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 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.

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 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

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 realizing 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
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

- Resolution of the Corporate Governance Guidelines
- Formulation of the Medium-term Business Plan
- Revisions to the Basic Policy to Build Internal Control System and the results of evaluation of internal controls over financial reporting
- Resolution 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
- Revision of the Basic Medium-term Business Plan
- The Group Management Policy for FY2023
- Sustainability
- Establishment of a developer business company
- ORE strategy
- Investment in new businesses
- Validation of standards 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 JPR 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
- Entitlement 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 goals 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
- Resolution of the Officer Remuneration Policy and revision of the officer remuneration rules, etc.
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 supervisory Directors, 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 Mr. 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 under 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 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 set by the Nomination Committee.

[Qualities required of successors] For the President and Representative Executive Officer of the Company and people who wish to improve 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 JRF Group managerial talent” and the “Desirable capabilities required of JRF President and Representative Executive Officer” in accordance with the Basic Mission Statement and the Group Vision.

Officer remuneration system

In April 2017, we formulated and announced an Officer Remuneration Policy, which includes a stock-based remuneration system, in order to clearly implement the Medium-term Business Plan toward realizing the Group Vision. In formulating the new Medium-term Business Plan, we reviewed the contents and revised it in April 2021. In conjunction with the revision of the policy, the scope of stock-based remuneration has been expanded. The remuneration of 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 take on the roles and 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 Committees, which consists of a majority of independent Outside Directors and the Chairperson of the 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 in order to necessary to significantly revise it due to extreme changes in the external environment and other reasons. 

[Forfeture 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 the 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 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) that is not linked to performance as a stock-based remuneration system.

Executive Officers

<table>
<thead>
<tr>
<th>Basic remuneration</th>
<th>Bonuses</th>
<th>Performance-linked remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>40.4%</td>
<td>27.5%</td>
<td>31.5%</td>
</tr>
</tbody>
</table>

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%.
Goverance

Corporate Governance

(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

<table>
<thead>
<tr>
<th>Evaluation</th>
<th>Performance-linked shareholding</th>
<th>Performance-linked factor</th>
<th>Inter-interest-bearing liabilities</th>
<th>Capital policy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits</td>
<td>Consolidated operating profit</td>
<td>ROIC</td>
<td>Risk-free yield</td>
<td>Basic capital policy</td>
</tr>
<tr>
<td>Dividends</td>
<td>at the end of FY2023</td>
<td>ROE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes</td>
<td>100%</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Performance-linked stockholding
- ROIC (Return on Invested Capital)
- ROE (Return on Equity)

Note: For the short term, only (i) consolidated operating profit is adopted. The initial performance-linked factor is 2.0 (200%).

(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 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 rationality 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 “sustainability 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 fund management.

(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 corporate governance, such as proposals relating to the increase of corporate value in 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” therefore we achieve market growth with profitability and a “financial strategy” (encapsulating the capital policy) that increases return on invested capital (ROIC) is essential to improve free cash flow and ROE. In addition, we believe it is important to maximize operating profit and substantially 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 investments, 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 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 rationality 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 “sustainability 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 fund management.

(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 the 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 in such a way as to correspond 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 in 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 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 disclosed these 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

<table>
<thead>
<tr>
<th>Number of stockholders</th>
<th>Number of meetings</th>
<th>Number of meetings</th>
<th>Number of meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in thousands)</td>
<td>(in thousands)</td>
<td>(in thousands)</td>
<td>(in thousands)</td>
</tr>
<tr>
<td>18 86 24 65</td>
<td>18 86 24 65</td>
<td>18 86 24 65</td>
<td>18 86 24 65</td>
</tr>
</tbody>
</table>

Values and Vision
Value Creation
Management Strategy
Sustainability
Governance
Data
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 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 Reports, Reports, annual 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 the media, 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. Options 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.

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 FY2023 to FY2023 Group Medium-term Business Plan, the risks for the fiscal year identified in response 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 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

- Breach of rules
- Management
- Labor office

<table>
<thead>
<tr>
<th>Year</th>
<th>Breach of rules</th>
<th>Management</th>
<th>Labor office</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>10</td>
<td>21</td>
<td>5</td>
</tr>
<tr>
<td>2011</td>
<td>6</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>2012</td>
<td>15</td>
<td>22</td>
<td>13</td>
</tr>
</tbody>
</table>

Risk management and compliance system diagram

Board of Directors
President and Representative Executive Officer
Internal Audit Division
Compliance Committee
Risk Management Committee
Management Planning Division
Risk Management
Worker including those from suppliers
Suppliers
Workers including those from suppliers

JFR Group Risk List

1. Manifestation of geopolitical and geoeconomic risks
2. Combination of COVID-19 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 customer data
8. Strengthening of operations through digitization
9. Demand for corporate value enhancement by raising CSR
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. Automation of operations
16. Acquisition, development, placement, and use of strategically fit professional human resources
17. Engagement with industries through IR/IR 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 loss affecting accounting
23. Response to tax reform and new accounting standards
24. Normalization of natural disasters, building collapse due to disasters, breakdown of infrastructure
25. Increasing severity and shortening of spread of epidemics
26. Accidents or equipment failure such as fire and electric leakage, outdated 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. The Group companies of the Group's compliance management. The committee
30. Short-term and delay in Business Continuity Management (BCM)
31. Non-compliance with reporting laws and inadequate public risk management (credit impairment matters)
32. Lack of proper labor management such as employee health management (including non-Japanese and disabled employees)
33. Inadequate outsourcing management
34. Transactions with affiliated 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
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

Values and Vision
Value Creation
Management Strategy
Sustainability
Governance
Data