

Top Commitment	Sustainability Promotion System	JFR Materiality Issues	Contribution to a Low-Carbon Society	Management of the Entire Supply Chain	Coexistence with Local Communities	Promotion of Diversity	Realization of Work-Life Balance	Operating Companies' ESG Initiatives	Governance	Data
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Corporate Governance → Risk Management Compliance

Risk Management

JFR Risk Management Philosophy

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.

Risk Management Structure Centered on the Risk Management Committee

For risk management, we have formed the Risk Management Committee as an advisory body to the President and Representative Officer, which is chaired by the President and Representative Officer and comprises Executive Officers and others.

The committee has a secretariat headed by 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.

Latest Environment Recognition

Geopolitical tensions including US-China struggle for supremacy and natural disasters that cause serious damage remain great risks.

In addition, consumption hurt by consumption tax hike and COVID-19 that spread rapidly all over the world as a “black swan (an unpredictable event that has potentially severe consequences)” have brought the Group to a serious crisis that endangers its survival.

Medium- to Long-term Impact of COVID-19

We expect that COVID-19 will become a major turning point in all aspects. People’s values about consumption and consumption behavior will change, and accordingly, the values expected of retailers will also change.

Work styles and employment are also expected to change in the future partly due to widespread telework. For business transactions, companies will be expected to rebuild a strong supply chain through departure from over-dependence on certain regions such as China and by other means.

In addition, advanced digital technologies and accelerated digital transformation in people’s lives have a great impact on all aspects including consumption, work styles and supply chains.

Response to New Normal

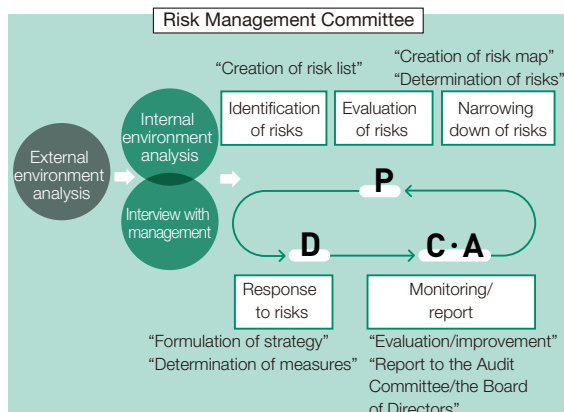
The Group considers this situation as new normal and works on sustainability and transformation using digital technologies without being bound by conventional common sense in order to survive.

Going forward, without changing the basis of our business that we empathize with customers and value lifelong connection with them, we will always foresee changes, accelerate the transformation of existing business model of each business, and rapidly restructure the business of the entire Group.

Impact of Outbreak of COVID-19 and the Group’s Response

The impact of COVID-19 was far greater than initially envisioned. Physical stores of the Group’s core retail business were forced to close for a long time and the connection with many customers was severed during that period. COVID-19 is not yet expected to end and we feel a great sense of crisis.

In such an environment, the Group resumed sales activities by ensuring the safety and security of customers and sales staff including people from suppliers and strengthening cooperation with suppliers to coexist with COVID-19.



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List of the Group key risks

Category	Risk item	Impact on the Group	Negative side of risk (threat)	Positive side of risk (opportunity)
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 	-
	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 	-
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
	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
	Increasing importance of ESG	Occurrence: Increasing over the medium to long term Change: Further accelerating Very severe impact on the performance of the entire Group including retail business	<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
	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
	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"> Poorer assortment and lower appeal of retail stores 	<ul style="list-style-type: none"> Opportunity to revise the supplier policy (new development, new collaboration with existing 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
	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
	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
	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
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 	-
	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 	-

Strengthening Resilience

Creation of Safe and Secure Store Environment against Disaster Risk

J. Front Retailing and each operating company in the Group have formulated BCPs to deal with unexpected natural disasters and accident occurrences, which threaten business continuity. Specifically, based on the experience that we gained when our stores were damaged by the Great Hanshin-Awaji Earthquake, we have in place business continuity manuals that contain the actions to be taken, ensure multiple communication means including emergency walkie talkies, company smartphones and company intranet, secure an emergency power source, maintain an emergency stock, and maintain a safety confirmation system.

Daimaru Matsuzakaya Department Stores complies with the guidelines provided by the local and national governments and strengthens sanitization and makes efforts not to cause three Cs in stores to prevent COVID-19.

Initiatives to Ensure Information Security

With increasing social demands for companies to ensure information security, in 2018, the Group formulated the Information Security Policy as the guidelines for appropriately protecting the information assets held by the Group against risks, and in 2020, we formulated the IT Governance Policy and Rules as the guidelines for controlling a series of actions from formulating IT strategies to implementing them. We provide education and training on a regular basis to ensure that all employees can comply with the Information Security Policy.