

Risk Management

# Risk Is the Starting Point of Strategy

The Company defines risk as “uncertainties that have both positive and negative sides that could have an impact on the achievement of business management goals.” And we position 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 side and the negative side of risk properly.

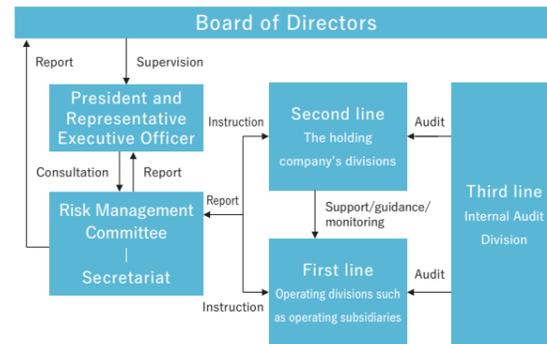
The Risk Management Committee, chaired by the President and Representative Executive Officer and composed of the Executive Officers of the Company and the presidents of major operating companies, serves as an advisory body to the President and Representative Executive Officer. The committee deliberates important matters, including identifying and assessing risks and deciding which risks to reflect in strategies, and utilizes risk management in management decision-making. The details of the deliberations of the committee are reported to the Board of Directors in a timely manner.

The committee has established a secretariat headed by an officer in charge of risk management. The secretariat shares

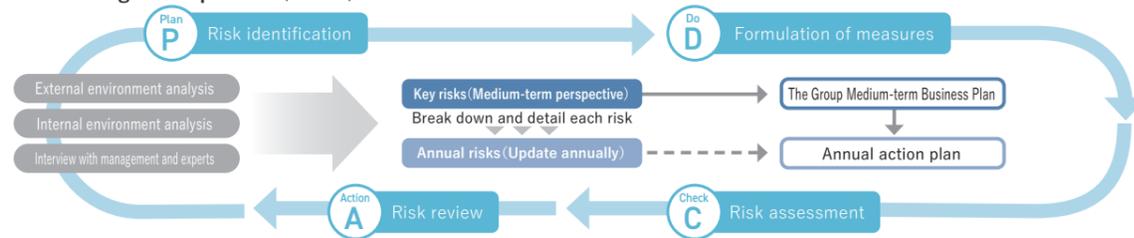
important decisions of the committee with operating subsidiaries and promotes enterprise risk management (ERM). Moreover, we position risk as the starting point of strategy and link risk to strategy so that risk management will enhance corporate value.

In order to effectively perform risk management, we have established three lines as indicated in the diagram below.

### Risk management workflow diagram



### Risk management process (PDCA)



### Overview of the Group key risks

	Internal environment (business environment)	External environment (macro environment)
Strategy risk	<ul style="list-style-type: none"> <li>Transformation of industry structure in existing businesses</li> <li>Intensifying competition in attracting human resources</li> <li>Diversification of consumer values and behaviors</li> <li>Rising presence of foreign consumers</li> <li>Widening disparity between cities</li> </ul>	<ul style="list-style-type: none"> <li>Accelerating technological innovation</li> <li>Growing importance of environmental issues</li> <li>Growing importance of respect for human rights</li> <li>Low birthrate, aging population and widening income disparity</li> </ul>
Finance risk		<ul style="list-style-type: none"> <li>Unstable economic trends</li> </ul>
Hazard risk		<ul style="list-style-type: none"> <li>Emergence of geopolitical and geoeconomic crises</li> <li>Outbreaks and spread of natural disasters and epidemics</li> <li>Increasing information security threats</li> </ul>
Operation risk	Operation risks are addressed as annual risks.	

**■** : Risks that have an extremely heavy impact and are given top priority

### List of the JFR Group Key Risks

Category	Item	Impact	Outlook for the future	Negative side	Positive side	Measures
Strategy risk	Transformation of industry structure in existing businesses	Very severe	↑	<ul style="list-style-type: none"> <li>Decreased vitality of the entire Group due to weak performance of large-scale store-based retail business</li> </ul>	<ul style="list-style-type: none"> <li>Regrowth by radical change of the business model of large-scale store-based retail business</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening existing businesses and developing businesses to transform our business portfolio</li> <li>Investment through M&amp;A and CVC with a view to the future</li> </ul>
	Intensifying competition in attracting human resources	Very severe	↑	<ul style="list-style-type: none"> <li>Loss of competitiveness in attracting human resources, outflow of talented human resources</li> <li>Decrease in employee motivation</li> </ul>	<ul style="list-style-type: none"> <li>Promotion of business strategy, creation of innovation</li> <li>Increase in employee engagement and organizational capability</li> </ul>	<ul style="list-style-type: none"> <li>Recruitment of professional human resources, exchange and development of the Group human resources</li> <li>Investment in human resources that leads to the realization of a Well-Being Life for employees</li> </ul>
	Accelerating technological innovation	Very severe	↑	<ul style="list-style-type: none"> <li>Sluggish growth of the entire Group</li> <li>Declining competitiveness due to delay in use of technology</li> </ul>	<ul style="list-style-type: none"> <li>Transformation of business model through use of technology</li> <li>Operation streamlining</li> </ul>	<ul style="list-style-type: none"> <li>Utilization of the Group database</li> <li>Improving operational efficiency through use of AI</li> <li>Building business models in new markets such as Web 3.0, XR, and NFT</li> <li>Developing digital human resources</li> </ul>
	Growing importance of environmental issues	Very severe	↔	<ul style="list-style-type: none"> <li>Defection of stakeholders and lower rating and brand power</li> </ul>	<ul style="list-style-type: none"> <li>Sustainable growth and improvement of the Group's presence</li> </ul>	<ul style="list-style-type: none"> <li>Reduction of GHG emissions</li> <li>Expansion of our range of environmentally friendly products and services</li> <li>Expansion of circular businesses such as sharing and upcycling</li> </ul>
	Growing importance of respect for human rights	Severe	↔	<ul style="list-style-type: none"> <li>Loss of reputation</li> <li>Decline in productivity and outflow of human resources due to deteriorating labor environment</li> </ul>	<ul style="list-style-type: none"> <li>Improvement of brand power by gaining stakeholder support</li> <li>Increase in employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>Building a sustainable supply chain through continuous implementation of human rights due diligence</li> <li>Internal training to improve employee understanding</li> </ul>
	Low birthrate, aging population and widening income disparity	Severe	↔	<ul style="list-style-type: none"> <li>Shrinkage of domestic market scale</li> <li>Decline in the largest demographic, which is our traditional target</li> </ul>	<ul style="list-style-type: none"> <li>Expanding new markets by responding to targets</li> </ul>	<ul style="list-style-type: none"> <li>Reaching consumers who prefer high-quality, uplifting consumption and experiences that satisfy their own preferences and values</li> <li>Expansion of customer base and business base to reach the above target</li> </ul>
	Diversification of consumer values and behaviors	Severe	↔	<ul style="list-style-type: none"> <li>Decrease in sales and revenue</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of new markets</li> </ul>	<ul style="list-style-type: none"> <li>Promotion of measures in line with the values of consumers who prefer high-quality, uplifting consumption and experiences that satisfy their own preferences and values (subscription business, home delivery business, entertainment, pop culture, etc.)</li> </ul>
	Rising presence of foreign consumers	Severe	↔	<ul style="list-style-type: none"> <li>Delay in capturing inbound sales</li> <li>Sharp decline in inbound sales</li> </ul>	<ul style="list-style-type: none"> <li>Increase in inbound sales</li> <li>Acquisition of foreign demand through e-commerce and other means</li> </ul>	<ul style="list-style-type: none"> <li>Continuing to strengthen product categories that are popular with customers both in Japan and overseas</li> <li>Promoting the development and ownership of content that enables overseas development in the digital domain</li> <li>Continued efforts to expand domestic customer base</li> </ul>
	Widening disparity between cities	Severe	↔	<ul style="list-style-type: none"> <li>Decline in urban commercial facilities' ability to attract customers</li> </ul>	<ul style="list-style-type: none"> <li>Business development through contribution to urban needs and urban development</li> </ul>	<ul style="list-style-type: none"> <li>Participation in urban development in collaboration with local governments at the Group key locations (commercial facilities, offices, hotels, residences, etc.)</li> </ul>
	Finance risk	Unstable economic trends	Severe	↔	<ul style="list-style-type: none"> <li>Loss of earnings opportunity</li> <li>Rising cost of funds</li> </ul>	<ul style="list-style-type: none"> <li>Promoting growth strategies and business portfolio changes</li> <li>Lowering cost of funds</li> </ul>
Hazard risk	Outbreaks and spread of natural disasters and epidemics	Very severe	→	<ul style="list-style-type: none"> <li>Damage to the lives of customers and employees</li> <li>Business continuity crisis</li> </ul>	<ul style="list-style-type: none"> <li>Stable business operations</li> </ul>	<ul style="list-style-type: none"> <li>Continuously implementing practical BCP training</li> <li>Conducting periodic reviews of business continuity plans</li> <li>Strengthening preparedness for new pandemic</li> </ul>
	Emergence of geopolitical and geoeconomic crises	Severe	↔	<ul style="list-style-type: none"> <li>Danger and living difficulties for employees posted abroad (business travelers)</li> </ul>	<ul style="list-style-type: none"> <li>Stable operation of overseas business</li> </ul>	<ul style="list-style-type: none"> <li>Establishment and promotion of an overseas crisis management system that takes into account the risk environment and actual conditions of the overseas posting and business trip destinations of employees</li> <li>Closely monitoring the impact on the Group's business (especially overseas business)</li> </ul>
	Increasing information security threats	Severe	↔	<ul style="list-style-type: none"> <li>Occurrence of personal information leaks, lawsuits, and liability for damages, loss of social trust</li> <li>Delay/stagnation of operations</li> </ul>	<ul style="list-style-type: none"> <li>Stable running of operations and systems</li> <li>Operation streamlining and promotion of remote work</li> </ul>	<ul style="list-style-type: none"> <li>Developing and upgrading the Group's common system infrastructure</li> <li>Promoting sophistication of security operations and strengthening the response system</li> <li>Reviewing the Group security guidelines and improving employee security awareness and literacy through training, etc.</li> </ul>

Impact: The economic impact on the Group and the impact on its brand value during the period of the Medium-term Business Plan are taken into consideration. Outlook: Changes to risks during the period of the Medium-term Business Plan are projected taking into account the severity of their impact on the Group.

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When risks are categorized in more than one area, they are listed in the area that has the greatest impact on or relevance to the Group's strategy.