

# Governance

Corporate Governance

## Corporate Governance

J. Front Retailing, which is a holding company, ensures the transparency, soundness, and legal compliance of the management of the entire Group, acting as the central focus of governance for the Group, to realize the Group Mission Statement. We strive to build trust relationships with stakeholders (customers, shareholders, business partners, employees, and local communities) by means including strengthening of information disclosure. And indicating the overall direction that the Group management is to take and building and developing internal control systems, and strengthening corporate governance by overseeing the operational status of such systems are placed at the top of the management agenda. We have adopted a Company with Three Committees (Nomination, Audit, and Remuneration Committees) system to further strengthen corporate governance by: (i) strengthening the management oversight function by separating oversight from execution; (ii) clarifying authorities

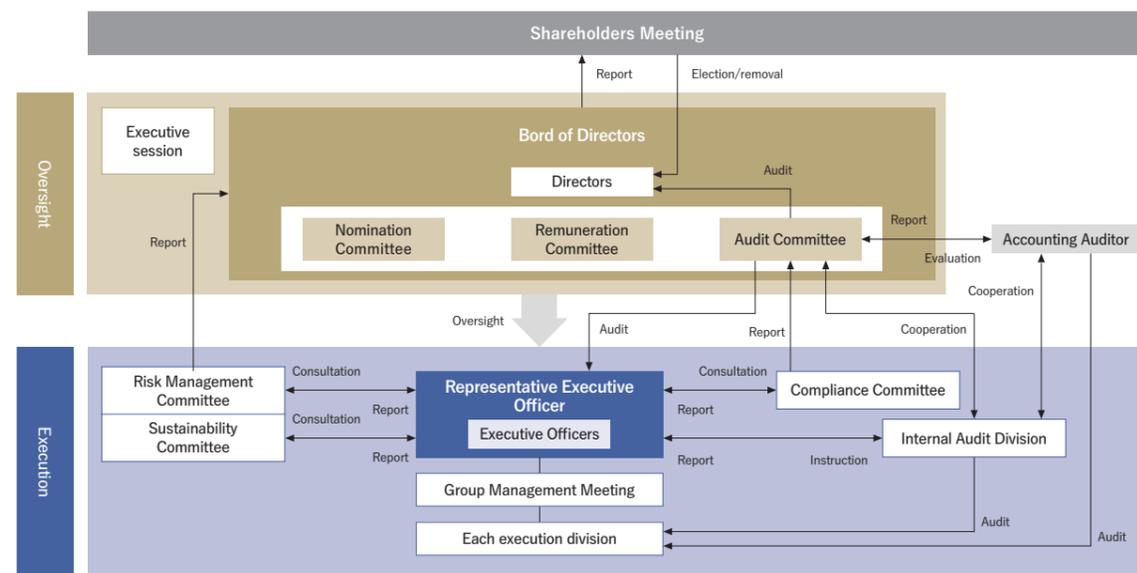
and responsibilities in business execution and promoting flexible management; (iii) improving the transparency and objectivity of management; and (iv) building a globally applicable governance system. With the aim of further strengthening the oversight function by separating it from business execution, we amended the Articles of Incorporation to reduce the number of Directors from "15 or fewer" to "11 or fewer" to optimize the number of Directors at the Annual Shareholders Meeting held in May 2022.

In May 2023, the number of Outside Directors was increased from "six" to "seven" to further strengthen the oversight function.

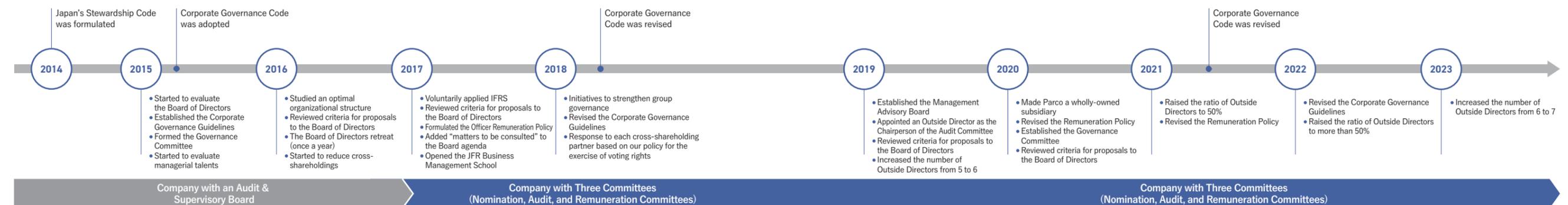
### Overview of corporate governance system

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

Corporate governance system diagram



### History of the Company's corporate governance



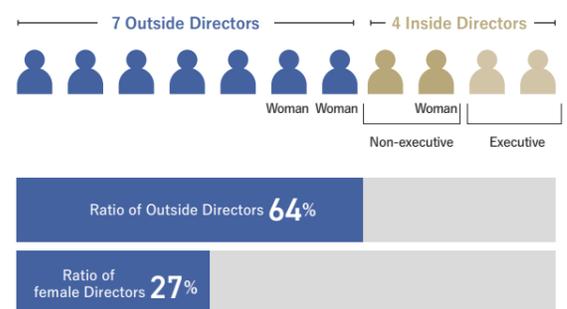
Our roles and responsibilities as a holding company are as follows:

- To plan, formulate, and penetrate the Group Vision, the Group Medium-term Business Plan, and the Group Management Policy for the fiscal year and to track the progress and results thereof;
- To set the business domains of the Group;
- Business portfolio management (optimal allocation of management resources);
- To generate synergies between businesses;
- To establish the Group-wide risk management system;
- Organization design and operation of the entire Group;
- Human resource management of the entire Group;
- Management of shareholders;
- To establish corporate governance practices for the entire Group;
- To make decisions on important matters of business execution relating to the management of the Group; and
- To provide advice and approval for management policy and management strategy of respective operating subsidiaries and to oversee and evaluate the progress thereof.

fiscal year, and other basic management policies and carrying out multifaceted and objective deliberations that include the evaluation of risks with respect to the aforementioned;

- To appropriately make decisions in terms of overall policy and plans pertaining to the Group management based on the direction noted above and to oversee the progress and results of the plans;
- To develop an environment conducive to encouraging offense-oriented management geared to achieving discontinuous growth;
- To take steps to build and develop internal control systems of the Group overall and to oversee the operational status of such systems;
- To oversee conflicts of interest between related parties; and
- Based on summary reports furnished by the Nomination Committee, to oversee the progress of the President and Representative Executive Officer succession planning, personnel assignment plans pertaining to management human resources, and Executive Officer training, about which the Nomination Committee was consulted.

### (2) Composition of the Board of Directors



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

### Board of Directors

#### (1) Roles and responsibilities of the Board of Directors

Directors appointed and entrusted with the management of the Company by shareholders fulfill the following roles and responsibilities at the Board of Directors in order to realize the Group Vision, based on their fiduciary responsibility and accountability to shareholders.

- To indicate the overall direction that the Group management is to take, by engaging in constructive discussions with respect to the Group Vision, the Sustainability Policy, the Group Medium-term Business Plan, the Group Management Policy for the

In selecting candidates for Director, the Board of Directors shall consist of human resources 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 Directors, the Company selects persons who maintain a high degree of independence in light of the independence criteria established by the Company, and from the point of view of board diversity, who have experience as managers not only in the retail industry that is

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the core business of the Group but in non-retail industries, 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 Directors, the Company selects persons who have wide-ranging practical experience within the Group and knowledge of audit and other matters. 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.

### (3) Major matters discussed at the Board of Directors meetings and efforts to solve issues

In fiscal 2022, the second year of the FY2021 to FY2023 Medium-term Business Plan, the Board of Directors placed the following items on its agenda and discussed them. In addition, the Board of Directors worked to solve issues by managing progress using the issue tracking sheets of the Board of Directors and the Audit Committee.

#### Major agenda items

- Revision of the Corporate Governance Guidelines

#### Skill matrix (Skills expected of Directors)

Name	Management strategies	Finance	Marketing	Human resource & organization development	Legal affairs & compliance	IT & digital	E: Environment	S: Society	G: Governance
YAMAMOTO Ryoichi	○		○				○		○
HAMADA Kazuko				○				○	○
YAGO Natsunosuke	○						○		○
HAKODA Junya	○	○							○
UCHIDA Akira	○	○							○
SATO Rieko					○	○		○	○
SEKI Tadayuki		○			○			○	
KOIDE Hiroko	○		○	○					
KATAYAMA Eiichi	○	○				○			○
YOSHIMOTO Tatsuya	○		○				○		○
WAKABAYASHI Hayato	○	○		○					

<b>Management strategies</b>	The Company appoints Directors who have management experience 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.	<b>IT &amp; digital</b>	The Company appoints Directors capable of grasping the latest trends in IT and providing, from the customer perspective, supervision of ICT application assistance and new business development for the purpose of realizing the promotion of the digital transformation of existing businesses.
<b>Finance</b>	The Company appoints Directors who have extensive knowledge and experience related to finance and accounting and knowledge and experience in the field of finance, such as increasing corporate value through the establishment of a strong financial base and making capital cost-conscious finance strategy proposals.	<b>E: Environment</b>	The Company appoints Directors capable of providing appropriate supervision of specific action plans, regular reviews and the status of initiatives for continual improvement regarding environmental plans including the setting of medium- to long-term targets for solving environmental problems through business activities.
<b>Marketing</b>	The Company appoints Directors who have a wealth of knowledge and experience in activities that bring about customer satisfaction and continual improvement in corporate value through discovering customer problems, creating products and services to solve those problems, communicating information, and offering added value.	<b>S: Society</b>	The Company appoints Directors capable of providing appropriate supervision of initiatives for coexistence with local communities and initiatives concerning respect for human rights and consideration for working environments in business activities.
<b>Human resource &amp; organization development</b>	The Company appoints Directors who have knowledge and experience that lead to improvement of corporate value over the medium to long term through bringing out the maximum value of human resources and organization development, including the promotion of diversity.	<b>G: Governance</b>	Recognizing the establishment of appropriate governance systems is the basis for sustainable improvement of corporate value, the Company appoints Directors who have knowledge and experience in corporate governance aimed at improving the effectiveness of the supervisory function of the Board of Directors.
<b>Legal affairs &amp; compliance</b>	Recognizing that legal and appropriate execution of corporate management is the basis for sustainable improvement of corporate value, the Company appoints Directors who have high-level and expert knowledge in corporate legal affairs and knowledge and experience in promoting compliance management.		

#### Activities of Outside Directors

Name	Advice, statements, etc. at the Board of Directors and others
YAGO Natsunosuke	He has contributed to improving the effectiveness of the Board of Directors by providing advice and oversight, particularly on the direction to be specified in the medium- to long-term strategies and key points at the time of their formulation, the desired form of a new developer business company, the approach to asset holdings in our financial strategy, and the approach to monetizing customer data. He chairs the Nomination Committee and serves on the Remuneration Committee.
HAKODA Junya	He has contributed to improving the effectiveness of the Board of Directors by providing advice and oversight, particularly in terms of the consistency of the medium- to long-term financial plans and medium- to long-term strategies, pursuing new business initiatives, the approach to human resource development, and points of focus in formulating an international business strategy. He chairs the Audit Committee.
UCHIDA Akira	He has contributed to improving the effectiveness of the Board of Directors by providing advice and oversight, particularly in terms of the necessary KPI perspectives the Company should have when formulating the Medium-term Business Plans, the concepts for funding plans when promoting business portfolio transformation, the Group coordination and the approach to governance as a holding company, the acquisition and development of specialists, and points of focus in supporting initiatives aimed at new business initiatives. He chairs the Remuneration Committee and serves on the Nomination Committee.
SATO Rieko	She has contributed to improving the effectiveness of the Board of Directors by providing advice and oversight particularly in terms of the clarification of the path to creating corporate value and achieving profit targets, specific policies on decarbonization and diversity and inclusion that lead to sustainability management, the strategic use of customer data, and the legal position on reducing cross-shareholdings. She serves on the Audit Committee.
SEKI Tadayuki	He has contributed to improving the effectiveness of the Board of Directors by providing advice and oversight particularly on such issues as the approach to business and asset holdings to promote business portfolio transformation, alignment of strategy with core competencies and resources, and risk awareness in new business initiatives. He serves on the Audit Committee.
KOIDE Hiroko	She has contributed to improving the effectiveness of the Board of Directors by providing advice and oversight, particularly in terms of the approach to formulating medium- to long-term strategies based on robust strategic discussions, the importance of a marketing-oriented way of thinking such as identifying target and needs, and aspirations for the new developer business company. She serves on the Nomination Committee and the Remuneration Committee.

- Revision of the Corporate Governance Report
- Operational status of the Basic Policy to Build Internal Control System and the results of evaluation of internal controls over financial reporting
- Revision of the Basic Policy to Build Internal Control System
- Results of evaluation of the effectiveness of the Board of Directors
- The Group's future vision
- Progress of the current Medium-term Business Plan
- The Group Management Policy for FY2023
- Sustainability
- Establishment of a developer business company
- CRE strategy
- Investment in new businesses
- Validation of rationale for cross-shareholdings
- Matters related to financial results

### Nomination Committee, Audit Committee, and Remuneration Committee



**Nomination Committee**  
The Nomination Committee determines the content of proposals on the nomination and dismissal of Directors to be submitted to Shareholders Meetings and reports to the Board of Directors upon consultations from the Board of Directors regarding the nomination and dismissal of Executive Officers, as well as the Chairperson of the Board of Directors and the chairpersons and members of individual statutory committees, and other matters.

#### Major agenda items

- Board of Directors framework
- Confirmation of the skill matrix
- Election for candidates for Directors
- Nomination of candidates for Executive Officers and Representative Executive Officer to be proposed to the Board of Directors
- Nomination of candidates for the Chairperson of Board of Directors and the chairpersons and members of individual committees to be proposed to the Board of Directors
- Management structure of each JFR Group company
- Formulation of the succession plan
- Reappointment of the President and Representative Executive Officer and Executive Officers
- Response to the evaluation of the effectiveness of the Board of Directors



#### Audit Committee

The Audit Committee effectively audits whether Executive Officers and Directors execute their duties efficiently in compliance with the laws and the Articles of Incorporation and in accordance with the Basic Mission Statement of the Company and the Group Vision and makes necessary advice and recommendations. It also conducts audits on the status of the construction and operation of internal control and prepares audit reports. To ensure the reliability of accounting information, the Audit Committee also monitors and verifies the status of work executed by the Accounting Auditor, and determines the content of proposals on the nomination and dismissal of

such Auditor to be submitted for discussion at Shareholders Meetings.

#### Major agenda items

- Audit policy and audit plan, appointment of Audit Committee members to be appointed by the Audit Committee and specified Audit Committee members
- Report on the structure of audit & supervisory board members of the Group companies
- Report of the Internal Audit Division on audit plan
- Report of the Accounting Auditor on audit plan, approval for the Accounting Auditor's remuneration
- Report on the operational status of the Basic Policy to Build Internal Control System and the results of the evaluation of internal controls over financial reporting
- Audit report of audit & supervisory board members of the Group companies, audit findings of the Audit Committee
- Audit report of the Internal Audit Division
- Report on the Accounting Auditor's review, report on audit results
- Report on management letters of Accounting Auditor
- Criteria for selecting the candidate for the Accounting Auditor
- Entrustment of non-assurance services to the Accounting Auditor group
- KAM (Key Audit Matters)
- Report of the Compliance Committee
- Operating company phase management report



#### Remuneration Committee

The Remuneration Committee decides on the policy for determining the remuneration details for individual Directors and Executive Officers of the Company and individual eligible officers of major subsidiaries of the Group, and on the remuneration details for individual Directors and Executive Officers of the Company.

#### Major agenda items

- Results of officer evaluations, total amount of officer bonuses, amount of individual officer bonuses
- The performance-linked factor and number of points provided for a stock-based remuneration system for officers (short-term performance share)
- Mission grade and individual remuneration amount
- Review of officer remuneration system
- Verification of officer remuneration levels and composition using external data
- Introduction of a stock-based remuneration system to the Group's major subsidiaries
- Revision of the Officer Remuneration Policy and revision of the officer remuneration rules, etc.

#### FY2022 (March 2022 to February 2023)

	Board of Directors	Nomination Committee	Audit Committee	Remuneration Committee
Number of meetings	15	13	22	12
Attendance	100%	100%	100%	100%
Average duration per meeting	2 hours 12 minutes	1 hour 46 minutes	1 hour 23 minutes	45 minutes

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#### Executive session

Executive sessions are exclusive meetings of independent Outside Directors for free exchange of opinions and sharing of information. Participants debate on matters that require the attention of supervisors, such as issues in the Board of Directors or problems to be addressed in order to improve the effectiveness of the Board of Directors (Lead director is Ms. SATO Rieko, an independent Outside Director). At the request of the lead director, the President and Representative Executive Officer also participates in discussions.

#### Succession planning

##### [Selection of the President and Representative Executive Officer]

Selection of the President and Representative Executive Officer is a critical aspect of strategic decision-making, and accordingly the Company regards drawing up and implementation of succession plans as matters of particular importance in terms of management strategy. The Company clarifies the selection process and ensures transparency and objectivity through repeated deliberations conducted by the Nomination Committee, which consists of three independent Outside Directors and the Chairperson of Board of Directors, who is a non-executive Director elected from inside the Company. The Board of Directors focuses on realizing the Basic Mission Statement and the Group Vision, selects the President and Representative Executive Officer, and plays a supervisory role based on proposals received from the Nomination Committee.

##### [Dismissal of the President and Representative Executive Officer]

A proposal for dismissal of the President and Representative Executive Officer is discussed and determined by the Board of Directors after being discussed and resolved by the Nomination Committee based on the goals set, expected and actual results (e.g. annual performance and strategy execution status), and the status of performance of duties achieved by successor candidates who are selected under the succession plan resolved by the Nomination Committee.

##### [Qualities required of successors]

For the President and Representative Executive Officer

of the Company and people who assume the management of the Group, the Company clearly defines the necessary values, capabilities, and behavioral traits in the form of qualities required of an officer under the “Desirable qualities required of JFR Group managerial talent” and the “Discernible capabilities required of JFR President and Representative Executive Officer” in accordance with the Basic Mission Statement and the Group Vision.

Desirable qualities required of JFR Group managerial talent	
Strategic mindset	Reform-oriented leadership
Tenacity to achieve results	Organization development strengths
Human resource development strengths	

Discernible capabilities required of JFR President and Representative Executive Officer	
Capacity to conceive a business vision	Capacity to communicate a vision
Persistence and capacity to achieve results	Moral character and charisma

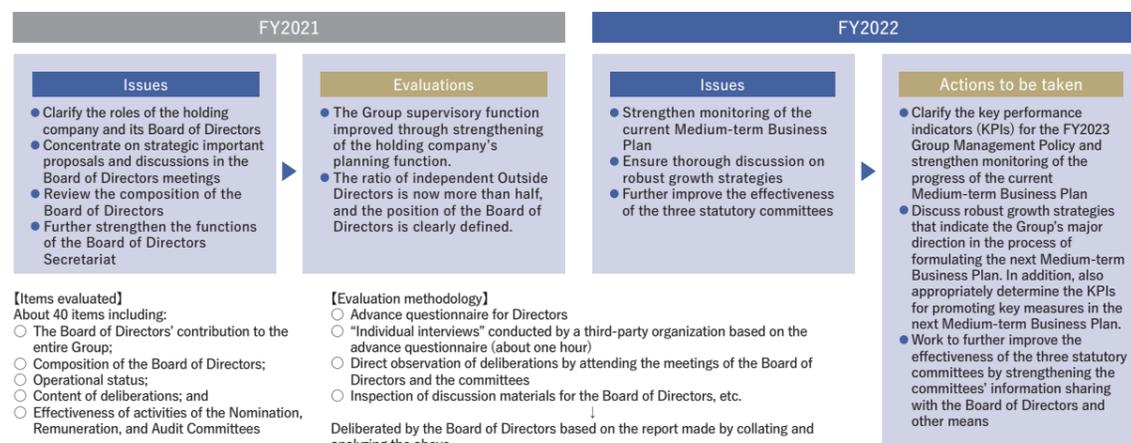
The Nomination Committee will have discussions on succession planning in a planned and consistent manner in view of changes in environments and situations surrounding the Company, the progress of strategies formulated, etc. Election and dismissal of Executive Officers are deliberated by the Nomination Committee and its proposals are deliberated and determined by the Board of Directors, as in the case of the President and Representative Executive Officer.

#### Evaluation of the effectiveness of the Board of Directors

The Company’s evaluation of the effectiveness of the Board of Directors by a third-party organization has been conducted annually since 2015.

In the eighth evaluation of the effectiveness of the Board of Directors, conducted between September and October 2022, it was reported that the Company strives to resolve the issues pointed out in fiscal 2021, and that the effectiveness of the Board of Directors and the three statutory committees is generally ensured. At the same time, we recognized issues and confirmed the actions to be taken as shown below.

#### Issues, evaluations, and actions to be taken in the evaluation of the effectiveness of the Board of Directors



#### Officer remuneration system

In April 2017, we formulated and announced an Officer Remuneration Policy, which includes a stock-based remuneration system for officers in order to steadily implement the Medium-term Business Plan toward realizing the Group Vision. In formulating the new Medium-term Business Plan, we reviewed the content and revised it in April 2021. In conjunction with the revision of the policy, the scope of stock-based remuneration has been expanded to include the officers of the Company’s major subsidiaries: the Directors and Executive Officers of Daimaru Matsuzakaya Department Stores, the Executive Officers of Parco, and the Representative Directors of JFR Card, J. Front City Development, and J. Front Design & Construction as well as the Directors and Executive Officers of the Company. Regarding disclosure of remuneration, etc. of the reporting company’s officers (including remuneration, etc. received as the officers of major consolidated subsidiaries, if any) in the Annual Securities Reports, the Company has disclosed it since fiscal 2020 without limiting to those whose total amount of consolidated remuneration, etc. is 100 million yen or more.

##### (1) Basic policy on officer remuneration

Our officer remuneration system is based on the following basic policy, aiming to realize and promote sustainability management (pay for purpose). Furthermore, the same basic policy shall apply to the officers of the Company’s major subsidiaries: the Directors and Executive Officers of Daimaru Matsuzakaya Department Stores and Parco and the Representative Directors of JFR Card, J. Front City Development, and J. Front Design & Construction.

- To contribute to the sustainable growth of the Group and the medium- to long-term improvement of corporate value and be consistent with our corporate culture;
- A compensation system that encourages professional managers to carry out their roles (missions) based on the management strategy;
- Remuneration levels that enable the Company to secure and retain human resources who have the “desirable managerial talent qualities” required by the Company;
- To increase awareness of profits shared with shareholders and awareness of shareholder-focused management; and
- Enhanced transparency and objectivity in the process for determining remuneration

##### (2) Process for determining remuneration

In order to ensure the appropriateness of the level and amount of remuneration and the transparency of the decision-making process, the specific remuneration amount is decided by resolution of the Remuneration Committee, which consists of a majority of independent Outside Directors and the Chairperson of Board of Directors who does not execute business and is chaired by an independent Outside Director. Revisions of the officer remuneration system will be undertaken based on the Medium-term Business Plan periods. In April 2021, we revised the Officer Remuneration Policy in line with the FY2021 to FY2023 Medium-Term Business Plan, and have continuously discussed and revised it as appropriate after that. We will revise the level of basic remuneration during the Medium-term Business Plan period if it is necessary to significantly revise it due to extreme changes in the external environment and other reasons.

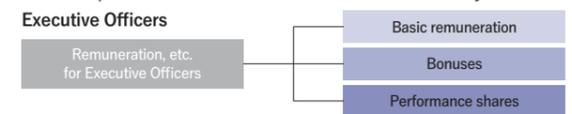
##### [Forfeiture of remuneration] (clawback and malus)

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

The remuneration for Executive Officers consists of (a) “basic remuneration” (monetary remuneration) in accordance with the mission grade, (b) “bonus” (monetary remuneration) based on the individual evaluation, etc. for each fiscal year, and (c) “performance share (performance-linked stock-based remuneration)” (trust-type stock-based remuneration) linked to the achievement rate of consolidated performance, etc. as set forth in the Medium-term Business Plan. The remuneration for non-executive Directors consists of only fixed remuneration: (a) “basic remuneration” (monetary remuneration) based on job responsibilities and (d) “restricted stock (non-performance-linked stock-based remuneration)” (trust-type stock-based remuneration) that is not linked to performance as a stock-based remuneration system.



##### Proportion of remuneration by type for Executive Officers of each rank [President]

Basic remuneration	Bonuses	Performance shares
38.5%	23.0%	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	Bonuses	Performance shares
45.4%	27.3%	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 is 100%.

Note: The Directors and Executive Officers of Daimaru Matsuzakaya Department Stores and Parco and the Representative Directors of JFR Card, J. Front City Development, and J. Front Design & Construction shall have the same remuneration composition as “Executive Officers excluding President” in the above figure.

##### (a) Basic remuneration (monetary remuneration)

Basic remuneration is positioned as fixed remuneration and is determined by mission grade for Executive Officers and by the table for non-executive Directors in accordance with the size (weight) of each officer’s responsibilities.

##### (b) Bonuses (monetary remuneration)

The bonus paid to Executive Officers is performance-linked remuneration that encourages them to achieve the goals for each fiscal year, which are milestones in the Medium-term Business Plan. They are evaluated using the “fiscal year’s financial indicators,” serving as quantitative evaluation, and the “fiscal year’s non-financial indicators,” which include qualitative evaluation.

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#### (c) Performance share (performance-linked stock-based remuneration)

The Company issues its shares to Executive Officers 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. Sixty percent 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% is to be issued annually in order to promote management from the shareholders' perspective.

#### Performance-linked stock-based remuneration targets and evaluation weights

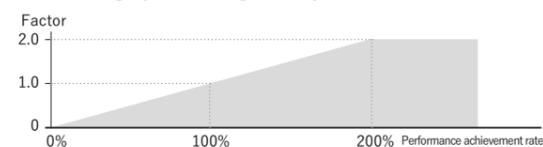
KPIs		Targets for medium to long term	Evaluation weights
Profitability	(i) Consolidated operating profit	¥40.3 billion (FY2023)	40%
	(ii) ROE	7% (at the end of FY2023)	40%
Non-financial	(iii) GHG (Scope 1 & 2) emissions reduction	40% (vs. FY2017)	10%
	(iv) Raising the ratio of women in management positions	26% (at the end of FY2023)	10%

Note: KPI stands for Key Performance Indicator.  
 Note: For the short term, only (i) consolidated operating profit is adopted. The initial forecasts for the fiscal year announced in the Consolidated Financial Results every April (IFRS basis) are used for the relevant target. The target for FY2023 is 38.5 billion yen.

#### Method to calculate a performance-linked factor

Performance achievement rate	Performance-linked factor
200% or more	2
0% or more but less than 200%	Actual results ÷ Target
Less than 0%	0

#### Illustrative graph of changes in a performance-linked factor



Note: When performance achievement rate is 0, the performance-linked factor is 0 (0%), and when performance achievement rate is 200% or more, the performance-linked factor is 2.0 (200%).

#### Non-executive Directors



#### (d) 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 executives as the representatives of stakeholders and to engage in management from a medium- to long-term perspective, we have adopted a restricted stock 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.

#### Basic capital policy

The Company believes that any increase in free cash flow and improvement in ROE should help to ensure its sustainable growth and increase corporate value over the medium to long

term. To such ends, the Company promotes a capital policy that takes a balanced approach to “undertaking strategic investment,” “enhancing shareholder returns,” and “expanding equity capital” after taking into consideration the business environment and risk readiness. Moreover, our basic policy is to procure funds through interest-bearing liabilities by taking into account the ability to generate free cash flow and the balance of the interest-bearing liabilities and we aim to achieve an optimal structure of debt to equity in a manner cognizant of our funding efficiency and cost of capital. A “business strategy” where we achieve sales growth with profitability and a “financial strategy (encompassing the capital policy)” that increases return on invested capital (ROIC) are essential to improve free cash flow and ROE. In addition, we believe it is important to maximize operating profit and sustainably improve operating margin by strengthening our core businesses and concentrating management resources on initiatives such as business field expansion and active development of new businesses. As the key financial indicators for the achievement of the Medium-term Business Plan, we focus on ROE for capital efficiency, consolidated operating profit and ROIC for business profitability, free cash flow for profitability and safety, and the ratio of equity attributable to owners of parent (equity ratio) for financial soundness.

#### Shareholder return policy

The Company's basic policy is to appropriately return profits. Hence, while maintaining and enhancing its sound financial standing, the Company strives to provide stable dividends and target a consolidated dividend payout ratio of no less than 30%, taking profit levels, future capital investment, free cash flow trends, and other such factors into consideration. The Company also considers the option of purchasing its own shares as appropriate in order to improve capital efficiency and flexibly implement a capital policy.

#### Cross-shareholdings

##### (1) Holding policy

In principle, the Group will not newly acquire cross-shareholdings (cross-shareholdings are holdings of listed and unlisted shares other than those of subsidiaries and associates which are not held for pure investment purposes). However, this does not apply to shares where it has been recognized that

#### Changes in the number of cross-shareholdings (listed shares excluding deemed holdings)



they are necessary for the promotion of the Group's business strategies and that the holding of such shares will contribute to the increase of corporate value in the medium to long term through the validation of rationale for holding them. For example, in the case where we were requested to hold shares for the purpose of local revitalization, from the perspectives of initiatives for “coexistence with local communities,” which is one of our materialities for the promotion of sustainability management, we would consider holding such shares upon sufficient examination of the suitability of holding them by the executive team and might hold them. Among the shares already held by the Company, for listed shares (including retirement benefit trust shares) for which there is judged to be no rationale for holding upon validation, we will negotiate with corporate customers and business partners and appropriately reduce them upon reaching a consensus regarding sale method, period, etc. For unlisted shares, the executive team discussed whether or not to continue holding them with a view to selling and reducing holdings. Since fiscal 2021, we have confirmed the suitability of holding all shares in the same way as listed shares from both qualitative and quantitative perspectives and strengthened our efforts to reduce holdings.

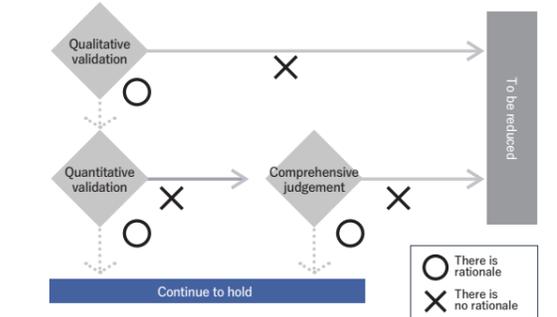
#### (2) Validation of rationale for holding

Every year, the Board of Directors validates the rationale for holding individual stocks from both quantitative and qualitative perspectives. The qualitative perspective relates to business strategies such as maintaining harmonious and favorable business relationships with corporate customers and business partners and securing supply chains. The quantitative perspective relates to whether revenue from holding shares, including related trading profits and dividends, exceeds capital costs, etc.

#### (3) Policy on exercising voting rights

We determine whether to exercise our voting rights considering both whether such exercise will contribute to the sustainable growth and the medium- to long-term enhancement of corporate value of the company whose shares we hold and whether such exercise will contribute to the sustainable growth and the medium- to long-term enhancement of corporate value of the Group. Particularly, in regard to proposals that we consider to be of high priority with respect to strengthening corporate governance, such as proposals relating to the corporate governance system (selection of officers), proposals relating to shareholder return (appropriation of surplus), and

proposals that have an impact on shareholder value (introduction of takeover defense measures), we will establish policies upon which to base judgment of our exercise of voting rights, and acting as the Group as a whole, we will respond to them in line with such policies. We will engage in dialogue with companies whose shares we hold if necessary.



#### Improvement of Shareholders Meetings

In order to engage in constructive dialogue with shareholders, the Company posts the materials of the Shareholders Meetings on the websites of the Company and financial instruments exchanges, etc., as soon as practicable prior to the commencement date of electronic provision measures as stipulated in the Companies Act (three weeks prior to the date of the Shareholders Meeting or the date of dispatch of the notice of convocation, whichever is earlier), so that shareholders have sufficient time to consider the proposals for exercising their voting rights. The materials for the 16th Annual Shareholders Meeting were disclosed on the websites of financial instruments exchanges and the Company approximately five weeks prior to the date of the meeting. In addition, for the convenience of shareholders, including domestic and foreign institutional investors, in exercising their voting rights, the Company has introduced voting via the Internet and other means, as well as utilizing an electronic voting platform. In addition, we have prepared English translations of the materials of the Shareholders Meetings and disclose them on our website and electronic voting platform so that foreign shareholders can exercise their voting rights appropriately. We also strive to ensure that shareholders, including those living in remote areas, have opportunities to participate in and observe the Shareholders Meetings by livestreaming them and accepting questions in advance online.

#### Major dialogue activities with investors in FY2022

Dialogue opportunity	No. of times	Remarks
Financial results presentations for institutional investors and analysts (Q2, Q4)	2	Video conferences and conference calls. Videos are available in both Japanese and English on demand on the Company's website. The summaries of their Q&A sessions are also available in both Japanese and English.
Earnings calls for institutional investors and analysts	2	Conference calls. The summaries of their Q&A sessions are also available in both Japanese and English.
Small meetings for institutional investors and analysts	12	Hybrid of physical and video conferences for the sell side, video conferences for others
Outside Directors small meeting for institutional investors	1	Video conference
Business strategy presentation for institutional investors and analysts	1	Video conference. Video is available in both Japanese and English on demand on the Company's website. The summary of its Q&A session is also available in both Japanese and English.
ESG presentation for institutional investors and analysts	1	Video conference. Outside Director also gave a presentation. Video is available in both Japanese and English on demand on the Company's website. The summary of its Q&A session is also available in both Japanese and English.
Overseas IR	27	Video conference
Conferences for overseas investors hosted by securities companies	28	Video conferences hosted by 4 securities companies
Meetings for individual institutional investors	152	Some were physical meetings, but mainly video conferences and conference calls
Store tours	2	At GINZA SIX
Presentations for individual investors	3	Two video conferences and one physical presentation

# Governance

## Corporate Governance

### Disclosure and IR activities

Based on the Basic Mission Statement that we aim at developing the Group by contributing to society at large as a fair and reliable corporation, we seek to maintain and advance trustworthy relationships with shareholders, investors, and other stakeholders. To this end, we disclose important information relevant to the Company in an accurate, clear, fair, timely, and appropriate manner in order to raise management transparency and deepen understanding of the Company. This is what we aim for in carrying forward IR activities. We disclose any important information of the Company which is subject to the Timely Disclosure Rules via the Tokyo Stock Exchange's Timely Disclosure network (TDnet) and make its content available on our website, etc. as soon as possible.

For any information which is not subject to the Timely Disclosure Rules but which we think will help deepen understanding of the Company, we try to make such information widely known by posting it on our website, publicizing Integrated Reports, and by other means. We disclose information timely and appropriately by using TDnet, EDINET, Sustainability Reports, and our website according to the nature of information to be disclosed. To ensure the fairness of information disclosure, we prepare English translations and disclose them for: the Notices of Convocation of Shareholders Meeting, Integrated Reports, Annual Securities Reports, timely disclosure information, financial results information, Sustainability Reports, and our website.

We disclose on our website as soon as possible presentation videos, materials, and Q&A summary texts for financial results presentations, business strategy presentations, ESG presentations, etc. and Q&A summary texts for earnings calls, both in Japanese and English. In addition to the provision of information through timely disclosure, our website, and others, we organize a range of briefings and meetings and respond to inquiries from shareholders and investors on a daily basis, seeking to enhance communication with them.

Opinions and requests from shareholders and investors are shared widely at the Company and relevant companies in the Group through feedback opportunities from the IR division and other means, and we use them for reference in corporate management toward increasing corporate value.

### External recognition for IR activities

The Company was awarded the Runner-up Grand Prix at the NIKKEI Integrated Report Award 2022 (sponsored by Nikkei Inc.).

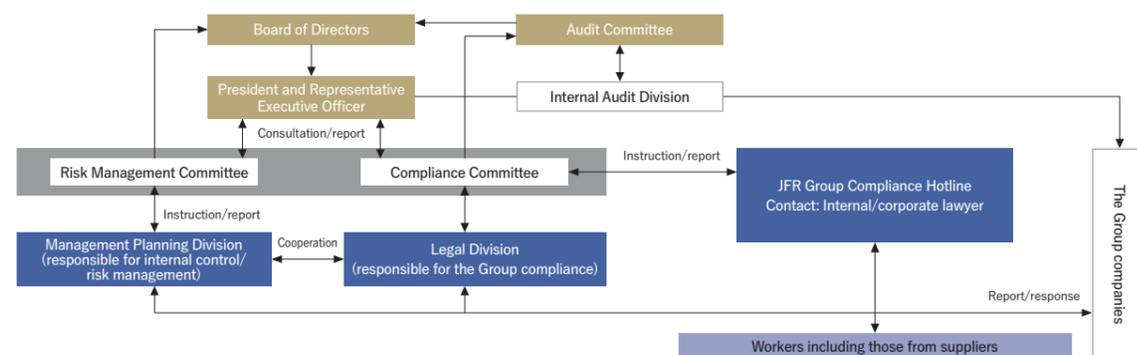
### Risk management

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." We have positioned 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 and negative sides of risk properly. The Company has established the Risk Management Committee as an advisory body to the President and Representative Executive Officer. The committee discusses important matters, including the extraction and evaluation of risks and the determination of risks to be reflected in strategies, and utilizes risk management for management decision-making. The committee also reports details of its deliberations to the Board of Directors in a timely manner. Furthermore, in order to effectively perform risk management, we have established the following three lines.

- (i) First line: Business execution divisions such as operating subsidiaries. These divisions identify risks and take the necessary measures on their own.
- (ii) Second line: The holding company's divisions. Each division provides support, guidance, and monitoring regarding risk management from a perspective which is independent of the business execution divisions.
- (iii) Third line: Internal audit division. This division oversees the validity of the risk management functions and the internal control system from a perspective which is independent of the business execution divisions and each division of the holding company.

While identifying "corporate risks" (see page 33), which serve as a starting point for the FY2021 to FY2023 Group Medium-term Business Plan, the risks for the fiscal year identified in response are summarized in the JFR Group Risk List.

### Risk management and compliance system diagram



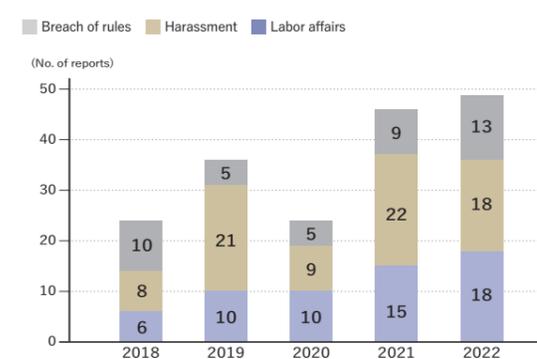
### Compliance

We have a Compliance Committee (whose members include a corporate lawyer) to ensure proper handling of issues on the Group's compliance management. The committee is chaired by the President and Representative Executive Officer. Working closely with the divisions in charge of promotion of 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 serious non-compliance cases, the committee sets a policy on how to respond to them. The matters discussed by the committee 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 individuals working for the Group (including part-time workers and temporary staff from suppliers) to notify the Compliance Committee directly of any compliance issues and seek corrective action. We have points of contact for whistleblowers both inside and outside (a corporate lawyer) the Company. Regarding this whistleblowing system, the Group's internal rules include rigorous provisions ensuring the protection of the whistleblower's privacy and prohibiting disadvantageous treatment of the whistleblower.

### Types of reports



### JFR Group Risk List

1	Manifestation of geopolitical and geoeconomic risks
2	Combination of COVID-19 measures and economic normalization
3	Changes in economic conditions
4	Transformation of existing businesses using technologies
5	Sophistication of marketing with use of data
6	Need for a cloud-native development and operation environment
7	Advancement of cashless payment
8	Streamlining of operations through digitalization
9	Demand for corporate value enhancement by realizing CSV
10	Communication and dissemination of the Basic Mission Statement and the Group Vision
11	Progress of corporate governance reform
12	Response to environmental issues such as climate change
13	Response to social issues such as human rights risk
14	Paradigm shift in work style and organizational structure
15	Acceleration of open innovation
16	Acquisition, development, placement, and use of strategically-fit professional human resources
17	Engagement with investors through IR/SR activities
18	Effectiveness of public relations activities
19	Increase in ROIC and study on optimal capital structure
20	Securing funds for strategic investments
21	Fraud or error in financial statements, delay in timely disclosure
22	Asset impairment and response to tax effect accounting
23	Response to tax reforms and new accounting standards
24	Normalization of natural disasters, buildings hit by disasters, breakdown of infrastructure
25	Increasing severity and shortening of spread of epidemics
26	Accidents or equipment failure such as fire and electric leakage, substandard safety management of buildings and equipment
27	Food poisoning, injury, and accident (as either offender or victim)
28	System failure and unauthorized access through cyberattack
29	Troubles with system managed by third party
30	Shortfall and delay in Business Continuity Management (BCM)
31	Non-compliance with reporting lines and inadequate public relations management when important matters happen
32	Lack of proper labor management such as employee health management (including non-Japanese and disabled employees)
33	Aggravated operation of retirement benefits and pension systems
34	Transactions with antisocial forces
35	Transactions and operations in non-compliance with laws and regulations such as the Subcontract Act and the Anti-Monopoly Act
36	Fraudulent or illegal acts by officers and employees Flaw in compliance system, including deterioration of ethics
37	Improper handling of personal information, leakage of confidential information
38	Leakage of insider information
39	Inadequate management of the quality of products and services and procurement costs
40	Inadequate outsourcing management
41	Shortcomings in contract management
42	Bankruptcy and default of suppliers and customers