“Multi Service Retailer” beyond the Framework of Retailing

We set the term of five years from fiscal year 2017 to fiscal year 2021 for the current Medium-term Business Plan when the big development projects launched under the FY 2014 to 2016 Medium-term Business Plan will be completed and they will generate revenue. Positioning the period as a turning point to drastically alter the course of the management toward realizing dramatic growth and discontinuous growth based on the new Group Vision, that is, a “phase of the Group’s structural change,” we aim to achieve ROE of 8% in fiscal year 2021.

To this end, we will take a step forward from the past idea of a multifaceted retailer to expand into new business fields as a “Multi Service Retailer” beyond the framework of retailing while further accelerating our efforts to identify unprofitable business fields and aggressively promoting business reshuffle.

Application of International Financial Reporting Standards (IFRS)

For the purpose of implementing efficient management based on appropriate asset evaluation and managing our business with a focus on profit for the current period as well as strengthening accountability to domestic and overseas investors by improving the international comparability of financial information, we decided to voluntarily apply the International Financial Reporting Standards (IFRS) from March 2017. (Illustrated on page 58)

Idea on business portfolio

The “Real Estate Business” was newly added as a reportable segment from fiscal year 2017. We will decrease the share of the Department Store Business and the Parco Business, which represented almost 90% of operating profit of the Group, to around 70%, and instead, strengthen the Real Estate Business and expand new business fields to increase their share.

Quantitative management objectives (IFRS)

<table>
<thead>
<tr>
<th>Objectives</th>
<th>FY2021 (Target)</th>
<th>FY2016 (Results)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated operating profit</td>
<td>¥56 bn</td>
<td>¥41.7 bn</td>
</tr>
<tr>
<td>Consolidated operating margin</td>
<td>10.0%</td>
<td>9.2%</td>
</tr>
<tr>
<td>Consolidated ROE (Profit to equity attributable to owners of parent ratio)</td>
<td>8.0% or higher</td>
<td>7.6%</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>¥260 bn or more</td>
<td></td>
</tr>
<tr>
<td>Capital investment / growth investment</td>
<td>¥200 bn</td>
<td></td>
</tr>
</tbody>
</table>

Financial strategy structure diagram

FCF > 0
ROE 8%
Equity ratio 40%
Operating margin 10%
Growth strategy to change the Group structure

◆ Urban Dominant Strategy (strengthening of Real Estate Business)
We will further accelerate ongoing initiatives of the “Urban Dominant Strategy” to establish a business model for growing with local communities with our stores at the core. By enhancing the collaboration between the Real Estate Division, which was newly created in the Department Store Business, and the real estate development division of Parco as well as developing new commercial facilities including “Ginza Six” and the “new south wing of the Ueno store,” which is scheduled to open in fall this year, and expanding leaseable floor area, we will strengthen the Real Estate Business as a pillar of the segments of the Group.

◆ Innovation of Parco Business
We will expand business fields for consumers seeking fulfilling urban lifestyles using Parco’s specific strengths. We will evolve the store brand of Parco by “creating new Shibuya Parco” and enhance the appeal of urban stores by promoting a scrap-and-build approach for stores. Parco will strengthen its ability to produce commercial real estates such as Zero Gate and the Entertainment Business’ ability to develop content. We will also develop business outside the company on a full scale.

◆ ICT strategy
In order to cater to the “lifestyles in the IoT era when everything connects to the Internet”, we will strive to improve profitability by strengthening e-commerce, reinforcing relations with customers using ICT and realize new businesses. And we will promote human resource development by investing in and sending human resources to venture capital (VC) firms to enhance our ability to collect advanced information. By carrying out open innovation initiatives using advanced information and knowledge, we will embody new services and businesses.

Strengthening of the business base that supports growth strategy

◆ The Group organization and human resource reform
We will commit to “developing human resources” and “revitalizing human resources and organizations,” which will generate high added value, and actively promote the employment and use of external talents who have expertise as well as establishing a system in which people who take on challenges receive recognition and changing working styles so as to extract creativity.

◆ Strengthening of corporate governance
By transitioning to a company with three committees, we will strengthen the management oversight function, promote agile management and maintain and improve audit accuracy. We will strive to clarify the authority and responsibilities of the holding company and business subsidiaries and strengthen the Group governance. At the same time, we will strengthen the management personnel function with high transparency and objectivity and review and strengthen the internal control system.

◆ Renovation of the Group operation system
We will promote operation process reform centered on the use of ICT and paperless processing including the automation of operations using ICT and the computerization of accounting slips and payment. At the same time, with the aim of realizing working style reform to enhance productivity, we will improve the office environment by renovating internal and external communication tools.

◆ Promotion of CSR activities
We classify our CSR activities into subjects according to the international standards ISO 26000 including the “environment,” “human rights,” “labor practices,” “business risks” and “community involvement” to promote initiatives for the sustainable growth of the Group and the medium-to-long term enhancement of corporate value. With the aim of achieving sustainable objectives such as “sustainable society,” the “sustainable growth of society and business” and the “long-term enhancement of corporate value,” we will engage in environmental and social activities.