

# Risk Management and Compliance

## Risk management structure

The Internal Control Committee comprehensively manages Group-wide risks based on risk management regulations, and engages in awareness, guidance, education, and other efforts aimed at preventing and minimizing risks and damage. Every year, risk managers in each division identify and evaluate risks in terms of degree of impact and frequency of occurrence, summarizes them in a risk assessment chart that includes countermeasures, and submits it to the Internal Control Committee. The Internal Control Committee comprehensively assesses the status of Group-wide risks based on risk assessments and countermeasures submitted by each division risk manager.

Risk management conditions and decisions regarding major risks are reported annually to the Board of Directors for discussion and supervision. After Board of Director deliberations, the Internal Control Committee continuously monitors the risk management structure and implementation of countermeasures.

Principal risks identified as having the potential to materially affect DCM Holdings' financial position, results of operations, and cash flows are as follows. The Internal Control Committee assessment of risks in fiscal 2022 confirms there are no problems with risk responses and the variability of the risks themselves.

Risk Items	Risk Details	Responses
Risks Associated with Store Openings	<ul style="list-style-type: none"> <li>There is a possibility that plans for new store openings may be affected by changes in economic conditions may require more time to secure sites for new store openings, and that various circumstances, such as the opening of new stores by competitors, may affect plans for new store openings.</li> <li>There is a possibility that plans for new store openings may be affected by legal restrictions that delay store openings.</li> </ul>	<ul style="list-style-type: none"> <li>DCM opens new stores in coordination with local residents and local authorities, with consideration for the local environment, and in compliance with laws and regulations.</li> <li>Information pertaining to the progress of store openings is shared at Management Council and other meetings as needed, and when it is determined that the Company will be affected, we promptly coordinate with relevant departments to take countermeasures.</li> </ul>
Risks Associated with Climate Change	<ul style="list-style-type: none"> <li>There is a possibility that our product supply system and overall business may be adversely impacted by an increase in extreme weather events associated with climate change.</li> <li>There is a possibility that our business performance may be affected in the event sales of seasonal products fall short of sales promotion plans due to flagging demand caused by unseasonable weather such as cool summers or warm winters.</li> </ul>	<ul style="list-style-type: none"> <li>DCM makes efforts to procure products from multiple suppliers in order to maintain stable procurement.</li> <li>We regard climate change as an important management issue, endorse the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and have established targets for the reduction of greenhouse gas emissions by 2050.</li> <li>Going forward, the Sustainability Committee, chaired by the President and COO, will continue to discuss specific countermeasures</li> </ul>
Risks Associated with Sales Fluctuations	<ul style="list-style-type: none"> <li>There is a possibility that our business results may be affected by competitors opening new stores or changes in customer purchasing behavior in line with revisions to related laws and regulations.</li> </ul>	<ul style="list-style-type: none"> <li>Based on our Company Philosophy "Do Create Mystyle" under the long-term business concept "transforming into an integrated business that comprehensively makes people's lives more comfortable," we aim to become a company that offers comprehensive solutions that enrich people's lives and is indispensable to society.</li> </ul>
Risks Associated with Natural Disasters and Other Emergencies	<ul style="list-style-type: none"> <li>There is a possibility that our business results may be affected by the collapse of buildings and other structures in the event of a major earthquake.</li> </ul>	<ul style="list-style-type: none"> <li>We have established guidelines and an emergency response manual, maintain an emergency contact network, introduced a safety confirmation system, and implement other measures such as periodic drills and the stockpiling of necessary supplies.</li> <li>In the event of a disaster or other emergency, we create a task force to ensure business continuity through Group-wide coordination.</li> </ul>
Risks Associated with Infectious Disease	<ul style="list-style-type: none"> <li>There is a possibility that product supplies will be delayed, employees will become ill, and stores will be forced to shorten business hours or temporarily close due to infectious disease.</li> <li>There is a possibility that our business performance may be affected in the event an infectious disease epidemic becomes prolonged, economic activity stagnates, and consumer sentiment cools.</li> </ul>	<ul style="list-style-type: none"> <li>To prevent infection, we take measures that include checking employee temperatures before they come to work, handwashing, and wearing masks, and at stores, we ensure that customers keep a safe distance, thoroughly disinfect and clean surfaces, and take other measures to prevent the spread of infection among customers and employees.</li> </ul>
Risks Associated with Private Brand Products	<ul style="list-style-type: none"> <li>There is a possibility that our business performance may be affected in the event that private brand (DCM brand) products, some of which are supplied by overseas vendors, experience delivery disruptions, supply instabilities, or if we fail to develop products that meet consumer needs.</li> </ul>	<ul style="list-style-type: none"> <li>To ensure stable procurement, we will review the country of origin for each product, diversify production areas, and establish a system that enables procurement from multiple suppliers.</li> <li>When developing new products, we established a system that enables us to proactively incorporate the opinions and ideas of employees and focus on product development from the customers' perspective. We strive to reduce risks through trial sales of small lots of manufactured products before commercialization.</li> </ul>
Risks Associated with Fixed Asset Impairment	<ul style="list-style-type: none"> <li>There is a possibility that our business performance and financial position may be affected in the event we were to record an impairment loss on an asset for which a new impairment loss must be recognized.</li> </ul>	<ul style="list-style-type: none"> <li>We check for signs of impairment, and if there are any concerns regarding impairment, we take steps to improve profitability and reduce risk.</li> </ul>
Risks Associated with Exchange Rate Fluctuations	<ul style="list-style-type: none"> <li>There is a possibility that our business performance may be affected in the event exchange rate fluctuations are greater than expected.</li> </ul>	<ul style="list-style-type: none"> <li>DCM strives to reduce risks by entering into forward exchange contracts.</li> </ul>
Risks Associated with Interest Rate Fluctuations	<ul style="list-style-type: none"> <li>There is a possibility that our business performance and financial position may be affected in the event of a rapid and significant rise in interest rates leading to increased interest rate payments and other factors.</li> </ul>	<ul style="list-style-type: none"> <li>When procuring funds, we make every effort to limit the impact of market interest rate fluctuations using a combination of fixed and floating interest rates, depending on the procurement environment.</li> </ul>
Risks Associated with the Leak of Personal Information	<ul style="list-style-type: none"> <li>There is a possibility that our trustworthiness in the eyes of society and business performance may be affected in the event personal information is leaked due to unforeseen criminal acts, accidents, and other factors.</li> </ul>	<ul style="list-style-type: none"> <li>In addition to formulating rules associated with information security and the handling of personal information, creating an IT environment conforming to those rules, and regularly providing employees with educational opportunities, we make efforts to strengthen information security countermeasures using targeted email attack drills and other training.</li> </ul>
Risks Associated with Company Acquisitions and Business Transfers	<ul style="list-style-type: none"> <li>There is a possibility that unanticipated contingent or unrecognized liabilities may arise when conducting M&amp;A activities.</li> <li>There is a possibility that our business performance and financial position may be affected in the event the synergies initially envisioned are not realized.</li> </ul>	<ul style="list-style-type: none"> <li>When engaging in M&amp;A activities, we conduct detailed due diligence on the target company's business plan, financial position, real estate, employment contract relationships, and other factors. The Board of Directors and other relevant bodies review risks identified through due diligence, the synergistic effects expected from M&amp;A activity, and the appropriateness of the acquisition price, among other efforts aimed at minimizing risk.</li> </ul>

## Compliance Policy

With regard to compliance management, we laid out the DCM Holdings Compliance Policy. Each and every employee is aware of the company's societal responsibility and we ensure that we observe all laws, ordinances and societal norms and ethics, and that corruption is prevented. With this

as the foundation, employees work as members of a company that is trusted by society. To put our compliance policy into practice, we established a compliance program to lay out substantive codes of conduct and standards, and periodically and continually implement compliance education.

### 1. Statement of Compliance

We aim to be a company that is aware of its societal responsibilities, that observes all laws, ordinances, rules and societal norms and ethics, and that is trusted by society.

### 2. Charter of Corporate Behavior

The DCM Group always acts with the customer in mind

- We offer products with peace of mind
- We keep our promises and operate with integrity
- We offer products and services with good value
- We provide products and services that come with a greeting and a smile
- We promote management that puts the customer-first, and give it our all to ensure it stays that way

The DCM Group values its employees

- We respect the human rights and individuality of each and every one of our employees
- We offer opportunities and an environment where all of our employees can grow their natural gifts and abilities
- We evaluate the roles, duties and results of all employees fairly

The DCM Group aims to build even stronger partnerships with our clients

- We will clarify the conditions of the dealing, and our reciprocal responsibilities
- We respect clients who can share our principles
- We maintain fair and equitable partnerships and respect laws, ordinances and rules
- We do not accept the donation of undue money or gifts, nor entertainment

The DCM Group will not betray the trust of stockholders

- We actively work to return profits to stockholders
- We actively engage in dialogues and aim to find solutions to business challenges
- We aim for healthy growth with innovative management
- We disclose information in a timely manner and fulfill our accountability

The DCM Group grows together with local communities and society

- We aim to create community-based stores
- We work to protect the global environment with things such as developing environmentally-friendly products
- We do not involve ourselves with antisocial forces or individuals

## Our Compliance System

We have established an Internal Control Committee. This committee fulfills compliance-related functions and is responsible for compliance activities within the DCM Group. In the event that a major compliance issue arises in the DCM Group, this committee is expected to take the lead in addressing the issue and formulating countermeasures.

As for specific activities related to compliance, the Group is working to create a compliance program, create educational tools, and conduct education and training.

In addition, because we are a retail business group, we consider the issue of compliance is particularly important for merchandisers, who select products to be purchased from suppliers, and distributors, who determine the quantity and

delivery method of the selected products. Thus, not only have we created a code of conduct regarding the Antimonopoly Act, Subcontract Act, and other laws and regulations related to fair trade, but we also conduct training.

We also educate our employees about the Labor Standards Act, the Act on Securing, Etc. of Equal Opportunity and Treatment between Men and Women in Employment, and other issues that are familiar to them through internal newsletters and posters. In addition, we have established a whistleblower system (commonly known as the helpline) in accordance with the Whistleblower Protection Act, and are working to ensure that compliance management functions effectively.