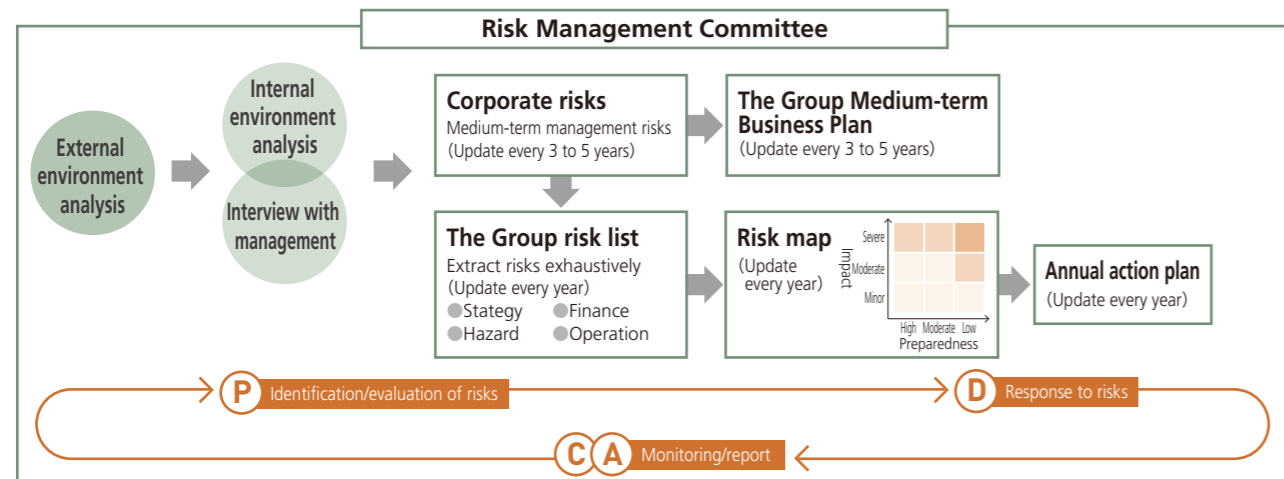
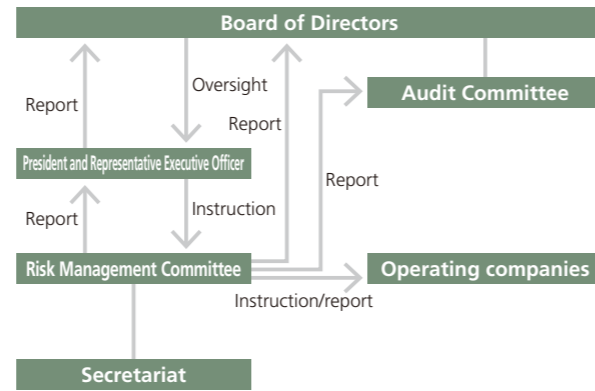


# Link Risk to Strategy

The Group defines risk as “uncertainty that affects the achievement of business management goals and has both a positive side and a negative side.” We believe a company will grow in a sustainable way if the positive side and the negative side of risk are addressed properly.

For risk management, we have formed the Risk Management Committee, as an advisory body to the President and Representative Executive Officer, which is chaired by the President and Representative Executive Officer and comprises Executive Officers and others. 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 to strategy so that we can enhance corporate value through risk management. Extremely important risks in the Group's management over the medium term are reflected in the Medium-term Business Plan as “corporate risks.”

## Long-term megatrends for 2030

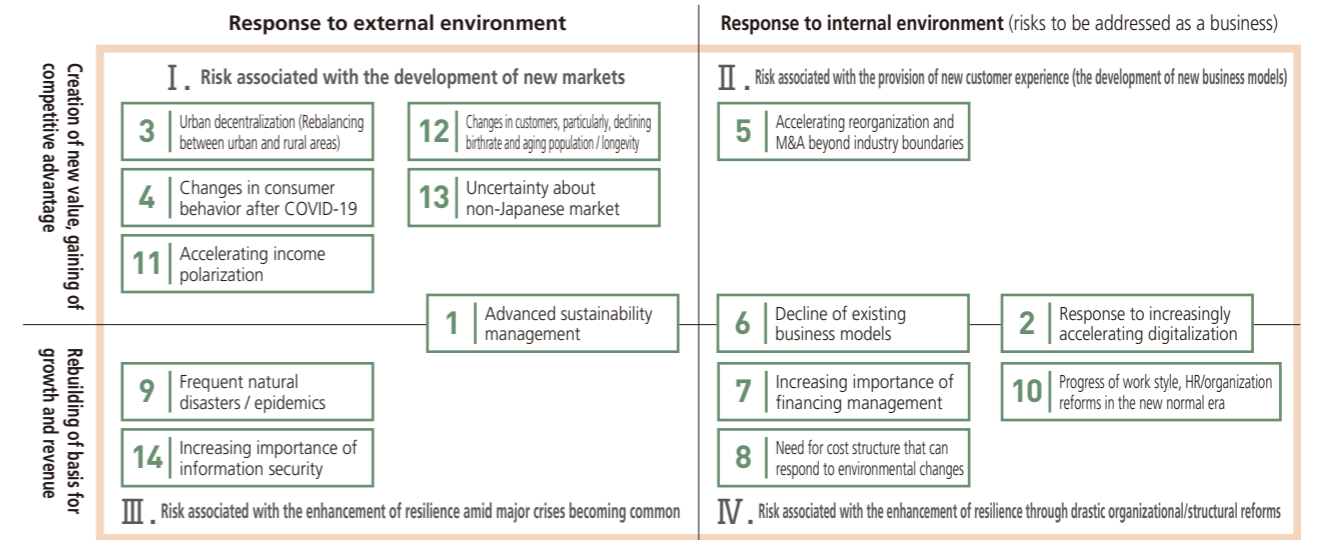
<b>Geopolitics</b>	<ul style="list-style-type: none"> <li>● US-China struggle for supremacy, leadership</li> <li>● Rise of state capitalism countries</li> <li>● Increasing occurrence of pandemics</li> </ul>
<b>Economy</b>	<ul style="list-style-type: none"> <li>● Progress of globalization</li> <li>● Global economy's shift to Asia</li> <li>● Establishment of stakeholder capitalism</li> </ul>
<b>Society</b>	<ul style="list-style-type: none"> <li>● Population growth in emerging countries</li> <li>● Increasingly aging population</li> <li>● Widening gaps between the rich and the poor and between social classes</li> </ul>
<b>Technology</b>	<ul style="list-style-type: none"> <li>● DX accelerated by 6G</li> <li>● Practical use of self-driving cars</li> <li>● Establishment of digital economic zone</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>● Global warming</li> <li>● Accelerating switch to renewable energy</li> <li>● Resource depletion</li> </ul>

We extracted a total of 14 “corporate risks” including strategy risks, finance risks and hazard risks by factoring in long-term megatrends forecast for 2030 and the impact of COVID-19 and back casting to avoid short-term thinking. (See page 73 for the list of 82 risks of the Group.)

## Impact of COVID-19

<b>Economy/companies</b>	<b>Short term</b>	<ul style="list-style-type: none"> <li>● Economic slump due to prolonged COVID-19</li> <li>● Growing concern about unemployment and inflation</li> <li>● Evaporation of demand and supply</li> </ul>
	<b>Long term</b>	<ul style="list-style-type: none"> <li>● Financial crisis in response to continuing easy monetary policy</li> <li>● Growing demand for sustainability-oriented management</li> <li>● Accelerating technological evolution</li> <li>● Rebuilding of global supply chain</li> <li>● Changing urbanization</li> <li>● Paradigm change of organizations and work styles</li> </ul>
<b>Society/individuals</b>	<b>Short term</b>	<ul style="list-style-type: none"> <li>● Rising unemployment / decreasing income / anxiety about the future</li> <li>● Avoiding the 3 Cs (closed spaces / crowds / close contact)</li> <li>● Consumer trends emerging from COVID-19 (stay-at-home consumption, neighborhood consumption)</li> </ul>
	<b>Long term</b>	<ul style="list-style-type: none"> <li>● Growing awareness of realizing a sustainable society</li> <li>● Investment in safety and security such as healthcare and insurance</li> <li>● Increasing importance of rural areas</li> <li>● Expansion of virtual consumption and virtual communication</li> <li>● Increasing importance of physical things (person-to-person connections and places)</li> <li>● Epidemics and disasters becoming new normal</li> </ul>

## Corporate risk matrix



## Corporate risks and measures

Category	Item	Impact	Outlook for next FY	Negative side	Positive side	Measures
Strategy risk	Decline of existing business models	Very severe	↑	● Decreased vitality of the entire Group due to the weak performance of core businesses	● Regrowth by radically changing the business models of the core businesses	● Enhancing the appeal of content, merging with digital, enhancing the appeal of stores by enhancing environmental value, and enhancing the asset value of large urban stores
	Advanced sustainability management	Very severe	↑	● Defection of investors and shareholders, lower rating due to a delay in taking action	● Sustainable growth by steady action	● Realizing Well-Being Life by promoting 7 materiality issues including “realization of decarbonized society”
	Response to increasingly accelerating digitalization	Very severe	↑	● Sluggish growth of the entire Group ● Declining competitiveness	● Changing the business models of existing businesses ● Renewing awareness of real person-to-person connections	● Changing business models through OMO (Online Merges with Offline) ● Improving communication physically and digitally ● Changing operations through digitalization
	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	● Strengthening epidemic prevention and contactless services in urban stores ● Real estate development in urban and semi-urban areas for not only commercial but also mixed use
	Changes in consumer behavior after COVID-19	Severe	↗	● Poor performance due to a failure to meet consumer needs	● New market development	● Rightsizing commodities ● Enhancing customer satisfaction through OMO ● Strengthening art, culture and ethical products
	Accelerating reorganization and M&A beyond industry boundaries	Severe	↗	● Hostile takeover of the Group	● Overhaul of business portfolio ● Corporate growth using M&A	● Increasing the resilience of business portfolio ● Creating new businesses through M&A and business alliance with other companies
	Progress of work style, HR/organization reforms in the new normal era	Severe	↗	● Talent drain ● Losing the war for talent	● Creating innovation by changing corporate culture	● Strengthening mid-career employment ● Improving flexibility in work styles ● Changing to a sustainable organization
	Accelerating income polarization	Severe	↗	● Poor performance due to shrinkage of volume market	● Emergence of new affluent market	● Rightsizing products/services in volume price ranges ● Deep cultivation of affluent market with diverse approaches
	Changes in customers, particularly, declining birthrate and aging population / longevity	Severe	→	● Shrinkage of domestic market	● Expansion of senior market	● Deep cultivation of high quality children's market ● Creation of safe and secure store environment ● Strengthening art/culture/wellness
	Uncertainty about non-Japanese market	Severe	→	● Prolonged significant decrease in inbound sales	● Acquisition of foreign demand with new approach	● Review of inbound strategy ● Strengthening cross-border EC and live commerce
Finance risk	Increasing importance of financing management	Severe	→	● Business failure due to a lack of funds ● Sluggish growth due to financing on unfavorable terms	● Business development by securing funds for investment in growth areas	● Centralizing the Group's financing and improving fund efficiency ● Diversifying financing methods
	Need for cost structure that can respond to environmental changes	Very severe	↗	● Business survival crisis ● Delay in performance recovery	● Business portfolio realignment ● Investment in growth businesses	● Cost reduction through business model reform ● Narrowing down business base
Hazard risk	Frequent natural disasters / epidemics	Very severe	→	● Damage to the lives of customers and employees ● Business continuity crisis	● Contribution to ensuring the safety and security of local communities	● Development of manuals for “business continuity” and “response to infections” ● Continuously conducting BCP training
	Increasing importance of information security	Severe	↗	● Loss of social credibility and operating loss due to the leakage of important information ● Delay/stagnation of operations	● Promotion of smooth digital transformation (DX)	● Development of Information Security Policy and IT Governance Policy ● Promotion of transition to cloud-based systems ● Improvement of information literacy through education/training