Risk Is the Starting Point of Strategy

The Group defines risk as “uncertainties that have both positive and negative sides that could have an impact on the achievement of business 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 discusses important matters, including risk extraction and evaluation and determination of risks to be reflected in strategies, and utilizes risk management for decision-making. The committee reports details of its deliberations 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**

1. **Corporate risks**
   - **Medium-term management risks** (Update every 2 to 5 years)
   - **Group Medium-term Business Plan** (Update every 3 to 5 years)
   - **Annual action plan** (Update every year)

2. **The Group “corporate risks”**
   - **Top priority risks**
     - **Advanced sustainability management**
     - **Decline of existing business models**
     - **Accelerated digitization**
     - **Changes in consumer behavior after COVID-19**
   - **Risk changes during the term of the Medium-term Business Plan that were forecast considering the impact on the Group, measures, etc.**

3. **Risk management Committee**
   - **Board of Directors**
   - **Representative Secretariat**
   - **Risk Management Committee 1st Secretariat**
   - **Risk Management Committee 2nd Secretariat**
   - **Third line Secretariat**

4. **Response to risks**
   - **Identification/evaluation of risks**
   - **Monitoring/reporting**

5. **The Group Medium-term Business Plan**
   - **Strategic theme**
     - **Corporate sustainability**
     - **Finance**
     - **HR/organizational reforms**
     - **Internal management**
     - **Group Medium-term Business Plan**
     - **Annual action plan**

6. **Response to external environment**
   - **Top priority risks**
     - **Advanced sustainability management**
     - **Decline of existing business models**
     - **Accelerated digitization**
     - **Changes in consumer behavior after COVID-19**
   - **Risk changes during the term of the Medium-term Business Plan that were forecast considering the impact on the Group, measures, etc.**

7. **Risk map**
   - **Update every year**

8. **List of the Group “corporate risks”**
   - **Category**
     - **No.**
     - **Item**
     - **Impact**
     - **Outlook**
     - **Negative side**
     - **Positive side**
     - **Measurements**
   - **Risk changes during the term of the Medium-term Business Plan that were forecast considering the impact on the Group, measures, etc.**

9. **JFR Group Risk List**
   - **Update every 3 to 5 years**

10. **Representative**
    - **President and General Manager**
    - **Secretariat**

11. **JHI .PEFSBUF -PX**
    - **JFR Group Risk List**
    - **Update every 3 to 5 years**

12. **Promoting the use of digital transformation technologies**
    - **Digital transformation technologies**
    - **Digital transformation technologies**

13. **Risk changes during the term of the Medium-term Business Plan that were forecast considering the impact on the Group, measures, etc.**
    - **Top priority risks**
      - **Advanced sustainability management**
      - **Decline of existing business models**
      - **Accelerated digitization**
      - **Changes in consumer behavior after COVID-19**
    - **Risk changes during the term of the Medium-term Business Plan that were forecast considering the impact on the Group, measures, etc.**

**Top priority risks that have an extremely severe impact**

- **Advanced sustainability management**
- **Decline of existing business models**
- **Accelerated digitization**
- **Changes in consumer behavior after COVID-19**

**Risk changes during the term of the Medium-term Business Plan that were forecast considering the impact on the Group, measures, etc.**

- **Top priority risks**
  - **Advanced sustainability management**
  - **Decline of existing business models**
  - **Accelerated digitization**
  - **Changes in consumer behavior after COVID-19**

**List of the Group “corporate risks”**

<table>
<thead>
<tr>
<th>Category</th>
<th>No.</th>
<th>Item</th>
<th>Impact</th>
<th>Outlook*</th>
<th>Negative side</th>
<th>Positive side</th>
<th>Measurements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>1</td>
<td>Advanced sustainability management</td>
<td>Very severe</td>
<td>- Detection of stakeholders, decline in the Group’s performance</td>
<td><strong>Sustainable growth, increase in the Group’s performance</strong></td>
<td>- Clarifying value creation story that creates both social value and economic value</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Decline of existing business models</td>
<td>Very severe</td>
<td>- Decline of the entire Group’s profitability faster than expected</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Enabling customer touch points that include sustainable technologies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Accelerated digitization</td>
<td>Very severe</td>
<td>- Shuffled growth of the entire Group due to rapid changes in business models and store retail business</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Changing business models by maximizing customer experience value, etc.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>Changes in consumer behavior after COVID-19</td>
<td>Very severe</td>
<td>- Consumer decision due to COVID-19 is expected</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Majority of customers of retail sales is expected</td>
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<tr>
<td></td>
<td>5</td>
<td>Urban decarbonization (Reduction between urban and rural areas)</td>
<td>Severe</td>
<td>- Creating a conventional urban/corporate facilities ability to affect customers</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Business in response to urban decarbonization</td>
<td></td>
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<tr>
<td></td>
<td>6</td>
<td>Accelerated income polarization</td>
<td>Severe</td>
<td>- Sales decrease due to shrinkage of mass market</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Rebuilding new middle-class demand</td>
<td></td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>Changes in customers, particularly low birthrate/longevity</td>
<td>Severe</td>
<td>- Shrinkage of markets</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Expansion of overseas markets</td>
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<tr>
<td></td>
<td>8</td>
<td>Uncertainty about new business market</td>
<td>Severe</td>
<td>- Market stagnation in sales</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Gradual recovery of overseas demand through ECs and fee commerce</td>
<td></td>
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<tr>
<td></td>
<td>9</td>
<td>Accelerated capital and M&amp;A beyond industry boundaries</td>
<td>Severe</td>
<td>- Hostile takeover of the Group</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Screening existing businesses, optimizing management resource allocation</td>
<td></td>
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<tr>
<td></td>
<td>10</td>
<td>Work styles in new normal era, progress of HR/organizational reforms</td>
<td>Severe</td>
<td>- Talent drain, losing the war for talent</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Increasing employee engagement and motivation</td>
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<td></td>
<td>11</td>
<td>Frequent natural disasters / epidemics</td>
<td>Very severe</td>
<td>- Damage to the loss of business continuity crisis</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Stable operations of business</td>
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<td>12</td>
<td>Increasing importance of information security</td>
<td>Severe</td>
<td>- Personal information leakage, legal disputes / claim for damages, loss of social confidence</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Stable operation of software systems</td>
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<tr>
<td></td>
<td>13</td>
<td>Increasing importance of financial management</td>
<td>Severe</td>
<td>- Funding cost remaining high</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Reduction of funding cost</td>
<td></td>
</tr>
<tr>
<td></td>
<td>14</td>
<td>Decline in profitability / Reduction of investment</td>
<td>Very severe</td>
<td>- Decline in profitability / Reduction of investment</td>
<td><strong>Top priority risks that have an extremely severe impact</strong></td>
<td>- Business portfolio transformation</td>
<td></td>
</tr>
</tbody>
</table>

*Risk changes during the term of the Medium-term Business Plan that were forecast considering the impact on the Group, measures, etc.