# Risk Management

## Risk Management System

The Executive Management Committee supervises overall risk management for the Group, and the President and Chief Executive Officer, who chairs the Executive Management Committee, supervises risk management. Under their supervision, the Strategy Planning Special Committee and the Risk Management Special Committee manage business risk and administrative risk, respectively, and these risk management systems are supervised by the Board of Directors.

The Risk Management Special Committee meets in principle once a month to identify and delineate risk issues and evaluate and propose preventive and response measures. Where required, the committee shares information and/or communicates in other ways with the Mitsui Fudosan Group.

## Major Risks

See our annual securities report for details (In Japanese only).
https://www.mitsuifudosan.co.jp/corporate/ir/library/fs/pdf/YUHO_2403.pdf

### Business Risk: Business risk is primarily risk associated with advancing business and earning profits.

| Name of risk | Overview | Action |
|---|---|---|
| Risk due to change in the business environment | ●Changes in business environment in general (exchange rate fluctuations, rising interest rates, declining birth rate and aging population, etc.)<br>●Changes in customer needs (lifestyle changes following the spread of the coronavirus infection, etc.) | ●Strengthen coordination between Group companies<br>●Develop products that anticipate customer needs<br>●Further strengthen neighborhood creation<br>●Provide new business infrastructure to customers<br>●Promote DX<br>●Develop a location strategy that takes into account population and supply trends<br>●Build a strategic asset portfolio including overseas assets, etc. |
| Risk associated with market interest rates | ●Rising fund procurement costs associated with rising interest rates<br>●Deterioration in the Company's performance associated with rising interest rates (falling housing sales prices, rising investor yield expectations) | ●Procure the necessary funding with a focus on long-term, fixed-rate interest loans that are comparatively resistant to rising market interest rates<br>●Pay close attention to fluctuations in housing loan interest rates and capitalization rates resulting from interest rate trends<br>●Mitigate the risk of rising interest rates by appropriately controlling balance sheets |
| Risk associated with exchange rate fluctuations | ●Cost fluctuations through import prices<br>●Impact of the inclusion of the PL/BS statements of overseas business<br>●Decrease in rent revenues due to the impact of tenant companies' performance | ●Control various costs by paying close attention to cost fluctuations, including changes in exchange rates, and by taking appropriate action<br>●Leasing business: Reduce decreases in revenue, etc., by maintaining product competitiveness and by strengthening efforts to attract tenants<br>●Overseas business: Reduce exchange rate fluctuation risk by procuring funds backed by local currencies and through portfolio decentralization |
| Risk associated with climate change | ●Large-scale climate change<br>●Changes in needs that take climate change risks into account | ●Position action on climate change as a key management issue<br>●Formulate the Group Action Plan to Realize a Decarbonized Society, and strengthen forecasting and action on climate change |
| Geopolitical risk | ●Impact of countries/areas concerned<br>●Impact of supply chain disruptions, etc. | ●Appropriately decentralize the portfolio by area and product<br>●Make investment decisions and promote business in consideration of risk on an individual project basis |
| Risk associated with the spread of infectious diseases | ●Business restrictions due to the spread of the coronavirus infection<br>●Decrease/change in customer needs due to the spread of the coronavirus infection | ●Formulate Mitsui Fudosan 9BOX Infection Control Measure Standards for the purpose of mitigating and preventing damages from infectious diseases<br>●Maintain and strengthen competitiveness through measures that consider the impact of infectious diseases<br>●Take a well-balanced approach to business activities in a way that also prioritizes the protection of human life in the event new infectious diseases emerge |
| Risk from competition in the real estate industry | ●Competition with other companies in each business<br>●Disruptive innovation | ●Strengthen coordination between Group companies<br>●Develop products that anticipate customer needs<br>●Further strengthen neighborhood creation<br>●Provide new business infrastructure to customers<br>●Promote DX<br>●Enhance the value of existing facilities<br>●Use the Group's capabilities to seize business opportunities, etc. |
| Risk associated with rental income | ●Decrease in rental income due to tenant cancellations/rent reductions, contract cancellations, tenant bankruptcies, etc. | ●Strengthen coordination between Group companies<br>●Develop products that anticipate customer needs<br>●Further strengthen neighborhood creation<br>●Provide new business infrastructure to customers<br>●Promote DX<br>●Enhance the value of existing facilities<br>●Strengthen and promote tenant leasing |
| Risk of changes in asset values | ●Falling asset values due to declining demand for housing/rising investor yield expectations | ●Build a risk-resistant business platform by optimizing balance sheets and portfolios<br>●Mitigate the risk of asset value fluctuation by ascertaining changes in market-based asset values and by strengthening market competitiveness |
| Cost fluctuations risk | ●Price fluctuations in costs for construction, energy, labor, etc. | ●Control various costs by ascertaining market cost fluctuations and by taking appropriate action on an individual project basis |
| Fund procurement risk | ●Increase in funding costs due to changes in the lending attitudes of financial institutions, etc.<br>·Rise in market interest rates<br>·Financial market turmoil<br>·Downgrading of the Company's credit rating, etc. | ●Maintain financial soundness through D/E ratio management<br>●Secure stable funding through capital procurement that ensures sufficient liquidity |
| Real estate development risk | ●Cost increases and schedule delays due to a variety of circumstances during development (weather, disasters, buried objects, soil contamination, etc.) | ●Promote projects and engage in construction management based on investment decisions that consider risk<br>●Build a governance framework that can rapidly and appropriately take action in preparation for problems that impact business |
| Risk associated with overseas business | ●Business environments in overseas countries (inflation, exchange rates, civil wars/conflicts, impact of geopolitical risks on countries/areas concerned, etc.)<br>●Financial status, etc. of local partner companies | ●Collect the necessary information for overseas business expansion<br>●Select local partner companies that are well-versed in local matters<br>●Formulate the Global Governance Guidelines as a standard governance policy for overseas businesses<br>●Implement appropriate risk management through a three-tiered approach consisting of overseas subsidiaries, the Head Office's International Division, and Head Office staff |
| Risk related to property portfolio location | ●Occurrences of natural disasters, man-made disasters or acts of terrorism (earthquakes, typhoons, missiles, etc.) that cause damage to areas where our assets are concentrated | ●Decentralize portfolio areas<br>●Enhance building durability<br>●Introduce damage assessment systems<br>●Commission emergency generators that can operate for 72 hours<br>●Promote BCP measures for the special power business, etc. |
| Risk associated with changes to laws, regulations, and government policy | ●Changes to business structure and fund procurement methods in response to changes in laws and regulations | ●Take appropriate action upon collecting and analyzing information regarding trends in domestic and overseas legal and regulatory environments, and after sharing this information with each organization as necessary |
| Risk associated with securing diverse human resources | ●Insufficient human resource development and recruitment to respond to changes in the business environment and changing needs | ●Position the promotion of diversity and inclusion as a key management issue<br>●Formulate the Diversity and Inclusion Declaration, and Initiative Policy |

### Administrative Risk: Operational risk associated with administrative duties

| Name of risk | Overview | Action |
|---|---|---|
| Disaster risk | ●Natural disasters (earthquakes, wind and flood damage, etc.)<br>●Man-made disasters (war, acts of terrorism, etc.) | ●Formulate a business continuity plan (BCP) for each disaster type<br>●Prepare a framework that minimizes the impact of disasters<br>●Regularly conduct disaster response training assuming large-scale earthquakes<br>●Prepare a 24-hour, year-round system based on a day and night shift system<br>●Implement measures to design disaster-resistant facilities |
| System risk | ●Systems failures and data leaks due to cyberattacks, etc.<br>i IT systems<br>ii Control systems | ●Conduct systematic security diagnoses and inspections of information and control systems<br>●Improve the environment for handling cyberattacks and information leaks<br>●Establish Information Management Rules and Confidential Information Handling Rules, and conduct regular educational and awareness raising activities regarding personal information |
| Compliance risk | ●Violations of laws, company rules, social norms, etc.<br>i Violations of laws and regulations in business execution<br>ii Violations of laws and regulations for employee personal gain | ●Formulate the Mitsui Fudosan Group Compliance Policies and other internal regulations, and thoroughly inform employees of these through regular training<br>●Formulate an operations flow for legal compliance, and implement regular voluntary inspections |
| Quality risk | ●Caused by product/service/operation quality<br>i Properties/real estate<br>ii Management and operation business<br>iii Other business | ●Real estate development business: Establish proprietary Group quality standards, ensure compliance among construction companies, verify construction progress, and implement quality inspections<br>●Operational quality for leased and managed facilities: Formulate and apply manuals according to operational details<br>●Insure against damages |