Now the Group Is Facing a "Turning Point." First of All, Change the Management by Implementing Governance Reform.

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Would you explain about an overview of business results for fiscal year 2016?

Consolidated net sales of J. Front Retailing were ¥1,108.5 billion, down 4.7% year on year. Consolidated operating profit, consolidated ordinary profit and consolidated profit were ¥44.5 billion, down 7.2% year on year, ¥44.4 billion, down 7.3% year on year, and ¥26.9 billion, up 2.4% year on year, respectively. As a result, ROE, which we define as an important management indicator, was 6.8%.

Looking at results by segment, the Department Store Business was affected by significant reduction in sales floor area of the Shinsaibashi store for the reconstruction of its main building, and in downtown stores, sales to Japanese affluent customers and duty-free sales to foreign tourists, which had driven sales, were considerably sluggish in the first half of the fiscal year due to steep fall in stock prices and exchange rate fluctuations. After the U.S. presidential election in November, in reversal, stock prices rose and the yen weakened. Accordingly, the consumption of Japanese affluent customers and foreign tourists recovered sharply. On the other hand, at suburban stores, sales mainly of clothing remained sluggish. As a result, net sales were down 4.6% year on year and operating profit was down 14.6%.

Artist's impression of main building of Daimaru Shinsaibashi store

As for the Parco Business, while sales were boosted by the new opening of Sendai Parco 2 in July, Shibuya Parco temporarily closed in August for rebuilding and Chiba Parco closed in November. As a result, compared to the previous year, net sales decreased by 2.7% and operating profit slightly declined by 0.5%.

The Credit Business increased net sales by 4.3% and operating profit by 5.2%. The Wholesale Business and Other Businesses decreased net sales but increased operating profit by 16.3% and 2.7%, respectively, due to higher profitability.

We paid a year-end dividend of ¥14 per share as planned. The annual dividend including the interim dividend of ¥14 was ¥28 per share, up ¥1 year on year, marking the sixth consecutive year of increase.

The previous three-year Medium-term Plan was completed in fiscal year 2016. Would you look back at its outcome?

Positioning the Medium-term Business Plan for fiscal years 2014 to 2016 as a "phase of building a foundation" for dramatic growth in the future, the Company committed to strengthening its business.

With regard to the Department Store Business as a core existing business, in order to build a new department store model, the Nagoya store conducted a massive renovation in three phases, while each store reduced bloated women's clothing area to the right size and started to introduce new categories and curated areas. In terms of low cost operation, SGA ratio reached a level below 20% due to human resource restructuring.

The Parco Business steadily expanded management floor area by increasing the floor area of Fukuoka Parco, opening Sendai Parco 2 and three Zero Gate stores.

Ginza Six

Fukuoka Parco

Artist's impression of new south wing of Matsuzakaya Ueno store

Artist's impression of Shibuya Parco

With regard to the "Urban Dominant Strategy," we implemented four big redevelopment projects, including the opening of a new commercial complex Ginza Six, the rebuilding of the south wing of the Ueno store, the rebuilding of the main building of the Shinsaibashi store and the rebuilding of Shibuya Parco, to make real estates profitable.

We also aggressively addressed corporate governance reform by strengthening the operation of the Board of Directors and holding the meetings of the "Governance Committee." In order to further strengthen governance, we decided to transition from a "company with Audit & Supervisory Board" to a "company with three committees."

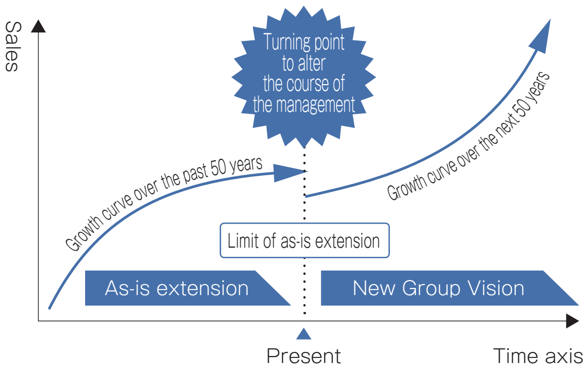
As for numerical results, however, consolidated operating profit, consolidated operating margin and consolidated ROA, all of which we position as important indicators, were below the target. Consolidated ROA was above the original target. But it was boosted by reversal of deferred tax liabilities due to reduction of corporate income tax rate, and in real terms excluding this factor, it stayed at the planned level.

What problems newly emerged?

The biggest cause for the failure to meet the target was a lack of responsiveness to environmental changes. In addition to that, we recognize that the Group's business structure overly dependent on the Department Store Business is a significant challenge. Furthermore, it cannot be denied that we are slow to respond to advanced technologies and fundamentally lack the ability to collect information or the sensitivity to information.

The environment surrounding consumption is changing faster than before. It is difficult to say that we, as a retail business group mainly consisting of department stores and Parco, can respond to such changes quickly and sufficiently. And our achievements during the three years of the Medium-term Business Plan did not reach a satisfactory level both quantitatively and qualitatively. If we remain as we are, we will not be able to maintain the status quo let alone respond to changes. It is inevitable that growth will reach its limit. We have increased our awareness that the Group is facing a big "turning point" now.

◆ Illustrative curve for "discontinuous growth"



Therefore, considering what kinds of roles we will be able to play and how we will be able to contribute to society in anticipation of changes in the environment surrounding us over the next 10 and 20 years and in order to provide new forms of value with respect to "lifestyles" as well as "means of seeking enjoyment," we newly developed the Group Vision phrased as "Create and Bring to Life 'New Happiness.'"

To achieve this vision, with the Medium-term Business Plan starting in this fiscal year as a "starting point," we will drastically alter the course of the management to "discontinuous growth," which is not an extension of the past, and promote new initiatives.

What is the main aim of the new Medium-term Plan?

The term for the new Medium-term Business Plan is the five years up until fiscal year 2021 when returns from large redevelopment projects we are currently working on will be generated. During the period, we aim at realization of dramatic growth. And by positioning the period as a "phase of the Group's structural change" for discontinuous growth, we will expand our business domain.

That is to say, during the five-year period, the Group will take one step away from its past approach as a multifaceted retailer focusing on retail business to act as a "Multi Service Retailer" expanding into new business fields and realize bold review of its business portfolio.

Specifically, we will strengthen our business by expanding the Real Estate Business through the full implementation of the Urban Dominant Strategy, innovating the core Department Store Business and Parco Business, entering new businesses and promoting ICT strategy, and at the same time, we will tackle business operation reform and governance reform, which support these initiatives.

By steadily carrying them out so as to generate positive results, we aim to increase IFRS-based consolidated operating profit by

¥14.2 billion compared to fiscal year 2016 to ¥56 billion and achieve consolidated ROE of 8% or higher in fiscal year 2021, which is the final year of the Medium-term Plan.

Over these five years, we aim to achieve operating cash flow of more than ¥260 billion, and from the amount, we would like to allocate ¥200 billion to capital investment and growth investment to innovate existing businesses and transform our business portfolio. With regard to investment recovery, we set determination methods and quantitative criteria by type of case, e.g. the payback period method for store renovation, the NPV method for development investment and the DCF method for M&A, and add qualitative criteria such as business strategy and regional contribution so that we can determine in a comprehensive manner.

Ginza Six opened at last. How will you develop the "'Urban Dominant Strategy' for growing with local communities," which is represented by this project?

Four big redevelopment projects in Ginza, Ueno, Shinsaibashi and Shibuya, which were launched in the previous Medium-term Plan, bloomed or will bloom one by one as new commercial complexes during the period of the current Medium-term Business Plan, drawing new crowds to these areas as well as greatly contributing to revenue.

First of all, Ginza Six has commercial space consisting of 241 brands, 122 brands of which are positioned as flagship stores. It was born as an innovative luxury mall without any peer not just in Japan but also in the world. The building itself is a mixed-use facility with offices on the 7th to 13th floors and a cultural and exchange facility "Kanze Nohgakudo" on the 3rd basement floor. It has also a tour bus bay and a rooftop garden, which is open to the region. It can accept stranded people at the time of disaster. Thus the complex contributes to enhancing convenience, amenity and disaster prevention functions in the area. I believe that you can feel a part of the "discontinuous growth" at which the Company aims.

The new south wing of the Ueno store, which is scheduled to open this fall, will be a commercial complex with Parco on the 1st to 6th floors, a cinema complex on the 7th to 10th floors and sophisticated offices on the 12th to 22th floors. Parco in the south wing is conscious of slightly older people as its target as well as its existing target customers. Therefore, we think that it will contribute to tapping a new market in the area. In fall 2019, the new main building of the Daimaru Shinsaibashi store and new Shibuya Parco are scheduled to open.

In addition to these big redevelopment projects, using our "advantage" of operating stores in good downtown locations, we will expand our real estate management floor area mainly around existing department stores in Shinsaibashi, Kobe and Ueno in cooperation with Parco through the development of our own properties and the lease and acquisition of external properties. We will create bustle by developing real estates around existing stores with existing stores at the core and establishing dominance as the Group in the areas. And we will return such bustle to existing stores again for their own growth.


Ginza Six (Opening day)

This year marks the 10th anniversary of J. Front Retailing and the 300th anniversary of the foundation of Daimaru, a department store chain. These milestones are exactly the "turning point."

We will carve out a new future not by remaining as we are but through "discontinuous growth." This direction provided by the Group does not deny the "tradition" fostered in the long histories of 300 years of Daimaru and over 400 years of Matsuzakaya. Or rather, by capitalizing on our strengths such as "tradition" and "trust," which it is not easy to acquire, and blending "innovation" into them, we will strive to "create a new business group," which is inimitable anywhere in the world.

Both Daimaru and Matsuzakaya started as kimono dealers. It is only because they have responded appropriately to the changing times that they could overcome many crises and continue to develop up to today. Consumption will significantly change in line with unavoidable great changes in social structure such as population decline and an aging population with fewer children. Consumers are expected to hold their purse strings more tightly and consumption in general and consumption by a single person will be increasingly polarized. In terms of the quality of consumption, we will see a stronger shift from "product-based consumption" to "service-based consumption" or "experience-based consumption." ICT will also be increasingly applied. As for new movements, we need to pay close attention to the "sharing economy," in which people borrow or lend products, places, techniques and others. Now is the time for us to respond to these unprecedented great changes in society and we see it as a big turning point for the Group. I think the DNA, which enables us to respond to these changes, has been passed down to the Group as its strength.

You seem to accelerate governance reform initiatives including a change of the organizational structure and a review of the remuneration system to make it closely linked to performance. What makes you do so?

In order to respond to changes in the environment surrounding our business, I think we have to speed up decision making to accelerate the cycle of plan and do. Our business will not present any problems if we will be able to survive over the next 50 years by staying the same as past 50 years without taking a risk and taking the challenge of developing new areas. Actually, however, I cannot help be skeptical of whether there will be sustainable growth curve at a level that meets stakeholders' expectations. In that way, the Company is facing a big turning point and I think we need to change the management first in all aspects for "discontinuous growth," which is not the continuation of the status quo.

In the past, our reforms were focused on on-site operations

such as sales activities and cost structure. From now on, we in the management team will change ourselves with the intention of facing the tough environment as professional corporate managers. With this stance, the Company decided to transition to a company with three committees. By creating three statutory committees, the assessment of the management team members will be left to the committee, not at the absolute discretion of President, and audits, which had been based on individual independence among Audit & Supervisory Board Members previously, will be performed within the strict organization audit framework. Thereby we will separate management from execution to speed up decision making. My recognition is that otherwise we will not be able to survive as a company in this age of rapid change.

In order to commit to achieving an 8% ROE, I think we need to review the accounting standards themselves and manage the Company based on the fair evaluation of asset value. This is why we voluntarily applied IFRS. With regard to the remuneration system for Directors and Executive Officers, we designed a new system which contributes to the sustainable growth of the Group and the medium- to long-term enhancement of corporate value and is closely linked to performance, which motivates Executive Officers to accomplish management strategies and management plans and achieve the Company's performance targets.

We also reviewed our shareholders meeting as a venue for dialogue and revised the Articles of Incorporation so that institutional investors who are beneficial shareholders will be able to attend a shareholders meeting from the next time.

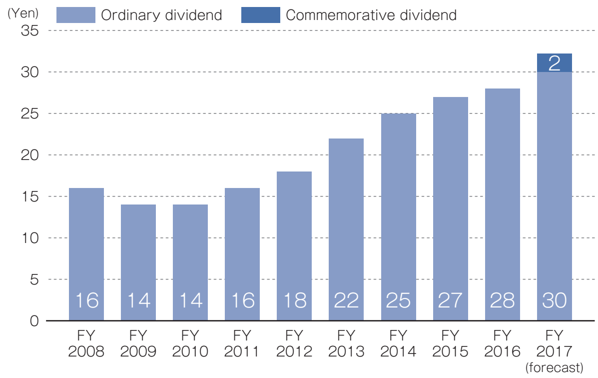
Thus we in the "management team" will implement various reforms and produce steady results from them with the intention of "changing ourselves first" in all aspects.

What do you think about shareholder return?

With a focus on shareholder return, we increased dividends for six consecutive years while seeking to achieve sustainable profit growth. Also in the fiscal year ending February 28, 2018, we are planning to increase dividends. Our basic policy is to maintain stable dividend payments and appropriately return profits targeting a dividend payout ratio of at least 30% in consideration of profit level, future capital investment and free cash flow trends while striving to maintain and improve a sound financial condition. We will also consider share buyback as appropriate for the purpose of improving capital efficiency and flexibly implementing our capital policy.

◆ Annual dividend per year

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



Based on the new Group Vision, the Company has just steered the management in the direction of drastically changing the course of the Group's business by developing the Medium-term Business Plan for the realization of the Vision, applying IFRS and transitioning to a company with three committees. Instead of remaining as we are, we will take on the challenge of changing our business portfolio as a "Multi Service Retailer" beyond the traditional framework of retailing for sustainable growth and the enhancement of corporate value.