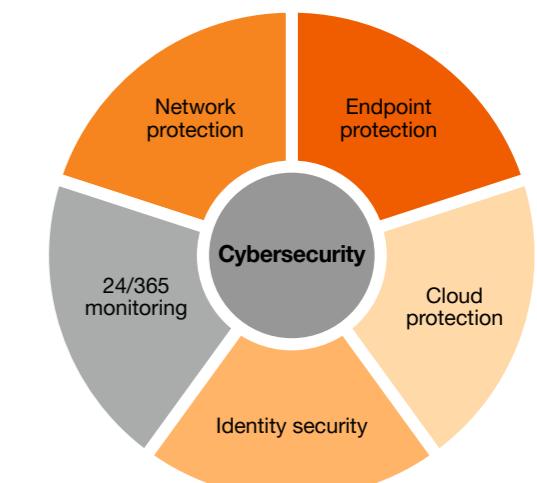
Cybersecurity incident management

Threats of cyberattacks, including ransomware, are increasing each year. PwC has been implementing measures to identify, prioritise and mitigate cyber risks existing in the 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 incidents 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



Talent

3

Leadership message

The power to shape the future lies within each of us – Becoming professionals who build trust and value through expertise and collaboration –



Our 15 quality objectives ► p.54

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

Cultivating professionals who enhance their expertise and solve complex problems

In an environment where the business landscape is evolving rapidly, the management and societal problems we face are becoming increasingly broad and complex. To address these important problems, it is imperative to not only equip our firm with diverse and advanced expertise and technology, but also to build trust and collaborate across various perspectives.

The Firm strives to foster a culture where each staff member takes ownership of their growth and career, remains inquisitive, and continues to advance. We aspire to be an organisation where each staff member not only seeks to enhance their own expertise but also embraces and combines the expertise of others, thereby contributing to solving problems faced by our clients and society.

Embedding Behaviour Guidelines and culture

We are dedicated to fulfilling PwC's Purpose—to build trust in society and solve important problems. Our Values and Behaviours are essential elements that support us in realising this purpose. The Code of Conduct serves as principle-based guidance, encouraging sound judgment, consultation and the sharing of concerns in challenging situations. PwC Professional defines Behaviour Guidelines from two dimensions: Trusted Leadership and Distinctive Outcomes. By creating an environment where every member is empowered to progress as a professional, we believe that personal growth will translate into contributions to society.

The new personnel review program and future of people development

Beginning in FY2026, the Firm will implement a new personnel review program founded on PwC Professional. Specifically, the review will be conducted based on two indicators evaluated against the role-based grade definition: the degree of role fulfillment and the extent to which individuals demonstrate behaviors aligned with PwC Professional and Assurance Quality Dimensions (AQDs) ► p.85. In response to business diversification



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

Daisuke Tanaka
Human Capital Planning Office Co-leader

and intensifying competition for attracting people, our goal is to establish a flexible and fair program designed to support the growth of people with diverse knowledge and experience.

Through FY2025, the Firm strengthened our people management functions through various initiatives, including specialised training programs to enhance expertise, feedback-driven personnel review program, clarification of career paths and the development of arrangements for hybrid and other diverse work styles. With the launch of PricewaterhouseCoopers Japan LLC following the integration in December 2023, we considered and implemented initiatives to establish programs for the integrated firm. Through these efforts, we are steadily building a new foundation not only in terms of systems but also from the perspective of culture.

Looking ahead, we will continue our people development initiatives to ensure that our people grow as professionals and remain a source of value creation for society.

Recruitment and development

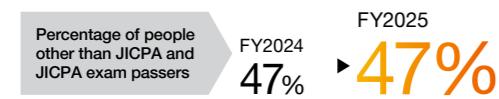
Recruiting diverse people

Only people can ensure quality. Recruitment is a vital process for securing diverse talent that supports audit quality and integrated assurance services (p.15). It is also essential to recruit individuals who have knowledge, experience and integrity, and who share common values. In all recruitment activities, we introduce candidates to our programs and initiatives for professional growth, career path and career plans. In recent years, we have been actively recruiting individuals with diverse backgrounds and nationalities.

Recruitment indicators



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.



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



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

People development

Professional growth is generally achieved through work experience, feedback and learning from training. The Firm prioritises on-the-job training and two-way dialogue through coaching. Inquiries, consultations and feedback, along with proactive dialogue and suggestions from coaches, provide support tailored to the growth of each staff member.

In addition to regular feedback through on-the-job training and coaching, the Firm has established a comprehensive human capital program called the Global Leadership Development Experience (Global LDE). This program is designed to support our people in acquiring skills for the future. Each staff member is assigned a Career Coach, who engages in coaching to encourage them to take ownership of their growth based on their growth strategy and career plan.

The Firm also offers training programs designed to help staff acquire skills and knowledge according to their grade, thereby providing ongoing support for their professional growth. These programs include training courses that address trends in the business environment and strategic changes.

Training

Positioning of training

The Firm regards training as a learning opportunity for continuous professional growth. In addition to technical areas such as financial statement audits, we offer a variety of courses that enable staff to acquire necessary skills according to their career path. We are also enhancing digital training programs to support AI-enabled audit.

To develop professionals who can deliver high-quality audit and integrated assurance services, it is essential for our people to acquire skills suitable to their grade and role, enabling them to respond flexibly to changing environments and situations.

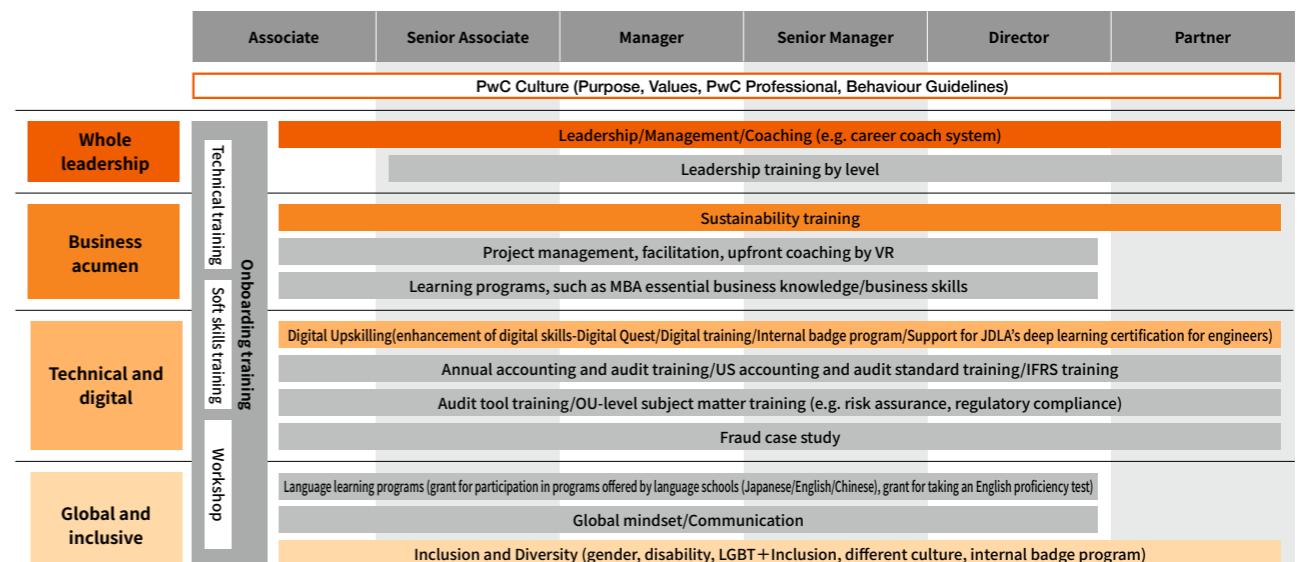
Training plans are reviewed annually to help staff acquire the knowledge and skills necessary to develop and enhance behaviours required for PwC staff.

In addition to mandatory training courses for all staff, we offer imperative courses to allow staff to take based on their needs and learning motivation. In FY2025, the Firm enhanced access to various training courses. By fostering an environment where staff can actively take ownership of their growth, the Firm supports the realisation of diverse careers and long-term growth for each staff.

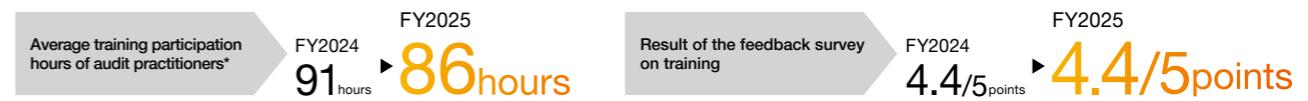
As training is essential for maintaining and enhancing professional skill, the Firm monitors the status of attendance for training courses. If an inappropriate act (e.g., sharing answers of an assessment or taking multiple courses simultaneously) is detected, a strict disciplinary action will be taken.

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

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



Quality management indicators (AQI) related to training



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



Career and assignment

Developing people with diverse experiences

In a rapidly changing society, people with diverse expertise are key to fulfilling PwC's Purpose and delivering the Firm's Vision 2030. Career paths to develop diverse expertise vary. To keep pace with changes in the business environment and provide high-quality audits, the Firm has developed career paths that realise our strategies and offer diverse experiences and opportunities to support continued growth.

In FY2025, we shared diverse career paths to guide our people in achieving their career progression.

Building a society where diverse professionals connect and co-create

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

We also seek to create an organisation where talented professionals in each field connect beyond the boundaries of organisations, countries, industries and expertise. Leveraging these connections, we will lead co-creation initiatives to design new systems and establish platforms to build trust across broader areas of society.

Culture connecting diverse people

The foundation of a diverse organisation is its culture. Communication through channels suited to the times connects us with stakeholders. We believe this foundation can only be built when professionals with diverse knowledge and experiences share a common culture and PwC Purpose and Vision, regardless of differences in how they develop their respective knowledge and experiences.

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

Clarifying career paths

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

To ensure diversity at the individual level, the Firm has established personnel programs suited to diverse work styles and careers. We will continue to disseminate information on the Firm-wide diverse career paths and promote coaching from a medium-to long-term perspective.

Since providing 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 the 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 auditing, enabling them to deepen their understanding of audit clients' risks. Experience in an overseas assignment helps them acquire a global perspective and enables them to perform audits with consideration of global developments in auditing. Experience in non-audit services and secondment to companies enhances their ability to identify business risk and internal control risk of audit clients. We believe these experiences broaden the risk awareness of audit professionals in providing audit services, thereby helping to improve audit quality.

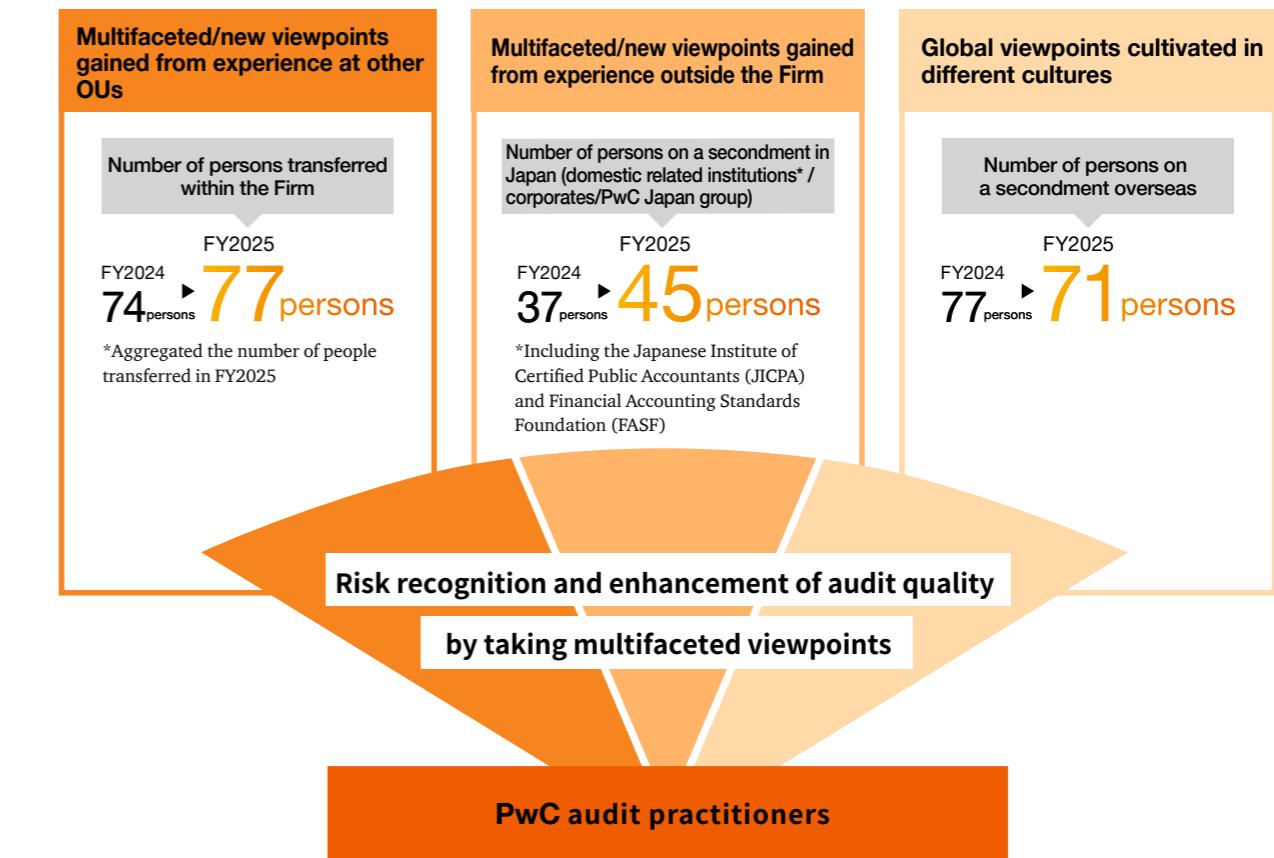
The Firm is also expanding our interaction with former employees of PwC through the alumni network. Feedback from people with prior experience in the same network provides valuable perspectives in understanding external expectations and recognition of the Firm. Many former employees have been contributing to society leveraging their careers.

Our approach to assignment

Under the Firm's business model, we assign staff to continuously engage in a specific industry. This approach enables them to accumulate business-related expertise. We believe this model helps the Firm build a foundation for delivering high-quality audits and integrated assurance services. In the recruitment process, we discuss with candidates their interested industry and career aspirations. After they join the Firm, we determine an OU to be assigned according to their interests. This approach encourages staff to have a high sense

of purpose and motivation in their work and contributes to maintaining and enhancing the quality of audit and integrated assurance services. After joining our firm, we regularly engage in discussions concerning each individual's medium- to long-term career goals. We identify the experience needed to achieve these goals and tailor their career paths according to their life stages and circumstances. These considerations are reflected in assignments that adapt to evolving environments.

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



Performance review

Redefining PwC Professional and performance review program

PwC structurally defines the skills and competencies required for partners and staff under PwC Professional, which is the PwC network's common framework. This framework defines the conduct required of all professionals to fulfil PwC's Purpose and act based on PwC's values.

With drastic changes to PwC Professional, from FY2026, the performance review program has shifted to a new framework. The personnel review is conducted based on two indicators evaluated against role-based grade definitions: the degree of fulfillment of required roles and the extent to which individuals demonstrate behaviours aligned with PwC Professional and AQDs. PwC Professional comprises two dimensions - Trusted Leadership and Distinctive Outcomes.

Core Behaviours under Trusted Leadership include Inspire, Empower and Evolve, while those under Distinctive Outcomes are Champion, Build and Deliver. AQDs encompass knowledge, skills, direction, supervision and review, professional skepticism and management of risks and potential issues. These revisions aim to establish a more flexible and fair program to support the growth of Assurance

PwC Professional



professionals with diverse knowledge and experience, in response to increasing business diversity and intensified competition for attracting people.

Audit quality in performance review

To reinforce our commitment to quality in assurance services, the Firm has introduced AQDs as new evaluation criteria in our personnel review program. Professionals engaged in audit and assurance services are now explicitly evaluated for their contributions to quality across multiple dimensions, including knowledge of corporate reporting standards, assurance skills, leadership, direction, supervision and review, professional skepticism and management of risks and potential issues. This redesigned performance review process promotes the development of behaviours and skills that underpin audit quality.

Performance reviews and determination of compensation for partners, including leadership members, are based on internal performance review rules and an individual business plan developed annually by each partner. In the business plan, indicators related to service quality are regarded as key indicators. Progress toward achieving these indicators is evaluated by the leader of each OU 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 member. 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. Through a mutual feedback mechanism, timely feedback from other staff is used as input to support personal growth.

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

Initiatives to foster well-being

The Firm places significant emphasis on building a workplace where employees feel secure and find meaning in their work. To accommodate diverse working style needs, we have introduced programs that enable staff to choose and design their work style according to their life stages. We are convinced that offering flexible options in terms of location, working hours and employment style not only supports personal growth but also contributes to the development of our organisation. The Firm enhances the effectiveness of various health-related initiatives by visualising the relationship between health investments and target indicators through a health management strategy map. This map clarifies our strategy and its underlying story. Each employee is paired with a coach, establishing a program that facilitates appropriate consultations regarding working hours and work styles, thereby promoting employee well-being.

● Please see the website below for details.
<https://www.pwc.com/jp/ja/about-us/member/assurance/well-being.html>



[Health and Productivity Management Organisation]

In recognition of our various initiatives, the Firm has been certified as a health and productivity management organisation (large enterprise category) for implementing excellent health management practices for seven consecutive years since 2019. Additionally, on March 10, 2025, the Firm was certified as a White 500 enterprise for three consecutive years for its advanced initiatives in Health and Productivity Management.



[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.



I&D

PwC Japan Group actively promotes I&D (Inclusion & Diversity) by focusing on five domains: gender (promoting women's active engagement), nationality (national and cultural diversity), disability inclusion, work style reform and LGBT + inclusion. We believe removing various societal barriers and creating an inclusive environment are crucial and actively promote a range of initiatives to foster inclusion.

Gender (promoting women's active engagement)

PwC Japan Group believes that incorporating women's perspectives into management is essential for organisational growth and is firmly committed to achieving gender equality.

Disability Inclusion

PwC Japan Group is dedicated to creating opportunities for individuals with disability to take a role as professionals. We aim to remove societal barriers and to include individuals experiencing disability, as well as those who support them.

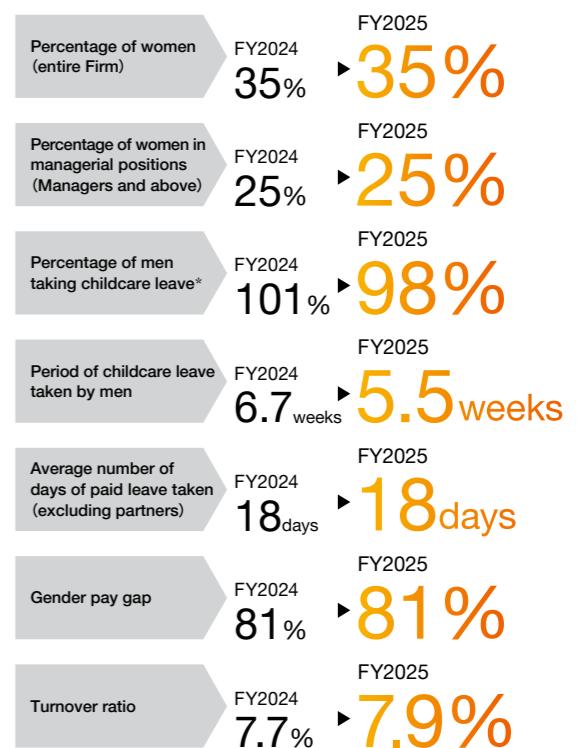
LGBT+ Inclusion

PwC Japan Group is undertaking various initiatives to build a psychologically safe workplace where LGBT+ employees can maximise their potential. We have established both LGBT+ employee groups and ally networks to foster mutual understanding.

● Please see the website below for details.
<https://www.pwc.com/jp/ja/about-us/diversity-and-inclusion.html>



Wellbeing/I&D-related indicators



* 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. If childbirth and childcare leave occur in different years, the percentage can exceed 100%.

► Collaboration with the PwC network

PwC 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.

Governance in place at the PwC network

The governance bodies of PwCIL are:

► Global Board

The Global Board 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 member 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, Yoshitaka Yamada, a PricewaterhouseCoopers Japan LLC partner and member of the PricewaterhouseCoopers Japan LLC's Oversight Board, currently serves as a member of the Global Board having been elected to a four-year term beginning on 25 June 2025.

► Network Leadership Team

The Network Leadership Team sets the overall strategy for the PwC network and the standards to which PwC firms agree to adhere.

► Strategy Council

The Strategy Council comprises leaders from the largest PwC firms and regions across the network, agrees on the strategic direction of the network and facilitates alignment for the execution of strategy. Masataka Kubota, who is the Chief Executive Officer of the PwC Japan Group consisting of the member firms of the PwC global network in Japan (including the Firm) and their affiliates, serves a member of the Strategy Council and maintains and strengthens our relationships with the Network Leadership Team.

► Global Leadership Team

The Global Leadership Team is appointed by and reports to the Network Leadership Team and the

Chairman 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).

► 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, Deputy Chief Executive Officer and Assurance Leader of the Firm, participates in the GALT. By participating in discussions on the direction of 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, or for the professional judgment associated with execution of those audits.

System of Quality management (in particular 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 resulted in 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, our firm identifies and assesses the appropriateness of using such resources within our 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.

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

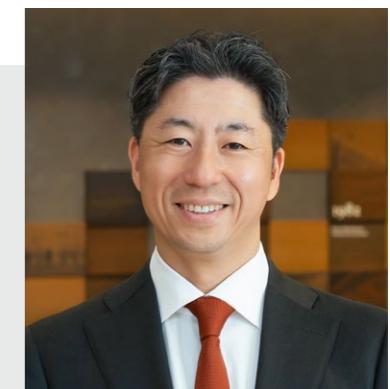
PwC Japan Group's leadership team

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

PwC Japan Group Chair's message

PwC's Purpose is to build trust in society and solve important problems. Guided by this purpose, we deliver a wide range of professional services covering the broad areas of accounting, tax, consulting, deals advisory and legal. In today's world, we face significant challenges, such as climate change and technological advancements. Sustainable solutions can only address these challenges if they are trusted by society, underscoring the inseparability of problem-solving and trust-building. We are committed to contributing to both areas.



Chair, PwC Japan Group
Masatoshi Kubota

For the first time in 14 years, PwC has refreshed its brand. Our new message, 'so you can,' embodies our commitment to being a driving force for transformation — supporting our clients and society in navigating change and pursuing growth in this rapidly evolving and increasingly unpredictable world.

To fulfil this vision, we remain uncompromising in our commitment to quality, delivering services grounded in deep expertise and strong ethics. We are building an organisation where diverse people actively engage in solving diverse problems, and make a meaningful contributions to society in collaboration with our stakeholders.

Global Chairman's message

The world continues to change rapidly, bringing new challenges and opportunities for business and society. In this context, transparency, quality and trust remain essential to strengthening confidence and supporting sustainable growth.



Chairman,
PricewaterhouseCoopers
International Limited (PwCIL)
Mohamed Kande

Earlier this year, PwC introduced a refreshed global brand to reflect our commitment to helping clients and society navigate significant change. This renewal underscores our focus and our purpose, to build trust in society and solve important problems.

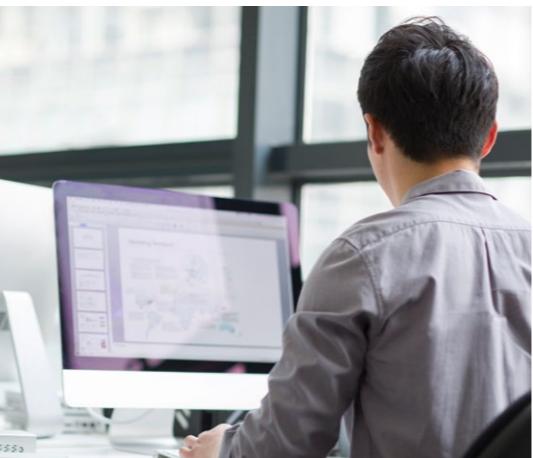
Quality remains the foundation of our work. Across all our services, we are investing in governance, technology, and people to deliver consistent insights and outcomes. We are also embracing innovation responsibly, advancing the use of artificial intelligence—including generative AI—to enhance quality and efficiency while maintaining strong ethical standards.

This report reaffirms our dedication to transparency, quality, and trust in an era of transformation.

Response to the Audit Firm Governance Code

The Principles for Effective Management of Audit Firms (The Audit Firm Governance Code; referred to as the 'Principles' in the table), issued on March 31, 2017 and revised on March 24, 2023, lay out 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 and has been taking action and disclosing information.

As one of the key changes from last year, the Firm has added a note to Principle 3 regarding the enhancement of the Oversight Board's governance structure for FY2026.



■ Principles and our FY2025 actions/Principle 1

	Principles (The Audit Firm Governance Code)	Our FY2025 actions
Principle 1	<p>Role of an audit firm 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>	
1-1	<p>An audit firm should recognise 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 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).
1-2	<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 are strategic measures to realise the Purpose.</p> <ul style="list-style-type: none"> • 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. • The Firm has built the following foundations to realise the Purpose: • 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.
1-3	<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>The Firm positions engagement quality as one of the key indicators in performance reviews of partners and staff. Through the performance evaluation process, the Firm promotes the development of skills and capabilities that ensure quality, while also motivating its personnel to prioritise engagement quality in their day-to-day work.</p> <p>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 Engagement Performance & Quality (EPQ) activities) are also considered in performance reviews of partners and staff.</p>

	Principles (The Audit Firm Governance Code)	Our FY2025 actions
1-4	<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>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 instil 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 & Action); • Accept new or different things, and take on challenges (Listen up) • Provide support for voices raised in Speak up (Follow up) <p>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.</p> <p>Every year, the Firm conducts an employee engagement survey of the Firm's staff (Global People Survey) as a channel for receiving feedback from each staff. The Management Committee analyses the survey results and takes remedial actions.</p>
1-5	<p>An audit firm should clarify not only its stance toward non-audit services (provided by the firm and its group organisations), 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.</p>	<p>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 being 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.</p> <p>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.</p> <p>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 acceptance and continuance of services by member firms of the PwC Network, including the Firm.</p> <p>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.</p> <p>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.</p>
1-6	<p>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.</p>	<p>Based on Guideline 5-3, this is explained in the Audit Quality Report 2025.</p>

■ Principles and our FY2025 actions/Principle 2

	Principles (The Audit Firm Governance Code)	Our FY2025 actions
Principle 2	<p>Organisational structure (effective management) An audit firm should have effective management in order to develop its organisational operations as a whole for the continuous enhancement of audit quality.</p>	
2-1	<p>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.</p>	<p>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 to actively discuss the Firm's business management, audit quality, people and other material agenda items and make decisions.</p> <p>Officers conduct the operation of their responsible OU in accordance with the policies and decisions made at the Management Committee.</p> <p>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.</p> <p>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.</p>

Principles (The Audit Firm Governance Code)		Our FY2025 actions	Principles (The Audit Firm Governance Code)	Our FY2025 actions
2-2	<p>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:</p> <ul style="list-style-type: none"> • Development of organisational structure to ensure appropriate judgements 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 utilising 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 utilisation 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 digitalisation, at audited companies 	<p>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 members 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 (hot 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.</p> <p>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 a person's career lifecycle, the Firm supports the continuous growth of each staff. We believe that people developed under these programs will drive distinctive, high-quality audits for the Firm.</p> <p>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).</p> <p>The Firm is conducting research and development to introduce audit techniques leveraging advanced IT, and is implementing measures to improve the digital skills of all employees.</p>	3-3	<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 utilisation 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.
2-3	<p>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 organisational operations of the firm.</p>	<p>Members of the Management Committee are appointed from those with high competencies in the Firm's strategic priority areas (e.g., quality management) in addition to the CEO, acting CEO and deputy-CEO.</p> <p>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.</p>	3-4	<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>

■ Principles and our FY2025 actions/Principle 3

Principles (The Audit Firm Governance Code)		Our FY2025 actions
Principle 3	<p>Organisational structure (supervisory and evaluation of the effectiveness of management functions from the independent viewpoint)</p> <p>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.</p>	
3-1	<p>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.</p>	<p>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.</p> <p>The Firm has established the Public Interest Body (PIB) 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.</p> <p>Note: To further strengthen governance effectiveness, from July 1, 2025, the external members of the PIB have been appointed as Independent Non-Executives (INEs) and are invited to join the Oversight Board. In addition, a structural reform has been implemented by integrating the PIB into the Oversight Board.</p>
3-2	<p>An audit firm should effectively utilise the knowledge and experience of independent third persons to deal with the issues recognised by the firm from the perspective of ensuring effective management and organisational 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.</p>	<p>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.</p> <p>External experts are third parties who are independent of the Firm's management and have advanced experience, knowledge and know-how as management of 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.</p> <p>Note: With the integration of the PIB into the Oversight Board on July 1, 2025, the external experts of the PIB have been appointed as Independent Non-Executives (INEs) and are invited to join the Oversight Board.</p>

■ Principles and our FY2025 actions/Principle 4

Principles (The Audit Firm Governance Code)		Our FY2025 actions
Principle 4	<p>Operation</p> <p>An audit firm, based on the size and characteristics etc., should develop an operational structure to effectively manage its organisational 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>	
4-1	<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 organisation. The management should effectively utilise 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"> • Require mandatory consultation with Risk & Quality on certain matters with high audit risk, such as fraud risk • 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. • 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 an input for Firm-wide quality management activities. In addition, workshops are held with engagement teams that focus on practical and high need issues to facilitate an exchange of opinions within the OU.</p> <p>As an organisation-wide measure to enhance audit quality at the 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 the 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 (The Audit Firm Governance Code)		Our FY2025 actions	Principles (The Audit Firm Governance Code)	Our FY2025 actions
4-2	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 scepticism should be fully taken into consideration.	<p>The Firm has clearly defined the attributes partners and staff should acquire to be true professionals (the PwC Professional), and implemented a program called Global LDE to support the professional growth of each staff. This program is not merely a performance review program, but is a two-way dialogue designed to promote professional growth with a view to enhancing audit quality of the Firm and achieving sustained growth.</p> <p>The Firm has defined quality as the most key indicator in performance reviews and implements consistent and objective people development and management, performance reviews and compensation programs.</p>	<ul style="list-style-type: none"> • 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 organisational 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 organisations), 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 utilisation 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. 	<p>8. Status of using technology for audits;</p> <p>9. Status of securing diverse people and people development policy;</p> <p>10. Status of securing financial base;</p> <p>11. Status of performing global audit; and</p> <p>12. Results of periodic monitoring activities of audit engagements.</p>
4-3	An audit firm should pay particular attention to the following points: <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 scepticism; • 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 utilisation 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. The Firm has taken the following measures to enable employees to gain diverse experience and expand their knowledge 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 Certified Public Accountants, the Financial Accounting Standards Foundation). <p>The Firm determines the optimal resource assignment across OUs in consideration of each staff's knowledge and experience based on the measures, as described in Guideline 2-2.</p> <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>		
4-4	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>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>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>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:</p> <ul style="list-style-type: none"> • A broad outline of the global network or group and its organisational 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 or arrangements with global network or group that has a significant impact on ensuring and continuously improving audit quality.
4-5	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>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. People who are involved in the reported matter are not granted access to protect the confidentiality of whistleblowers and avoid putting them at unexpected disadvantage.</p>		<p>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 utilise the knowledge and experience of the members of the structure responsible for supervision and evaluation, or of independent third persons.</p> <p>PwC's 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 thoroughly analyses various opinions and suggestions obtained through this dialogue and implements specific quality improvement measures to enhance quality and meet stakeholders' trust.</p> <p>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.</p>

■ Principles and our FY2025 actions/Principle 5

Principles (The Audit Firm Governance Code)		Our FY2025 actions	Principles (The Audit Firm Governance Code)	Our FY2025 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 Principles' implementation. The audit firm should also effectively utilise 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 Principles' 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.	<p>To explain audit quality initiatives, the Firm has published the Audit Quality Report. 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.</p>		
5-2	An audit firm should explain the following matters in terms of quality management, governance, IT and digitalisation, 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 fulfil 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; 	<p>Audit Quality Report 2025 explains:</p> <ol style="list-style-type: none"> 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 and contributions; 7. Significance of providing non-audit services and addressing conflicts of interest and concerns about independence; 		
5-5			An audit firm should periodically assess the Principles' implementation and the effectiveness of its initiatives for enhancement of audit quality.	<p>The status of applying the Principles is disclosed in the Audit Quality Report. To assess the effectiveness of 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.</p> <p>The Firm's 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.</p> <p>Results are reported to the Oversight Board and the Public Interest Body, which fulfil the supervisory and evaluation functions to receive their feedback.</p> <p>Based on the results of these evaluations and feedback, the Firm has been working to improve the effectiveness throughout the year.</p>
5-6			An audit firm should effectively utilise the useful information obtained through the dialogue with stakeholders such as participants in the capital market and the results of the assessment of the Principles' implementation for improving its effective management and organisational operations.	<p>The Firm analyses input obtained from exchanging opinions with capital market participants and the results of assessing the application of the Principles, and uses them as input to improve the Firm's business operation.</p> <p>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.</p>

Appendix | Our profile

Financial position and operating results

The Firm's condensed financial statements for FY2024 and FY2025 are as shown below. The Firm's financial statements have been audited by the independent auditor. For details, please access our website.

Condensed financial statements

Condensed statements of profit and loss		(Millions of yen)
	FY ended June 30, 2024	FY ended June 30, 2025
Business income	72,596	84,191
Business expenses	72,382	82,416
Operating income	214	1,774
Ordinary income	1,020	1,824
Net income before taxes	1,026	1,359
Net income	1,024	816

Condensed balance sheets		(Millions of yen)
	As of June 30, 2024	As of June 30, 2025
Current assets	25,398	26,398
Non-current assets	26,156	25,752
Total assets	51,555	52,150
Current liabilities	19,631	20,216
Non-current liabilities	6,996	6,095
Total liabilities	26,627	26,311
Partners' capital	24,926	25,836
Valuation and translation adjustments	0	2
Total net assets	24,927	25,839
Total liabilities and net asset	51,555	52,150

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.61.

Business income		(Millions of yen)
	FY2024	FY2025
Audit fees	36,183	41,029
Non-audit fees	36,413	43,162
	72,596	84,191

Number of clients		(Unit: companies)
	FY2024	FY2025
Audit fees	1,490	1,447*
Non-audit fees	1,239	1,217
	2,729	2,664

* Breakdown of audit services: Audits under the FIEA/Companies Act 210/Audits under the FIEA 49/Audits under the Companies Act 525/Audits of educational institutions 2/Other statutory audits 290/Other voluntary audits 371

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-2025.pdf>



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.

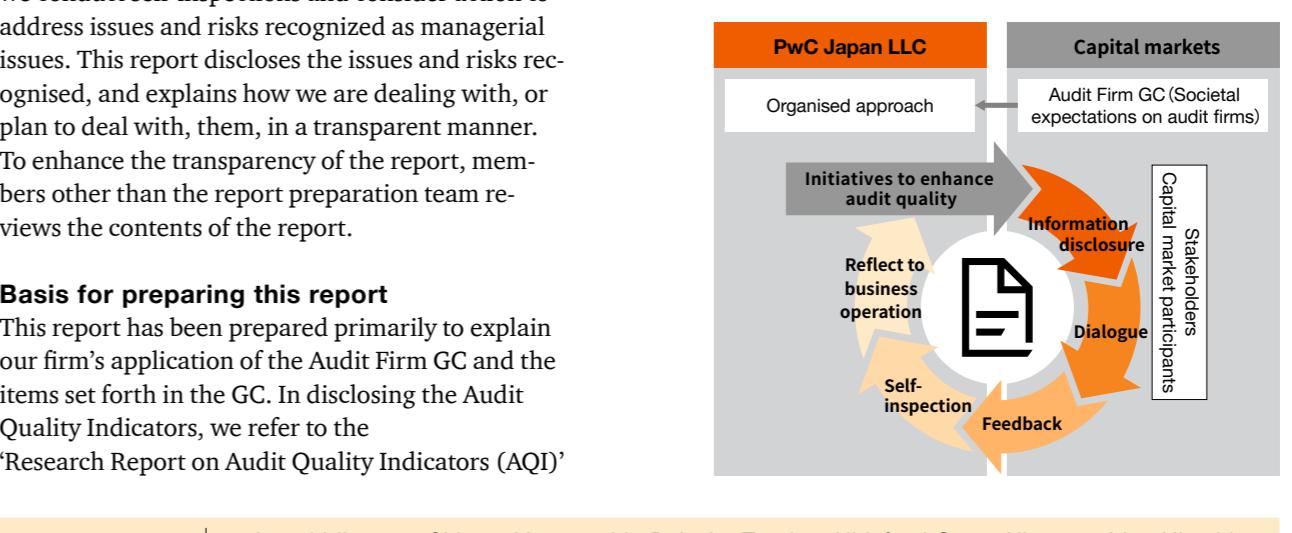
Process for preparing this report

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. This report discloses the issues and risks recognised, and explains 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 review 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.



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In this report, FY2025 refers to the period between July 1, 2024 and June 30, 2025. 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 employees	Partners 252 Audit and other client service professionals 3,280 Other staff 128 Total 3,660 (CPAs: 1,253; Junior CPAs and accountants who passed all subjects: 686)
	* As of June 30, 2025
Address	<p>•Tokyo Otemachi Park Building, 1-1-1 Otemachi, Chiyoda-ku, Tokyo 100-0004 Tel: 03-6212-6800 Fax: 03-6212-6801</p> <p>Otemachi One Tower, 1-2-1 Otemachi, Chiyoda-ku, Tokyo 100-0004</p> <p>Tamachi Station Tower S 13th Floor, 3-1-21 Shibaura, Minato-ku, Tokyo 108-0023 Tel: 03-6400-5561 Fax: 03-6400-5562</p> <p>•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</p> <p>•Kyoto Kyoto Mitsui Building 7th Floor, Shijo Karasuma, Shimogyo-ku, Kyoto-shi, Kyoto 600-8008 Tel: 075-241-1901 Fax: 075-241-1902</p> <p>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</p> <p>•Fukuoka ONE FUKUOKA BLDG. 11th Floor, 1-11-1 Tenjin, Chuo-ku, Fukuoka-shi, Fukuoka 810-0001 Tel: 092-724-0030 Fax: 092-724-0031</p>

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

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jp_asr_keiki-mbx@pwc.com

