Risk Is the Starting Point of Strategy

Approach and system for risk management

Risk management

The Company defines risk as "uncertainties that have both potentially positive and negative sides that could have an impact on the achievement of targets by a company's management." And we have positioned risk management as "activity that increases corporate value by managing risks by reasonable and optimal methods from a companywide perspective" to achieve sustainable corporate growth by addressing the positive and negative sides of risk properly.

In response to risks that are deemed to be of high importance to the Company, we consider "strategies and measures to take risks and promote them as business opportunities" and "strategies and measures to view risks as threats and control them," and we are responding by positioning risks as the starting point of our strategy.

Risk management system

The Company has established the Risk Management Committee, which is chaired by the President and Representative Executive Officer and comprises Executive Officers of the Company and the presidents of major operating companies, as an advisory body to the President and Representative Executive Officer. The committee discusses important matters, including risk identification and evaluation, and the determination of risks to be reflected in strategies, and utilizes risk management for management decision-making.

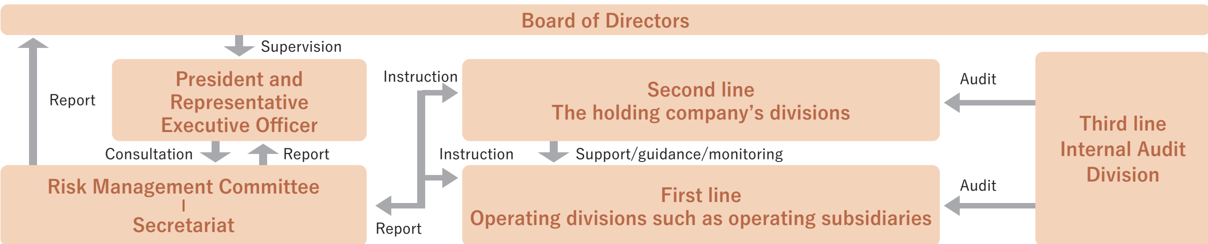
The committee also reports details of its deliberations to the Board of Directors in a timely manner.

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).

Furthermore, in order to effectively perform risk management, we have established the following three lines.

- **First line**
  (Operating divisions such as operating subsidiaries):
  These divisions identify risks and take the necessary measures on their own.
- **Second line (The holding company's divisions):**
  Each division provides support, guidance, and monitoring regarding risk management from a perspective that is independent of the operating divisions.
- **Third line (The Internal Audit Division):**
  This division oversees the validity of the risk management functions and the internal control system from a perspective that is independent of the operating divisions and each division of the holding company.

Support and monitoring from the second line and independent audit from the third line allow the first line (operating divisions) to independently execute risk response through proper procedures and without delay.



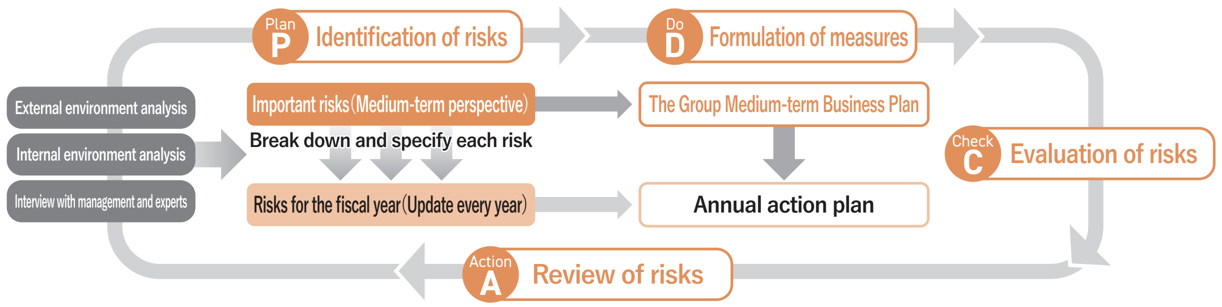
Processes and risk identification method

Over the medium term, we have positioned "important risks for the JFR Group" (hereinafter referred to as "important risks for the Group") as having extremely high importance for the Group's management and have used these as starting points for the Group Medium-term Business Plan.

We also break down and specify "important risks for the Group" in terms of fiscal years, which, coupled with risks that require individual attention in a given fiscal year (mainly operation risk, system response, and the like), we refer to as "the JFR Group risks for the fiscal year" (hereinafter referred to as "the Group risks for the fiscal year"), and prioritize and execute countermeasures accordingly.

For "important risks for the Group" and "the Group risks for the fiscal year," change in the environment surrounding risks and the progress of measures are monitored, and the Risk Management Committee discusses the matters and then reports their contents to the Board of Directors.

Risk identification method and PDCA



Overview of important risks for the Group	Internal environment (Business environment)	External environment (Macro environment)
Strategy risk	*Changes in industrial structure of existing business *Intensification of competition for human resources Diversification of consumers' values and behavior Increased presence of non-Japanese consumers Increasing inequality between cities	*Acceleration of technology innovations *Increasing importance of environmental issues Increasing importance of respecting human rights Declining birthrate, population aging, and increasing income inequality Asterisks (*) denote priority risks with an extremely substantial impact.
Finance risk		Instability of economic trends
Hazard risk		Emergence of geopolitical and geoeconomic risk Natural disasters and epidemics Increase in information security threats
Operation risk	*Operation risk is handled as part of the risks for the fiscal year.	

List of important risks for the JFR Group

Category	Item	Impact	Outlook for the future	Negative side	Positive side	Measures
Strategy	Changes in industrial structure of existing business	Very severe	↑	●Decreased vitality of the entire Group due to weak performance of large-scale store-based retail business	●Regrowth by radical change of the business model of large-scale store-based retail business	●Strengthening existing businesses and developing businesses to transform our business portfolio ●Investing through M&As and CVC based on our vision
Strategy	Intensification of competition for human resources	Very severe	↑	●Loss of competitiveness in attracting human resources, outflow of talented human resources ●Decrease in employee motivation	●Promotion of business strategy, creation of innovation ●Increase in employee engagement and organizational capability	●Recruitment of professional human resources, exchange and development of the Group human resources ●Realization of Well-Being Life of employees through investment in human resources
Strategy	Acceleration of technology innovations	Very severe	↑	●Sluggish growth of the entire Group ●Declining competitiveness due to delay in use of technology	●Transformation of business model through use of technology ●Operation streamlining	●Utilization of the Group database ●Operation streamlining through the use of AI ●Building business models for XR/VR, NFT, and other new markets ●Developing digital/IT human resources
Strategy	Increasing importance of environmental issues	Very severe	↗	●Defection of stakeholders and lower rating and brand power	●Sustainable growth and improvement of the Group's presence	●Reducing GHG emissions ●Expanding handling of environmentally friendly products and services ●Promotion of recycling business ●Expansion of circular businesses such as sharing and upcycling
Strategy	Increasing importance of respecting human rights	Very severe	↗	●Loss of reputation and boycott ●Interference with employees' comfortable working environment	●Increased support from stakeholders, including employees, and improved corporate value	●Supply chain-wide management initiatives on human rights ●Establishment and internal and external dissemination of policies for dealing with customer harassment
Strategy	Declining birthrate, population aging, and increasing income inequality	Severe	↗	●Shrinkage of domestic market scale ●Contraction of high-volume sector, the existing target	●Expansion of new markets through target accommodation	●Approaching consumers who favor consuming high-quality goods and heart-lifting experiences that fulfill their own preferences and values ●Expanding customer/business base to reach the aforementioned target
Strategy	Diversification of consumers' values and behavior	Severe	↗	●Decrease in sales and revenue	●Expansion of new markets	●Promoting measures in line with the values of consumers who favor consuming high-quality goods and heart-lifting experiences that fulfill their own preferences and values (e.g. subscription business, entertainment, pop culture)
Strategy	Increased presence of non-Japanese consumers	Severe	↗	●Delay in capturing sales from inbound tourists ●Sharp decline in sales to inbound tourists	●Increase in sales to inbound tourists ●Capturing foreign demand by developing e-commerce and other means	●Continuously strengthening categories of products that are popular with Japanese and non-Japanese customers ●Promoting the development and ownership of content that allows us to expand in the digital domain outside Japan ●Ongoing efforts to expand the Japanese customer base
Strategy	Increasing inequality between cities	Severe	↗	●Decline in urban commercial facilities' ability to attract customers	●Business development through contribution to urban needs and urban development	●Participating in urban development in collaboration with local governments and other organizations in the Group's major locations (e.g. commercial facilities, office space, hotel accommodations, residences)
Finance	Instability of economic trends	Severe	↗	●Loss of opportunities for revenue ●Increased funding costs	●Promotion of growth strategies and business portfolio changes ●Lowered funding costs	●Long-term funding at fixed interest rates ●Selection of appropriate financing measures during the new funding phase
Hazard	Occurrence and spread of natural disasters and epidemics	Very severe	→	●Damage to the lives of customers and employees ●Business continuity crisis	●Stable business operation	●Continuously implementing practical BCP training ●Periodic reviews of business continuity plans ●Strengthening preparation for new pandemics
Hazard	Emergence of geopolitical and geo-economic risk	Severe	↗	●Danger and difficulties in life for employees stationed overseas (or on business trips)	●Stable overseas business operations	●Establishing and promoting an overseas risk management system in line with the risk environments and circumstances at our employees' overseas postings and business trip destinations ●Closely monitoring the impact on the Group's business (especially overseas business)
Hazard	Increase in information security threats	Severe	↗	●Occurrence of personal information leaks, lawsuits, and liability for damages, loss of social trust ●Delay/stagnation of operations	●Stable running of operations and systems ●Operation streamlining and promotion of remote work	●Developing and upgrading the Group's common system infrastructure ●Promoting sophistication of security operations and strengthening the response system ●Reviewing the Group security guidelines and improving employee security awareness and understanding through training

Impact: Consideration of economic impact on the Group and impact on brand value during the period of the Medium-term Business Plan
Outlook for the future: Projected changes to risks during the period of the Medium-term Business Plan taking into account the severity of their impact on the Group

: Risks that have an extremely heavy impact and are given priority
When a risk bridges multiple categories, we placed it in the category with the highest impact and relevance to the Group's strategies.

Value Creation