

Governance

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Corporate Governance System that Supports Sustainability Management

The Group is addressing issues related to sustainability and promoting sustainability management that aims to simultaneously solve social issues and achieve corporate growth. The Company aims to enhance corporate value over the medium to long term by building a governance system by the Board of Directors to make this sustainability management function.

Sustainability-related Roles of the Board of Directors

The Group is addressing issues related to sustainability, including consideration for global environmental issues such as climate change, respect for human rights, consideration for employee health and the working environment, fair and appropriate treatment, fair and appropriate business dealings with suppliers, and risk management for natural disasters. We believe that addressing these issues is important not only for contributing to a sustainable society as a member of society, but also for the Group's sustainable growth and medium- to long-term enhancement of corporate value.

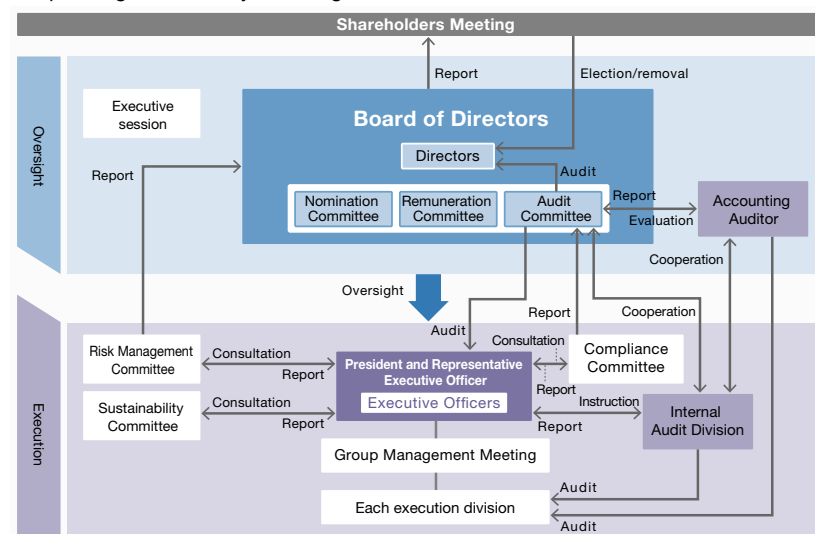
Based on this recognition, the Board of Directors deliberates and decides on the Company's important matters related to sustainability, such as the Sustainability Policy and important issues to be addressed (materialities), and also oversees the progress and results of these initiatives to promote sustainability management.

Skills Expected of Directors

In selecting candidates for Director, the Board of Directors shall consist of personnel with experience and knowledge necessary to appropriately oversee the promotion of sustainability management (execution of business strategies aimed at resolving the seven materialities) in order for the Board of Directors to effectively fulfill its roles and responsibilities.

In selecting candidates for Outside Director, from the point of view of Board diversity, the Company selects persons who have experience as managers not only in the retail industry that is the core business of the Group but in non-retail industries such as manufacturing industry, or who have expertise in legal and other fields, a marketing perspective, and extensive experience related to finance and accounting. With regard to candidates for non-executive Inside Director, the Company selects persons who have wide-ranging practical experience within the Group and knowledge in fields such as oversight. As for a candidate for Director who concurrently serves as Executive Officer, the Company has selected a person responsible for its financial division whose high level of knowledge will facilitate the execution of the strategic finance policies demanded by shareholders and investors, as well as by the President and Representative Executive Officer.

Corporate governance system diagram



Corporate Governance System

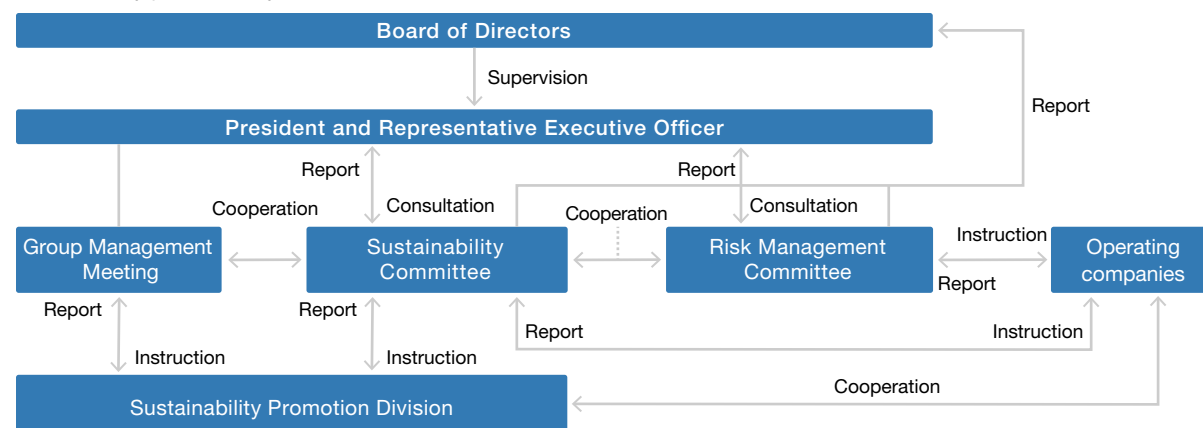
<https://www.j-front-retailing.com/english/company/governance/governance01.html>

Sustainability Promotion System

The Group discusses and makes decisions on specific initiative policies related to social issues including the environment and human rights in the Group Management Meeting, which is the highest decision-making body in business execution. The matters discussed and decided by the Group Management Meeting are shared with all operating companies in the Sustainability Committee, which

is an advisory body to the President and Representative Executive Officer and the committee monitors the progress of the action plans formulated by each company. In addition, the Board of Directors receives the reports on the content of discussions and decisions made by the Group Management Meeting and the Sustainability Committee and discusses and oversees them.

Sustainability promotion system



Linkage between Officer Remuneration and Materiality KPIs

The Company revised its Officer Remuneration Policy in April 2021 when formulating the Medium-term Business Plan, and established the following two items as non-financial indicators for determining performance-linked remuneration.

- (1) 40% reduction in Scope 1 and 2 GHG emissions (compared to fiscal 2017)
 - (2) 26% increase in the share of women in management positions
- (Both (1) and (2) are at the end of fiscal 2023)

These items are also linked to materiality KPIs for fiscal 2023 to clarify the responsibility of the management team for achieving the targets.

Major Agenda Items Discussed by the Sustainability Committee

FY2021

- | | |
|-----|--|
| Apr | <ul style="list-style-type: none"> ● Efforts made with suppliers to reduce Scope 3 emissions ● Overview of supplier assessment (including human rights) in FY2021 ● Revision to the Sustainability Policy ● Progress of the entire Group in FY2020 |
| Sep | <ul style="list-style-type: none"> ● Lecture by an external instructor "Importance of ESG information disclosure" ● Implementation of supplier assessment (including human rights) ● Progress of the entire Group in H1 FY2021 |

FY2022

- | | |
|-----|--|
| Apr | <ul style="list-style-type: none"> ● Lecture by an external instructor "ESG/sustainability management" ● Action plan for FY2022 ● How to advance the Women's Empowerment Promotion Project ● Explanation about the results of supplier assessment (including human rights) in FY2021 ● Progress of the entire Group in FY2021 |
| May | <ul style="list-style-type: none"> ● Lecture by an external instructor "Diversity as a management strategy" |

Risk Management

The Group defines risk as “uncertainties that have both positive and negative sides that could have an impact on the achievement of business management goals.” And we position risk management as an “activity that increases corporate value by managing risks by reasonable and optimal methods from a company-wide perspective” to achieve sustainable corporate growth by addressing the positive side and the negative side of risk properly.

Risk Management System

The Group has a Risk Management Committee, which is chaired by the President and Representative Executive Officer and comprises Executive Officers and others, at J. Front

Retailing. The committee has a secretariat headed by an officer in charge of risk management. The secretariat shares important matters decided by the committee with operating companies to

promote enterprise risk management (ERM).

We position risk as the starting point of strategy and link risk with strategy so that risk management will enhance corporate value.

Risk Management Process

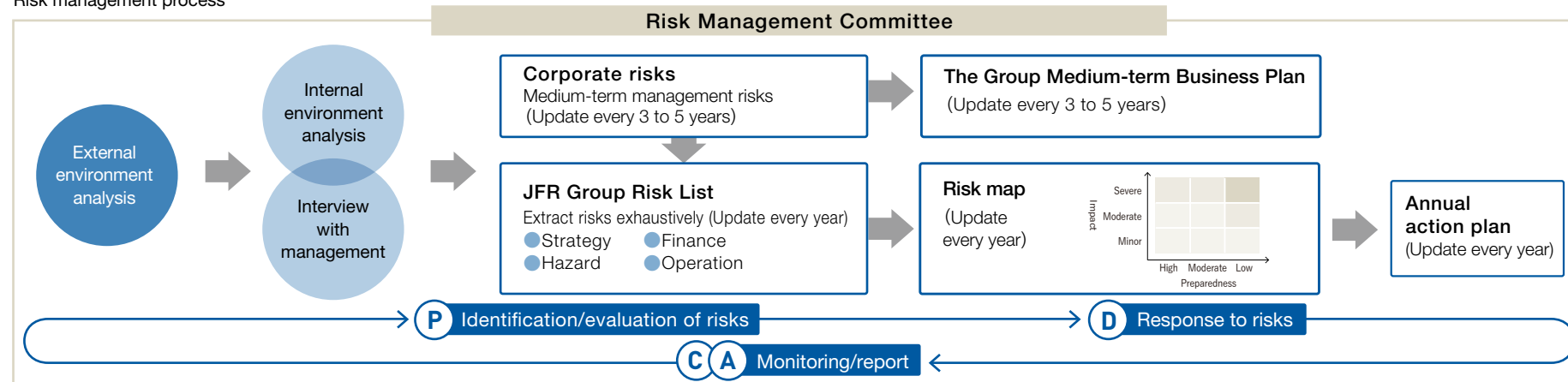
The Group promotes risk management through the following processes. Specifically, we are striving to ensure that risks of high importance to the Group are not overlooked, under the external and internal environmental analyses, and based on the recognition of the management team including Directors and the persons responsible for practical operation.

Over the medium-term, we have positioned corporate risks as having extremely high importance for the Group's management, and have used these as starting points for the Group Medium-term Business Plan.

Furthermore, the risks for the fiscal year identified from “corporate risks” are summarized in the JFR Group Risk List,

evaluated using a risk map, then ranked by priority before implementing countermeasures. For corporate risks and the JFR Group Risk List, changes in the environment surrounding risks and the progress of measures are monitored semiannually, and the Risk Management Committee discusses the matters and then reports their content to the Board of Directors.

Risk management process



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Corporate Risk List

Below is a list of the impact of corporate risks on the Group and their measures. The measures are linked to the Medium-term Business Plan, and their progress is regularly monitored.

List of the JFR Group Corporate Risks

Category	No.	Item	Impact	Outlook*	Negative side	Positive side	Measures
Strategy risk	1	Advanced sustainability management	Very severe	↑	• Defection of stakeholders, decline in ratings / brand power	• Sustainable growth, increase in the Group's presence	• Clarifying value creation story that creates both social value and economic value at the same time • Realizing Well-Being Life for stakeholders
	2	Decline of existing business models	Very severe	↑	• Decreased vitality of the entire Group due to weak performance of large-scale store retail business	• Regrowth by radical change of business model of large-scale store retail business	• Digitizing customer touch points - Delivering added value like stores and increasing accuracy of marketing • Reviewing role of store - Providing experience, encounter, place for connection with people
	3	Response to increasingly accelerated digitization	Very severe	↑	• Sluggish growth of the entire Group • Declining competitiveness due to delay in using technologies	• Changing business models using digital technologies • Streamlining of operations, going paperless	• Changing business models by maximizing customer experience value, etc. • Building business models in new markets such as metaverse • Standardizing and streamlining operation systems
	4	Changes in consumer behavior after COVID-19	Very severe	↑	• Customer defection due to failure to meet customer needs	• New market creation	• Analyzing changes in consumer behavior • Creating new markets such as sustainable products/services
	5	Urban decentralization (Rebalancing between urban and rural areas)	Severe	↗	• Decline in conventional urban commercial facilities' ability to attract customers	• Business in response to urban decentralization	• Planning strategy concerning real estate development and real estate holdings of the entire Group • Coexisting with local areas, promoting attractive urban development through proposal of diverse urban lifestyles and complex redevelopment
	6	Accelerated income polarization	Severe	↗	• Sales decrease due to shrinkage of mass market	• Stimulating new middle-class demand • Developing new affluent markets	• Rightsizing and segmentalizing mass market products/services • Deeply cultivating affluent markets both physically and digitally
	7	Changes in customers, particularly low birthrate / longevity	Severe	↗	• Shrinkage of domestic markets	• Expansion of senior markets	• Focusing on high quality children's wear and education business • Increasing shopping convenience for senior customers and strengthening categories that are of strong interest to them such as wellness
	8	Uncertainty about non-Japanese market	Severe	→	• Prolonged stagnation in inbound sales	• Gradual recovery of inbound sales • Acquisition of foreign demand through EC and live commerce	• Preparing promotion measures in anticipation of inbound market recovery • Strengthening EC and live commerce
	9	Accelerated reorganization and M&A beyond industry boundaries	Severe	↗	• Hostile takeover of the Group	• Business portfolio transformation • Corporate growth using M&A	• Screening existing businesses, optimizing management resource allocation • Studying and exploring new businesses and promoting development of and growing business of operating subsidiaries that implement these new businesses
Hazard risk	14	Work styles in new normal era, progress of HR/organizational reforms	Severe	↗	• Talent drain, losing the war for talent • Decrease in employee motivation	• Increasing employee engagement and organization's power • Promoting business strategy, creating innovation	• Strengthening human capital based on "human resource capabilities" • Implementing measures that increase flexibility of work style • Reorganization that respects diversity • Developing young human resources through various opportunities
	10	Frequent natural disasters / epidemics	Very severe	↗	• Damage to the lives of customers and employees • Business continuity crisis	• Stable operation of business	• Strengthening preparation for new infections by analyzing response to COVID-19 • Formulating multiple scenarios and analyzing impact on business • Continuously conducting practical BCP training • Reviewing business plans properly and timely
Finance risk	11	Increasing importance of information security	Severe	↗	• Personal information breach, legal actions / claim for damages, loss of social credibility • Delay/stagnation of operations	• Stable running of operations and systems • Streamlining of operations, promotion of remote working	• Implementing new security measures that improve prevention/detection of incidents • Reviewing the Group security guidelines and improving employee literacy through training, etc.
	12	Increasing importance of financing management	Severe	→	• Funding cost remaining high	• Reduction of funding cost • Support for promoting growth strategy	• Rightsizing cash on hand and interest-bearing liabilities • Diversifying financing methods such as sustainability bond
	13	Need for cost structure that can respond to environmental changes	Very severe	↗	• Decline in profitability • Reduction of investment	• Business portfolio transformation • Strengthening business base	• Cost reduction by business model reform, office reorganization, review of workforce composition, etc. • Promoting optimization of business portfolio

*Risk changes during the term of the Medium-term Business Plan that were forecast considering the impact on the Group, measures, etc.

↑ : Top priority risks that have an extremely severe impact

Information Security Measures

In March 2022, the Company established the Group System Unit, to upgrade and improve the Group's overall system infrastructure and realize the safe operation of information systems and highly robust security. Recent incidents are becoming more diverse and complex year by year, and we believe that further initiatives are needed in both hard and soft aspects.

In hard aspects, we are phasing in security products and monitoring services that can detect suspicious behavior on a terminal and respond rapidly when an incident occurs. We also use multi-factor authentication for logging on to the system, enabling us to restrict devices that can connect and prevent unauthorized access due to password leaks and so forth.

In soft aspects, considering recent changes in IT usage environment, we will revamp the Group security guidelines. Moreover, we are working to increase the level of literacy among all employees by using e-learning and conducting targeted attack email training based on information about the latest incidents.

In addition, in order to strengthen the security management system, we established CSIRT* in the Company and joined the Nippon CSIRT Association. The Company works with people responsible for information security management of the Group companies to develop manuals in preparation for incidents while continuously providing incident response training. By doing so, we go on strengthening the security management system of the entire Group.

* CSIRT stands for Computer Security Incident Response Team.