

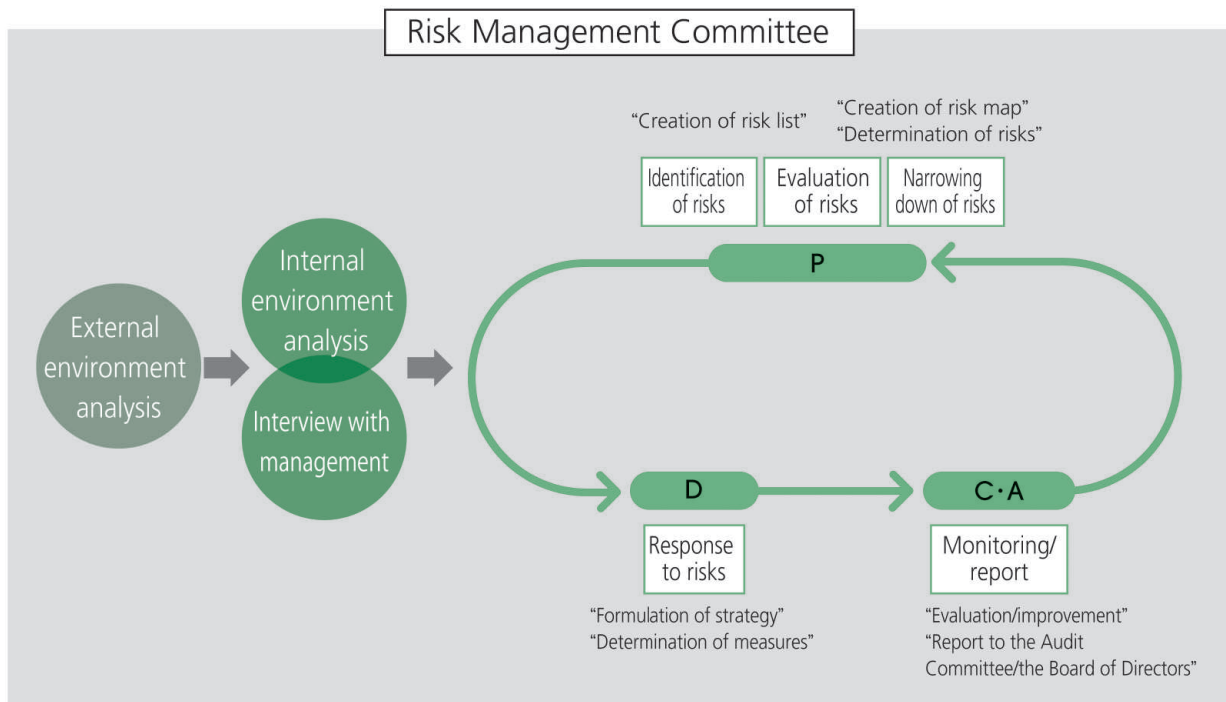
Control Risk Properly

The Group defines risk as “uncertainty, which affects the organization’s profit or loss in a changing environment.” Risk has both a positive side (opportunity) and a negative side (threat) and we think a company will grow in a sustainable way if risks are addressed properly.

For risk management, we have formed the Risk Management Committee as an advisory body to the President and Representative Executive Officer, which is chaired by the President and Representative Executive Officer and comprises Executive Officers and others. The committee has a secretariat whose general manager is an officer in charge of risk management. The secretariat shares the policies and important matters decided by the Risk Management Committee with

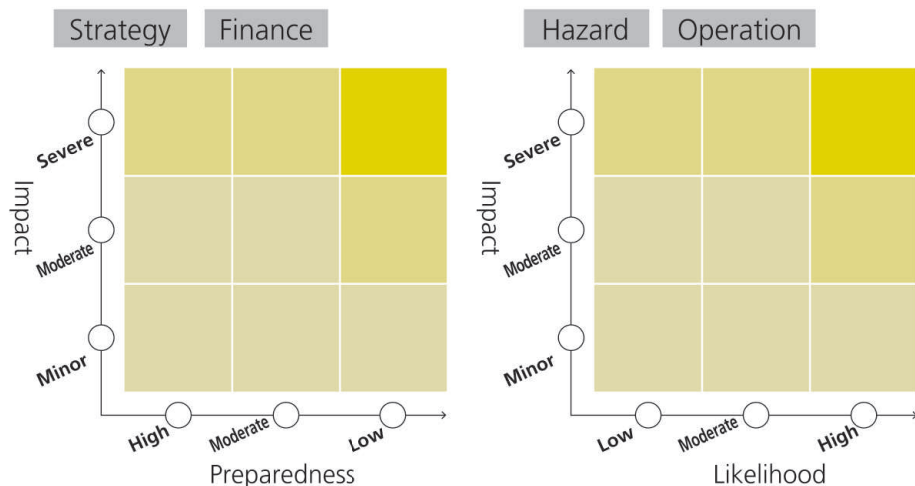
operating companies to promote risk management across the Group. By positioning risk as the starting point of strategy and linking risk with strategy, we promote risk management as one of initiatives to enhance corporate value.

The Risk Management Committee identified and evaluated risks (uncertainty) based on an analysis of an environment and narrowed them down to priority risks. We share risk recognition as the “list of J. Front Retailing Group risks” including 101 items (see page 63) across the Group. Concerning extremely important risks, which are defined as “business risks,” the Risk Management Committee discusses and decides a policy for addressing them and reflect them in the “Group strategies.”



► Risk map

We have two risk maps including a “strategy” / “finance” risk map and a “hazard” / “operation” risk map.



► List of the Group key risks

Category	Risk item	Impact on the Group	Negative side of risk (threat)	Positive side of risk (opportunity)	Measures
Hazard risk	Infection	Occurrence: Will increase Change: Rapidly accelerating Affects the survival of business	<ul style="list-style-type: none"> Loss of human life Temporary closing Radical review of business activities and work styles Changes in consumer values and behavior 	—	<ul style="list-style-type: none"> Ensuring the safety of customers and employees Cooperation with suppliers Securing alternate supply chain Business model transformation
	Disaster	Occurrence: Has increased for a few years Change: Rapidly accelerating Critical impact on performance/finance that affects the survival of business	<ul style="list-style-type: none"> Damage to human life Suspension of business activities Decline in store ability to attract customers Occurrence of repair cost System halt 	—	<ul style="list-style-type: none"> Ensuring the safety of facilities Developing a business continuity plan, strengthening drills Transferring important data to cloud storage, creating backup center
Strategy risk	Advanced technologies	Occurrence: Has increased for a few years Change: Further accelerating Very severe impact on retail and other existing businesses	<ul style="list-style-type: none"> Creative destruction of existing businesses by IT companies Decline in competitiveness of existing businesses due to delayed use of big data 	<ul style="list-style-type: none"> Use of technologies in existing businesses Use of big data Improvement of operations 	<ul style="list-style-type: none"> Creating new experience value using technologies/big data Improving productivity by introducing RPA, etc.
	Progress of sharing economy	Occurrence: Increasing over the medium term Change: Moderately accelerating Very severe impact on retail business	<ul style="list-style-type: none"> Expansion of areas for sharing by emerging companies Spread of consumption behavior not based on buying 	<ul style="list-style-type: none"> Creation of new demands in response to changes in consumers Participation in circular businesses 	<ul style="list-style-type: none"> Entry into sharing business Promoting the 3Rs in physical stores
	Increasing importance of ESG	Occurrence: Increasing over the medium to long term Change: Further accelerating Very severe impact on corporate value, reputation and financing	<ul style="list-style-type: none"> Harsh look at link between ESG initiatives and increase of business profitability 	<ul style="list-style-type: none"> Growing consumer interest in a sustainable society Positive impact on financing 	<ul style="list-style-type: none"> Creating new CSV Promoting materiality issues Strengthening information disclosure
	Shift of existing businesses from maturity to decline	Occurrence: Has increased for a few years Change: Moderately accelerating Very severe impact on the performance of the entire Group including retail business	<ul style="list-style-type: none"> Loss of customers due to obsolete business model 	<ul style="list-style-type: none"> Momentum of consumers emphasizing the experiences only physical stores can deliver 	<ul style="list-style-type: none"> Developing complex type stores/floors with new concept Business model innovation
	Changes of suppliers	Occurrence: Has increased for a few years Change: Rapidly accelerating Very severe impact on retail business	<ul style="list-style-type: none"> Lower appeal and poorer assortment of retail stores 	<ul style="list-style-type: none"> Opportunity to revise the supplier policy (new development, new collaboration with existing suppliers) 	<ul style="list-style-type: none"> Developing a new store model in cooperation with existing suppliers Developing new good suppliers
Finance risk	Financing ● Changes in liquidity ● Interest rate fluctuations	Occurrence: Current greatest problem Will increase for at least one or two years Change: Rapidly accelerating Very severe impact on financial stability	<ul style="list-style-type: none"> Worse conditions for securing funds (amount/cost/timing) 	<ul style="list-style-type: none"> Efficient/effective financing 	<ul style="list-style-type: none"> Diversifying financing methods based on the financing policy
	Exchange ● Exchange rate fluctuations	Occurrence: Will increase for at least one or two years Change: Rapidly accelerating Severe impact on profitability	<ul style="list-style-type: none"> Decrease in foreign tourists, decline in motivation to spend Increase in procurement cost 	<ul style="list-style-type: none"> Increase in foreign tourists to Japan, brisker spending on big-ticket items Decrease in procurement cost 	<ul style="list-style-type: none"> Developing trade areas in countries other than China Attracting and retaining affluent foreign customers Risk hedges such as forward exchange contracts
	Share ● Stock market fluctuations	Occurrence: Will increase for at least one or two years Change: Rapidly accelerating Severe impact on performance and financial condition	<ul style="list-style-type: none"> Downturn in affluent consumer confidence Decrease in profit Difficult to manage pension assets 	<ul style="list-style-type: none"> Brisker spending on big-ticket items Increase in profit Better management of pension assets 	<ul style="list-style-type: none"> Stimulating demand that meets the needs of the affluent Ensuring the appropriate level of share price (purchasing our own shares) Reducing cross-shareholdings
	Impairment ● Changes in asset value	Occurrence: Will increase for at least one or two years Change: Rapidly accelerating Very severe impact on financial condition	<ul style="list-style-type: none"> Lower evaluation from stakeholders Weaker brand power Decline in the value of assets held by the Group 	<ul style="list-style-type: none"> Alignment between profitability and asset value 	<ul style="list-style-type: none"> Scrutinizing investment projects (recovery of investment) Finding early a sign of impairment and remedying it by managing in phases
Operation risk	Information management	Occurrence: Has increased for a few years Change: Further accelerating Severe impact on reliability and corporate image	<ul style="list-style-type: none"> Loss of social credibility Damage compensation 	—	<ul style="list-style-type: none"> Strengthening support by specialized units Strengthening the security of hardware Developing regulations, etc. Employee training
	Legal restraints and revisions	Occurrence: Remains high Change: Constant Severe impact on stable operation and credibility of existing and new businesses	<ul style="list-style-type: none"> Restrictions on business activities Occurrence of compliance cost Penalty for violation of law Decline in credibility 	—	<ul style="list-style-type: none"> Using external experts Strengthening support by specialized units Strengthening employee training and the whistleblowing system

In addition, we recognize risks and opportunities associated with climate change have significant impact on our business strategies. Therefore, the Group declared its support for the final report released by the “Task Force on Climate-related Financial Disclosures (TCFD)” that was established by the Financial Stability Board (FSB) (TCFD

recommendations) in May 2019. The Group will actively reduce energy consumption, use energy more efficiently, introduce renewable energy, and at the same time, further enhance information disclosure in line with the TCFD recommendations to “contribute to a low-carbon society.” (For details, see page 48.)