

System to Ensure the Appropriateness of Business Activities

1. Systems to ensure that the performance of the duties of Directors and employees of the Company and its subsidiaries (hereafter, the “Group”) conforms to laws and regulations and the Articles of Incorporation
 - (a) The Company shall establish the NITORI Group Code of Conduct and thoroughly familiarize all officers and employees with this so that officers and employees of the Group perform their duties in compliance with laws and regulations and the Articles of Incorporation and fulfil their social responsibility and exercise corporate ethics.
 - (b) The Company shall appoint an officer in charge of compliance and establish a department in charge of compliance. The department in charge of compliance periodically shall formulate a compliance program from a groupwide perspective and implement this program.
 - (c) The Company shall have its officers and employees increase knowledge about compliance and raise awareness of respecting compliance through initiatives such as providing compliance training to officers and employees of the Group and preparing and distributing a compliance manual.
 - (d) The Company shall ensure that employees of the Group have a means of directly reporting doubts about practices that are not in accordance with laws and regulations and shall establish and operate a whistleblowing hotline supported by outside lawyers as one such means.
 - (e) To eliminate antisocial forces, the Company shall develop a response policy, etc. within the Group and put a system in place and thoroughly familiarize all officers and employees with the system.
2. System to store and manage information about the Directors’ performance of their duties
 - (a) Directors shall prepare important documents about performance of their duties and properly store and manage information based on internal regulations and in accordance with their respective duties.
 - (b) Documents about important decisions and reports shall be prepared, stored and destroyed appropriately in accordance with the Document Handling Regulations.
3. System to report matters regarding the execution of duties by the Directors, etc. of subsidiaries to the Company
 - (a) The Company shall require each Group company to report periodically to the Company on its operating results, financial position and other important matters through reports, etc. at the Company’s Board of Directors meetings.
 - (b) In the event of a situation at any Group company that might cause serious damage to that company, the Director, etc. of the respective Group company shall report immediately to the Company’s officer in charge of risk management and relevant departments at the Company.

4. Regulations and other systems to manage the risk of loss of the Group

- (a) The Company shall appoint an officer in charge of risk management and establish a department in charge of risk management. The department in charge of risk management shall establish the Risk Management Regulations, and develop and operate a system to assess and manage risks from a groupwide perspective.
- (b) Each of the Company's departments and Group companies shall manage their own risks and the head of each of the Company's departments and the president of each Group company shall report on the status of risk management periodically to the Risk Compliance Committee.

5. Systems to ensure the effective and efficient execution of duties by the Group's Directors

- (a) Based on a medium-term management plan, which clarifies targets for the entire Group to be achieved as a company, the Company shall clarify performance targets for each Director of the Group and clearly set out how Directors will be evaluated.
- (b) The Company shall break down the system of execution of duties of each department to clarify responsibility for performance within the Group and also seek to improve human capital efficiency through the use of specialists.
- (c) The Company shall seek to speed up the decision-making through simplifying its process while at the same time ensuring a careful decision-making process on important matters through discussions at the In-house Directors meeting to be held a collegial basis. The Company shall also require each Group company to follow the same practice.
- (d) The Company shall develop intra-group transaction standards to maintain fairness in intra-group transactions and endeavor to have each Group company conduct such transactions in an appropriate manner.

6. Matters regarding Directors and employees who are assigned to assist the duties of the Audit & Supervisory Committee, matters regarding the independence of such Directors and employees from other Directors (excluding Directors who are Audit & Supervisory Committee Members), and matters for ensuring the effectiveness of the Audit & Supervisory Committee's instructions to such Directors and employees

- (a) When the Audit & Supervisory Committee requires employees to assist it in its duties, the Company shall assign the necessary number of staff members to assist the Audit & Supervisory Committee.
- (b) In the event that the Company assigns staff members to assist the duties of the Audit & Supervisory Committee, it shall obtain the consent of the Audit & Supervisory Committee for the personnel authority of such staff members including job assignment and evaluation to ensure their independence.
- (c) Employees who are assigned to assist the duties of the Audit & Supervisory Committee shall follow the directions and orders of the Audit & Supervisory Committee.

7. System through which Directors (excluding Directors who are Audit & Supervisory Committee Members), Corporate Auditors and employees, etc. of the Group or persons who have received reports therefrom make reports to the Company's Audit & Supervisory Committee and system to ensure that persons who made reports to the Audit & Supervisory Committee do not suffer disadvantageous treatment for having made such reports
- (a) Directors (excluding Directors who are Audit & Supervisory Committee Members) and employees, etc. of the Group shall make reports as necessary at the Board of Directors meeting on the status of execution of their duties and shall also promptly make appropriate reports when asked to make reports by the Company's Audit & Supervisory Committee.
 - (b) Directors (excluding Directors who are Audit & Supervisory Committee Members), Corporate Auditors and employees, etc. of the Group who have discovered a fact that might cause serious damage to the Company or the Group such as a violation of laws and regulations shall make a report immediately to the Company's Audit & Supervisory Committee, either directly or through the relevant department, for example, the department in charge of internal audits.
 - (c) The department in charge of internal audits shall carry out audits of the Group periodically and report the audit results as necessary to the Company's Audit & Supervisory Committee.
 - (d) The department in charge of the whistleblowing hotline shall report on its operation status and details of whistleblowing reports, etc. as necessary to the Company's Audit & Supervisory Committee.
 - (e) The Group shall prohibit the dismissal or other disadvantageous treatment of persons who made a report to the Audit & Supervisory Committee or persons who made a whistleblowing report to the whistleblowing hotline on the grounds that they made such report or whistleblowing report; the Group shall stipulate to this effect in its internal regulations and thoroughly familiarize all officers and employees with this matter.
8. Matters regarding procedural policies for prepayments or reimbursement of expenses arising in relation to the execution of duties by Audit & Supervisory Committee Members and other processing of expenses or obligations arising in relation to the execution of duties by Audit & Supervisory Committee Members
- (a) The Audit & Supervisory Committee Members may seek the opinion of lawyers, certified public accountants, certified public tax accounts and other experts when deemed necessary for execution of their duties, and may claim these expenses from the company. In addition, if an Audit & Supervisory Committee Member has requested the prepayment of expenses in relation to the execution of his or her duties, the Company shall bear such expenses unless deemed unnecessary for the execution of duties by such Audit & Supervisory Committee Member.

9. Other systems to ensure that audits by the Audit & Supervisory Committee are performed effectively
- (a) Directors (excluding Directors who are Audit & Supervisory Committee Members) and employees shall deepen their understanding of audits by the Audit & Supervisory Committee and endeavor to develop an environment for audits by the Audit & Supervisory Committee, and the full-time Audit & Supervisory Committee Member shall attend important meetings such as In-house Directors meeting.
 - (b) The Audit & Supervisory Committee shall exchange opinions periodically with the Representative Directors and seek to communicate with them appropriately and execute audit operations effectively.
 - (c) The Audit & Supervisory Committee shall be afforded the opportunity to obtain advice from lawyers and certified public accountants where necessary for the execution of its audit operations.

The following is an outline of the status of operations of internal control systems within the Group implemented in the fiscal year under review based on the systems to ensure the appropriateness of business activities described above.

The Company reports to the Board of Directors periodically on the status of operations of the systems to ensure the appropriateness of business activities and makes revisions as necessary.

1. Status of initiatives for compliance

The Company sought to strengthen the Group's internal control systems by providing compliance training according to each company's business format and role, periodically distributed information on the intranet, etc. to share information and raise awareness internally about amendments to laws relevant to operations, and otherwise sought to raise compliance awareness. Furthermore, the Company formulated the NITORI Group Code of Conduct, which reflects recent social developments and values, as a means of indicating the Group's corporate stance. The Company translated the code into many languages and engaged in activities to instill it and raise awareness about it across the entire Group. In addition, the Company established various policies based on the Code of Conduct including the Human Rights Policy, Anti-competition Law Compliance Policy, Anti-corruption Policy and NITORI Group Procurement Policy, and sought to raise awareness about each of these policies. For overseas subsidiaries, in addition to training on the laws and regulations of each country delivered by legal experts and activities to raise awareness about the foregoing, the Company held the Global Administration Departments meetings to share risk information specific to overseas operations and share information about changes to laws.

The Company has also established internal and external whistleblowing disclosure hotlines in accordance with the provisions of the Group Whistleblowing Regulations. Through periodic internal newsletters, surveys and other means, the Company has sought to raise awareness of the whistleblowing hotline, thereby implementing whistleblowing measures covering overseas subsidiaries, and increased the effect of early detection of issues and improvement measures.

2. Status of initiatives for ensuring that duties are executed appropriately and efficiently

The Company holds the In-house Directors meeting every week to deliberate matters in advance to expedite decision-making at the Board of Directors meeting. At the Board of Directors meeting, Directors including Outside Directors held lively discussions and had a lively exchange of opinions when deliberating proposals or when the status of execution of duties was reported. Furthermore, the Company sought to delegate authority for decisions on key aspects of important business execution to the Representative Directors. Through such measures, the Company believes that the appropriateness and efficiency of decision-making and the effectiveness of supervision (monitoring) was ensured. As for reports on the operating results, financial position and other important matters of each Group company, the Company appropriately supervised the status of execution of duties by Directors, etc. at each Group company by setting operational targets to be achieved by each company and then requiring each Group company to report periodically to the Company's Board of Directors.

3. Status of initiatives for the management of risk of loss

The Company has formulated regulations on risk management and a business continuity plan (BCP) to minimize losses or disadvantages suffered by the Group and has developed a risk management system center on the Risk Compliance Committee. In accordance with the business continuity plan (BCP), the Company conducted a range of drills, and the Risk Compliance Committee, which meets every month, also promoted subcommittee activities for each individual material risk determined by the Board of Directors to review the risk prevention system, strengthen the training system and implement measures to address new issues, thus strengthening the Group's risk management system.

4. Status of initiatives for ensuring effective audits by the Audit & Supervisory Committee

The Company's Audit & Supervisory Committee held both regular and ad hoc meetings to exchange information about audits, and the full-time Audit & Supervisory Committee Member attended the In-house Directors meetings, meetings to discuss progress on issues and other important meetings. As regards compliance and the status of development of internal control, audit results were shared regularly with internal control operations and the internal control system was used to conduct audits. The Company also ensured the effectiveness of audits by appointing full-time employees to assist audit operations in accordance with the instructions of the Audit & Supervisory Committee. In addition, the exchange of opinions necessary for audits was made through regular meetings with Representative Directors and the Accounting Auditor.

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