Corporate Governance System that Supports Sustainability Management \rightarrow Risk Management

Risk Management

The Group 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.

Governance

Risk Management System

The Group has a Risk Management Committee, which is chaired by the President and Representative Executive Officer and comprises Executive Officers and others, at J. Front

Risk Management Process

The Group promotes risk management through the following processes. Specifically, we are striving to ensure that risks of high importance to the Group are not overlooked, under the external and internal environmental analyses, and based on the recognition of the management team including Directors and the persons responsible for practical operation. Retailing. The committee has a secretariat headed by an officer in charge of risk management. The secretariat shares important matters decided by the committee with operating companies to promote enterprise risk management (ERM).

We position risk as the starting point of strategy and link risk with strategy so that risk management will enhance corporate value. 47

Over the medium-term, we have positioned corporate risks as having extremely high importance for the Group's management, and have used these as starting points for the Group Medium-term Business Plan.

Furthermore, the risks for the fiscal year identified from "corporate risks" are summarized in the JFR Group Risk List, evaluated using a risk map, then ranked by priority before implementing countermeasures. For corporate risks and the JFR Group Risk List, changes in the environment surrounding risks and the progress of measures are monitored semiannually, and the Risk Management Committee discusses the matters and then reports their content to the Board of Directors.





Corporate Risk List

Below is a list of the impact of corporate risks on the Group and their measures. The measures are linked to the Mediumterm Business Plan, and their progress is regularly monitored.

List of the JFR Group Corporate Risks

Cate- gory	No.	ltem	Impact	Outlook*	Negative side	Positive side	Measures
Strategy risk	1	Advanced sustainability management	Very severe		 Defection of stakeholders, decline in ratings / brand power 	 Sustainable growth, increase in the Group's presence 	•Clarifying value creation story that creates both social value and economic value at the same time •Realizing Well-Being Life for stakeholders
	2	Decline of existing business models	Very severe		 Decreased vitality of the entire Group due to weak performance of large-scale store retail business 	 Regrowth by radical change of business model of large- scale store retail business 	Digitizing customer touch points -Delivering added value like stores and increasing accuracy of marketing Reviewing role of store -Providing experience, encounter, place for connection with people
	3	Response to increasingly accelerated digitization	Very severe		 Sluggish growth of the entire Group Declining competitiveness due to delay in using technologies 	 Changing business models using digital technologies Streamlining of operations, going paperless 	Changing business models by maximizing customer experience value, etc. Building business models in new markets such as metaverse Standardizing and streamlining operation systems
	4	Changes in consumer behavior after COVID-19	Very severe		 Customer defection due to failure to meet customer needs 	New market creation	 Analyzing changes in consumer behavior Creating new markets such as sustainable products/services
	5	Urban decentralization (Rebalancing between urban and rural areas)	Severe		Decline in conventional urban commercial facilities' ability to attract customers	 Business in response to urban decentralization 	 Planning strategy concerning real estate development and real estate holdings of the entire Group Coexisting with local areas, promoting attractive urban development through proposal of diverse urban lifestyles and complex redevelopment
	6	Accelerated income polarization	Severe		 Sales decrease due to shrinkage of mass market 	 Stimulating new middle-class demand Developing new affluent markets 	 Rightsizing and segmentalizing mass market products/services Deeply cultivating affluent markets both physically and digitally
	7	Changes in customers, particularly low birthrate / longevity	Severe		 Shrinkage of domestic markets 	• Expansion of senior markets	 Focusing on high quality children's wear and education business Increasing shopping convenience for senior customers and strengthening categories that are of strong interest to them such as wellness
	8	Uncertainty about non-Japanese market	Severe		 Prolonged stagnation in inbound sales 	 Gradual recovery of inbound sales Acquisition of foreign demand through EC and live commerce 	Preparing promotion measures in anticipation of inbound market recovery Strengthening EC and live commerce
	9	Accelerated reorganization and M&A beyond industry boundaries	Severe		 Hostile takeover of the Group 	 Business portfolio transformation Corporate growth using M&A 	 Screening existing businesses, optimizing management resource allocation Studying and exploring new businesses and promoting development of and growing business of operating subsidiaries that implement these new businesses
	14	Work styles in new normal era, progress of HR/ organizational reforms	Severe		 Talent drain, losing the war for talent Decrease in employee motivation 	 Increasing employee engagement and organization's power Promoting business strategy, creating innovation 	Strengthening human capital based on "human resource capabilities" Implementing measures that increase flexibility of work style Reorganization that respects diversity Developing young human resources through various opportunities
Hazard risk	10	Frequent natural disasters / epidemics	Very severe		 Damage to the lives of customers and employees Business continuity crisis 	 Stable operation of business 	Strengthening preparation for new infections by analyzing response to COVID-19 Formulating multiple scenarios and analyzing impact on business Continuously conducting practical BCP training Reviewing business plans properly and timely
	11	Increasing importance of information security	Severe		 Personal information breach, legal actions / claim for damages, loss of social credibility Delay/stagnation of operations 	 Stable running of operations and systems Streamlining of operations, promotion of remote working 	 Implementing new security measures that improve prevention/ detection of incidents Reviewing the Group security guidelines and improving employee literacy through training, etc.
Finance risk	12	Increasing importance of financing management	Severe		 Funding cost remaining high 	 Reduction of funding cost Support for promoting growth strategy 	•Rightsizing cash on hand and interest-bearing liabilities •Diversifying financing methods such as sustainability bond
	13	Need for cost structure that can respond to environmental changes	Very severe		Decline in profitability Reduction of investment	 Business portfolio transformation Strengthening business base 	 Cost reduction by business model reform, office reorganization, review of workforce composition, etc. Promoting optimization of business portfolio

Information Security Measures -

In March 2022, the Company established the Group System Unit, to upgrade and improve the Group's overall system infrastructure and realize the safe operation of information systems and highly robust security. Recent incidents are becoming more diverse and complex year by year, and we believe that further initiatives are needed in both hard and soft aspects.

In hard aspects, we are phasing in security products and monitoring services that can detect suspicious behavior on a terminal and respond rapidly when an incident occurs. We also use multi-factor authentication for logging on to the system, enabling us to restrict devices that can connect and prevent unauthorized access due to password leaks and so forth.

In soft aspects, considering recent changes in IT usage environment, we will revamp the Group security guidelines. Moreover, we are working to increase the level of literacy among all employees by using e-learning and conducting targeted attack email training based on information about the latest incidents.

In addition, in order to strengthen the security management system, we established CSIRT* in the Company and joined the Nippon CSIRT Association. The Company works with people responsible for information security management of the Group companies to develop manuals in preparation for incidents while continuously providing incident response training. By doing so, we go on strengthening the security management system of the entire Group.

*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