Corporate Governance

As a holding company, J. Front Retailing regards the strengthening of corporate governance as one of the most important management issues in order to ensure compliance, transparency, objectivity, and soundness of the management of the Group as a whole and to emphasize and thoroughly enforce accountability to stakeholders including customers, shareholders, employees, business partners, and local communities.

As part of these efforts, we have adopted the Company with Three Committees (Nomination, Audit and Remuneration Committees) system to futher strengthen corporate governance by:

1) Strengthening management oversight functions by separating supervision and execution;
2) Clarifying authorities and responsibilities in business execution and promoting flexible management;
3) Improving the transparency and objectivity of management; and
4) Building a globally applicable governance system.

Overview of corporate governance system

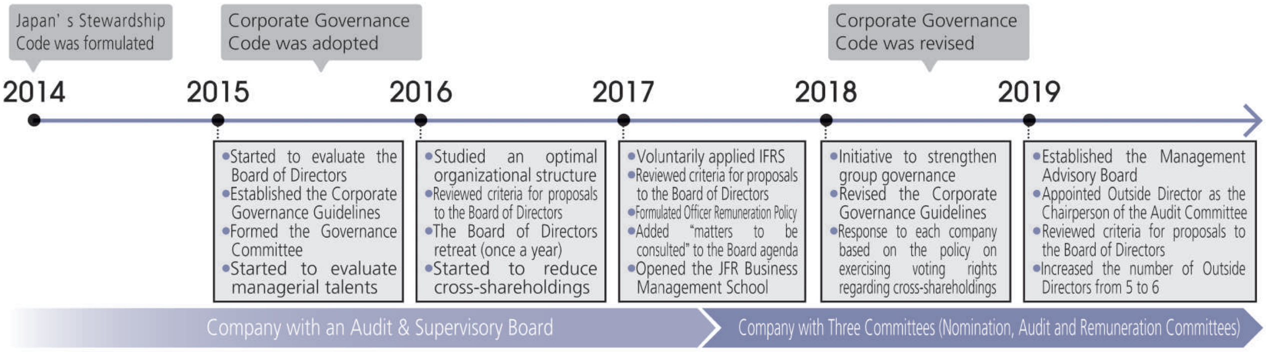
We are a pure holding company, and in order to speed up management decisions and clarify management responsibilities, the authority for the execution of business operations of operating subsidiaries is delegated to each operating subsidiary except for matters that are important to the Group's management.

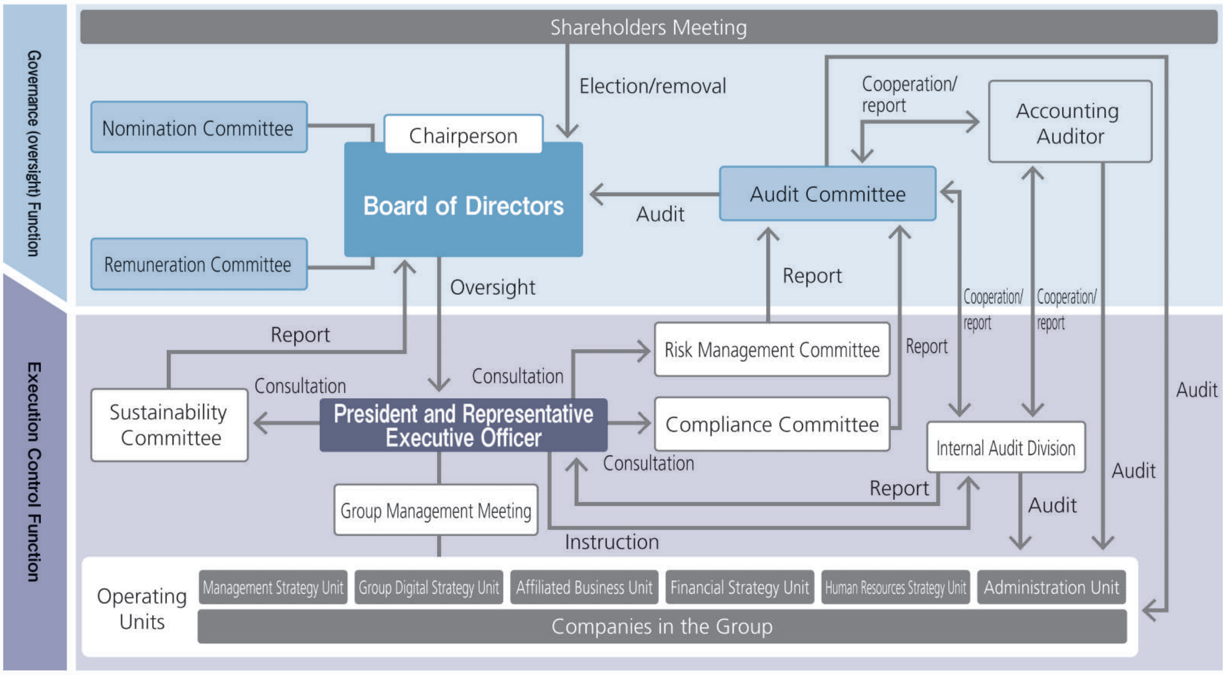
Our roles and responsibilities as a pure holding company are as follows:

- Establishment of a corporate governance system for the Group as a whole;
- To plan and draft the Group Vision, the Group Medium-term Business Plan, and the Group Management Policy, as well as their progress and performance management;
- Optimal allocation of the Group's management resources;
- Establishment of a risk management system for the entire Group and internal audits;
- Decision making on important business execution matters related to the management of the Group; and
- To advise and approve the management policies and strategies of each operating company and to supervise and evaluate their progress

We have also established six supervisory units (Management Strategy Unit, Group Digital Strategy Unit, Affiliated Business Unit, Financial Strategy Unit, Human Resources Strategy Unit, and Administration Unit) as our management organizations. We clarify the roles, responsibilities, and authorities of each unit to strengthen supervisory functions and enhance the internal control system of the Group as a whole.

►Evolution of corporate governance





Board of Directors

① Basic roles and responsibilities of the Board of Directors

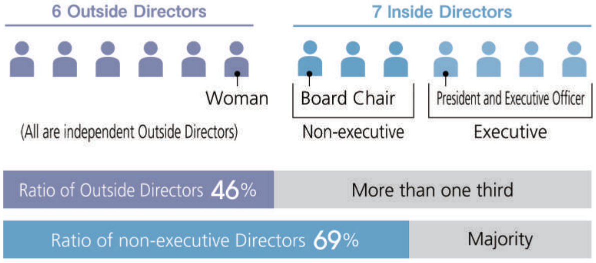
Directors who have been appointed by shareholders and have been entrusted with the management of the Company will fulfill the following roles and responsibilities at the Board of Directors to realize the Group Vision based on their fiduciary responsibilities and accountability to shareholders:

- Constructive discussions on the Group Vision, the Group Medium-term Business Plan, the Group Management Policy, and other basic management policies, as well as multifaceted and objective deliberations including risk assessments to indicate the major direction of the Group management;
- Appropriate decision making on the overall policy and plan related to the Group management based on the direction described above and supervising the progress and results of such plans;
- Developing an environment to support aggressive management for discontinuous growth;
- Constructing and developing an internal control system for the entire Group and supervising the status of its operation;
- Supervising conflicts of interest between related parties; and
- Supervising the progress of management succession planning, personnel allocation plans related to managerial talents, and management training, all of which are delegated to the Nomination Committee, based on a summary report from the Nomination Committee

② Composition of the Board

Our Board of Directors consists of the appropriate number of no more than fifteen members as set forth in the Articles of Incorporation. As of May 28, 2020, the Board of Directors had 13 members including six independent Outside Directors. Their term of office is one year.

When nominating candidates for Director, the Board of Directors ensures diversity by taking into account the balance of knowledge, experience and abilities of the Board as a whole. In addition, in the election of Outside Directors, the Company selects those who possess a high degree of independence in light of the independence criteria established by the Company and are highly unlikely to cause conflicts of interest with our shareholders.



③ Major discussions by the Board of Directors

The Board of Directors met 15 times in fiscal 2019 to mainly discuss the following:

- Checking the progress of the Medium-term Business Plan and its issues and countermeasures;
- Verifying the rationality of cross-shareholdings;
- Initiatives to strengthen IT governance;
- ESG initiatives;
- Shareholder policy and IR activities;
- Basic policy for developing an internal control system; and
- Revision of criteria for proposals to the Board of Directors accompanying the application of IFRS16

The Board of Directors meetings and explanations prior to the Board of Directors meetings are provided online.

Nomination Committee, Audit Committee and Remuneration Committee

① Nomination Committee

The Nomination Committee consists of three Outside Directors, the non-executive Chairperson of the Board of Directors, and the President and Representative Executive Officer. To ensure transparency and objectivity, the Chairperson of the Committee is selected from among independent Outside Directors.

The Nomination Committee determines the agenda for the election and dismissal of Directors to be submitted to the Shareholders Meeting and determines the contents of reports to the Board of Directors with respect to the appointment and dismissal of Executive Officers, the selection and dismissal of the chairperson and members of each statutory committee.

② Audit Committee

The Audit Committee consists of three Outside Directors and two full-time non-executive Inside Directors who are thoroughly familiar with internal information in order to maintain and improve the accuracy of audits. To ensure transparency and objectivity, the Chairperson of the Committee is selected from among independent Outside Directors.

The Audit Committee effectively audits whether the execution of duties by Executive Officers and Directors is in compliance with laws, regulations, and the Articles of Incorporation, and is conducted efficiently in accordance with our Basic Mission Statement and Group Vision. The Audit Committee also provides necessary advice and recommendations, as well as audits the status of the establishment and operation of internal controls, and prepares audit reports. To ensure the reliability of accounting information, the Audit Committee supervises the accounting auditor and determines the details of proposals for the election and dismissal of accounting auditors to be submitted to the Shareholders Meeting.

③ Remuneration Committee

The Remuneration Committee consists of three Outside Directors, the non-executive Chairperson of the Board of Directors, and the President and Representative Executive Officer. To ensure transparency and objectivity, the Chairperson of the Committee is selected from among independent Outside Directors.

The Remuneration Committee determines the policy for decisions on individual remuneration, etc. for the Directors and Executive Officers of the Company and the officers of subsidiaries (directors, executive officers and auditors), and the content of the individual remuneration of the Directors and Executive Officers of the Company.

► Number of meetings in fiscal 2019 (March 2019 to February 2020)

	Board of Directors	Nomination Committee	Audit Committee	Remuneration Committee
Number of meetings	15	13	15	11
Attendance rate of Inside Directors	100%	100%	100%	100%
Attendance rate of Outside Directors	100%	100%	100%	100%
Average time per meeting	2 hours and 29 minutes	1 hour and 3 minutes	1 hour and 51 minutes	50 minutes

Executive sessions

After the conclusion of the Board of Directors meetings, meetings are held only by Outside Directors to freely exchange opinions and share information. The Board of Directors discusses issues that require attention from a supervisory standpoint, such as issues at the meetings of the Board of Directors and issues that need to be addressed in order to improve the effectiveness of the Board of Directors (The lead director is Ms. SATO Rieko, an independent Outside Director). At the request of the lead director, the President and Representative Executive Officer and the Chairperson of the Board of Directors also participate in discussions.

Succession planning

The selection of the President and Representative Executive Officer is the most important strategic decision-making process and we have positioned the formulation and implementation of succession plans (for the next senior management team) as matters of particular importance in terms of management strategy. When selecting successor candidates, the Nomination Committee, which is comprised of a majority of Outside Directors, deliberates on the evaluation content of each successor candidate based on internal data and an audit conducted by a third-party organization. In this way, the process for selecting successor candidates is clarified and transparency is ensured. When deciding a successor, the Board of Directors, based on reports from the Nomination Committee, fulfills its supervisory role with an eye to realizing the Basic Mission Statement and the Group Vision.

Regarding the qualities required of successors, under the "Deirable qualities required of JFR managerial talent" in the Corporate Governance Guidelines, the necessary values, capabilities, and behavioral traits are clarified in the form of the five qualities required of an officer:

① Strategic mindset; ② Reform-orientd leadership; ③ Tenacity to achieve results; ④ Organization development strenghts; and ⑤ Human resource development strengths

The Nomination Committee shares these principles to ensure that the evaluation and development indicators are consistent and that they are neutrally trained and selected. Regarding the dismissal of the President and Representative Executive Officer, the Board of Directors decides the content of reports deliberated and resolved by the Nomination Committee, based on the set targets, expected results and the results of initiatives (business results for each fiscal year, the status of execution of strategies, etc.), as well as the status of achievements of successor candidates selected under the succession plan resolved by the Nomination Committee. The Nomination Committee deliberates succession plans on a planned and ongoing basis to ensure that they take into account changes in the environment and circumstances surrounding the Company and the progress of its strategies. As in the case of the President and Representative Executive Officer, the Nomination Committee deliberates and resolves the dismissal of other senior management team members.

► Evaluation of the Board of Directors

Evaluation method

Based on a preliminary questionnaire, a third-party organization conducted individual interviews with all Directors (both Inside and Outside), and based on the report that compiled and analyzed the results of these interviews, the Board of Directors discussed. Recognizing that the framework of the Board of Directors and the governance system has been established after improvements based on the past four evaluations, in fiscal 2019, the Company changed its third-party organization and adopted a new perspective with an emphasis on materializing substantive issues.

Evaluation items

In light of the roles and responsibilities of the Board of Directors, while considering the balance between new questions and regular questions to determine continuity, evaluation and analysis are performed so that the responses can be grasped according to the position such as Inside Director, Outside Director, and committee member.

[Evaluation items]

30 items including:

- Composition and operation status of the Board of Directors;
- Level of discussion materials and explanations of agenda items;
- Evaluation of the importance and amount of discussion of agenda items discussed by the Board of Directors in the past year:
- Issues to be overcome in the medium to long term;
- Director's expected role;
- Effectiveness of the activities of three Committees (Audit, Remuneration, and Nomination); and
- Desirable form of group governance

Evaluation results and efforts to address issues, etc.

With regard to the fifth evaluation of the Board of Directors conducted from October to November 2019, the third-party organization reported that vigorous discussions were conducted from a diversified perspective by increasing the objectivity of its deliberations under the current composition of the Board of Directors. It was also recognized that the Board of Directors needs to:

- Further fulfill the functions of the Audit Committee;
- Strengthen the oversight of the progress of business plans; and
- Further Improve the quality of its deliberations

In response, we will take the following actions to enhance the effectiveness of the Board of Directors:

- Strengthening cooperation after clarifying the roles and functions of the Audit Committee (legality and appropriateness) and the Internal Audit Division (business perspective);
- Verifying the consistency of business plans with profits and losses and clarifying the implementation structure and schedule;
- Clarifying and deeply discussing the expected roles of each Director in discussions; and
- Reflecting the results of deliberations in the execution of business (strengthening PDCA)

Officer remuneration system

In April 2017, we formulated an Officer Remuneration Policy, which includes the introduction of a stock-based remuneration system for officers in order to steadily implement the Medium-term Business Plan toward realizing the Group Vision. In April 2020, we revised the policy to reflect the promotion of sustainability management and to further enhance the content of the policy.

Beginning in fiscal 2020, the Company discloses the amount of each officer's remuneration (including the amount received as remuneration, etc. for an officer of a major consolidated subsidiary, if any) in the Annual Securities Reports regardless of whether or not his/her total consolidated remuneration, etc. exceeds ¥100 million.

► Officer remuneration system

① Policies on determining remuneration for Directors and Executive Officers

Our officer remuneration system is based on the following basic policies, aiming to achieve the objectives of realizing and promoting sustainability management (pay for purpose). Furthermore, Daimaru Matsuzakaya Department Stores, our main subsidiary, has adopted the same basic policies.

- To contribute to the sustainable growth of the Group, the medium- to long-term improvement of corporate value, and be consistent with our corporate culture;
- A highly performance-linked remuneration system that motivates Executive Officers to complete management strategies and business plans and achieve the target performance of the Company;
- Remuneration levels that enable us to secure and retain human resources who have the "desirable managerial talent qualities" required by the Company;
- To share awareness of interests with shareholders and heighten awareness of shareholder-focused management; and
- Enhanced transparency and objectivity in the remuneration decision process

② Procedures for determining remuneration for Directors and Executive Officers

In order to ensure the appropriateness of the level and amount of remuneration and the transparency of the decision-making process, the remuneration amount is decided by a deliberation and resolution of the Remuneration Committee, which consists of a majority of Outside Directors and is chaired by an Outside Director.
The Remuneration Committee is scheduled to meet at least four times a year and revisions to the officer remuneration system will be implemented in accordance with the period of the Medium-Term Management Plan.

[Forfeiture of remuneration] (clawback and malus)

Regarding Executive Officers' bonuses and stock-based remuneration, in the event that a resolution is passed by the Board of Directors regarding the post-revision of financial results due to serious accounting errors or improprieties, in the event that there has been a serious breach of the appointment contract, etc. between the Company and an officer, or in the event that an officer has voluntarily retired for his/her own reasons during his/her term of office against the will of the Company, the Company may request the forfeiture of the right to pay or grant remuneration or the refund of remuneration that has already been paid or granted to the officer.

③ Remuneration composition for Executive Officers and non-executive Directors

[Basic remuneration] (monetary remuneration)

Basic remuneration is positioned as a fixed remuneration and its table is determined for each rank (position) according to the size (weight) of each officer's responsibilities.

[Performance share] (performance-linked stock-based remuneration)

We issue our shares in conjunction with the consolidated performance achievement rate set forth in the Medium-term Business Plan in order to achieve sustainable growth of the Group and increase corporate value over the medium to long term. 60% of the total performance-linked stock-based remuneration is to be issued in a single issuance at the end of the Medium-term Business Plan and the remaining 40% to be issued annually in order to promote management from the perspective of shareholders.

[Restricted stock] (non-performance-linked stock-based remuneration)

In order for non-executive Directors to strengthen our aggressive and defensive governance from a different standpoint from execution as the representatives of shareholders and to engage in management from a mid- to long-term perspective, we have adopted a system in which our shares are issued in a manner that is not linked to performance and the shares are issued upon their retirement from office.

Executive Officers

Remuneration, etc. for Executive Officers
- Basic Remuneration
- Bonuses
- Performance shares (PS)

Proportion of remuneration by type for Executive Officers of each rank

【President】

Basic remuneration 38.5%	Bonuses 23.0%	PS 38.5%
Monetary remuneration 61.5%		Stock-based remuneration 38.5%
Fixed remuneration 38.5%	Performance-linked remuneration 61.5%	

【Executive Officers excluding President】

Basic remuneration 45.4%	Bonuses 27.3%	PS 27.3%
Monetary remuneration 72.7%		Stock-based remuneration 27.3%
Fixed remuneration 45.4%	Performance-linked remuneration 54.6%	

Note: The above figure represents the case of a bonus for a standard ranking where the performance achievement rate for stock-based remuneration was 100%.
Note: The remuneration composition for Directors and Executive Officers at Daimaru Matsuzakaya Department Stores is the same as that shown for "Executive Officers excluding President" in the figure above.

Details of performance shares

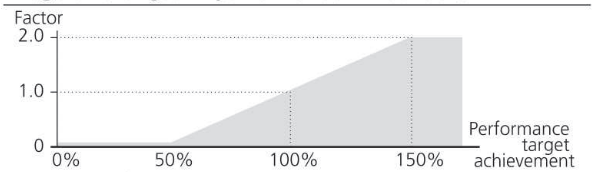
		KPI	Short term	Medium to long term	Methods of use
Profitability	①	Consolidated operating profit	○	○	Evaluation based on the achievement rate of targets (absolute value)
	②	Basic earnings per share	○	○	Evaluation is weighed as 50% for each indicator.
	③	Free cash flows	–	○	If targets are not achieved, the amount of stock-based remuneration is reduced by 50% (reduced by 25% if one target is not achieved).
Efficiency	④	ROE	–	○	

Note: KPI stands for Key Performance Indicator.
Note: Short-term targets are the initial forecasts for the relevant fiscal year as announced in the Consolidated Financial Results each April (IFRS basis).

Calculation method of performance-linked factor

Performance target achievement	Performance-linked factor
150% or more	2.0
50% or more but less than 150%	(Actual results ÷ Target – 0.5) × 2
Less than 50%	0

Image of changes in performance-linked factor



Note: When performance target achievement is less than 50%, performance-linked factor is 0 (0%), and when performance target achievement is 150% or more, performance-linked factor is 2.0 (200%).

Non-executive Directors

Remuneration, etc. for Non-executive Directors
- Basic remuneration
- Restricted stock

Basic capital policy

We believe that increasing free cash flow and improving ROE will lead to sustainable growth and the enhancement of corporate value over the medium to long term. To achieve this, we will promote a capital policy that balances the “implementation of strategic investments,” the “enhancement of shareholder returns,” and the “expansion of shareholders’ equity” that takes into account risk preparedness. In addition, our basic policy is to procure funds through interest-bearing debt by taking into account the ability to generate free cash flow and the balance of interest-bearing debt. We aim to create an optimal capital and debt structure that takes into account funding efficiency and the cost of capital. In order to improve free cash flow and ROE, it is important to implement a “business strategy” to increase sales with profitability and a “financial strategy (including capital policy)” to increase return on invested capital. At the same time, we believe it is important to maximize operating profit and continuously improve the operating margin by intensively allocating management resources to strengthening core businesses, expanding business domains, and aggressively developing new businesses.

Shareholder return policy

Our basic policy is to appropriately return profits to shareholders with a consolidated dividend payout ratio of 30% or more, while maintaining and improving a sound financial structure and taking into consideration the level of profits, future capital investment, trends in free cash flow, and other factors, with a view to ensuring stable dividends. In addition, we will consider acquiring treasury stock from time to time with the aim of improving capital efficiency and implementing a flexible capital policy.

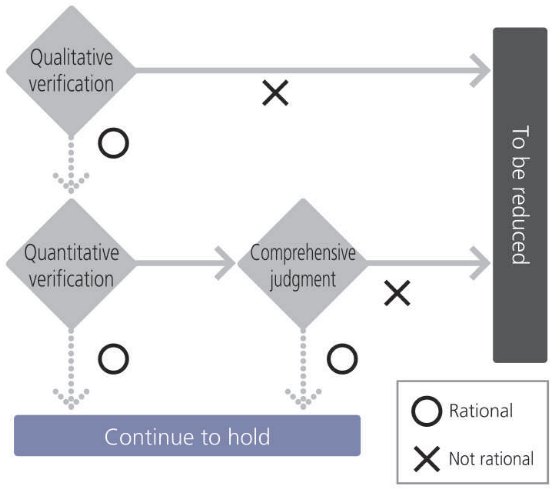
Cross-shareholdings

① Holding policy

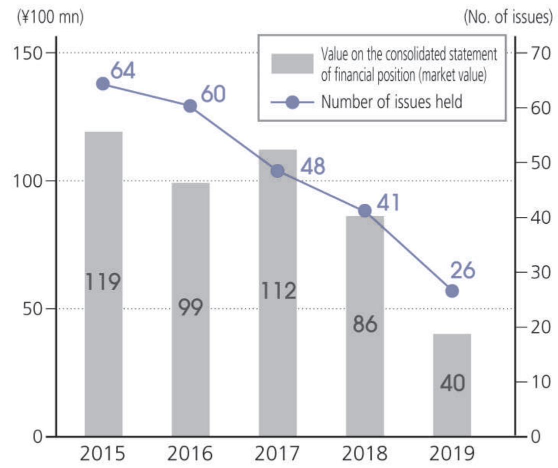
In principle, the Group will not newly acquire shares for the purpose of cross-shareholdings (listed shares held for purposes other than pure investment excluding shares of subsidiaries and associates). However, this is not the case if, through the examination of the rationality of holding, it is deemed indispensable for the implementation of the Group’s business strategy and will contribute to the enhancement of corporate value over the medium to long term. For example, in promoting the Urban Dominant strategy, which is our priority strategy, if requested by local authorities or companies, we may hold such shares after thoroughly examining the appropriateness of holding within the execution of operations from the viewpoint of “coexistence with local communities,” which is one of our ESG materiality issues. As for such shares already held, if we judge that there is no rationality of holding them, we will negotiate with relevant client companies and business partners and reduce them as appropriate after obtaining agreement on the method and period of sale.

② Verification of rationality of holding

The Board of Directors verifies each issue on an annual basis from both qualitative and quantitative perspectives. Qualitative verification involves business strategies such as maintaining smooth and good business relationships and ensuring supply chains with client companies and business partners. Quantitative examinations involve factors such as whether the return on shareholdings, including related transaction profits and dividends, exceeds the cost of capital.



► **Changes in the number of issues of cross-shareholdings**
(listed shares excluding deemed holdings)



③ Exercising voting rights

When exercising voting rights related to cross-shareholdings, we judge whether they contribute to the sustainable growth and the medium- to long-term enhancement of the corporate value of the company whose shares we hold and whether they contribute to the Group’s sustainable growth and medium- to long-term enhancement of corporate value. In particular, we formulate guidelines for making decisions on the exercise of voting rights for proposals that we believe are of high importance in strengthening corporate governance, such as proposals related to the corporate governance system (election of officers), shareholder returns (appropriation of surplus), and proposals that affect shareholder value (introduction of anti-takeover measures) and respond in accordance with these guidelines throughout the Group. When exercising a voting right, if necessary, we engage in dialogue with companies whose shares we hold.

Improvement of Shareholders Meetings

For the purpose of constructive dialogue with shareholders, we send out the Notice of Convocation of Shareholders Meeting early (at least three weeks before the date of the Shareholders Meeting) and post the details of the Notice of Convocation on the websites of financial instruments exchanges and our website at the earliest practicable time before the Notice of Convocation is sent to ensure sufficient time for shareholders to consider exercising their voting rights. The Notice of Convocation of the 13th Shareholders Meeting was disclosed on the websites of the financial instruments exchanges and our website before the Notice of Convocation was sent out in writing and four weeks prior to the date of the Shareholders Meeting. In addition, in consideration of the convenience of exercising voting rights for shareholders including institutional investors in Japan and overseas, we have introduced an online system for exercising voting rights and utilize an electronic voting platform for exercising voting rights. Furthermore, we have prepared an English translation of the Notice of Convocation so that foreign shareholders can properly exercise their voting rights and disclose it on our website and the electronic voting platform.

At the 13th Shareholders Meeting, we encouraged shareholders more strongly than before to exercise their voting rights over the Internet in order to minimize the risk of the spread of COVID-19 by visiting the meeting venue. For shareholders unable to attend the meeting, our presentations on “progress and results” and “issues to be addressed” at the Shareholders Meeting were webcast live.

Live stream on a smartphone

Disclosure and IR activities

Based on our Basic Mission Statement that we aim at developing the Group by contributing to society at large as a fair and reliable corporation, we promote IR activities with the aim of enhancing management transparency and helping our stakeholders including shareholders and investors better understand the Company by disclosing important information about the Company in an accurate, plain, fair, timely, and appropriate manner in order to maintain and develop relationships of trust with them. We disclose important company information to which the Timely Disclosure Rules apply through the TDnet (Timely Disclosure network) provided by the Tokyo Stock Exchange, and also post it on our website as soon as possible. Even if the Timely Disclosure Rules do not apply, we endeavor to publish information that is deemed to help stakeholders better understand the Company on our website, through the publication of Integrated Reports and other means. Depending on the nature of the information disclosed, we disclose information in a timely and appropriate manner by utilizing TDnet, EDINET, Sustainability Reports, our website, and other media. To ensure the fairness of information disclosure, we prepare and disclose English translations of the Notices of Convocation of Shareholders Meeting, Integrated Reports, timely disclosure information, financial results information, Sustainability Reports, and our website. We publish videos, materials, and Q&A summary texts for financial results presentations and ESG presentations, and Q&A summary texts for financial results conference calls as soon as possible on our website in Japanese and English. We work to enhance communication by holding various briefings and meetings, responding to day-to-day inquiries from shareholders and investors as well as providing timely disclosure and other information through our website and other media. Opinions and requests from shareholders and investors are widely shared among the Company and relevant companies in the Group and used as a reference for corporate management to increase corporate value.

► Major dialogue activities with investors in fiscal 2019

Item		Remarks
Financial results presentation for institutional investors and analysts (financial results and management briefings)	Twice	Webcast in both Japanese and English on our website. The summary of the Q&A session on the same day was also posted in both Japanese and English
Financial results conference call for institutional investors and analysts (Q1 and Q3)	Twice	The summary of the Q&A session on the same day was posted in both Japanese and English on our website
Business strategy presentation for institutional investors and analysts	Once	
ESG presentation for institutional investors and analysts	Once	Webcast in both Japanese and English on our website. The summary of the Q&A session on the same day was also posted in both Japanese and English
Store tours for institutional investors and analysts	Twice	Tours of the new main building of the Daimaru Shinsaibashi store and new Shibuya PARCO
Overseas IR	3 times/39 companies	Once each in Europe, North America, and Asia
Conferences organized by securities companies (in Japan and overseas)	5 times/42 companies	4 times in Japan and once overseas
Individual meetings for institutional investors	149 times	Mainly visits to and from us and also conference calls
Briefings for individual investors	11 times	3 times in Tokyo, 4 times in Osaka, and once each in Yokohama, Nagoya, Nara, and Fukuoka

Risk management and compliance

① Risk management

We have established the Risk Management Committee within the execution structure to manage and respond to strategic risks from a company-wide perspective. The Risk Management Committee makes risk-oriented management decisions with the aim of securing growth opportunities. The Committee, which is chaired by the President and Representative Executive Officer and comprised of the Senior Executive General Managers of the supervisory units and the presidents of major operating companies, assesses various risks, instructs the divisions in charge to take countermeasures and implement them, and manages their progress, utilizing the wide-ranging and specialized knowledge of the members selected from the supervisory units. Changes in the business environment are unavoidable uncertainties for companies, and we consider these uncertainties, in other words, "risk" to be an "opportunity" in positive terms and a "threat" in negative terms. We promote initiatives from the perspective of not only "risk hedging" but also "risk taking" to realize growth. The most important risks for the Group are reflected in the Medium-term Business Plan as "business risks" and prioritized. In fiscal 2020, we identified 101 risks related to the Group, and particularly, we respond to COVID-19, which spreads worldwide, as our highest priority because it is an extremely significant risk that could affect the Group's business continuity and business activities after the pandemic comes to an end.

② Compliance

We have established the Compliance Committee (including a corporate lawyer as a member) in order to appropriately deal with the compliance management issues of the Group. The Committee, which is chaired by the President and Representative Executive Officer, formulates policies for dealing with material incompliance cases and works closely with the divisions in charge of the promotion of compliance to establish a foundation for the compliance system (including the formulation of promotion systems and promotion plans) and continuously supervise the operation of the systems to promote compliance with laws and corporate ethics.

Details of deliberations by the two committees are reported to the Audit Committee on a regular and timely basis.

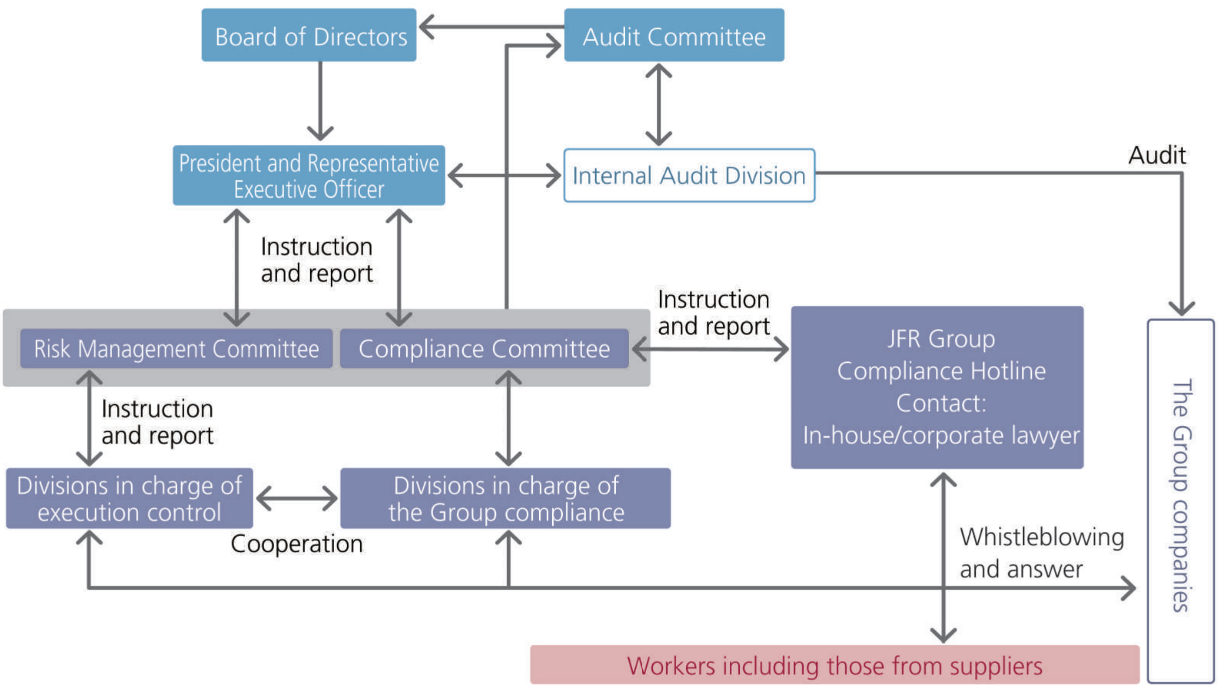
JFR Group Compliance Hotline

We have a whistleblowing system that enables all officers and employees of the Group and all other workers in the Group (including part-time workers and temporary staff from suppliers) to notify the Compliance Committee directly and ask them to correct any compliance-related problems. The whistleblowing contacts are in place not only within the Company but also outside the Company (a corporate lawyer). The whistleblowing system strictly prohibits any disadvantageous treatment of whistleblowers as well as protects their confidentiality under the Group's internal company rules.

The JFR Group Compliance Hotline was registered in March 2020 under the Consumer Affairs Agency's "Whistleblowing Compliance Management System certification (self-conformity registration system)" (WCMS certification).

Whistleblowing Compliance Management System

► Risk management and compliance structure



List of the Group risks for fiscal 2020

Outbreak of wars, conflicts, and terrorism triggered by political and military confrontations and religious issues in the world	Success or failure of information disclosure to institutional investors, ESG rating companies, business partners, customers, etc.
Prolonged US-China trade war	Success or failure of governance reforms
Tensions in Asia, including Japan-ROK relations	Success or failure of succession plan
Government-led development of rules for big data and promotion of their use in business	Success or failure of group governance
National demand for securing employment opportunities for 70 year olds or older and strengthening mid-career recruitment	Success or failure of the establishment of internal controls under the Companies Act
Nation-led promotion of policies for a tourism-oriented country	Success or failure of the establishment of J-SOX system accompanying strategic, organizational and system changes, etc.
Signs of the collapse of the asset bubble in Japan and other major countries in the world	Success or failure of risk management process operation
Large-scale economic and financial crisis caused by global political turmoil and its repercussions on Japan	Success or failure of effective IR/SR activities
Slowdown in the domestic economy	Success or failure of effective public relations activities
Changes in the inbound market triggered by the depreciation of the currency, economic stagnation, and legislation in the home country	Success or failure of cash and deposits and interest-bearing debt management
Continued expansion of income polarization	Success or failure of the management of rating fluctuations and financing
Rise of new wealthy classes such as the new-rich	Changes in financial account balance
Sluggish growth in disposable income of workers	Exchange rate fluctuations
Acceleration of low birthrate, aging population, and prolonged lifespan (population decline)	Changes in stock price sentiment
Return to city centers (concentrated population) and depopulation of rural areas	Success or failure of optimal capital structure considerations
Increase in single-person households (elderly and younger people)	Success or failure of preparation of financial statements that are free from fraud and error
Increase in dual-income households and single-parent households	Success or failure of timely disclosure of financial statements
Consumption shift from goods to services/experiences	Impairment of assets (including goodwill)
Expanding use of subscription services	Success or failure of compliance with tax reform and new accounting standards
Expanding use of smartphones, which drives online shopping	Delays in the implementation of the business continuity plan
Sign of consumers reviewing brick-and-mortar stores	Delays in initial response to disasters and accidents
Continued expansion of convenience consumption with an emphasis on accessibility	Inadequate public relations in the event of an emergency
Sign of rising premium consumption to pay for their favorite value in dual-income households	Inadequacies in safety management of buildings and facilities
Diversification of payment means due to the development of cashless payment	Collapse and destruction of store facilities due to disasters
Advanced big data analysis and marketing using AI	Shutdown of social infrastructure due to disasters and extreme weather
Improvement of organizational productivity with RPA	Leakage of harmful substances (CFCs, PCBs, etc.) and soil contamination and generation of asbestos
Development of circular economy	Accidents such as fires and electric leaks, and equipment failures
Development of the sharing economy	Epidemics and outbreaks of infectious diseases
Expanding secondary distribution business opportunities to respond to the reuse market	Occurrence of injuries and accidents (caused/suffered) at stores
Emergence of new store formats through practical application of 5G and evolution of VR/AR/MR	Food poisoning and other health hazards at stores
Improvement of customer orientation and success or failure of response to market changes	Cyber attacks from outside and system failures
Success or failure of penetration of the Mission Statement and Vision	Dependence on specific vendors and machines, centralization of system bases
Success or failure of business portfolio restructuring	Malicious or careless internal leakage of personal information
Success or failure of commercialization of new businesses	Inadequate physical and mental health management of employees
Maturity of existing businesses	Inadequate management of working hours
Disappearance of existing business partners	Inadequate working environment for foreign workers
Concentration on specific markets	Inadequate responses to equal pay for equal work
Success or failure of strategic investment based on investment criteria	Improper contracting, outsourcing, and worker dispatching
Delays in deciding to revive or withdraw from unprofitable businesses	Failure to operate the retirement benefit and pension systems
Growing momentum for industry restructuring across industries and businesses	Transactions with anti-social forces, transactions in violation of the Anti-Monopoly Act, Subcontract Act, etc.
Success or failure of overseas strategies in anticipation of shrinking domestic market	Illegal or unlawful acts by officers and employees
Success or failure in responding to a hostile takeover	Leakage of confidential and insider information
Success or failure in responding to diversifying employment patterns and recruitment	Delays in responding to new laws and regulations and inadequacies in reporting and licensing
Success or failure in responding to an increase in minimum wage levels and personnel acquisition costs	Infringement of intellectual property rights (caused/suffered)
Success or failure in acquiring and developing human resources with expertise such as IT	Violations of consumer-related laws such as incorrect or false labeling
Solid corporate culture	Inadequacies in the compliance system such as the dilution of ethics
Aging employees	Deficiencies in product procurement cost management
Success or failure of management to address environmental issues (CO_2 reduction, waste plastic, etc.)	Deficiencies in product and service quality control management such as compliance with the PL Act
Success or failure of management to address social issues (human rights issues, work-life balance, etc.)	Deficiencies in logistics service quality control management
Success or failure in responding to global ESG demands	Deficiencies in contract storage and renewal operations
	Bankruptcy of business partners