Risk is “Uncertainty”

Seeing both the positive side “opportunity” and the negative side “threat”

In order to develop strategies, the Company has analyzed opportunities for consideration in the past. Meanwhile, “risk” management was focused on hedging risks. However, as we can recognize both “positive risk (opportunity)” and “negative risk (threat)” if we define risk as “uncertainty,” we have thought we will be able to increase profit opportunities by taking risks in addition to hedging risks as in the past.

The Company redefined changes in the business environment as the risk associated with the Company, and at first, identified 138 risk items. The Risk Management Committee met and the Board members lodged together to discuss in-depth the business risks we consider particularly important among them, and finally, we identified 15 items as our business risks.

In fiscal year 2018, the holding company and operating companies respectively selected six items they place particular importance on from these 15 items and incorporate them into their management policies to promote their specific action plans. With these initiatives, we will further change our business portfolio through “discontinuous growth” as a “Multi Service Retailer” beyond the framework of retail to realize the Group Vision “Create and Bring to Life ‘New Happiness.’”

138 risk items identified

- Occurrence of wars/conflicts
- Aggravated terrorism issues
- Occurrence of economic crisis / financial crisis
- Occurrence of trade issues
- Surge of emerging countries
- Consumption tax hike
- Promotion of tourism-oriented country policy
- Reduction of capital tax and measures for encouraging investment
- Promotion of business using National Strategic Special Zones
- Promotion of outsourcing of operation of public facilities to private sector
- Promotion of sharing economy
- Economic trends
- Development of financial markets
- Changes in interest rate / share price / exchange rate
- Polarized income
- Expansion of the affluent
- Decrease in disposable income
- Increasingly diversified consumption pattern
- Consumption shift from goods to services/experiences

Rise in persistence and health consciousness
Spread of cheap goods/services
Low birthrate / longevity (declining population)
Return to urban area population concentration and depopulation in rural area
Growing population in America / Southeast Asia
Increase in single-person households (aged/young people)
Increase in double-income / single-parent households
Evolution of aging society / environmental issues / poverty issues
Growing shortage of energy resources
Evolution of AI (artificial intelligence) / robots
Expansion of EC business
Expansion of payment/order-related technologies
Expansion of use of big data
Fiercer competition in attracting inbound tourists
Fiercer competition from outside the industry
Fiercer competition in customer retention
Fiercer competition in maximizing user experience
Success/failure of analysis/rebuilding of business portfolio
Success/failure of development and progress management of risk to long-term plan
Success/failure of management of companies acquired through M&A
Success/failure of penetration of mission statement / vision
Success/failure of brand strategy
Success/failure of hostile takeover defense measures
Success/failure of innovation
Opportunity loss due to prolonged examination period
Pressure of unreasonable expectations from inside/outside the company
Delay in decision-making due to lack of adherence to withdrawal criteria
Loss of funds due to excess investment
Impairment due to gap between plan and result
Revision of real estate-related laws / tax systems
Changes in assessed land values or building construction costs
Entry of competing companies / changes in surrounding environment
Inadequate safety management of buildings and equipment
Soil pollution / asbestos
Changes in rent
Bankruptcy of landlord
Decline in rent / increase in vacancies
Non-payment of rent and bankruptcy of tenants
Growing labor shortage and fiercer recruitment competition
Success/failure of acquiring specialists for IT, etc.
Success/failure of change in employee age structure
Success/failure of retention benefit / pension system
Success/failure of succession plan
Increase/decrease of audit accuracy
Success/failure of reform of the Board of Directors
Success/failure of provision of remuneration and incentives
Success/failure of risk management
Identified 15 items as the Company’s business risks and selected 6 items (bold letters) we place importance on in the current fiscal year.

**Business risks**

1. Risk associated with consumption tax hike and post-Olympic recession
2. Risk associated with changes in customers, particularly, low birthrate and longevity
3. Risk associated with maturing of existing businesses
4. Risk associated with human resources / human resources structure
5. Risk associated with competition from new entrants
6. Inadequate first response to disaster

**Important risks selected**

- Inadequate safety management of buildings and equipment*
- Outbreak of plague and infection
- Occurrence of traffic accidents
- Viral infection / information leakage due to external cyber attacks
- Internal information leakage
- Late report of / inadequate response to incidents
- Improper posting / information leakage by employees (SNS)
- Loss of credibility from customer’s tweet (SNS)
- Improper posting from the company’s official account (SNS)
- Inadequate quality control (PB goods, buildings, etc.)
- Late response to technical innovation
- Late response to equal pay / equal work
- Lack of human resource development plan
- Fraud / illegal act of the Board members / employees
- Inadequate response to human rights issues
- Inadequate health management / mental health management
- Improper contracting / outsourcing / worker dispatching
- Inadequate staffing
- Legal violation
- Transactions with antisocial forces
- Inadequate regulations/rules
- Lack of notification/license
- Occurrence of litigation/lawsuit
- Lack of consciousness of prevention of incidents/accidents and compliance

*Respectively recognized as an important hazard risk and an important risk in the strategy of the Real Estate Business.

Integrated Report 2018

Management Strategy