

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

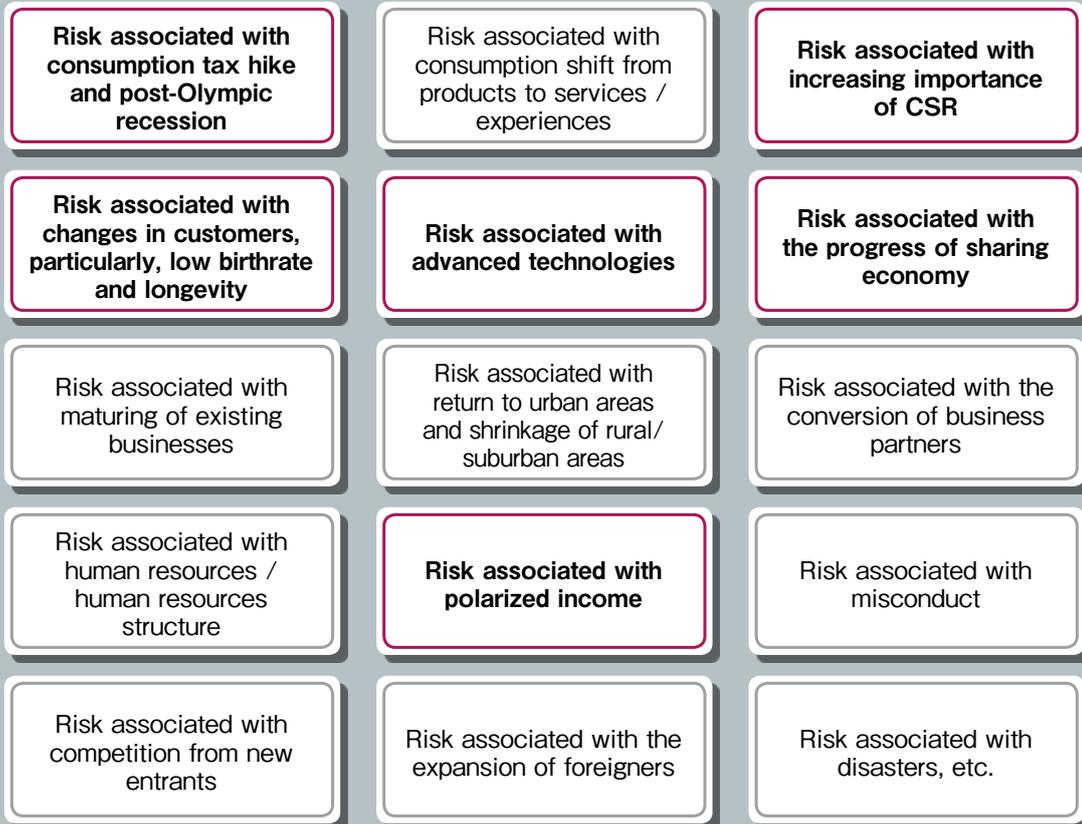
Occurrence of wars/conflicts
 Aggravated terrorism issues
 Occurrence of economic crisis / financial crisis
 Occurrence of trade issues
 Surge of emerging countries
 Consumption tax hike
 Promotion of tourism-oriented country policy
 Reduction of corporate tax and measures for encouraging investment
 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 areas (population concentration) and depopulation in rural areas
 Growing population in America / Southeast Asia
 Increase in single-person households (aged/young people)
 Increase in double-income / single-parent households
 Escalation of and increasing interest in environmental issues / poverty issues
 Growing shortage of energy resources
 Evolution of AI (artificial intelligence) / robots
 Expansion of EC business
 Evolution 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 mid- 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
 Success/failure of exit strategy (purchaser)
 Changes in employee age structure
 Growing labor shortage and fiercer recruitment competition
 Success/failure of acquiring specialists for IT, etc.
 Success/failure of work style reform
 Success/failure of response to diversity
 Success/failure of operation of retirement 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

15 important items selected = Business risks

Identified 15 items as the Company's business risks and selected 6 items (bold letters) we place importance on in the current fiscal year



Success/failure of operation of internal control system over financial reporting
 Success/failure of strengthening of the Group governance
 Success/failure of fair disclosure / ESG information disclosure
 Success/failure of sustainability policy
 Success/failure of social contribution activities
 Success/failure of waste reduction and promotion of recycling
 Leakage of hazardous materials (CFC, PCB, etc.)
 Success/failure of global warming prevention activities
 Misstatements in financial statements
 Impairment of assets (including goodwill)
 Success/failure of business revitalization / withdrawal based on revitalization/withdrawal criteria
 Application of new accounting standards (lease standards)
 Success/failure of response to tax system revision
 Success/failure of timely disclosure
 Success/failure of management of cash and deposits / interest-bearing debt
 Success/failure of funding
 Rating changes
 Success/failure of strategic investment based on investment criteria
 Success/failure of examination of business portfolio and optimal capital structure
 Exchange rate fluctuations
 Inadequate business continuity plan for disaster recovery
 Disaster-stricken store facilities / business partners
 Transportation infrastructure suspended by disaster

Inadequate first response to disaster
 Inadequate safety management of buildings and equipment*
 Outbreak of plague and infection
 Occurrence of traffic accidents
 Virus 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)
 Product defect and food poisoning
 Incorrect/false labeling of quality / expiration date
 Leakage of personal/customer information
 Improper/unclear sales recording / charging
 Customer's bankruptcy/insolvency
 Accidents and customer troubles due to inadequate/incomplete operation rules
 Dependence on particular customers (customer segments)
 Improper treatment of business partners
 Infringement of intellectual property rights
 Unfair/illegal transactions
 Late/short delivery of goods
 Bankruptcy of business partners
 Inadequate management of contractors
 Cargo increase / growing labor shortage at logistics companies

Delivery time restrictions / redelivery reduction
 Late delivery / misdelivery / loss or damage of goods
 Product liability
 Inadequate quality control (PB goods, buildings, etc.)
 Less precisely planned order
 Delay/failure of development
 Rise in production costs
 Late response to technical innovation
 Late response to equal pay / equal work
 Lack/failure 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
 Leakage of confidential information / insider information
 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.