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Governance System to Support Sustainability Management



The Group is addressing issues surrounding sustainability and promoting sustainability management that aims to balance the resolution of social issues and corporate growth. The Company has established board of directors-based governance structure to make sustainability management function, with the aim of enhancing corporate value over the medium to long term.

Role of the Board of Directors Regarding Sustainability

The Group's specific policies for sustainability initiatives, such as addressing environmental and social issues, are deliberated and approved by the Group Management Meeting, the highest decision-making body for business execution. Items approved by the Group Management Meeting are shared with all operating companies through the Sustainability Committee, an advisory body to the President and Representative Executive Officer. Additionally, the Sustainability Committee monitors the implementation and progress of the actions plans of each operating company to enhance the effectiveness of group-wide initiatives.

In response, the Board of Directors receives reports on activities approved by the Group Management Meeting and the Sustainability Committee, and deliberates and monitors target setting, response policies, and action plans.

Executive remuneration system incorporating non-financial measures

Since FY2021, we have set reduction of Scope 1 and 2 emissions and “ratio of female managers” as non-financial indicators for determining performance-linked compensation in officer remuneration. These are linked to the KPIs in the Medium-term Business Plan and are designed to clarify the responsibilities of the executive officers in achieving their targets, as well as to function as an incentive to realize and promote sustainability management.

Board of Directors Skill Matrix

In selecting candidates for the Board of Directors, the Company uses a skills matrix to clarify the expertise and experience expected of directors. We have identified “environment,” “society,” “governance,” and “human resources and organizational development” as skill categories, and we select directors who can appropriately oversee our sustainability initiatives.

Name		Status	Management strategies	Finance	Marketing	HR & organization development	Legal affairs & compliance	IT & digital	E: Environment	S: Society	G: Governance
KOIDE HIROKO	Chairperson of Board of Directors Member of Nomination Committee Member of Remuneration Committee	Non-executive, independent, outside	●		●	●					●
YAGO NATSUNOSUKE	Chairperson of Nomination Committee Member of Remuneration Committee	Non-executive, independent, outside	●						●		●
HAKODA JUNYA	Chairperson of Audit Committee	Non-executive, independent, outside	●	●							●
UCHIDA AKIRA	Chairperson of Remuneration Committee Member of Nomination Committee	Non-executive, independent, outside	●	●							●
SEKI TADAYUKI	Member of Audit Committee	Non-executive, independent, outside		●			●			●	●
New OMURA EMI	Member of Audit Committee	Non-executive, independent, outside					●	●		●	●
YOSHIMOTO TATSUYA	Member of Nomination Committee Member of Compensation Committee	Non-executive	●		●				●		●
HAMADA KAZUKO	Member of Audit Committee	Non-executive				●				●	●
New ONO KEIICHI		Officer (President and Representative Executive Officer)	●		●				●		●
WAKABAYASHI HAYATO		Officer (Managing Executive Officer)	●	●		●					●

* [Non-executive] Director who does not serve as an executive officer, [Executive officer] Director who also serves as an executive officer, [Independent] Independent director registered with the stock exchange, [Outside] Outside director

Management strategies	Management expertise as well as knowledge and experience related to management strategies, such as making strategy proposals that lead to the increase of corporate value and formulating methods to identify issues for the formulation of the medium-term business plan.
Finance	Knowledge and experience in finance and accounting, including the improvement of corporate value through the establishment of a strong financial base and formulating financial strategies that are conscious of the cost of capital.
Marketing	Knowledge and experience in activities that bring about customer satisfaction and the continual improvement in corporate value by discovering customer issues, creating products and services to solve those issues, communicating information, and offering added value
Human resources & organization development	Knowledge and experience related to human capital management that maximizes the individuality and abilities of diverse employees and realizes the creation of new value.
Legal affairs & compliance	Knowledge and experience to promote advanced and specialized knowledge of corporate law and compliance management in a recognition that the legal and appropriate execution of corporate management is the basis for sustainable improvement of corporate value.
IT & Digital	Knowledge and experience to oversee ICT support and new business development from a customer perspective, while keeping up to date with the latest IT trends, in order to achieve the digital transformation of existing businesses.
E: Environment	Knowledge and experience to provide appropriate oversight of the JFR Group's initiatives for "co-existence with the environment," including business activities that are conscious of solving environmental issues, and environmental plans that include the setting of medium- to long-term goals.
S: Social	Knowledge and experience to provide appropriate supervision of the JFR Group's efforts to achieve regional prosperity and a sustainable society.
G: Governance	Knowledge and experience in corporate governance with the aim of improving the effectiveness of the supervisory function of the board of directors on a recognition that the establishment of an appropriate governance system is the foundation for sustainable improvement in corporate value.

Sustainability Promotion System

The Group's specific initiatives on social issues, including the environment and human rights, are deliberated and approved in the Group Management Meeting, the highest decision-making body for business execution. Matters deliberated and approved by the Group Management Meeting are shared with all operating companies through the Sustainability Committee, an advisory body to the President and Representative Executive Officer.

The Sustainability Committee also monitors the implementation and progress of action plans at each operating company based on the Group's policies. The content of matters discussed and decided by the Group Management Committee and the Sustainability Committee are reported to the Board of Directors

Sustainability Committee

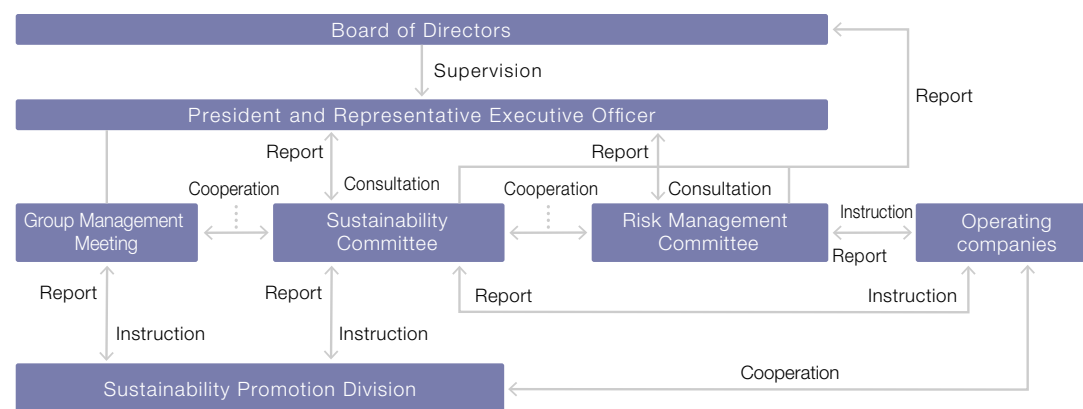
Established	March 2019
Positioning	Advisory body to the President and Representative Executive Officer
Chairperson	President and Representative Executive Officer
Members	JFR Executive Officers, Presidents of all operating companies
Secretariat	Sustainability Promotion Division (Management Strategy Unit)
Frequency	Twice a year (Spring/Fall) in principle



Major agenda items in the Sustainability Committee Meetings

FY2021	April	<ul style="list-style-type: none"> Initiatives with Suppliers to Reduce Scope 3 Emissions Overview of Supplier Assessment (Environment and Human Rights) in FY2021 Revision of Sustainability Policy FY2020 KPI Progress Report
	September	<ul style="list-style-type: none"> Lecture by an external instructor on "The importance of ESG information disclosure" Implementation of supplier assessment (environment and human rights) FY2021 1H KPI Progress Report
FY2022	April	<ul style="list-style-type: none"> Lecture by an external instructor on "ESG/sustainability management" How to advance the Women's Empowerment Promotion Project Report on the results of supplier assessment (environment, human rights) FY2021KPI Progress Report and FY2022 Sustainability Action Plan
	May	<ul style="list-style-type: none"> Lecture by an external instructor on "Diversity as a Management Strategy"
	September	<ul style="list-style-type: none"> Progress report on the Women's Empowerment Promotion Project and discussion of future direction of each company FY2022 1H KPI Progress Report
FY2023	April	<ul style="list-style-type: none"> Lecture by external instructor on "Business and human rights" Status of initiatives to promote diversity and inclusion at each company Report on results of employee awareness survey FY2022 KPI Progress Report and FY2023 Sustainability Action Plan
	September	<ul style="list-style-type: none"> Lecture by an external instructor on "Overview and importance of biodiversity" Implementation of supplier assessment (human rights) FY20231H KPI Progress Report
FY2024	April	<ul style="list-style-type: none"> Lecture by an external instructor on "The Relationship between Medium- to Long-Term Corporate Value Enhancement and Non-Financial Activities" 2024-2026 Medium-Term Sustainability Plan FY2023 KPI Progress Report

JFR Group Environmental Management System



Risk Management



The JFR Group defines risk as “uncertainty that affects the achievement of corporate management goals and has both positive and negative aspects.” Risk management is positioned as “activities to enhance corporate value by managing risk in a rational and optimal manner from a company-wide perspective.” The Group aims to achieve sustainable corporate growth by appropriately addressing both the positive and negative aspects of risk.

Risk Management System

The Risk Management Committee, an advisory body to the President and Representative Executive Officer, is chaired by the President and comprises Executive Officers among others. The Committee deliberates on important matters, including the identification, evaluation and determination of risks to be reflected in strategies, and utilizes risk management for management decision-making. The deliberations of the Committee are reported to the Board of Directors in a timely manner.

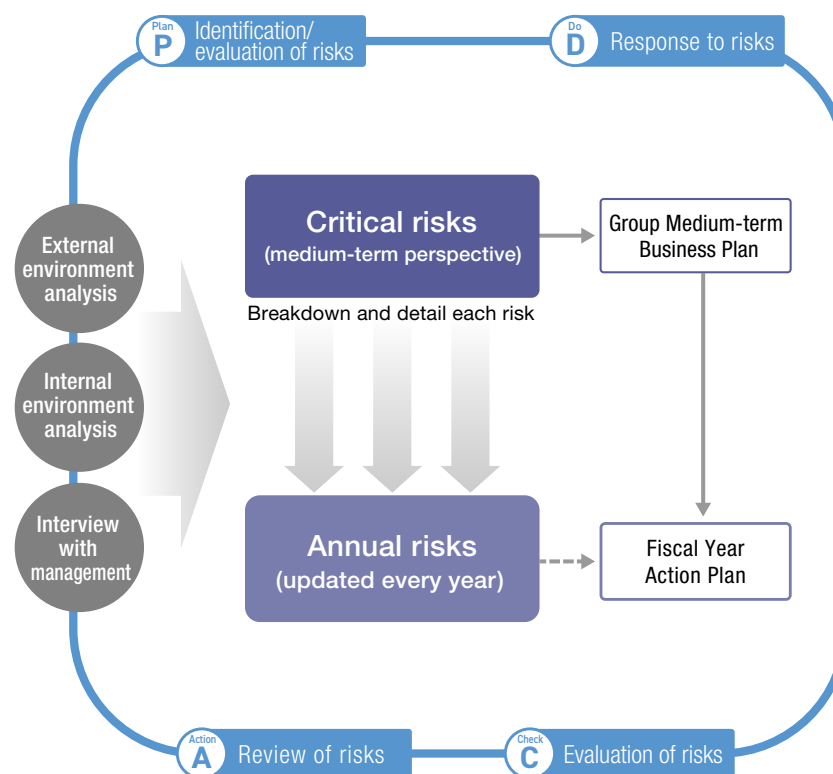
The Committee has a secretariat headed by the executive officer in charge of risk management, and shares important decisions made by the committee with operating companies and promotes ERM (enterprise-wide risk management).

Risk Management Process

The Group promotes risk management through the process shown on the right. Specifically, based on external and internal environment analyses and the recognition of the management team including Directors and those responsible for actual operations, we strive to avoid omissions of risks that are of high importance to the Group.

Risks that are extremely important to the Group's management over the medium term are positioned as “critical risks” and serve as the starting point for the Group's medium-term business plan. Additionally, annual risks identified in response to corporate risks are compiled into the JFR Group Risk List, evaluated using a risk map, and countermeasures are prioritized and implemented. The corporate risks and the JFR Group Risk List are monitored semiannually for changes in the environment surrounding the risks and the progress of countermeasures, and after discussion by the Risk Management Committee, the contents are reported to the Board of Directors.

Risk Management Process



List of Key JFR Group Risks

Category	Risk	Degree of impact	Future Outlook	Negative aspects	Positive aspects	Countermeasures
Strategy risk	Changes in the industry structure of existing businesses	Very large	↑	<ul style="list-style-type: none"> Decline in the vitality of the entire group due to the poor performance of large-scale retail stores 	<ul style="list-style-type: none"> Re-growth through fundamental reform of the business model of large-scale retail stores 	<ul style="list-style-type: none"> Strengthening existing businesses and developing new businesses for a shift in the business portfolio Investment through M&A and CVC based on the future vision
	Intensification of the competition to acquire human resources	Very large	↑	<ul style="list-style-type: none"> Falling behind in the competition to acquire human resources, and the outflow of talented people Decline in employee motivation 	<ul style="list-style-type: none"> Promotion of business strategies, creation of innovation Employee engagement, improvement of organizational capabilities 	<ul style="list-style-type: none"> Recruitment of specialized human resources, exchange and development of human resources within the Group Investment in human resources that leads to the realization of employees' well-being life
	Acceleration of technological innovation	Very large	↑	<ul style="list-style-type: none"> Stagnation in the growth of the entire group Decline in competitiveness due to delays in the use of technology 	<ul style="list-style-type: none"> Reform of business model through use of technology Streamlining of operations 	<ul style="list-style-type: none"> Utilization of the Group database Streamlining operations through the use of AI Building business models in new markets such as Web 3.0, XR, and NFT Development of digital human resources
	Increasing importance of environmental issues	Very large	➡	<ul style="list-style-type: none"> Defection of stakeholders, and decline in credit ratings and brand strength 	<ul style="list-style-type: none"> Sustainable growth, improvement of the Group's presence 	<ul style="list-style-type: none"> Reduction of greenhouse gas emissions Expansion of environmentally friendly products and services Expansion of circular business models such as sharing and upcycling
	Increasing importance of respect for human rights	Large	➡	<ul style="list-style-type: none"> Decline in reputation Decline in productivity and outflow of human resources due to a worsening of the working environment 	<ul style="list-style-type: none"> Improvement of brand strength through gaining the support of stakeholders Improvement of employee engagement 	<ul style="list-style-type: none"> Establishment of a sustainable supply chain through the continuous implementation of human rights due diligence Internal education to improve employee understanding
	Declining birthrates, aging population, and widening income disparity	Large	➡	<ul style="list-style-type: none"> Shrinking domestic market scale Decrease in the volume of customers in the target market 	<ul style="list-style-type: none"> Expansion of new markets through targeting 	<ul style="list-style-type: none"> Approaching consumers who prefer high-quality, uplifting consumption and experiences that satisfy their own particular tastes and values Expansion of customer base and business base to reach the above targets
	Diversification of consumer values and behavior	Large	➡	<ul style="list-style-type: none"> Decrease in sales and profits 	<ul style="list-style-type: none"> Expansion of new markets 	<ul style="list-style-type: none"> Promotion of measures in line with the values of consumers who prefer high-quality, uplifting consumption and experiences that satisfy their own particular tastes and values (subscription business, home delivery business, entertainment, pop culture, etc.)
	Increasing presence of overseas consumers	Large	➡	<ul style="list-style-type: none"> Delay in capturing inbound customers Sudden decrease in inbound customers 	<ul style="list-style-type: none"> Expansion of inbound sales Acquisition of foreign demand through development of EC and other initiatives 	<ul style="list-style-type: none"> Continue to strengthen product categories that are popular with customers in Japan and overseas Promote the development and acquisition of content that will enable expansion into the digital domain overseas Continue to expand our domestic customer base
	Expansion of disparities between cities	Large	➡	<ul style="list-style-type: none"> Decrease in the ability of commercial facilities in city centers to attract customers 	<ul style="list-style-type: none"> Business development through contribution to urban needs and urban development 	<ul style="list-style-type: none"> Participate in city development projects in collaboration with local governments and other organizations in key Group locations (commercial facilities, offices, hotels, residences, etc.)
Finance risk	Instability of economic trends	Large	➡	<ul style="list-style-type: none"> Loss of profit opportunities Increased funding costs 	<ul style="list-style-type: none"> Promotion of growth strategy, promotion of change in business portfolio Reduction of funding costs 	<ul style="list-style-type: none"> Long-term procurement at fixed interest rates Select appropriate financing methods when raising new funds
Hazard risk	Occurrence and spread of natural disasters and epidemics	Very large	➡	<ul style="list-style-type: none"> Damage to the lives of customers and employees Risk to business continuity 	<ul style="list-style-type: none"> Stable operation of business 	<ul style="list-style-type: none"> Continue to implement practical BCP training Regular review of business continuity plans Strengthening of preparations for next pandemics
	Emergence of geopolitical and socioeconomic crises	Large	➡	<ul style="list-style-type: none"> Danger and difficulties in living for employees posted overseas (business travelers) 	<ul style="list-style-type: none"> Stable operation of overseas business 	<ul style="list-style-type: none"> Establishment and promotion of overseas crisis management systems based on the risk environment and actual conditions at overseas locations where employees are posted or on business trips Monitoring of the impact on our business (particularly overseas business)
	Increase in information security threats	Large	➡	<ul style="list-style-type: none"> Leakage of personal information, lawsuits, compensation for damages, loss of social trust Delays and stagnation in business 	<ul style="list-style-type: none"> Stable operation of business and systems Promotion of business efficiency, promotion of remote work 	<ul style="list-style-type: none"> Development and promotion of advanced common systems infrastructure for the group Promote the enhancement of security operations and strengthen the response system Review the Group Security Guidelines and raise employee security awareness and literacy through training, etc.

Impact: Based on the economic impact on our group during the medium-term business plan and the impact on brand value

Outlook: Forecast of the increase or decrease in risks during the period of the medium-term business plan, taking into account the impact on the Group

 : A risk that has a significant impact and is being dealt with as a top priority

Risk classification: If it spans multiple fields, the risk will be listed in the field that has the greatest impact or relevance to the Group's strategy.

Information Security

Cyberattacks are becoming more sophisticated and complex every year, and we believe that further efforts are needed on both the tangible and intangible fronts.

As for tangible aspects, we are promoting multi-factor authentication for our systems to reduce the risk of information breaches in the event of a password leak, and we are also gradually expanding security enhancements by renewing the Wi-Fi in our buildings. In addition, we are working to create an environment that is less likely to experience security incidents by centralizing the management of IT assets within the Group and clarifying the procedures to be followed when vulnerabilities are discovered.

In terms of intangible aspects, we are working to strengthen our security incident response system and minimize risks by conducting security checks when we use external services. At the same time, we are working to improve security awareness and literacy by conducting incident response training for IT staff, continuing to provide e-learning on information security for all employees, and conducting targeted email attack training.

Furthermore, to actively utilize generative AI technology in our business, we will significantly reduce the risk of unauthorized external access and data leaks by creating an environment in which generative AI can be used under our own management. At the same time, we will work to protect data privacy and prevent misuse by ensuring that every employee complies with the “AI Usage Guidelines” established in 2023.

Compliance

We have established a Compliance Committee (whose members include legal counsel) to ensure proper handling of the Group’s compliance management issues. The committee is chaired by the President and Representative Executive Officer. Working closely with the divisions in charge of promoting compliance, the committee builds the foundation of the compliance structure and oversees the status of operation on a continuous basis, and promotes compliance with laws, the corporate ethics, and other rules. In addition, when a serious compliance violation occurs, a response policy will be formulated. The deliberations of the committee are reported to the Audit Committee on a regular and timely basis.

Risk management and compliance system diagram

