

Pursuing ESG-Based Management

Corporate Governance

Risk Management

■ Risk Management Promotion System

The company's president and CEO is the executive officer responsible for risk management under the Group's rules and other systems for managing risk of loss. The executive director over each business unit is responsible for risk management at the business unit level. This structure provides a system and environment ensuring business continuity and the safety of human life. The group has created Risk Management Rules to prevent crises or minimize damage in the event of a crisis, striving to reduce risk and mitigate any damages.

Specifically, we have selected risk categories having a high impact on the Group and have established departmental teams to address risk management by category. As each team executes PDCA cycles for risk measures, we strive to prevent damage to our brand value and improve overall corporate value by managing the risk of loss for the Group as a whole.

Furthermore, in the event of an emergency presenting a risk of significant loss, we engage in appropriate information sharing and decision-making according to our Risk Management Rules, taking proper steps to minimize damages.

■ Establishment of the Risk Management Committee and Overview of Activities

The company has established the Risk Management Committee, chaired by the HQ general manager. The purpose of this committee is to maintain and improve risk management systems, including determining the status of risk management operation across the Group and reviewing

risk management systems on a continual basis. The details of this committee are as follows. The Risk Management Committee analyzes risk status, conducts ongoing activities to avoid risks, provides opinions to the president and CEO, and deliberates issues related to risk management promotion systems and measures. The Risk Management Committee discusses risk measures to address major incidents, etc., leading to highly effective risk measures.

Furthermore, for crises that require same-day judgment, e.g., during an earthquake, a separate emergency response office will be established to provide a rapid, appropriate initial response, to prevent escalation, and to aid an early resolution.

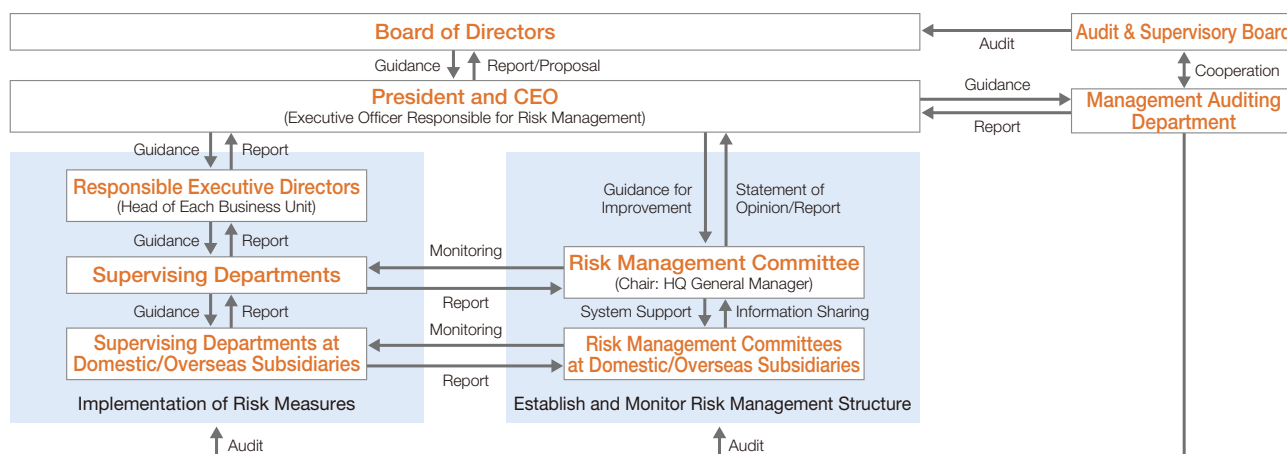
Over the most recent three years, the Risk Management Committee held activities approximately five times each year, with the committee reporting to the board of directors at the beginning of each fiscal year (March) regarding details of initiatives in the previous fiscal year and policy regarding initiatives in the current fiscal year. Domestic and overseas subsidiaries such as OPA Co., Ltd. and companies outside Japan have established Risk Management Committees by country. The details of committee deliberations are shared with the company's Risk Management Committee.

The members of the company's Risk Management Committee are as follows.

- Chair: HQ general manager
- Members: A) Heads of supervising departments for risk response as defined in the Risk Management Rules
B) Persons nominated by the chair
- Secretariat: Legal Department

(Note) In order to improve the effectiveness of the risk management system, a responsible member will be selected within the department leading prevention of and response to a given high-impact risk for the Group.

● Risk Management Promotion System Diagram



■ Risk Management Process

To carry out efficient and effective management of various risks, the Risk Management Committee identifies risk items that affect the Group in particular. The committee then makes recommendations to the president and CEO regarding systems for managing said risks. Subsequently, a department to be in charge of handling each risk item is selected. These departments are responsible for planning, executing, and reviewing risk measures, while the Risk Management Committee and internal audits are conducted to monitor the implementation status of the executive body, assessing risk measure effectiveness.

We categorize risks under one of three categories (management strategy risk, compliance risk, other risk) according to the nature of the risk to consider and

monitor the progress of risk measures at each department related to the risk in question. A director in charge of management strategy risk is designated in accordance with the category. This individual reports the progress of risk measures to the board of directors on a quarterly basis. Compliance risks are reported at the Compliance Committee, and other risks are reported at the Risk Management Committee, with details and progress of risk measures discussed as necessary. All risk measures for each risk item are eventually aggregated and managed by the Risk Management Committee.

The implementation of risk measures is decided and carried out after internal approval by the respective supervising department for risk response.

● Diagram of Risk Management Process



■ Identifying Risk

When identifying risks, we narrow risks to those that impact the Group according to their nature. Our identification method is as follows.

● Identifying risks

We conduct risk surveys (questionnaires and interviews) with directors, Audit & Supervisory Board members, and employees, assessing risks quantitatively and qualitatively.

● Using a risk map to assess risks

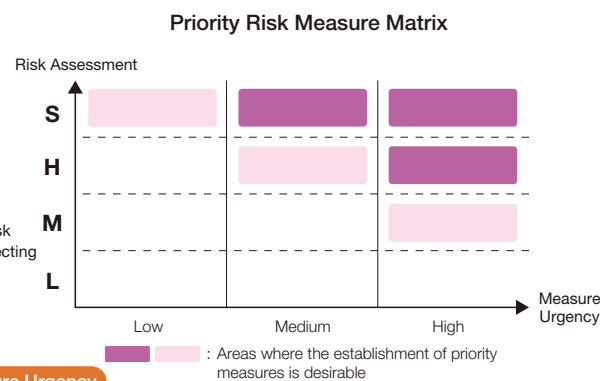
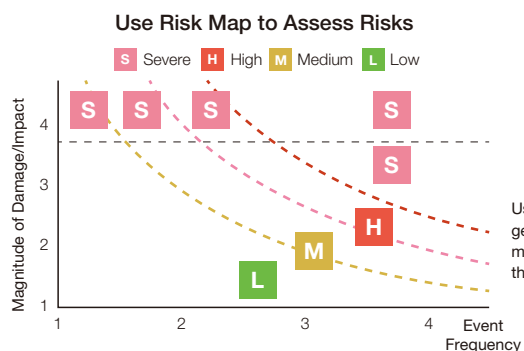
Based on the results of risk surveys, we create a risk map based on the frequency and magnitude of damage or impact of

each risk. We evaluate risks and identify those risks that require countermeasures.

● Establishing priorities using a priority risk measure matrix

Based on the status of existing measures for identified risks, we create a priority risk measure matrix based on the need for measures, identifying the risks that should be prioritized.

Based on the preceding, we have identified 92 risk items and have adopted risk measures according to priority. Risk assessments will change as our business environment changes. Therefore, priority risks measures will be updated as necessary in parallel with risk surveys.



Risk Assessment

Assess risks and categorize across four levels (Severe, High, Medium, Low) based on risk map location. Risks categorized at higher levels that have greater frequency and magnitude of damage/impact

Other

Other matters identified in interviews

Measure Urgency

- (Assessed by the company based on interviews and other methods)
- Risks for which suggestions to revise assessment upward have been indicated in interviews
 - Risks for which measures may have room for improvement
- Low:** Requires verification of measure effectiveness
Medium: Requires steady measure implementation and verification of effectiveness
High: Requires rapid response

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Business and Other Risks

Based on the latest business environment in Japan and overseas, we have identified risks that may impact the Group's business activities and that require company-wide management. Of the risk items identified according to risk map assessment and priority risk measure matrix, certain risk items require risk assessment and measures in particular. In addition to these risks, risk items other than those identified that may have a potential material impact on investor decisions. We categorize those risks as follows.

Type	Risk Item	Risk Assessment	Measure Urgency
Business strategy risks	a. Risks related to changes in the business environment	S	High
	b. Risks related to real estate development and investment	S	High
	c. Risks related to securing and cultivating human resources	S	High
	d. Risks related to transactions with AEON Co., Ltd. and its affiliates	☆	☆
	e. Risks related to statutory regulations	☆	☆
Risks related to finances	f. Impairment risks	S	High
	g. Risks related to capital procurement, interest rate fluctuations, and exchange rate fluctuations	S	Medium
Operational risks	h. Risks related to the occurrence of natural disasters, accidents, and terrorism	S	High
	i. Risks related to the occurrence of war, civil disorder, and coup d'état	S	High
	j. Risks related to the spread of infectious diseases	S	High
	k. Risks related to information security	☆	☆

☆: Risk items that may have a material impact on investor decisions.

Business Strategy Risks

a. Risks related to changes in the business environment

Risk Assessment	S	H	M	L	☆	Measure Urgency	High	Medium	Low	☆
Risk Scenarios						Measures				
<p>In the Group's external business environment, certain overseas retail markets exhibit high growth potential due to strong economic development. However, concerns exist related to accelerated store openings by competing developers and slowdown in growth due to global economic recession. Japan is experiencing changes in demographics and family structures due to population decline, low birthrates, and an aging population. In addition, there are ongoing changes in consumer behavior, including the expansion of e-commerce, an orientation toward savings, and the rise of the sharing economy.</p> <p>Major tenants of malls managed and operated by the Group are retail and service companies, which tend to be sensitive to economic and personal consumption trends. Therefore, economic downturns and intensifying competition with other real estate developers and retailers could result in a negative impact on the Group's business performance or financial position, including a worsening of tenant leasing terms or an increase in vacant spaces.</p>						<p>The Group's business is to provide solutions to issues faced by local communities and society, without being bound to the framework of a commercial facility. We aim to establish shopping malls that serve as a core facility and social infrastructure in their local communities.</p> <p>Overseas, economic policies continue to develop centered on the development of social infrastructure. Accordingly, we are pursuing property development and opening new locations in areas of advancing urbanization with high market growth potential. We strive to differentiate ourselves from competing developers through competitive malls that leverage our expertise in mall management and operations cultivated in Japan.</p> <p>In Japan, we secure a market position as the dominant mall in each region, increasing our market share through localization efforts that include revitalizing floor space expansions that meet local needs and expanded regional infrastructure functions. In addition, we expand our business domains by diversifying development patterns according to local characteristics. These patterns include multi-function commercial facilities and innovative regional commercial facilities.</p> <p>In terms of leasing, we work to create attractive malls from the customer standpoint by attracting new tenants. We provide added value through new business formats, taking advantage of our relationships with tenant companies in Japan and overseas.</p>				

b. Risks related to real estate development and investment

Risk Assessment	S	H	M	L	☆	Measure Urgency	High	Medium	Low	☆
Risk Scenarios						Measures				
<p>Mall development requires significant time and investment prior to opening. Tasks include market research, site selection, negotiations with landowners, legal proceedings, mall construction, and tenant recruitment. Therefore, recouping investment requires a certain period of time. If the development schedule is delayed due to unseasonable weather, natural disasters, environmental pollution in the development area, delays in obtaining licenses, opposition from local residents, or other local factors, or if real estate prices rise, the cost of acquiring and renting real estate may increase, potentially having a negative impact on the Group's business performance or financial position.</p>						<p>The Group has put in place a system in which each department works together to manage the schedule and progress of future development properties, as well as to identify and analyze possible risk scenarios, formulating plans based on the most appropriate plan in terms of revenue and cost to achieve progress. In addition, for new location openings and floor space expansion revitalization in Japan and overseas, we make decisions after clearly identifying the department responsible for the business plan, and deliberate the appropriateness of the profit and loss plan and the feasibility of the return on investment based on operation under a clear investment profitability standard at meetings of the board of directors and the Management Council.</p>				

c. Risks related to securing and cultivating human resources

Risk Assessment	S	H	M	L	☆	Measure Urgency	High	Medium	Low	☆
Risk Scenarios						Measures				
<p>The Group is pushing forward with the creation of a foundation for the expansion of business bases and the strengthening of profitability in domestic business and overseas business in China and ASEAN, which are growth drivers. It will be necessary to secure and develop human resources who can demonstrate strong management skills and leadership from a global perspective.</p> <p>Particularly in Japan, the working population is decreasing due to declining birthrates and an aging population. If we are unable to secure and train the human resources necessary for business expansion, this may have a negative impact on the Group's business performance or financial position.</p>						<p>In the belief that human resources are the greatest management resource for achieving sustainable growth, the Group seeks to become a company in which diverse human resources can enjoy healthy lives as they continue to demonstrate their talents. We pursue a growth strategy by investing in human resources to this end.</p> <p>We promote diversity management to respond to rapid social changes and innovate our business model. We are developing systems and work environments by which a diverse base of employees can express their individuality, demonstrate their capabilities, and play active roles.</p> <p>We have established a wide range of programs for the cultivation and education of our human resources. In addition to employee training based on position and level of growth, we offer personnel exchanges between Japanese and overseas locations to cultivate future leaders in our overseas business. We have also created the AEON Business School (ABS), a program for cultivating future top managers.</p> <p>We provide senior manager training and other opportunities for directors and members of the Audit & Supervisory Board to cultivate stronger leadership and strategic business thinking, as well as to gain a stronger understanding of compliance and governance. To ensure transparency and fairness in cultivating candidates for management, we also discuss the necessary standards, career plans, cultivation policies, and plans for managers at the Nomination and Compensation Committee, which consists of outside directors primarily.</p>				

d. Risks related to transactions with AEON Co., Ltd. and its affiliates (hereinafter, "AEON Group companies")

Risk Assessment	S	H	M	L	☆	Measure Urgency	High	Medium	Low	☆
Risk Scenarios										
<p>The role of anchor tenants with the ability to attract customers is extremely important in developing malls. We leverage our close relationship with our parent company AEON Co., Ltd. to arrange for AEON and AEON STYLE general merchandise stores, primarily operated by our subsidiary AEON Retail Co., Ltd., to serve as anchor tenants. Going forward, we anticipate that malls developed by the Group will continue to have AEON and AEON STYLE stores serve as anchor tenants.</p> <p>In this way, the relationship between the Group and AEON Co., Ltd. and AEON Group companies provides advantages in mall development in the form of a stable source of anchor tenants. On the other hand, the business performance, store opening policies, and store closure policies of these anchor tenants may have a negative impact on the Group's business performance or financial position.</p> <p>AEON Retail Co., Ltd. accounted for 11.7% of the Group's operating revenue for the fiscal year ended February 28, 2021, while the total of AEON Group companies other than AEON Retail Co. amounted to 10.9% of total operating revenue.</p>										

e. Risks related to statutory regulation

Risk Assessment	S	H	M	L	☆	Measure Urgency	High	Medium	Low	☆
Risk Scenarios										
<p>The Group coordinates initiatives with local municipalities to develop malls firmly rooted in local communities. However, owing to the City Planning Act and the Building Standards Act, construction of large retail facilities exceeding 10,000m² are in principle not possible except in those areas designated as commercial zones, neighboring commercial zones, or semi-industrial zones as designated by the aforementioned acts. Furthermore, to develop large shopping centers in un-zoned city planning areas or un-zoned areas within semi-approved city planning projects, either a zoning designation or an approval to relax site purpose requirements is needed from the relevant prefectural governor. Therefore, there is the potential that the company's future plans for new malls could be affected by these legal restrictions.</p> <p>In the event of a revision of real estate-related tax policies, higher costs associated with ownership, purchase, and sale of assets could have a negative impact on the Group's business performance or financial position.</p> <p>Since the Group is expanding its overseas business in China and ASEAN, changes in statutory regulations regarding investment, trade, competition, taxes, foreign exchange, and other topics in countries and regions where new locations are opened could have a negative impact on the Group's business performance or financial position.</p>										

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Risks Related to Finances

f. Impairment risks

Risk Assessment	S	H	M	L	☆	Measure Urgency	High	Medium	Low	☆
Risk Scenarios						Measures				
In the event of ongoing operating losses at malls due to significant worsening of the business environment, increasing vacancies due to tenant closures, etc., or due to a significant drop in market price of mall sites, the resulting impairment losses for fixed assets held by the Group for business purposes could have a negative impact on the Group's business performance, financial position, or creditworthiness.						<p>The Group formulates plans reflecting optimized costs and revenues after determining and analyzing possible risk scenarios. For investment projects over a certain amount, we also deliberate the appropriateness of the profit and loss plan and the feasibility of the return on investment at meetings of the board of directors and the Management Council. In this way, we strive to improve the accuracy of investment profitability plans.</p> <p>We verify the operating status of malls that have been opened at company-wide meetings. The results of investment profitability verifications for malls that have been open for a certain period of time are reported to the board of directors. For malls facing possible impairment loss, we form a response project team (value-building project team) to take action, primarily to improve profitability as we strive to reduce the risk of impairment.</p>				

g. Risks related to capital procurement, interest rate fluctuations, and exchange rate fluctuations

Risk Assessment	S	H	M	L	☆	Measure Urgency	High	Medium	Low	☆
Risk Scenarios						Measures				
<p>The Group procures capital to support mall development based on the Group's growth strategy, primarily via borrowings from financial institutions, the issuance of corporate bonds, leases, or capital increases. However, instances may occur in which a destabilization in financial market conditions, worsening in the Group's business outlook, or deterioration in the Group's creditworthiness, etc., may result in the Group being unable to procure funding in a timely manner under desirable terms. In the event of an increase in market interest rates, the increased cost of capital for financing or refinancing mall development and higher rents paid to property owners under lease contracts could have a negative impact on the Group's business performance or financial position.</p> <p>In addition, the Group is expanding its overseas business in China and ASEAN, regions driving future growth. This expansion is leading to an increasing volume of foreign currency-denominated transactions in areas like materials procurement for overseas development properties. These transactions are affected by exchange rate fluctuations, which may have a negative impact on the Group's business performance or financial position.</p>						<p>In principle, the Group procures capital at fixed interest rates and hedges exchange rate fluctuation risk in part by currency swaps. While we diversify the methods and sources of our capital procurement (borrowings), we make efforts to maintain and improve credit ratings by controlling our balance of interest-bearing debt, etc., to ensure needed financing facility. Furthermore, we have established commitment lines enabling immediate procurement of necessary working capital even during dramatic changes in the financing environment.</p>				

Operational Risks

h. Risks related to the occurrence of natural disasters, accidents, and terrorism

Risk Assessment	S	H	M	L	☆	Measure Urgency	High	Medium	Low	☆
Risk Scenarios						Measures				
<p>Since the Group conducts business both in Japan and overseas, the malls we manage and operate may suffer damage (including damage to reputation), destruction by fire, deterioration, or other serious harm as a result of events occurring in the respective mall's country or region. These incidents include natural disasters such as large-scale earthquakes, typhoons, and torrential rains, as well as human accidents such as fire and power outages, and even acts of violence or terrorism that endanger human life. Such events could force a suspension of business, having a negative impact on the Group's business performance or financial position.</p>						<p>The Group has established and is working to strengthen our risk response systems to minimize harm caused in the event of emergencies. We have established and communicated our crisis management administration rules and Risk Management Rules that address natural disasters, epidemics, accidents, etc. Furthermore, we conduct disaster prevention drills simulating large-scale earthquakes and terrorist attacks.</p> <p>Measures taken to protect buildings and facilities include seismic retrofitting and fire protection soffit slabs to mitigate harm in the event of a large-scale earthquake. We also install plate water stops in malls at risk of flood damage.</p> <p>The Group subscribes to fire insurance at all malls we operate, as well as profit insurance to cover lost rent and other expenses in the event of a fire, flood, or other large-scale disaster. The Group subscribes to earthquake insurance jointly with the AEON Group, striving to manage risks associated with earthquakes in an appropriate manner.</p>				

i. Risks related to the occurrence of war, civil disorder, and coup d'état

Risk Assessment	S	H	M	L	☆	Measure Urgency	High	Medium	Low	☆
Risk Scenarios						Measures				
<p>Since the Group conducts business both in Japan and overseas, the malls we manage and operate may suffer damage (including to damage to reputation), destruction by fire, deterioration, or other serious harm as a result of events occurring in the respective mall's country or region, including war, civil disorder, and coup d'état. Such events may lead to long-term mall closures, wider vacancies due to the withdrawal of tenants in Japan and/or overseas, and costs incurred to rebuild damaged malls. This could have a negative impact on the Group's business performance or financial position.</p>						<p>Particularly when developing business overseas, the Group pursues business in partnership with local governments, local companies, and other business partners. We strive to collect information through close communication with these parties.</p> <p>We work to build a system by which we engage in appropriate responses, even in the event of an emergency. This system includes measures such as preparing various rules and manuals, e.g., the Risk Management Rules and emergency response manuals, conducting training based on business continuity plans (BCP) in each country, and educating employees on crisis management.</p>				

j. Risks related to the spread of infectious diseases

Risk Assessment	S	H	M	L	☆	Measure Urgency	High	Medium	Low	☆
Risk Scenarios						Measures				
<p>The Group is engaged in the mall business both in Japan and overseas. In the event of an outbreak of a large-scale and severe infectious disease in countries and regions where the Group operates malls, national or municipal government lockdown orders, requests to restrict activities, or other actions could limit customer movement outside their homes. Such developments could lead to changes in customer values and consumption behavior. In the event that the malls managed and operated by the Group are forced to close temporarily, to shorten business hours, or to change plans for mall openings, this may have a negative impact on the Group's business performance or financial position.</p> <p>The spread of COVID-19 has caused a slowdown in the global economy and changed customer lifestyles. As it is difficult to predict when the pandemic will subside, we expect uncertainty to remain as to the future business environment.</p>						<p>Based on the AEON COVID-19 Prevention Protocol, a standard for quarantine measures established by AEON to protect the health and livelihoods of tenants and Company employees, the Group continues to establish improved mall environments and operations in the interest of infection prevention measures. We view this as an opportunity to reinvent our business models and create malls that offer new concepts and service functions in the era of the new normal and in response to changing customer values and consumption behavior. We strive to create malls that respond to social change in Japan and overseas.</p> <p>We are also working to prevent the spread of infection through rigorous health management, including temperature checks, and we encourage telecommuting, so employees work in good health and safety. We pursue work efficiency through videoconferencing systems and improved remote work environments. We are also moving forward with initiatives toward work-style reforms.</p>				

k. Risks related to information security

Risk Assessment	S	H	M	L	☆	Measure Urgency	High	Medium	Low	☆
Risk Scenarios						Measures				
<p>The importance of the Group's information systems within our overall business operations has increased dramatically. In the event of a large-scale natural disaster or similar occurrence, data centers could be damaged and information system operations could be interrupted.</p> <p>If the personal information of our customers or employees, confidential business information, or other information is leaked or altered as a result of cyberattacks or other unforeseen circumstances, the Group's social credibility may be damaged, and the Group may become responsible for paying significant compensation for damages. Such events could have a negative impact on the Group's business performance or financial position.</p>						<p>To address the risk of information system outages, we have backup data centers in standby operation at remote locations in addition to data centers in primary operation. By establishing a system allowing recovery, even in the event of failure at the primary data center, we have further strengthened our current business continuity plan (BCP), striving to minimize the impact of large-scale natural disasters on Group businesses.</p> <p>With respect to risks such as information leakage and alteration, we have implemented a number of measures against cyberattacks. These measures include antivirus software on work computers, logging tools for network communications, and limitations on the use of external recording media in work computers. We have also implemented a variety of measures in our operations. These measures include the latest security patches to applications and other software used, information security education programs for employees, and regular information system security checks.</p>				