

Risk Is the Starting Point of Strategy

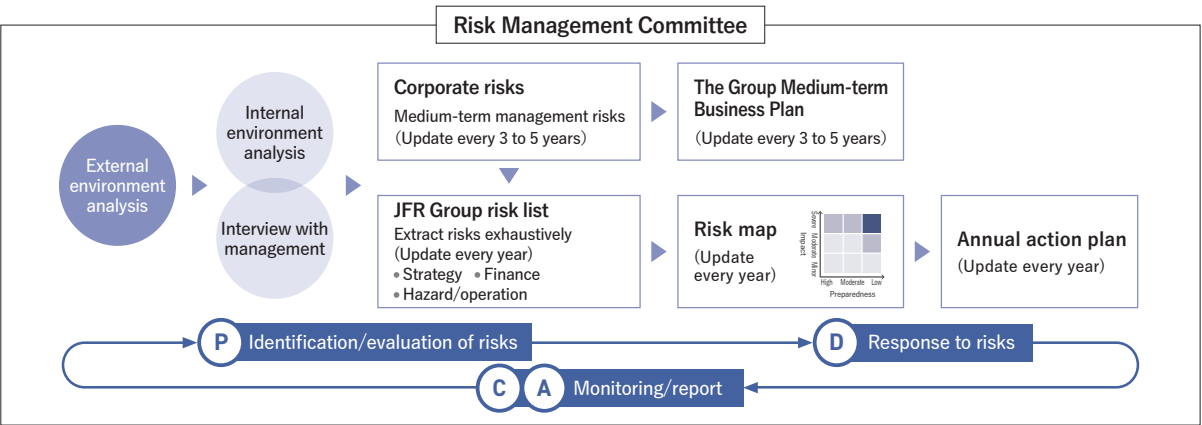
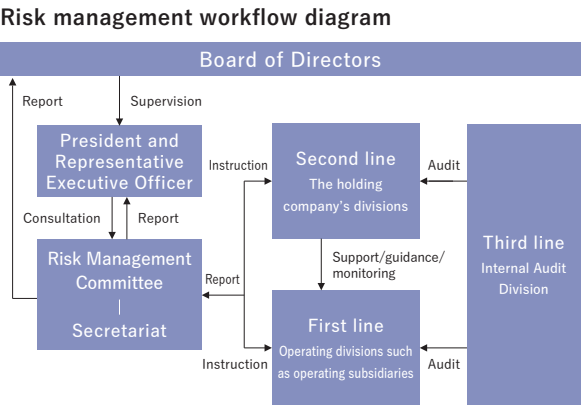
The Group defines risk as “uncertainties that have both positive and negative sides that could have an impact on the achievement of business management goals.” And we position risk management as an “activity that increases corporate value by managing risks by reasonable and optimal methods from a company-wide perspective” to achieve sustainable corporate growth by addressing the positive side and the negative side of risk properly.

The Risk Management Committee, chaired by the President and Representative Executive Officer and composed of Executive Officers and other members, serves as an advisory body to the President and Representative Executive Officer. The committee deliberates important matters, including the extraction and evaluation of risks and the determination of risks to be reflected in strategies, and utilizes risk management in management decision making.

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.



Top priority risks that have an extremely severe impact

- 1
- Advanced sustainability management

2

3

4

“Corporate risks” other than those on the left

Creation of new value, gaining of competitive advantage	Response to external environment		Response to internal environment (Matters that must be addressed as a company)	
	I. Risk associated with development of new market		II. Risk associated with provision of new customer experience (construction of new business models)	
Rebuilding of basis for growth and revenue	5	Urban decentralization (Rebalancing between urban and rural areas)	7	Changes in customers, particularly low birthrate / longevity
	6	Accelerated income polarization	8	Uncertainty about non-Japanese market
	10	Frequent natural disasters / epidemics	12	Increasing importance of financing management
	11	Increasing importance of information security	14	Work styles in the new normal era, progress of HR/organization reforms
	III. Risk associated with improvement of resilience amid major crisis becoming common		IV. Risk associated with improvement of resilience via drastic reorganization/restructuring	

■ Strategy risk ■ Hazard risk ■ Finance risk

List of the Group “corporate risks”

Category	No.	Item	Impact	Outlook*	Negative side	Positive side	Measures
Strategy risk	1	Advanced sustainability management	Very severe	↑	• Defection of stakeholders and lower rating and brand power	• Sustainable growth and improvement of the Group's presence	• CSV practices that combine social and economic value • Addressing materiality issues
	2	Decline of existing business models	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	• Digitalizing customer touch points • Revising the role of stores • Strengthening existing businesses and developing businesses to transform the business portfolio
	3	Response to increasingly accelerated digitalization	Very severe	↑	• Sluggish growth of the entire Group • Declining competitiveness due to delay in digitalization	• Transformation of business model through use of digital technology • More efficient operations and going paperless	• Utilization of integrated database • Building business models in new markets, such as metaverse • Developing digital human resources
	4	Changes in consumer behavior after COVID-19	Very severe	↑	• Defection of customers due to failure to meet consumer needs	• New market creation	• OMO promotion that contributes to making the shopping experience more attractive and convenient • Developing sustainable products and services • Carrying out appropriate and timely revision of business plans
	5	Urban decentralization (Rebalancing between urban and rural areas)	Severe	↗	• Decline in conventional urban commercial facilities' ability to attract customers	• Business development through contribution to urban needs and urban development	• Reorganization to promote the strategic use of the Group's real estate promptly and smoothly • Coexisting with local areas, promoting attractive urban development through proposal of diverse urban lifestyles and complex redevelopment
	6	Accelerating income polarization	Severe	↗	• Decrease in sales due to contraction of mass market	• Stimulation of new middle-class demand • Development of new affluent market	• Revising and segmenting categorization of mass market products and services to an appropriate scale • Strengthening categories that are in high demand, such as luxury products, art, and watches and offering rare and unique merchandise
	7	Changes in customers, particularly low birthrate / longevity	Severe	↗	• Shrinkage of domestic market scale	• Expansion of senior markets	• Intensively responding to high-quality children's apparel and education business • Increasing shopping convenience for senior customers and strengthening categories of interest to them, such as wellness
	8	Uncertainty about non-Japanese market	Severe	↗	• Delay in recovery of inbound sales	• Recovery and expansion of inbound sales • Capture of outside demand by development of EC and live commerce	• Dedicated lounge for inbound customers • Cultivating and discovering hot-selling products for inbound customers through cross-border EC • Developing and preparing to offer new content, such as luxury tours
	9	Accelerated reorganization and M&A beyond industry boundaries	Severe	↗	• Hostile takeover of the Group	• Business portfolio realignment • Entry into new businesses through M&A and synergies with existing businesses	• Selecting existing businesses and optimizing allocation of management resources • Strengthening R&D through capital and business alliances with startups • Full-scale entry into esports business
	14	Work styles in new normal era, progress of HR/organization reforms	Severe	↗	• Outflow of talented human resources, loss of competitiveness in attracting human resources • Decrease in employee motivation	• Increase in employee engagement and organizational capability • Promotion of business strategy, creation of innovation	• Realization of Well-Being Life for employees through investment in human resources based on the "principles of human resource capabilities" • Improvement of environment for recruiting professional human resources, personnel exchanges in the Group, and human resource education
Hazard risk	10	Frequent natural disasters/epidemics	Very severe	↘	• Damage to the lives of customers and employees • Business continuity crisis	• Stable business operations	• Continuously implementing practical BCP training • Periodic review of business continuity plans • Strengthening preparedness for new infectious diseases
	11	Increasing importance of information security	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 literacy through training
Finance risk	12	Increasing importance of financing management	Severe	↗	• Remaining high cost of capital	• Lowered cost of capital • Support for promoting growth strategies	• Long-term financing at fixed interest rates • Selection of appropriate financing measures during the new financing phase
	13	Need for cost structure that can respond to environmental changes	Very severe	↗	• Decline in profitability • Curbs on investment	• Transformation of business portfolio • Strengthening business foundations	• Reducing costs by office reorganization, staff composition reviews, and so forth • Strengthening cost management system across the Group

*Changes to risks during the period of the Medium-term Business Plan are projected taking into account the severity of their impact on the Group, measures, etc.

↑: Risks that have an extremely heavy impact and are addressed as a top priority