Results Presentation
for First Six Months of Fiscal Year Ending February 29, 2020

October 8, 2019

J. Front Retailing Co., Ltd.

YAMAMOTO Ryoichi
President and Representative Executive Officer

Create and Bring to Life "New Happiness."

J. FRONT RETAILING

Today's Agenda

I. 1H FY2019 Results

II. 2H/Full FY2019 Forecast

III. Progress of Medium-term Business Plan
and Future Initiatives

1H FY2019 Results (IFRS)

Consolidated P/L (IFRS)

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- Business profit of Department Store and Parco was below plan
  Operating profit increased due to gain on sales of real estate
- Positive effect of application of IFRS 16 on business profit and operating profit was ¥2.2 bn in 1H
- Interim dividend is ¥18 per share, up ¥1 compared to previous year

(Millions of yen, %)

First six months of fiscal year ending February 29, 2020	Results	YoY		Vs April forecast	
		Change	% change	Change	% change
Gross sales	545,841	(1,268)	(0.2)	(11,159)	(2.0)
Revenue	225,664	(1,542)	(0.7)	(3,336)	(1.5)
Gross profit	104,659	(291)	(0.3)	(1,641)	(1.5)
SGA	80,915	237	0.3	(1,385)	(1.7)
Business profit	23,743	(528)	(2.2)	(257)	(1.1)
Other operating income	4,097	2,443	147.7	2,997	272.5
Other operating expenses	2,666	959	56.1	1,166	77.8
Operating profit	25,175	957	4.0	1,575	6.7
Profit attributable to owners of parent	14,367	(1,543)	(9.7)	567	4.1
Dividend per share (Yen)	(Interim) 18	1	—	—	—

Segment Information (IFRS)

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- Department Store: Sluggish sales of summer items due to unseasonal weather and increased costs of system for payment processing in front of customers
- Parco: Opening of Kinshicho Parco and entertainment contributed but Neuve A performed poorly
- Real Estate: Positive factors include good performance of Ginza Six, transfer of shops around department stores and gain on sales of real estate
- Credit and Finance: Revenue increased but cost increased due to employment of specialized HRs for medium-term growth

(Millions of yen, %)

First six months of fiscal year ending February 29, 2020	Business profit				Operating profit			
	Results	YoY		Vs Apr forecast	Results	YoY		Vs Apr forecast
		Change	% change	Change		Change	% change	Change
Department Store	11,966	(523)	(4.2)	(734)	10,580	(1,285)	(10.8)	(1,220)
Parco	5,381	338	6.7	(119)	5,865	158	2.8	(335)
Real Estate	3,371	327	10.8	171	5,729	2,872	100.5	2,729
Credit and Finance	1,060	(4)	(0.3)	160	1,089	13	1.2	189
Other	2,093	(14)	(0.7)	293	2,008	(123)	(5.7)	238
Total	23,743	(528)	(2.2)	(257)	25,175	957	4.0	1,575

Segment Information <Operating Profit> (IFRS)

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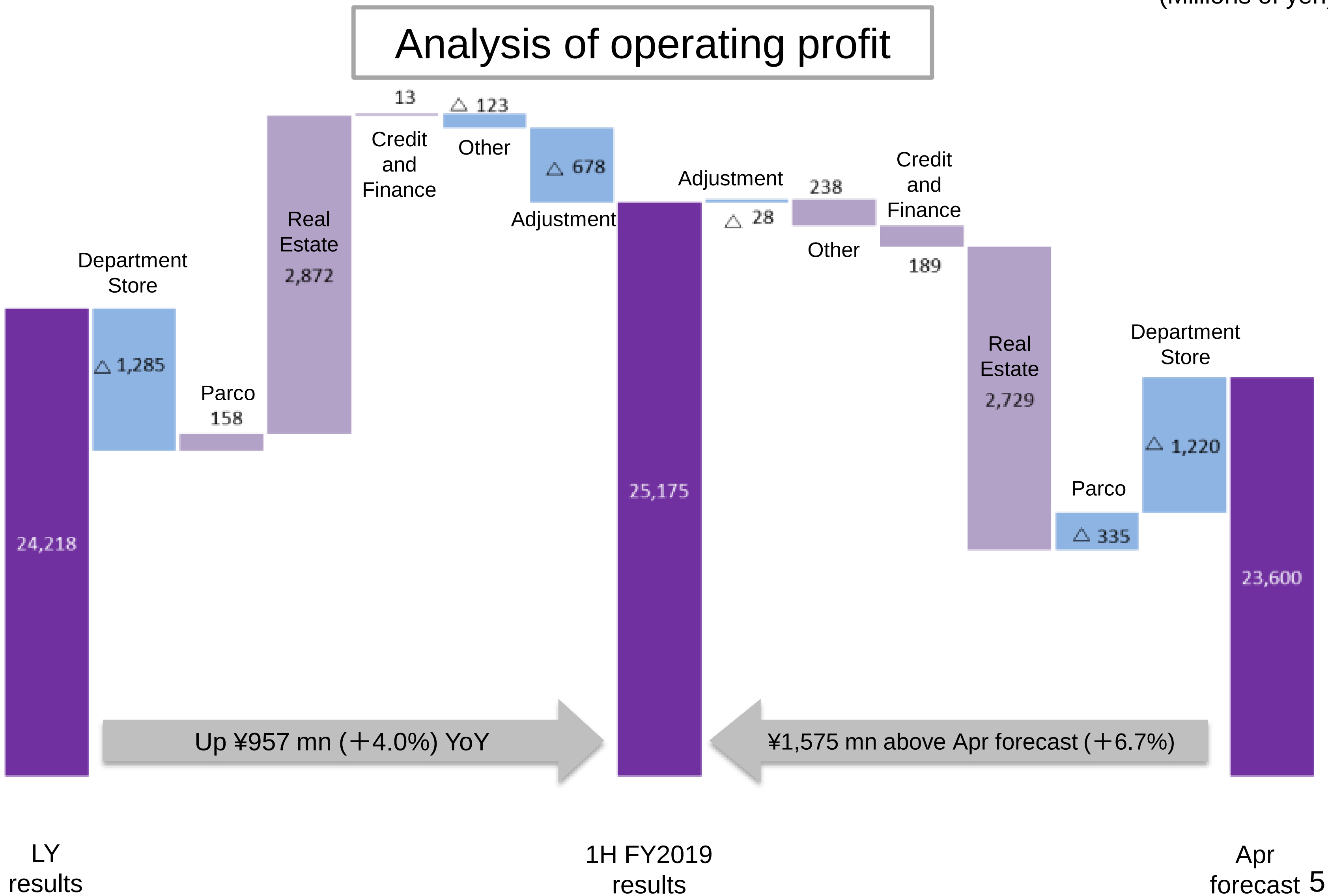
(Millions of yen)



Daimaru Matsuzakaya Department Stores P/L (IFRS)

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- Business profit of Department Store was down 1.1% YoY, down 0.2% excluding effect of closing of Yamashina store and transfer of shops around department stores
- Business profit of Department Store decreased due to increased system costs and increased extra depreciation, performance of Real Estate remained strong
- Operating profit far above April forecast is attributable to gain on sales of real estate of ¥2.3 bn

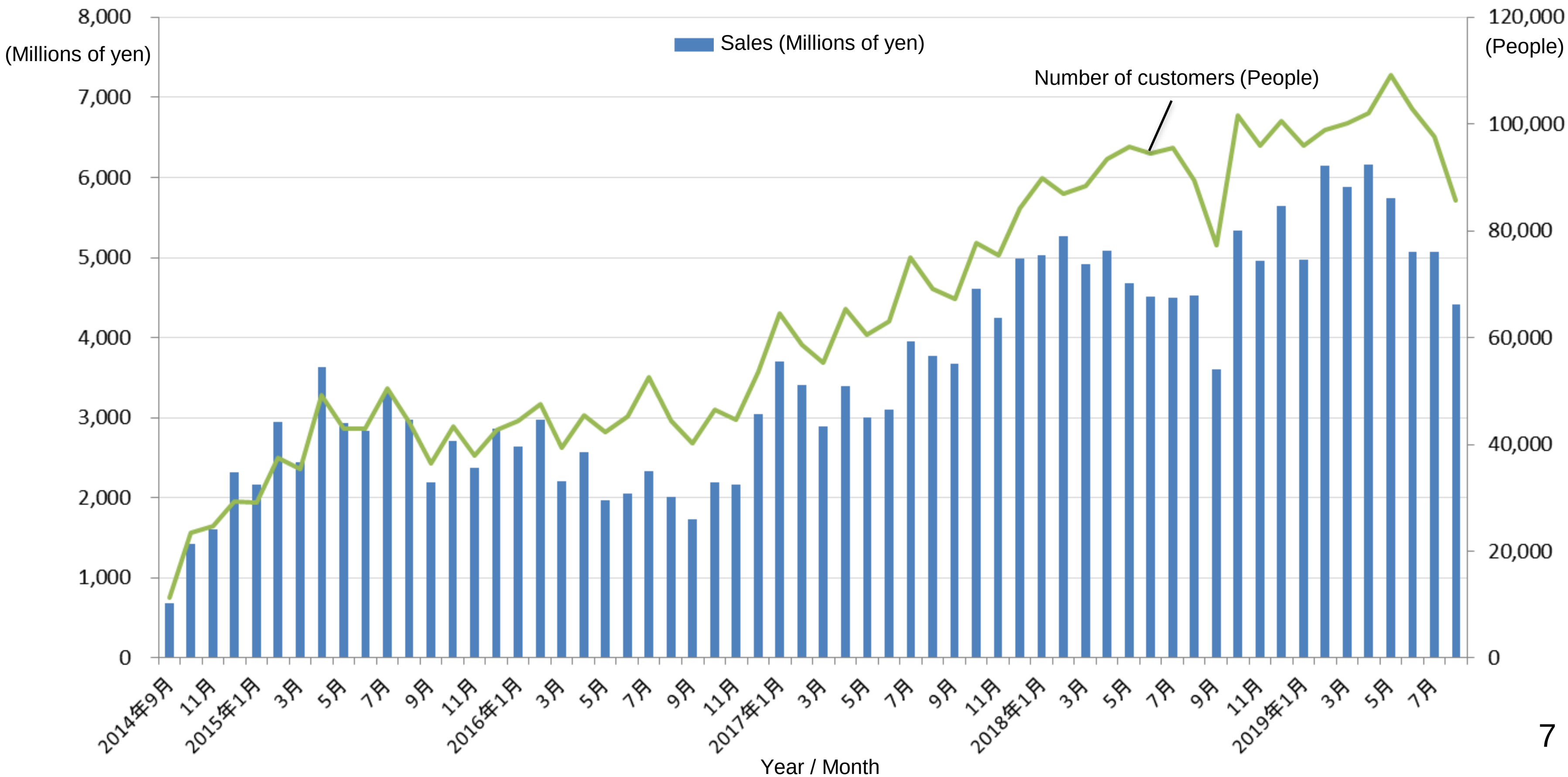
(Millions of yen, %)

First six months of fiscal year ending February 29, 2020	Department Store		Real Estate		Daimaru Matsuzakaya Department Stores Total		
	Results	YoY % change	Results	YoY % change	Results	YoY % change	Vs Apr forecast % change
Gross sales	316,622	(1.1)	8,873	4.9	325,369	(0.9)	(2.1)
[Of which: Real estate rental income]	2,259	12.9	8,761	5.0	10,895	5.3	1.9
Revenue	118,064	(2.0)	8,820	5.2	126,759	(1.6)	(2.6)
Gross profit	69,272	(0.9)	4,676	7.7	73,823	(0.4)	(1.4)
SGA	58,112	(0.3)	1,304	0.4	59,292	(0.3)	(1.0)
Business profit	11,159	(3.9)	3,371	10.8	14,530	(0.9)	(3.1)
Operating profit	10,857	(1.3)	5,729	112.3	16,585	21.1	18.5
Profit	7,460	(10.6)	3,507	139.0	10,967	11.8	20.5

Daimaru Matsuzakaya Department Stores Trend of Sales to Inbound Tourists

- In 1H, tax-free sales increased 14.6% YoY to ¥32.3 bn, both number of customers and average spend per customer increased
- Temporarily decreased partly due to rapidly falling yuan in August but up 19% in September
- Sales to inbound tourists remain “one of pillars of medium-term growth”

<Daimaru Matsuzakaya Department Stores tax-free sales and the number of customers>



*Gross sales basis

Daimaru Matsuzakaya Department Stores
Spending by the Affluent

- Greatly changed systems by reorganizing and using ICT for operations to further strengthen service to the affluent
- It took certain time to establish new organization and new operations at beginning of period for the reason above, but after that, recovered
- In 1H FY2019, newly developed 7,016 *gaisho* accounts, which generated sales of ¥5.9 bn in 1H

"Gold Card"
for *gaisho* customers

Daimaru Matsuzakaya Department Stores
Analysis of Operating Profit (IFRS)

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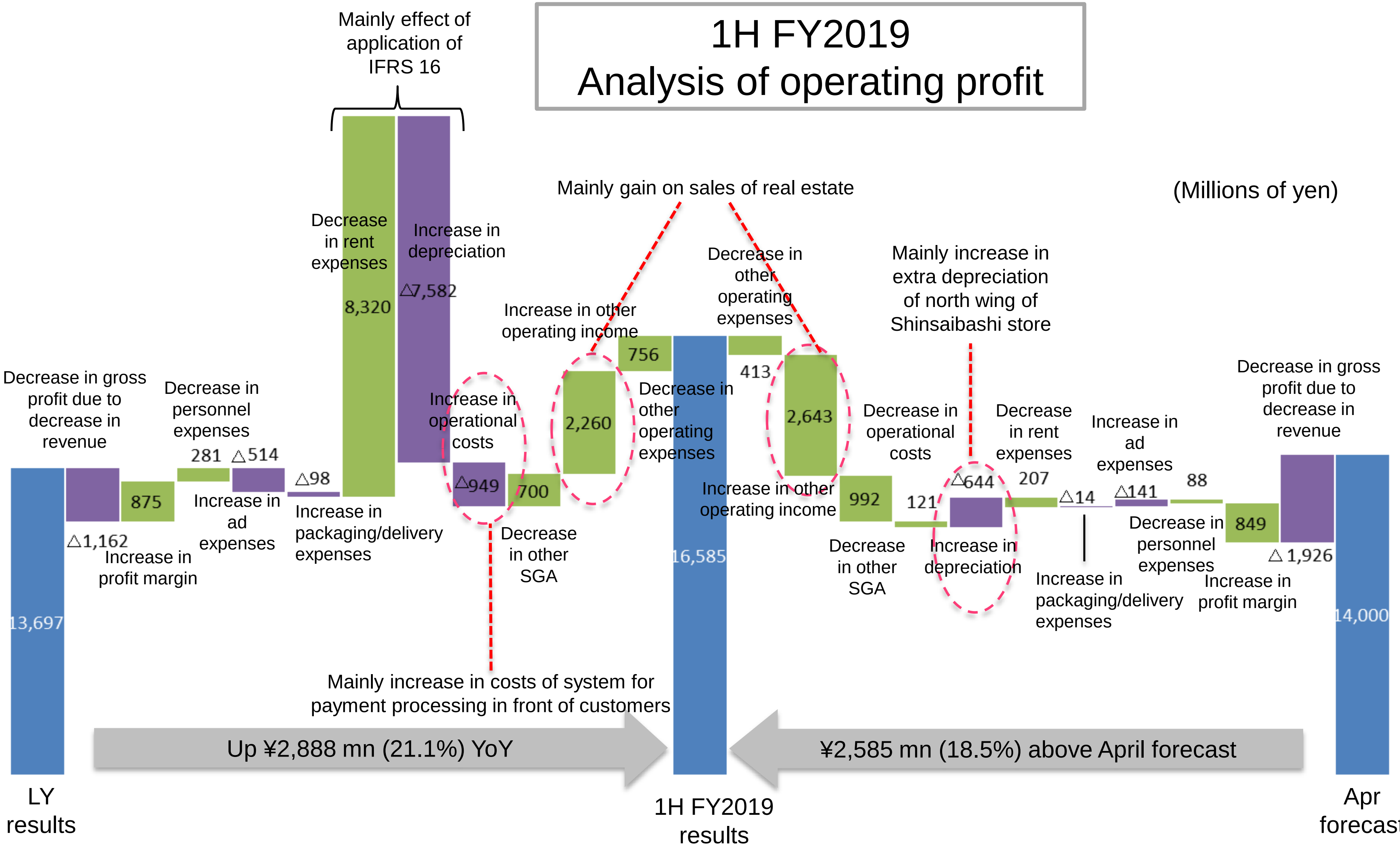

B/S and CF (IFRS)

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- Total assets increased ¥238.2 bn YoY partly due to recognition of “right-of-use assets” on balance sheet
- Interest-bearing liabilities increased ¥249.4 bn YoY partly due to recognition of “lease liabilities”
- Free cash flows were ¥37.4 bn, securing more than ¥20 bn even if effect of IFRS 16 is excluded

<Consolidated statements of financial position>

(Millions of yen, %)

First six months of fiscal year ending February 29, 2020	Results	YoY change
Total assets	1,267,853	238,280
[Of which: Right-of-use assets]	215,742	215,742
Interest-bearing liabilities	423,798	249,420
[Of which: Lease liabilities]	231,960	231,960
Equity attributable to owners of parent	407,573	(5,127)
Ratio of Equity attributable to owners of parent	32.1	(8.0)

(Ratio of equity to total assets)

<Cash flows>

(Millions of yen)

First six months of fiscal year ending February 29, 2020	Results	YoY change
Operating cash flows	42,770	20,317
Investing cash flows	(5,289)	7,582
Free cash flows	37,481	27,900
Financing cash flows	(2,122)	12,476

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2H/Full FY2019 Forecast

2H FY2019 Business Environment Recognition

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The global economy will become more uncertain
due to “trade friction” and increased geopolitical risk

Last-minute surge in demand before consumption tax hike
and subsequent rebound

Reduced tax rate, government-led point rewarding,
free day care services and kindergarten classes

Unavoidable “polarized consumption,” “budget-minded consumer spending,” “increasing urban-rural divide”

Social structure transformed by digitalization

Values shift from “possessing” to “sharing”

Positioning of 2H FY2019

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2H FY2019
Beginning of second half of
“FY2017-2021 Medium-term Business Plan”

||

“Stage to accelerate structural reform”
for dramatic growth of the Group

Overhaul earnings structure
by changing business model, taking measures for
rural stores, revising HR systems, etc.

2H Consolidated Forecast P/L (IFRS)

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- Gross sales and revenue will increase in each segment including Department Store and Parco
- Profit will increase due to application of IFRS 16 and even under former standards
- Plan annual dividend of ¥36 per share, up ¥1 YoY, 9th consecutive ordinary dividend increase

(Millions of yen, %)

Second six months of fiscal year ending February 29, 2020	Forecast	YoY		Vs April forecast	
		Change	% change	Change	% change
Gross sales	621,158	43,115	7.5	(9,842)	(1.6)
Revenue	266,335	33,702	14.5	(4,665)	(1.7)
Gross profit	109,740	2,294	2.1	(1,960)	(1.8)
SGA	83,984	(2,219)	(2.8)	(2,216)	(2.6)
Business profit	25,756	4,514	21.2	256	1.0
Other operating income	3,102	1,519	96.0	802	34.9
Other operating expenses	7,033	881	14.3	4,133	142.5
Operating profit	21,824	5,152	30.9	(3,076)	(12.3)
Profit attributable to owners of parent	11,432	(16)	(0.1)	(2,768)	(19.5)
Dividend per share (Yen)	(Year-end) 18	0	—	—	—

Major Differences from April Forecast That Will Affect 2H Performance

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Special factors that could not be factored in during internal/external discussions in April because they were undecided

	Special factors	Effect on profit (Billions of yen)
Cost and SGA	Effect of IFRS 16	＋0.5
	Revision of retirement benefit and pension systems due to extension of retirement age to 65	＋3.5
	Extra depreciation of exterior wall of “north wing” of Shinsaibashi store	▲0.4
	Structural reform costs for rural stores	▲0.1
	(Total effect of cost and SGA)	**＋3.4**
Other operating income/ expenses	Gain on sales of real estate	＋0.8
	Shinsaibashi store’s contribution for construction of subway passageways	▲1.9
	HR system reform	▲1.0
	Structural reform costs for rural stores	▲0.6
	Other	▲0.2
	(Total effect of other operating income/expenses)	**▲3.0**

Segment Information Forecast (IFRS)

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- Department Store: Expect spending by the affluent to remain strong but carefully review business conditions of each store
- Parco: Shibuya Parco due to open on November 22, Kinshicho Parco opened in 1H, etc. will contribute
- Real Estate: Costs will increase due to transfer of north wing of Shinsaibashi store to Real Estate Business segment after opening of main building

(Millions of yen, %)

Second six months of fiscal year ending February 29, 2020	Business profit				Operating profit			
	Forecast	YoY		Vs Apr forecast	Forecast	YoY		Vs Apr forecast
		Change	% change	Change		Change	% change	Change
Department Store	16,533	3,868	30.5	733	11,119	(1,210)	(9.8)	(3,081)
Parco	5,118	1,438	39.0	118	6,634	6,895	—	134
Real Estate	1,228	(789)	(39.1)	28	1,270	(537)	(29.7)	670
Credit and Finance	639	(635)	(49.9)	(441)	660	(624)	(48.6)	(440)
Other	2,906	1,409	94.1	(164)	2,891	1,515	110.1	(169)
Total	25,756	4,514	21.2	256	21,824	5,152	30.9	(3,076)

Segment Information <Operating Profit> (IFRS)

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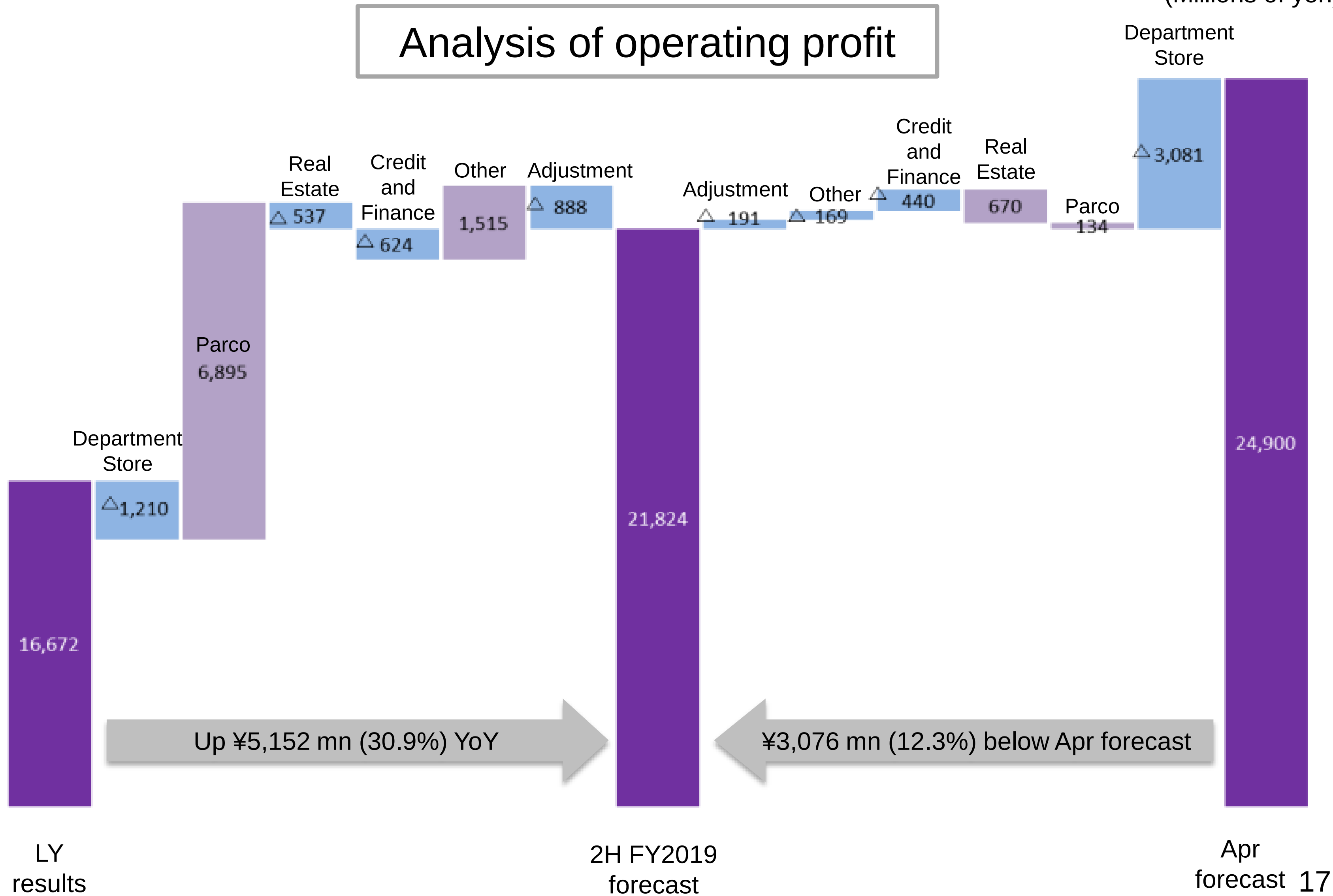
(Millions of yen)



Daimaru Matsuzakaya Department Stores 2H Forecast P/L (IFRS)

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- Gross sales: Down 0.6% YoY in Department Store, up 5.1% YoY in Real Estate
- In spite of additional costs such as extra depreciation of “north wing” and ad expenses to strengthen promotion of mobile app, costs will decrease due to decrease in rent expenses due to application of IFRS 16 and revision of retirement benefit and pension systems
- Real Estate will increase costs due to transfer of north wing of Shinsaibashi store to Real Estate segment after opening of main building

(Millions of yen, %)

Second six months of fiscal year ending February 29, 2020	Department Store		Real Estate		Daimaru Matsuzakaya Department Stores Total		
	Forecast	YoY % change	Forecast	YoY % change	Forecast	YoY % change	Vs Apr forecast Change
Gross sales	341,177	(0.6)	9,126	5.1	350,130	(0.5)	(5,670)
[Of which: Real estate rental income]	4,241	90.2	9,039	5.5	13,204	25.1	(706)
Revenue	124,335	(1.1)	9,079	5.5	133,240	(0.7)	(1,760)
Gross profit	72,627	(2.6)	3,223	4.8	75,676	(2.4)	(2,124)
SGA	57,387	(9.5)	1,995	88.5	59,207	(8.0)	(3,193)
Business profit	15,240	36.4	1,228	(39.1)	16,469	24.8	1,069
Operating profit	10,642	(2.1)	1,270	(35.4)	11,914	(7.2)	(1,386)
Profit	6,839	(12.5)	392	(59.0)	7,232	(17.5)	(968)

Daimaru Matsuzakaya Department Stores Forecast by Store

- Shinsaibashi store will decrease revenue in 2H because 65% of new main building, which opened on September 20, is operated under fixed-term lease
- Expect all flagship stores to increase revenue but carefully forecast rural/suburban stores
- Attract inbound tourists, hold events for the affluent, etc. to counter consumption tax hike in October

<Daimaru Matsuzakaya Department Stores major stores gross sales YoY % change>

Fiscal year ending February 29, 2020	1H results	2H forecast	Full year forecast
Daimaru Shinsaibashi	5.8	(2.3)	1.6
Daimaru Umeda	(0.4)	1.0	0.3
Daimaru Tokyo	0.1	0.7	0.4
Daimaru Kyoto*1	(0.4)	0.2	(0.1)
Daimaru Kobe*2	(3.8)	0.1	(1.8)
Daimaru Sapporo	0.3	3.0	1.8
Matsuzakaya Nagoya*3	(1.1)	0.3	(0.4)
Matsuzakaya Ueno	(3.8)	1.1	(1.4)
Matsuzakaya Shizuoka	(4.3)	(0.2)	(2.2)
Total all stores	(1.1)	(0.6)	(0.9)
Total existing stores*4	(0.2)	0.3	0.1

*1 Sales of the Daimaru Kyoto store excluding effect of transfer of some shops around it to the Real Estate Business: Up 0.0% in 1H, up 1.1% in 2H, up 0.8% in FY

*2 Sales of the Daimaru Kobe store excluding effect of transfer of some shops around it to the Real Estate Business: Down 1.7% in 1H, up 1.1% in 2H, down 0.2% in FY

*3 Sales of the Matsuzakaya Nagoya store excluding effect of change of the 2nd floor of its south wing to be operated under lease: Down 0.1% in 1H, up 1.2% in 2H, up 0.7% in FY.

*4 Sales of existing stores exclude effect of transfer of shops around the Kyoto store and Kobe store and operation of the 2nd floor of the south wing of the Nagoya store under lease and sales of the Daimaru Yamashina store, which closed on March 31, 2019.

Daimaru Matsuzakaya Department Stores Analysis of Operating Profit (IFRS)

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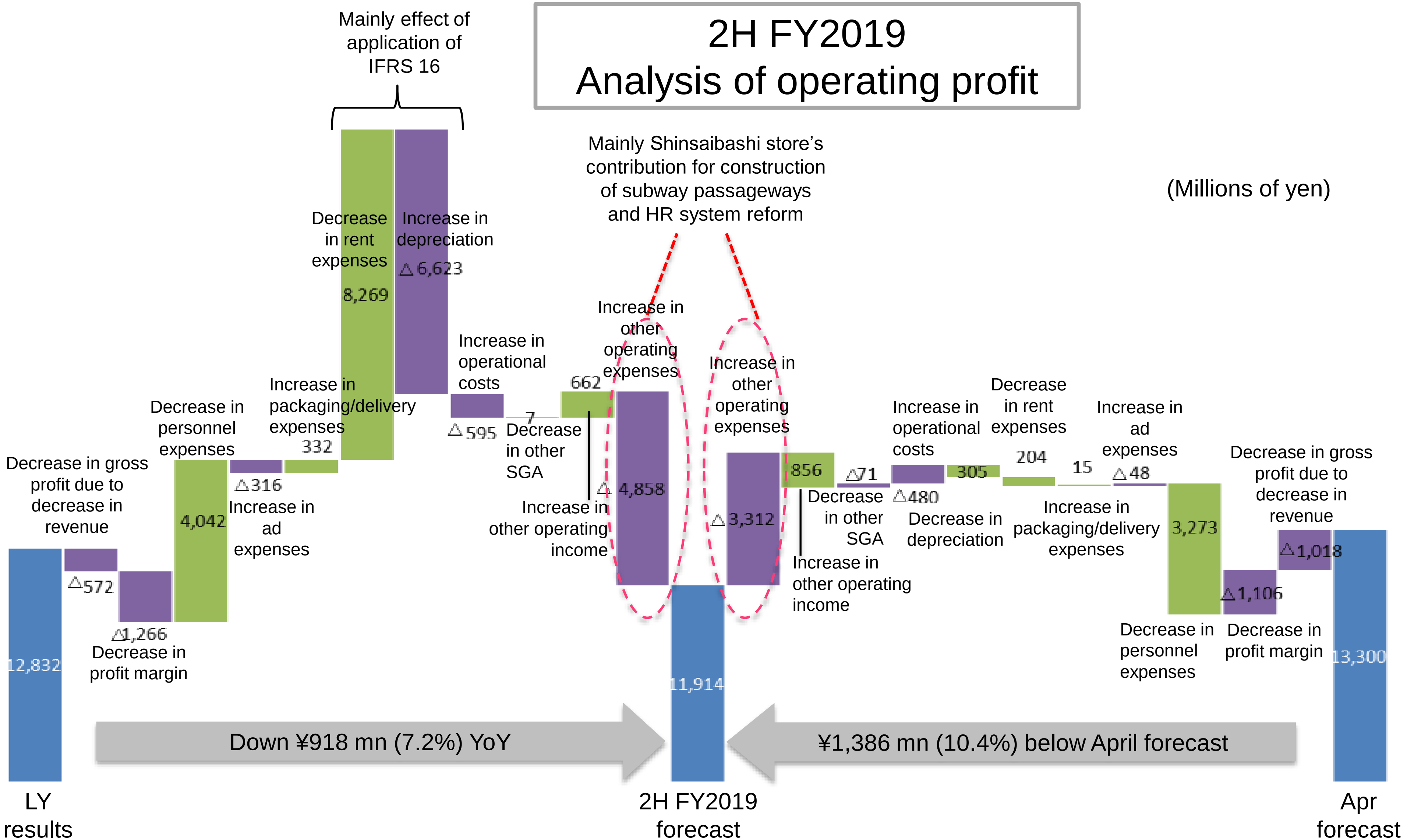
2H FY2019 Analysis of operating profit

(Millions of yen)



Full Year Consolidated Forecast P/L (IFRS)

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- Revised downward gross sales, revenue, operating profit and profit attributable to owners of parent from Apr forecast but keep business profit unchanged from April forecast
- Plan annual dividend of ¥36 per share, up ¥1 YoY, 9th consecutive ordinary dividend increase

(Millions of yen, %)

Fiscal year ending February 29, 2020	Full year forecast	YoY		Vs April forecast	
		Change	% change	Change	% change
Gross sales	1,167,000	41,847	3.7	(21,000)	(1.8)
Revenue	492,000	32,160	7.0	(8,000)	(1.6)
Gross profit	214,400	2,004	0.9	(3,600)	(1.7)
SGA	164,900	(1,982)	(1.2)	(3,600)	(2.1)
Business profit	49,500	3,986	8.8	0	0.0
Other operating income	7,200	3,963	122.4	3,800	111.8
Other operating expenses	9,700	1,840	23.4	5,300	120.5
Operating profit	47,000	6,109	14.9	(1,500)	(3.1)
Profit attributable to owners of parent	25,800	(1,558)	(5.7)	(2,200)	(7.9)
Dividend per share (Yen)	(Annual) 36	1	—	0	—

B/S and CF Forecast (IFRS)

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- Balance sheet and cash flows will greatly change due to application of IFRS 16
- Total assets will increase ¥230.4 bn YoY due to recognition of right-of-use assets on balance sheet
- Interest-bearing liabilities will increase ¥244.1 bn YoY partly due to recognition of lease liabilities
- Free cash flows will be positive at ¥2.9 bn even if effect of IFRS 16 is excluded

<Consolidated statements of financial position>

(Millions of yen, %)

Second six months of fiscal year ending February 29, 2020	Results	YoY change
Total assets	1,260,000	230,427
[Of which: Right-of-use assets]	202,000	202,000
Interest-bearing debt	418,500	244,122
[Of which: Lease liabilities]	220,000	220,000
Equity attributable to owners of parent	415,000	2,300
Ratio of equity attributable to owners of parent	32.9	(7.2)

(Equity ratio)

<Cash flows>

(Millions of yen)

Second six months of fiscal year ending February 29, 2020	Results	YoY change
Operating cash flows	83,000	48,130
Investing cash flows	(54,000)	(27,164)
Free cash flows	29,000	20,967
Financing cash flows	(16,000)	5,274

Progress of Medium-term Business Plan and Future Initiatives

Progress of Business Portfolio Transformation

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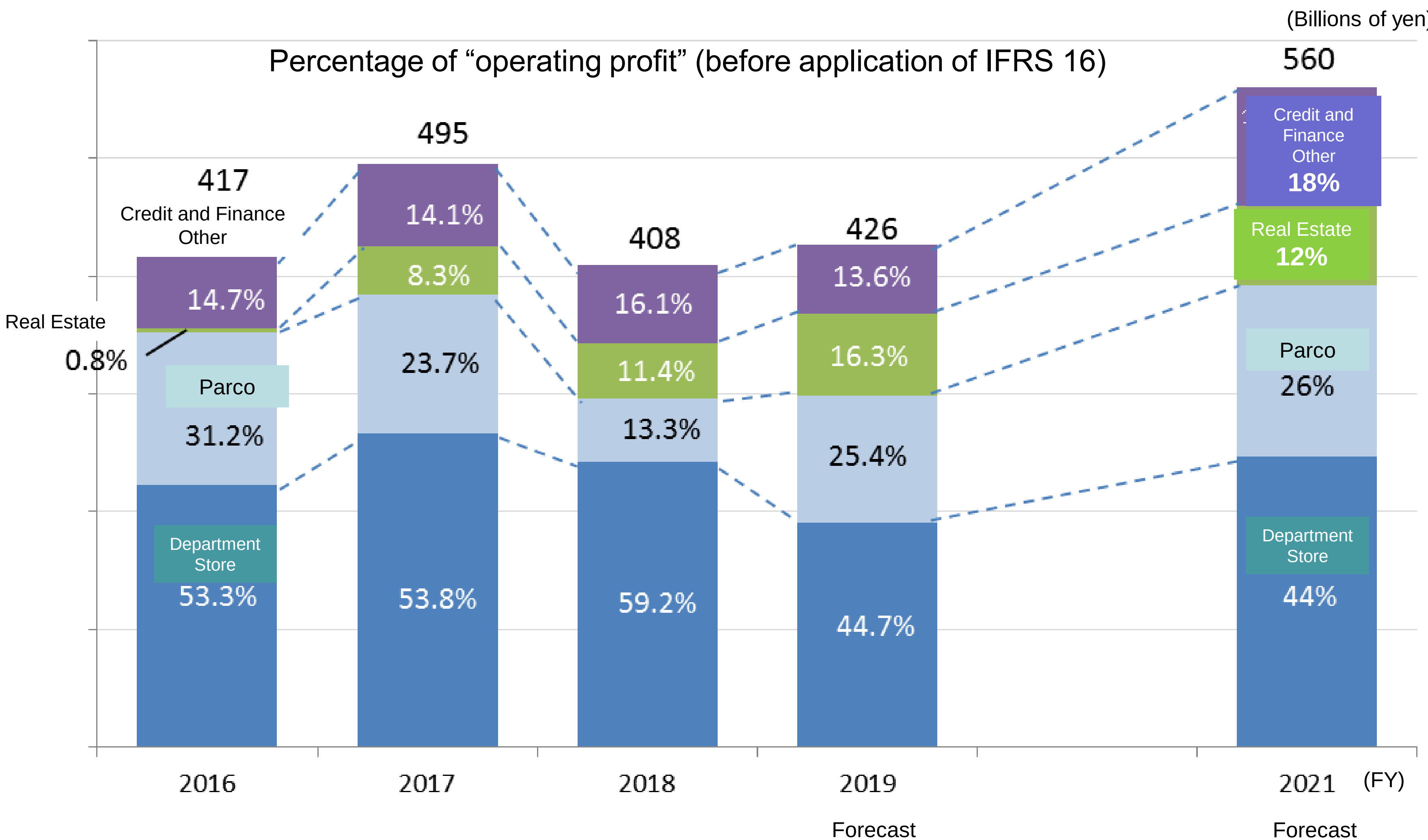
- "Real Estate Business" is growing steadily by contribution of "Ginza Six," "Ueno Frontier Tower," etc.
- Realized great growth as a group with business innovation in existing fields



New Main Building of Daimaru Shinsaibashi Store Made Its Grand Opening

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- Embodied direction of new department store business model with bold “hybrid structure”

Characteristic Customer Structure of “Shinsaibashi Store”

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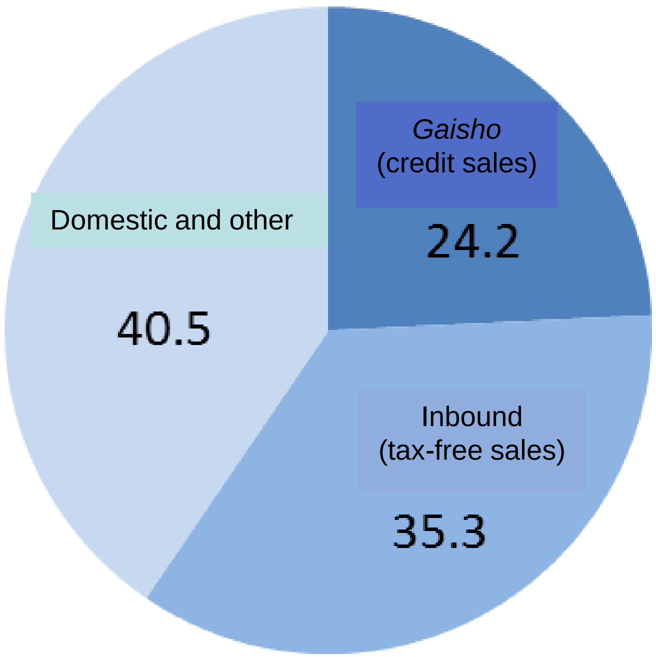
- “The affluent,” mainly *gaisho* customers, and “foreign tourists” generate 60% of sales
- It is extremely important to draw out maximum potential of “two promising pillars”

Daimaru Shinsaibashi store
sales percentage by customer



Categories that can be grown by inbound tourists and the affluent:
Maximize profit by
kaitori / shoka shiire

Other categories:
Attract more customers and make revenue more stable and more efficient

*Figures are actual percentages in FY2018.

Greatly Strengthened Cosmetics and Luxury

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Cosmetics

Floor area
+95
%

New
+28
brands

Luxury

Floor area
+15
%

New
+11
brands

Restructured “Fashion Floors”

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Narrowed down both floor area and number of brands of women’s apparel to around 60%

Broke away from traditional merchandise classification such as women’s wear and men’s wear

Used experience and know-how at Ginza Six

Better Met Demand for Experiential Consumption

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Created department store quality "Food Hall"

Created Pokemon Cafe and Jump Shop to transmit Japanese culture

Store Environment Merging “Tradition” and “Innovation”

- Created special space that merges beauty of W. M. Vories’ architecture before rebuilding and modern design

Innovative Low-Cost Operation

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► Change HR structure to completely different one from traditional department stores by introducing fixed-term lease boldly

Fixed-term lease
65
%

HR structure
- 250
posts

*Other:
Reduced facility, admin, logistics and hygiene management costs

Realized new low-cost operation that supports highly profitable operation

*Figures are comparison to current "north wing."

Shinsaibashi Store after Opening of Main Building

- Mainly luxury and cosmetics, which were strategically strengthened, sell better than plan
- Almost 100,000 customers visit on holidays, young customers who did not visit before are increasing

As Scalable Business Model

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“Main building” opened on September 20, 2019

“Main building” will be fully operated in FY2020

=

Expect profit to increase ¥2 to 2.5 bn compared to FY2019

Establish new scalable “business model” by repeating PDCA

Apply this to Nagoya store and other flagship stores

Connect Main Building and North Wing as One

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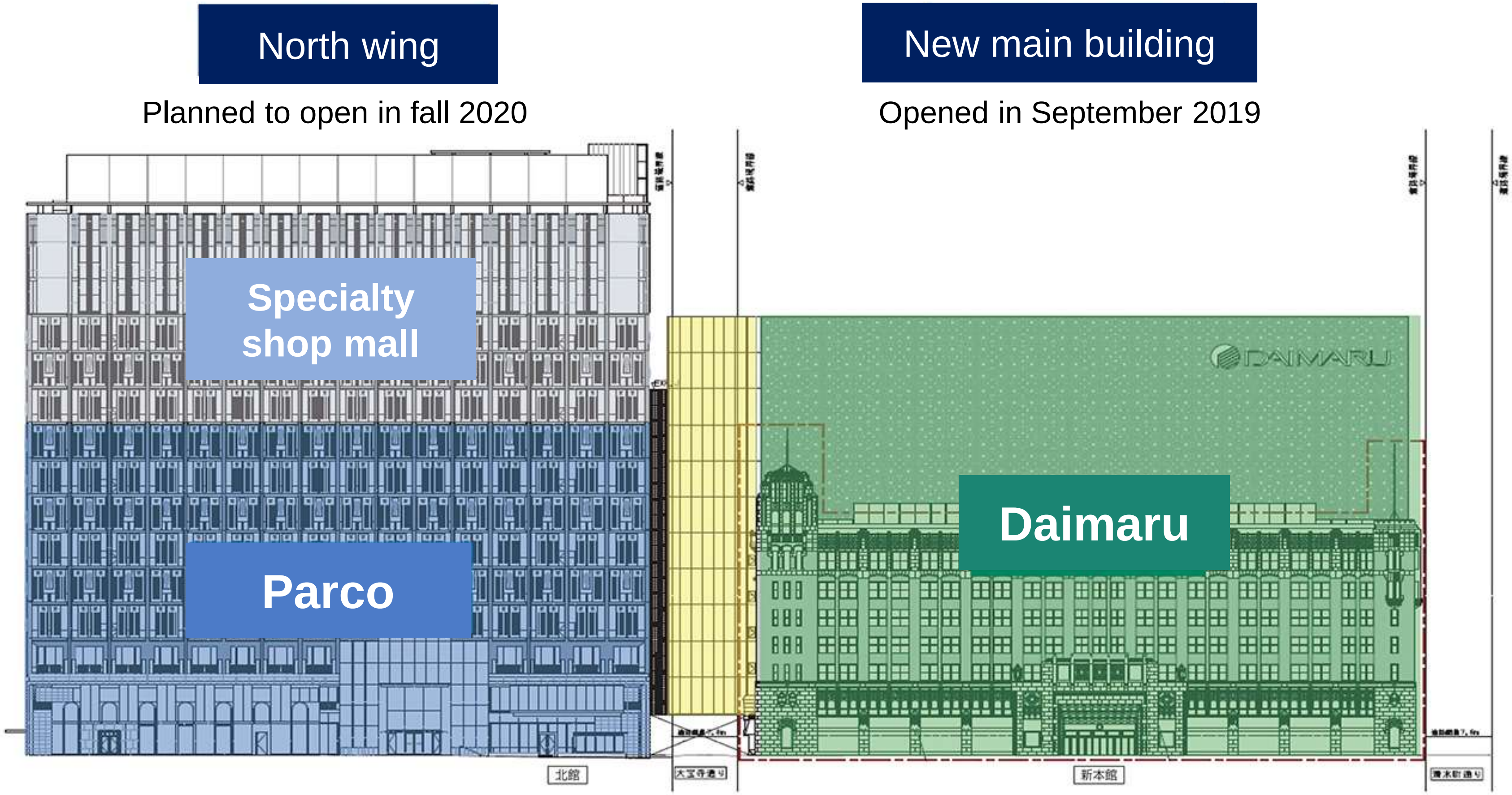

Open “north wing” as Real Estate Business
and connect it to main building in fall 2020

Expect profit to increase ¥2 bn or more
(Revenue impact on Daimaru Matsuzakaya Department Stores)

"Next-generation Commercial Space" New Shibuya Parco

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- Rebuilding using special urban renaissance district and redevelopment project
- Increase experiential content by opening Japan's first "Nintendo Tokyo," expanding Parco Theater, etc.
- Deepen Parco brand by re-proposing fashion and creating future-oriented floors using ICT

Develop Shibuya Parco's Own Identity

- Initiatives in collaboration with designers and creators to propose fresh stimulation and excitement as experiential value
- Specialty shops with high quality deign, art and entertainment at the core

© Sou Fujimoto Architects

Merge E-commerce and Real Store

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- Create omnichannel space "Parco Cube" for both e-commerce and over-the-counter sales on 5th floor of Shibuya Parco
- As next store with enhanced function of showroom, it will mainly carry strategic items and limited items
- Customers can buy products available online but not in the store with no stress on the spot anytime

Evolution of Parco Brand

Grand opening on
Nov 22

193 unique and attractive shops

Evolve Parco brand as flagship store

Spread brand power over other stores

Credit and Finance Business Initiatives for Growth

Rebuild Credit and Finance Business strategy with 5 pillars

- Improvement of bottom line of existing business
- Strengthening of card products
- Launch of merchant acquiring services
- Review of system platform
- HR development and building of organization

Progress of Credit and Finance Business Strategy

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Review of card products

- Plan to completely renew and create cards that appeal to the young as well as existing customers
- Consider introducing new point program in addition to Daimaru Matsuzakaya points
- Full renewal of cards is scheduled for next year 2020

Launch of merchant acquiring services

- JFR Card concluded license agreement directly with “Visa” and “Mastercard” in July this year
- Firstly review agreements of Daimaru Matsuzakaya Department Stores to contribute to cost reduction, and then expand business

Build relations with customers through “settlement”

Develop various finance services using settlement data

Credit and Finance Business Strategy

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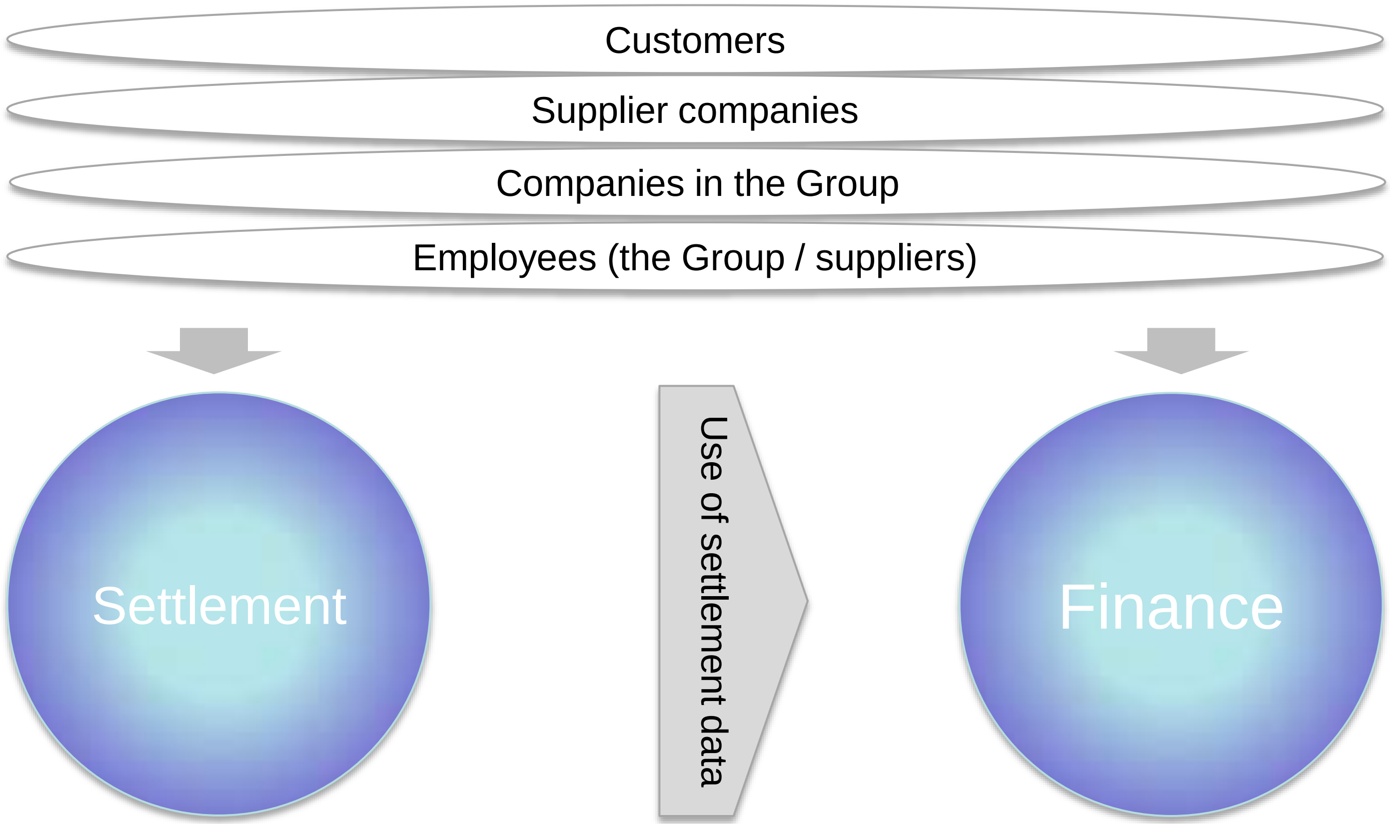
The Group's transaction value of more than ¥1 trillion and good customer assets as strengths



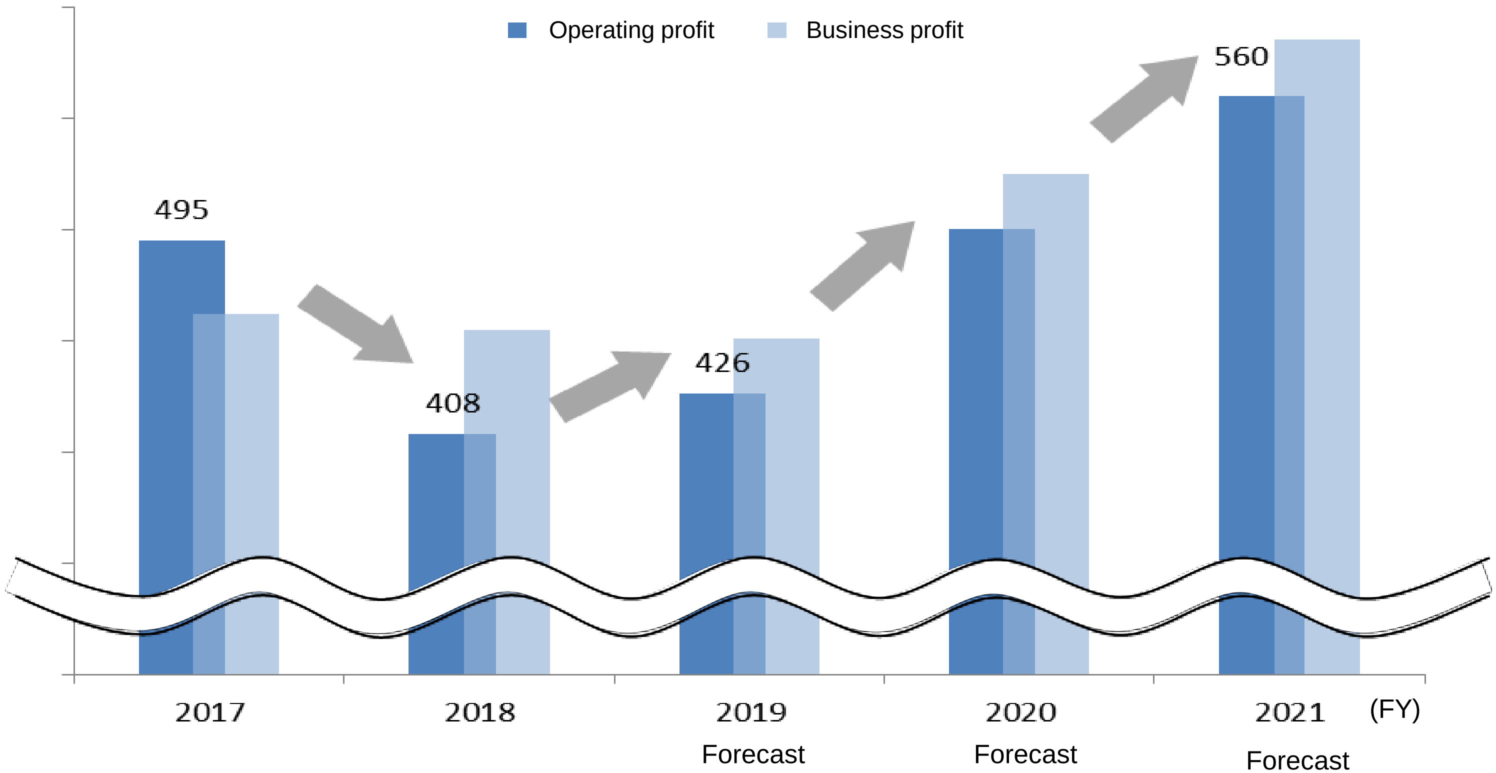
As first step, grow operating profit to ¥5 bn in next Medium-term Plan or later

Further promote initiatives for growth as the Group's pillar

Future Progress of Medium-term Business Plan

- FY2020: New main building of Shinsaibashi store and Shibuya Parco will be fully operated, Credit and Finance Business will reverse its course
- FY2021: North wing of Shinsaibashi store and Shinsaibashi Parco will be fully operated, Real Estate Business will grow steadily

"Operating profit" growth curve forecast (before application of IFRS 16) (Billions of yen)



Plan to update figures in the Medium-term Plan in April next year factoring in effect of IFRS16, etc.

Strategic Investment and Return to Shareholders for Growth (before application of IFRS 16)

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<Allocation of total cash flows for FY2017 to 2021>

Operating cash flows
¥260 bn or more

Investing cash flows
¥200 bn

Capital investment

Growth investment

Free cash flows
¥60 bn or more

Return to shareholders

Expansion of equity

Implement capital policy well balanced among strategic investment, improvement of return to shareholders and expansion of equity

Realize management structure that can achieve 8% ROE continuously

Balance-oriented Capital Policy

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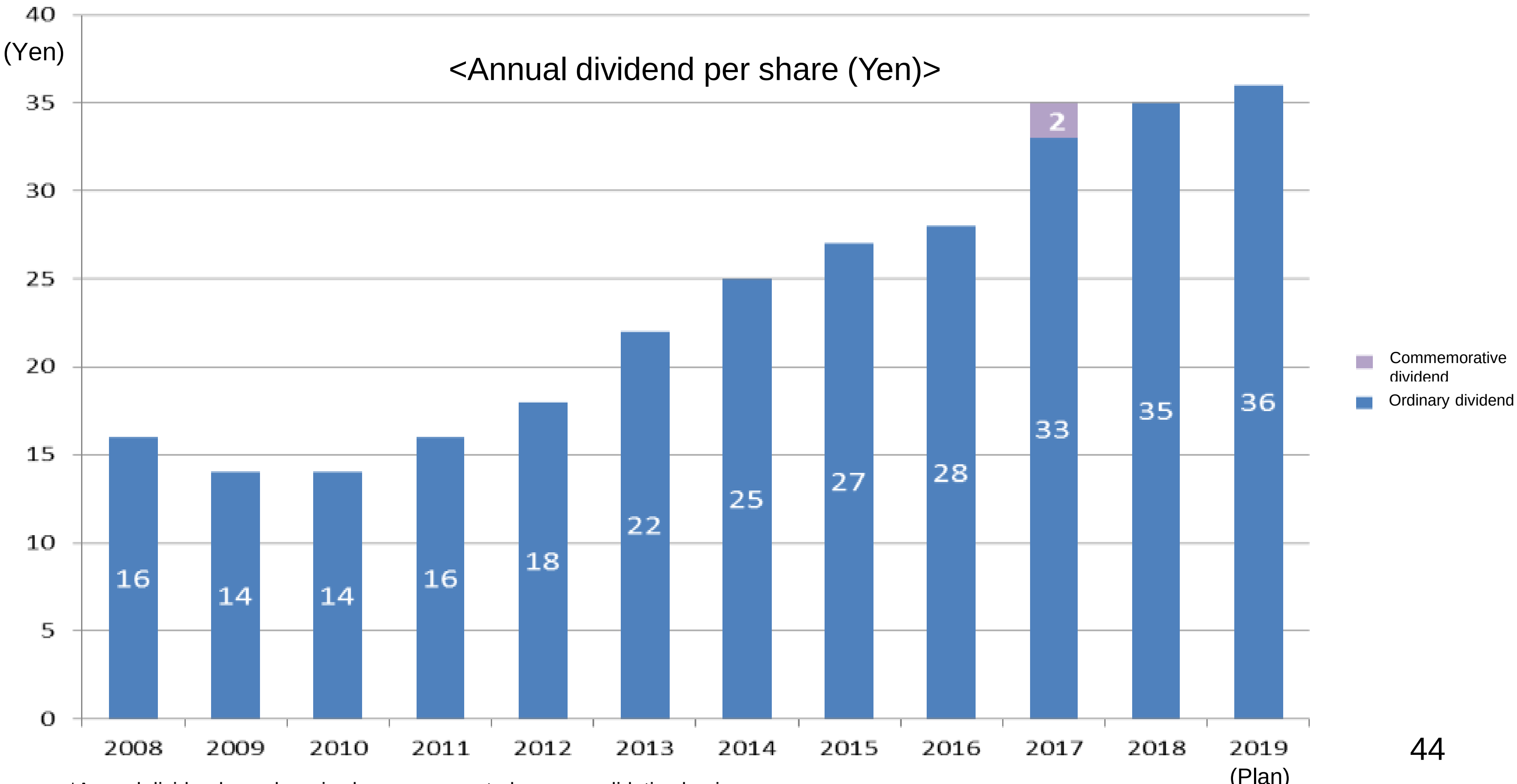
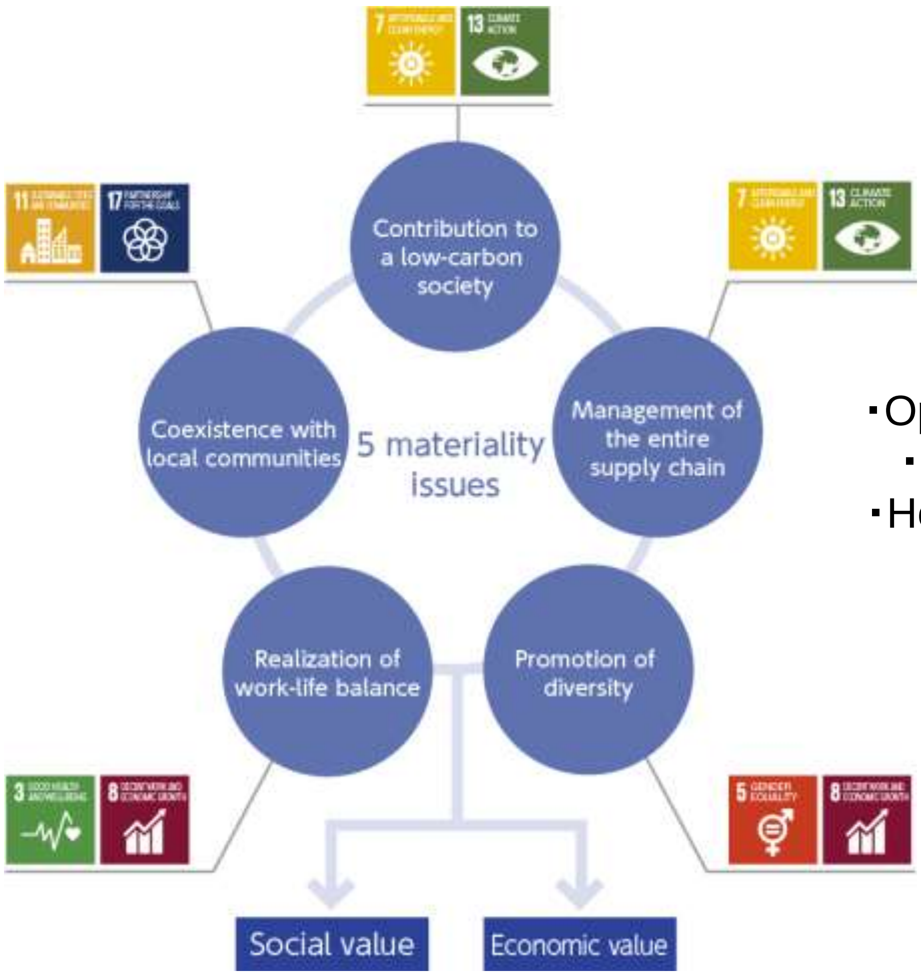
- Continue return to shareholders based on profit allocation according to performance and targeting dividend payout ratio of at least 30%
- Purchase own shares as appropriate in consideration of strategic investment, financial condition, etc. as a whole
- Create structure that can achieve ROE of 8% continuously by promoting balance-oriented capital policy



*Annual dividend per share is shown on a post-share consolidation basis.

ESG Initiatives



Started full-scale initiatives
to create sustainable society
under long-term quantitative goals

<Specific actions>

・Opened Shinsaibashi store from ESG perspective
・Formulated “Principles of Action for Suppliers”
・Hold explanatory meetings for suppliers (late Oct)

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Ensure understanding among all suppliers and employees to enhance action levels

For Enhancement of Corporate Value

Practice of corporate credo “Service before Profit = CSV

Social value × Economic value

With empathy from stakeholders, we will speed up the Group business structure reform

Medium- to long-term enhancement of corporate value

Risk Recognition (1)

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Risk associated with consumption tax hike and post-Olympic recession

Multiple recessions such as consumption recession due to consumption tax hike in 2019 and post-Olympic reactionary recession are likely to occur in the near future and they will become threats unless we can develop measures early to meet last-minute demand and address restraint in buying.

On the other hand, policy changes and the enforcement and easing/abolition of laws and regulations can become opportunities if seeing a different perspective. For example, free-of-charge education financed by consumption tax hike can increase spending by young couple households e.g. by transferring education costs to general spending. By thus seeing risks from a different perspective and changing mindset, we can convert risks into the Group's opportunities to acquire new consumers.

Risk associated with changes in customers, particularly, low birthrate and longevity

Low birthrate and longevity are the greatest change in environment that is sure to occur in the future and the "era of 100-year life" is sure to come in the near future. It is essential to respond to this big change, and since increased competition from competitors is inevitable, the change will become a threat if we fall behind in responding to it.

On the other hand, the senior market is sure to expand due to low birthrate and longevity. Growth opportunities will expand if the Group can expand the lineup of products and services that meet changing lifestyles early by building and using new customer information base using technologies to respond to this big market change.

Risk associated with polarized income

The illusion that all Japanese are middle class disappeared and income is polarized. Accordingly decrease of existing middle class is inevitable and it will become a threat unless we can change our business model.

On the other hand, new growth opportunities will expand if we can redefine the potential of the Group's strong affluent market, expand the scope of activities of *gaisho* divisions in terms of quantity and quality, and provide high-end services as well as products. With regard to the struggling middle class market, regrowth opportunities will expand if we can reduce space for traditional volume zone products and introduce new products/services that meet the middle class market needs. At the same time, it is important to respond to "consumption polarization of one consumer" that one consumer takes various spending actions. Growth opportunities will expand if we can pull out of customer segment as an extension of the past consumption and develop products, services, and selling methods that respond to new consumption behaviors of new customers to accurately capture these changes in consumption.

Risk associated with the development of sharing economy

With the development of sharing economy, increase in asset value due to sharing and use of owned assets is a big consumption trend and this trend is sure to further expand in the future. Accordingly the market involving product sale may be eroded, which can pose a great threat.

On the other hand, if we can stimulate various potential demands through initiatives to share products, in addition to existing product sale, and use of offices, show rooms, entertainment facilities, and public facilities for use of urban locations owned by the Group, value in use of the Group's assets will increase and growth opportunities will expand.

Sharing economy has a great impact on employment and it can lead to work style reform by establishing a system that accommodates personnel systems not based on employment for professionals, etc.

Risk associated with evolving technologies

Technologies are evolving at an accelerated pace and there are many concerns such as cyber terrorism. Accordingly it will become a threat unless we ensure that we strengthen digital security initiatives in line with the evolution of technologies. If we fail to keep up with improvement of productivity using RPA (Robotic Process Automation), etc. due to the evolution of technologies, it will become a threat.

On the other hand, if we can combine technologies with existing businesses and change them to a new business model, opportunities that lead to success will expand. If we can maximize customer lifetime value by building a customer base using digital, establishing a business model using data on payment, etc. that are linked with customer identities, which monetizes by creating a new value, and increase over-the-counter sales by improving convenience by responding to the evolution of settlement function at stores, opportunities for growth will expand.

Risk associated with increasing importance of CSR

It is inevitable that CSR initiatives from an ESG perspective as a key element of corporate value will become more important in the future and we will be required to address environmental, social, and governance issues. In particular, response to environmental issues is impossible to avoid as a company and if the Group falls behind in promoting it, it will become a great threat.

On the other hand, if we can change our mindset to "CSV (Creating Shared Value)" beyond the traditional concept of CSR and resolve social issues through business activities, we can increase reputation among customers and investors as well as increase sales and opportunities for the Group's sustainable growth will expand.

Risk associated with disasters, etc.

The Group's head offices, major stores, etc. are located in Japan and if business activities are suspended or large expenses are incurred for repairing facilities due to natural disasters including earthquakes and tsunami, accidents including fire and blackout, misconducts including terrorism, etc., it may have an impact on the Group's performance and financial condition.

In addition, if system failures occur due to defects in software/hardware, computer virus, hacking networks, etc., it will disrupt business operation and may have an impact on the Group's performance and financial condition.

On the other hand, if we can develop the Group's BCP, create stores that can respond to natural disasters, and develop the Group-wide digital security measures, we can minimize the impact, and at the same time, we can advance our preparation for future disasters.

Risk Recognition (2)

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Risk associated with impairment

The Group has fixed assets for the purpose of business activities including land and buildings for stores. If profitability declines or land prices fall due to worsening economic conditions and fiercer competition concerning these assets, we have to recognize impairment and this may have an impact on the Group's performance and financial condition.

On the other hand, accelerating our efforts to increase the profitability of these assets with an awareness of impairment risk when promoting business activities can result in improving our ability to generate cash flows.

Risk associated with funding

The Group raises funds concerning new openings, renovation, M&A, etc. directly from financial markets, which includes borrowings from financial institutions and issuance of bonds and commercial papers. If financial institutions change terms and conditions including lending facilities and credit lines due to changes in financial markets and other causes, rating agencies significantly lower the Group's credit ratings due to the Group's worsening financial condition, or investor motivation to invest declines due to economic recession, the Group will not be able to raise necessary funds when necessary on terms and conditions deemed appropriate, which may result in restriction of funding and higher funding costs.

On the other hand, by accurately managing our funds and appropriately building a portfolio of borrowings from financial institutions and direct funding from financial markets, we can achieve efficient and effective funding.

Risk associated with interest rate fluctuations

The Group has financing receivables and interest-bearing liabilities and changes in their interest rates affect interest expenses and interest income and values of financial assets/liabilities and the Group's performance and financial condition may worsen.

On the other hand, we strive to reduce interest expenses, increase interest income, and expand financial assets by appropriately managing the portfolio of long-term finance and interest-bearing liabilities.

Risk associated with stock market fluctuations

The Group holds shares in Japanese companies, etc. as part of financial assets and the portion attributable owners of parent may decrease due to decline in stock value such as decline in stock prices. Since this may decrease the assets of the affluent who are the Group's core *gaisho* customers, *gaisho*-related sales may decrease.

On the other hand, we can minimize the impact of stock value fluctuations by appropriately managing the portfolio of shareholdings.

Risk associated with exchange rate fluctuations

The Group's suppliers include many overseas brands that are affected by exchange rate fluctuations. Accordingly product prices at stores may change depending on movement of exchange rates and the Group's performance may worsen. The number and purchase amount of tourists from overseas including China are affected by exchange rate fluctuations and store sales may decrease.

On the other hand, we can enhance the appeal of stores, which will result in improvement of the Group's performance, by spreading the suppliers of overseas brands, appropriately balancing between overseas brands and Japanese brands offered at stores, and expanding and improving product lineups and services for inbound tourists.

Risk associated with information management

The Group handles personal information provided by customers and receives confidential information on other companies and such information may be leaked outside the Group illegally or by mistake.

The Group's trade secrets may also be leaked illegally or by mistake, and as a result, this may have an impact on the Group's performance and financial condition.

Risk associated with laws and regulations and their revision

The Group is subject to laws and regulations concerning opening of large-scale retail stores, antimonopoly, subcontracts, consumer protection, various restrictions, and environment- and recycling-related matters.

It is difficult to forecast the enforcement and changes of these laws, regulations, policies, accounting standards, etc. and their impacts, and if the Group's business activities are restricted by these laws and regulations and their revision, this may result in cost increase and revenue decrease and have an impact on the Group's performance and financial condition.

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Create and
Bring to Life
"New Happiness."

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Forward-looking statements in this document represent our assumptions based on information currently available to us and inherently involve potential risks, uncertainties and other factors. Therefore, actual results may differ materially from the results anticipated herein due to changes in various factors.

Perspectives on slides 35 and 38 and photos in the upper left and lower right of slide 36 were provided by Takenaka Corporation.