

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 trusting 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;

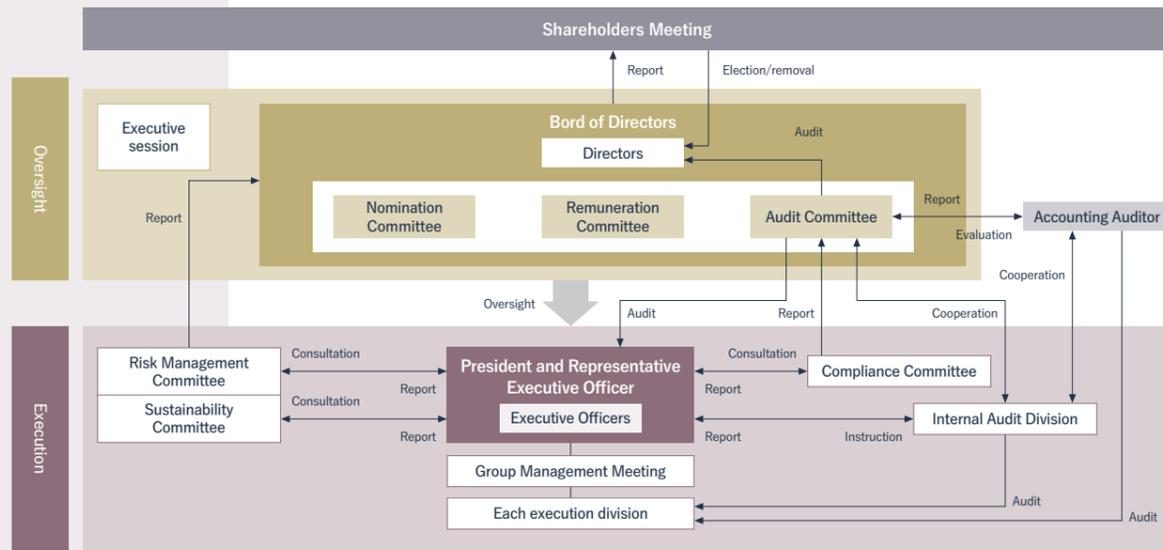
- (ii) Clarifying authorities and responsibilities in business execution and promoting flexible management;
- (iii) Improving the transparency and objectivity of management; and
- (iv) Building a globally applicable governance system.

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.

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



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.

We have also established six supervisory units (the Management Strategy Unit, the Group Digital Strategy 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 supervisory functions and enhance the internal control system of the Group as a whole.

Board of Directors

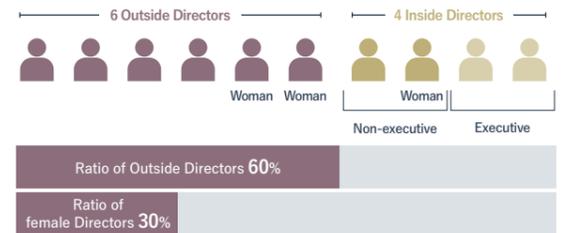
(1) Roles and responsibilities of the Board of Directors

Directors are appointed and entrusted by our shareholders to manage the Company and therefore owe fiduciary responsibility and accountability to the shareholders. Keeping this in mind and aiming to realize the Group Vision, the Board of Directors performs the following roles and responsibilities:

- 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 fiscal year, and other fundamental management policies and carrying out multifaceted and objective deliberations that include

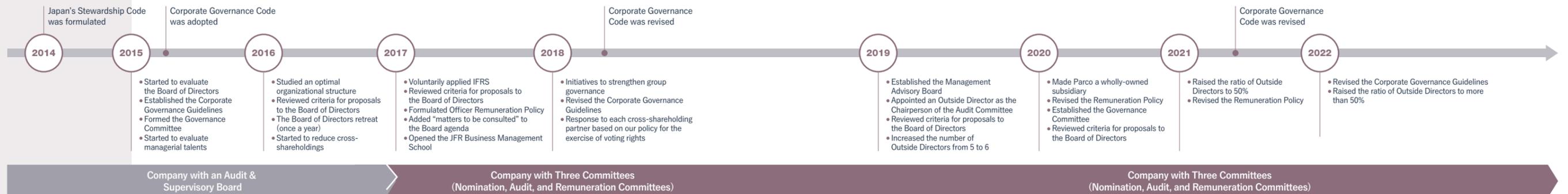
- evaluation of risks with respect to the aforementioned;
- To appropriately make decisions in terms of overall policy and plans pertaining to the Group management based on the direction noted above and to oversee the progress and results of the plans;
- To develop an environment conducive to encouraging 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 managerial talent, and Executive Officer training, about which the Nomination Committee was consulted.

(2) Composition of the Board of Directors



In selecting candidates for Director, the Board of Directors shall consist of personnel with experience and knowledge necessary to appropriately oversee the promotion of sustainability management (execution of business strategies aimed at resolving the seven materialities) in order for the Board of Directors to effectively fulfill its roles and responsibilities. In selecting candidates for Outside Director, 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 the core business of the Group but in non-retail industries, or who have expertise in legal

History of the Company's corporate governance



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and other fields, a marketing perspective, and extensive experience related to finance and accounting. With regard to candidates for non-executive Inside Director, the Company selects persons who have wide-ranging practical experience within the Group and knowledge in fields such as oversight. As for a candidate for Director who concurrently serves as Executive Officer, the Company has selected a person responsible for its financial division whose high level of knowledge will facilitate the execution of the strategic finance policies demanded by shareholders and investors, as well as by the President and Representative Executive Officer.

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	○		○	○					○
YOSHIMOTO Tatsuya	○		○				○		○
WAKABAYASHI Hayato	○	○		○					

Management strategies	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.	IT & digital	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.
Finance	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.	E: Environment	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.
Marketing	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.	S: Society	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.
Human resource & organization development	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.	G: Governance	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.
Legal affairs & compliance	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 on the overall management strategy of the holding company, including the importance of the will and leadership of the Group's top management, what the Developer Business should aspire to be, and drastic measures such as restructuring leading to a review of its business foundation. 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 on the importance of indicators, such as ROIC as the goal of the Medium-term Business Plan and cash flows at the time of business infrastructure review and segment review, and the creation of a road map for monitoring digital strategies from a comprehensive perspective. He chairs the Audit Committee.
UCHIDA Akira	He has contributed to improving the effectiveness of the Board of Directors by providing advice and oversight on appropriately conveying information to stakeholders, strengthening collaboration as a holding company in the Group, the need for new businesses when reviewing business portfolios, etc. 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 from legal perspectives on strengthening measures as a holding company in the Medium-term Business Plan, the need for measures to increase the speed of digital strategies, formulating concrete proposals in line with the Group Management Policy for the fiscal year, and on other proposed agenda items. 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 on the importance of capital cost-conscious finance strategies, the need for an adequate variation in business portfolio in M&A, etc. 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 on making measures more concrete for the Medium-term Business Plan, etc. as a holding company, the importance of a marketing-oriented way of thinking, such as identifying targets and needs, analyzing the factors and providing measures in cases when there are gaps between the targets and the actual results, etc. She serves on the Nomination Committee and the Remuneration Committee.

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

In fiscal 2021, in consideration of the status of COVID-19 and the first year of FY2021 to FY2023 Medium-term Business Plan, the Board of Directors placed the following items on the agenda and discussed them.

We worked to solve issues by managing progress using the issue tracking sheets of the Board of Directors and the Audit Committee and holding meetings with the Chairperson of Board of Directors and the chairpersons of three statutory committees.

Major agenda items

- Actions to take considering the status of COVID-19
- Important managerial risks
- Review of strategies for the promotion of the Medium-term Business Plan
- Payment and Finance Business in the Medium-term Business Plan
- Progress of initiatives for three strategies in the Medium-term Business Plan (Developer, Prime Life, and Real×Digital)
- ESG initiatives in the Medium-term Business Plan
- The Group Management Policy for FY2022
- Amendment of the Corporate Governance Guidelines
- Revision of the Corporate Governance Report
- Results of evaluation of the effectiveness of the Board of Directors
- Amendment of the Basic Policy to Build Internal Control System
- Validation of rationale for cross-shareholdings
- Matters related to financial results
- Sale of shares of Dimples' Co., Ltd.

Nomination Committee, Audit Committee, and Remuneration Committee



Nomination Committee

The Nomination Committee determines the content of proposals on the nomination and dismissal of Directors submitted to shareholders meetings and reports to the Board of Directors regarding the nomination and dismissal of Executive Officers, as well as the chairpersons and members of three statutory committees, and other matters in response to a consultation by the Board of Directors.

Major agenda items

- Confirmation of the skill matrix
- Election of 12 candidates for Director of the Company
- Nomination of candidates for Executive Officer and Representative Executive Officer and appointment of Advisors to be proposed to the Board of Directors
- Nomination of candidates for the Chairperson of Board of Directors and the chairperson and members of each committee to be proposed to the Board of Directors
- Executive appointment to Daimaru Matsuzakaya Department Stores Co. Ltd. and Parco Co., Ltd. and their subsidiaries
- Management structure of each company in the Group
- Formulation of the succession plan for President
- Criteria for reappointment of Executive Officers
- Reappointment of the President and Representative Executive Officer and Executive Officers
- Actions taken for issues in evaluation of the effectiveness of the Board of Directors
- How the Nomination Committee of J. Front Retailing Co., Ltd. should be involved in appointment of the presidents of major operating companies



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 construction and operation of internal control and prepares audit reports. To ensure the reliability of accounting information, the Audit Committee also oversees 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

- Report of Internal Audit Division on audit plan
- Report on the structure of audit & supervisory board members of the Group companies
- Report on the operation of the Basic Policy to Build Internal Control System and the results of evaluation of internal control over financial reporting
- Report of Accounting Auditor on audit results, audit report
- Reappointment of Accounting Auditor
- Audit report of audit & supervisory board members of the Group companies, audit findings of the Audit Committee
- Report on management letters of Accounting Auditor
- Audit policy and audit plan of the Audit Committee, appointment of Audit Committee members appointed by the Audit Committee and specified Audit Committee members
- Report of Accounting Auditor on audit plan, approval for Accounting Auditor's remuneration
- Report on Accounting Auditor's review
- Audit report of Internal Audit Division
- Report of the Compliance Committee, report of the Risk Management Committee
- Criteria for evaluating Accounting Auditor
- Operation of the organizational audit system



Remuneration Committee

The Remuneration Committee determines the policy on deciding details of the remuneration of individual Directors and Executive Officers of the Company and officers of the Group's major operating subsidiaries (directors, executive officers, and audit & supervisory board members) and details of the remuneration of individual Directors and Executive Officers of the Company.

Major agenda items

- Results of the performance assessment sheet, total amount of officer bonuses, amount of individual officer bonuses, individual remuneration amount
- Review of the Officer Remuneration Policy, revisions of the officer remuneration system
- The performance-linked coefficient and the number of points provided for a stock-based remuneration system for officers (short-term performance share)
- Revision of the Officer Remuneration Policy and establishment of the officer remuneration rules
- Review of the rules of the Remuneration Committee
- Review of the trust agreement for trust-type stock-based remuneration (overview), review of the share granting rules related to the stock-based remuneration system (overview)
- Disclosure documents on the introduction of a new stock-based remuneration system, disclosure documents on disposal of treasury shares by means of third-party allotment in connection with the introduction of a new stock-based remuneration system
- Grading results of mission grades and verification of the process
- Verification of the level and composition of officer remuneration using external data
- Revisions of the officer remuneration system of the Group's major subsidiaries
- Mission grades and individual remuneration amount

FY2021 (March 2021 to February 2022)

	Board of Directors	Nomination Committee	Audit Committee	Remuneration Committee
Number of meetings	15	16	20	11
Attendance	100%	100%	100%	100%
Average duration per meeting	2 hours 24 minutes	1 hour 10 minutes	1 hour 25 minutes	39 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 meeting 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 and the Chairperson of Board of Directors also participate 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 ensures clarity, transparency, and objectivity in the process of selecting successor candidates 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 Group 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 a corporate 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 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 seventh evaluation of the effectiveness of the Board of Directors, conducted between June and October 2021, it was reported that the function of the Board of Directors has been strengthened since 2015 through the efforts such as the organizational structure change, an increase in the ratio of Outside Directors, reinforcement of agenda setting, and enforcement of

deliberations and that many of the issues for fiscal 2020 were improved. On the other hand, it was evaluated that, of the issues for fiscal 2020, “redefining the roles of the Board of Directors” still remains unsolved. At the same time, issues were recognized and the actions to be taken were confirmed as shown on page 70.

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. Upon 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 Executive Officers of Parco and the Representative Directors of JFR Card and J. Front Design & Construction as well as the Directors and Executive Officers of the Company and the Directors and Executive Officers of Daimaru Matsuzakaya Department Stores, a major subsidiary of the Company.

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.

(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 Directors and Executive Officers of Daimaru Matsuzakaya Department Stores and Parco, which are major subsidiaries in the Group, and the Representative Directors of JFR Card 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 remuneration decision process.

(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 independent Outside Directors and the Chairperson of Board of Directors who does not execute business and is chaired by an independent Outside Director. Revisions to the officer

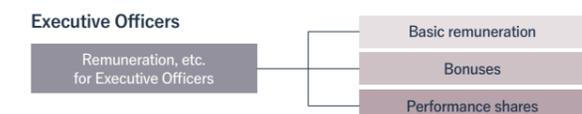
remuneration system will be implemented in accordance with the period of the Medium-term Business Plan. However, the level of basic remuneration will be reviewed if a drastic change in the external environment, etc. requires a significant revision during the Medium-term Business Plan period.

[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” (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 38.5%	

[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 and J. Front Design & Construction shall have the same remuneration composition as “Executive Officers excluding President” in the above figure.

FY2020		FY2021	
Issue	Evaluation	Issue	Action to be taken
<ul style="list-style-type: none"> ● Redefining the roles of the Board of Directors ● Intensifying discussions on medium- to long-term strategies ● Reviewing the composition of the Board of Directors ● Strengthening the Plan and Check functions of the Board of Directors ● Strengthening the functions of the Nomination Committee 	<ul style="list-style-type: none"> ● Most of the issues were improved. ● Redefining the roles of the Board of Directors remains an issue. 	<ul style="list-style-type: none"> ● Clarifying the roles of the holding company and its Board of Directors ● Concentration on strategic important proposals and discussions in the Board meetings ● Reviewing the composition of the Board of Directors ● Further strengthening the functions of the Board of Directors Secretariat 	<ul style="list-style-type: none"> ● We will articulate the holding company’s roles in the FY2022 Management Policy and strengthen the function of planning to facilitate strategy implementation. ● The holding company’s Board of Directors will strengthen the monitoring function for the progress of the Medium-term Business Plan and P.M. ● A majority of members of the Board of Directors shall be independent Outside Directors to ensure even greater effectiveness with respect to its discussion. ● The Board of Directors Office will strive to strengthen communication with the management team and to set proposals based on management issues more than before. ● The Board of Directors Office will do follow-ups so that the execution can sufficiently enhance consideration of and response to the issues raised by the Board of Directors.
<p>[Items evaluated] About 40 items including:</p> <ul style="list-style-type: none"> ○ The Board of Directors’ contribution to the entire Group; ○ Composition of the Board of Directors; ○ Operational status; ○ Content of deliberations; and ○ Effectiveness of activities of the Nomination, Remuneration, and Audit Committees 	<p>[Evaluation methodology]</p> <ul style="list-style-type: none"> ○ Advance questionnaire for Directors ○ “Individual interviews” conducted by a third-party organization based on the advance questionnaire (about one hour) ○ Direct observation of deliberations by attending the meetings of the Board of Directors and the committees ○ Inspection of discussion materials for the Board of Directors, etc. <p>Deliberated by the Board of Directors based on the report made by collating and analyzing the above</p>		

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- (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. The performance-linked remuneration is evaluated using the "fiscal year's financial indicators," serving as quantitative evaluation, and the "fiscal year's non-financial indicators," which include qualitative evaluation.
- (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.
- (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 net worth being" 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 higher sales are accompanied by profits and a "financial strategy (encompassing the capital policy)" that increases the profitability of invested capital are essential elements with respect to improving free cash flows 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 the 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 shares other than those of subsidiaries and associates which are not held for pure

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



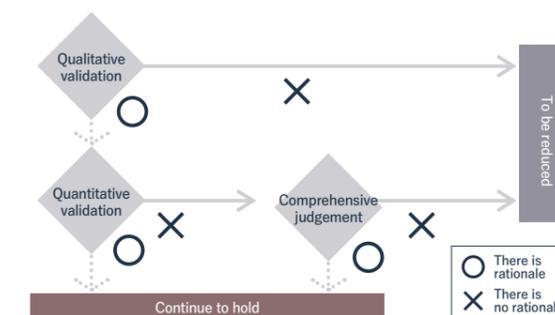
investment purposes). However, this does not apply to shares where it has been recognized that they are necessary for the promotion of the Group's business strategies and that the holding of such shares will contribute to the increase of corporate value in the medium to long term through the validation 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 issues 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

To have a constructive dialogue with our shareholders, we send out the Notice of Convocation of Shareholders Meeting early (at least three weeks prior to the day of the meeting) and post the content of the Notice of Convocation on the websites of the financial instruments exchanges and the Company as soon as practically possible prior to the date of sending the Notice of Convocation. This will provide enough time for shareholders to consider as to the exercise of their voting rights. The Notice of Convocation of the

Target values and evaluation weights for performance-linked stock-based remuneration

KPI	Target value for medium to long term		Evaluation weight
Profitability	(i) Operating profit	40.3 billion (FY2023)	40%
Efficiency	(ii) ROE	7% (at the end of FY2023)	40%
Non-financial	(iii) GHG (Scope 1 and 2) emissions reduction	-40% (vs. FY2017)	10%
	(iv) Raising the share of women in management positions	26% (at the end of FY2023)	10%

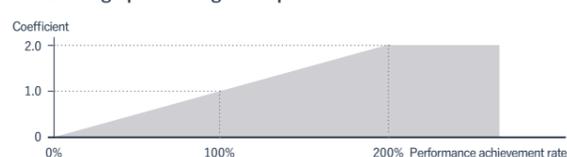
Note: KPI stands for Key Performance Indicator.

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 value. The target value for FY2022 is ¥21.0 billion.

Method to calculate a performance-linked coefficient

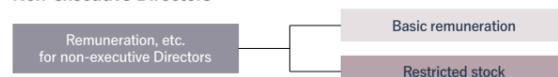
Performance achievement rate	Performance-linked coefficient
200% or more	2
0% or more but less than 200%	Actual results ÷ Target
Less than 0%	0

Illustrative graph of changes in a performance-linked coefficient



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

Non-executive Directors



GOVERNANCE

Corporate Governance

15th Shareholders Meeting was disclosed on the websites of the financial instruments exchanges and the Company four weeks prior to the day of the meeting, before sending the Notice of Convocation in written form. For the convenience of shareholders, including domestic and international institutional investors, in exercising their voting rights, we have introduced an online voting system and used an electronic voting platform. Furthermore, we have the Notice of Convocation of Shareholders Meeting translated into English and disclose the translation on our website and the electronic voting platform so that international shareholders will be able to properly exercise their voting rights.

In fiscal 2021, we further encouraged online voting in order to minimize the risk of the spread of COVID-19 infection which may occur if shareholders visit the venue of the Shareholders Meeting in person. We also livestreamed the sections of the Shareholders Meeting of explaining about “progress and results” and “issues to be addressed” as well as its Q&A session for shareholders who could not come to the meeting.

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 TDnet (Timely Disclosure network) 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 Notice 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 among the Company and relevant companies in the Group and used for reference in corporate management toward increasing corporate value.

External recognition for IR activities

The Company was awarded the IR Grand Prix at the 2021 IR Award (organized by the Japan Investor Relations Association). It was the first time that we received the Grand Prix.

Risk management

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

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 risk identification and evaluation and 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: The 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 30), which are used as starting points for the FY2021 to FY2023 Group Medium-term Business Plan, the risks for the fiscal year identified from “corporate risks” are summarized in the JFR Group Risk List.

Compliance

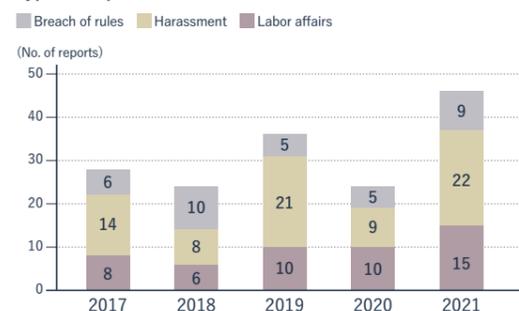
We have a Compliance Committee (whose members include a corporate lawyer) to ensure proper handling of issues on the Group’s compliance management. The committee is chaired by the President and Representative Executive Officer. Working closely with the divisions in charge of promotion of compliance, 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 case of any material breach of compliance rules, the committee sets a policy on how to respond to such breach.

Any and all 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 company 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

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

Risk management and compliance system diagram

