Corporate Governance → Risk Management Compliance

Risk Management

JFR Risk Management Philosophy

At the Group we define risk as uncertainty amid changes in the environment, involving both positive aspects (opportunities) and negative aspects (threats). We therefore believe that if we can take appropriate hedging measures against negative risks (i.e., uncertainty) and proactive measures with respect to positive risks (uncertainty) in light of an understanding of market changes, this will translate into sustained company growth in the future.

In FY2019 we identify 137 risk items in the four categories of "strategy," "finance," "operations," and "hazards" as risks the Group faces. We have analyzed and evaluated each recognized risk and prioritized tackling those risks we believe might have a very large effect on the Group's results and financial health by incorporating them into our strategy.

The environment the Group finds itself in is changing significantly faster than expected, with "Risk associated with the progress of sharing economy" and "Risk associated with advanced technologies" having a very large effect on the Group, whose core is the retail business. The sharing economy wave,

which is expected to lead to the even larger risk of a "circular economy," is particularly large. Digital disrupters, which break existing markets and industries, have already begun to appear in the US and EU, and we believe the day that wave arrives on Japan's shores is not far.

Another risk which is on the radar not only of investors but society as a whole is the "Risk associated with growing importance of ESG," on the basis of which companies are being judged as a matter of course, making a response ever more critical.

We are also increasing our focus on "Risk associated with disasters, etc.," in response to the greater frequency of natural disasters in recent years, including extreme weather, typhoons, and storms, thought to be a consequence of global warming.

In addition to these four risks, which we deem to be of maximum importance, we have also identified five risk items associated with finance which we believe will be significant in view of political uncertainty and economy slowdowns, and five other major risk items, for a total of fourteen major risk items

which are likely to affect investor decision-making. We have included risk awareness and responses in our securities reports.

WEB ➡ Securities Reports (only in Japanese)

Creation of a Risk Management Committee

The Group has created a Risk Management Committee as an advisory body to the President and Executive Officer in connection with risk management, with the President and Representative Executive Officer as chair and directors, etc., as members. The Committee holds regular discussions based on internal and external environment analyses, closely examines and evaluates risks, and monitors response measures.

Reports on the discussions are made to the Audit Committee regularly (around twice a year) and whenever appropriate.

---

14 Focused Critical Corporate Risks

01 Risk associated with the progress of sharing economy	02 Risk associated with advanced technologies	03 Risk associated with growing importance of ESG	04 Risk associated with disasters, etc.
05 Risk associated with consumption tax hike and post-Olympic recession	06 Risk associated with changes in customers, low birthrate and longevity	07 Risk associated with polarized income	08 Risk associated with impairment	09 Risk associated with fund-raising
10 Risk associated with interest rate changes	11 Risk associated with share price fluctuations	12 Risk associated with exchange rate fluctuations	13 Risk associated with data management	14 Risk associated with laws and regulations and revisions to laws

Corporate Governance → Risk Management Compliance

Greater Resilience

Building a Safe and Reliable Retail Environment Protected Against Natural Disaster Risks

Daimaru Matsuzakaya Department Stores locations and offices around the country conduct disaster training and business continuity plan (BCP)[*1] exercises to prepare for earthquakes, fires and natural disasters (severe storms, large typhoons, etc.) caused by climate change. System-related measures are also being put in place such as emergency earthquake early warning systems and systems to check on the safety of all employees. The store self-defense fire brigades conduct regular drills involving all employees, including workers from suppliers, to ensure suitable responsiveness, including quickly extinguishing fires, guiding customers out of the building, and collecting information. Additionally, systems[*2] have been deployed which make in-store announcements automatically and in real-time when an emergency earthquake early warning is received after an earthquake.

In FY2018 we revised the BCP plans of all operating companies. Specifically, in light of the experience we gained when stores suffered damage during a major earthquake (the Great Hanshin Awaji Earthquake), we have included in the new BCP plan changes to the manual regarding specific actions to take, a clearer division of responsibilities between J. Front Retailing and the operating companies, and use of multiple means of communication (e.g., wireless hand-held devices for use during disasters, company smartphones, the corporate intranet, etc.).

Parco is also reviewing what items to stockpile in view of their experiences with the Kumamoto Earthquake.

At the Group we have prepared against natural disasters which are occurring frequently due to extreme weather caused by climate change, connecting these efforts to stores and offices capable of withstanding disaster risk and enhanced resilience.

*1 BCP: Business Continuity Plan, a plan that ensures business continuity or rapid restoration during a disaster.
*2 As of February 2019, implemented at all Matsuzakaya locations and the Shinsaibashi, Umeda, Tokyo, Kyoto, Kobe, Sapporo, and Suma locations as well as Hakata Daimaru and Kochi Daimaru stores.

Improving Information Security

At the Group, we are keenly aware that technological progress and the speed of business innovation made possible by that progress are moving faster every day. The "Risk associated with advanced technologies" is clear. The threat of digital disrupters which are breaking down barriers between industries and rapid advances in services utilizing smartphones, which create a direct connection between consumers and products and services, will have a significant medium-term effect on the Group, whose focus is on the retail business in brick-and-mortar stores.

In July 2018, the Group formulated an information security policy as a guideline for implementing thoroughgoing information security management in the operating companies and risk-proofing information assets held by the Group in order to minimize security risks amid greater social demands that companies ensure information security. We conduct regular instruction and training to ensure all the Group employees can comply with the information security policy.