

Integrated Report 2018

## Aiming for “Multi Service Retailer”

Create and Bring to Life "New Happiness."



J. FRONT RETAILING



# Contents

## Editorial policy:

J. Front Retailing Group (the "Group") issued this integrated report in order to provide a deeper understanding of what actions it takes to change its business portfolio for sustainable growth of corporate value. The report explains at the beginning the values, vision, value creation process and business model of J. Front Retailing (the "Company") and it contains non-financial information including the Group's involvement in society and the environment through business activities and governance system that helps enhance corporate value in addition to financial information based on specific management strategy. We have referred to the "International Integrated Reporting Framework" established by the International Integrated Reporting Council (IIRC) and the "Guidance for Collaborative Value Creation" established by the Ministry of Economy, Trade and Industry to create this report.

## Timeframe:

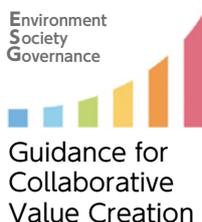
This report mainly reviews the fiscal year 2017 (March 1, 2017 through February 28, 2018) but it also contains the latest information available at the time of issue to the extent possible.

## Scope:

J. Front Retailing Co., Ltd. and consolidated subsidiaries

## Cautionary statement regarding forward-looking statements:

Forward-looking statements in this integrated report 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.



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## Corporate Credo

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# Service before Profit

Service before Profit – This phrase is from a passage from “Of Honor and Disgrace” written by Xunzi, a Chinese thinker in the Zhanguo period, “Those who give priority to service over profit will prosper.” The most important thing is to approach things with sincerity and good faith. “Do not sell any products that are of no benefit to customers.” “Do not rank customers.” “Honesty and loving-kindness come first.” “An unfaithful person is useless regardless of how gifted he/she may be.” Thus Daimaru has told its employees to keep a humble attitude to serve customers. At Matsuzakaya, the spirit of “Abjure all evil and practice all good” has been valued. They can be modernized as “Customer-first principle” and “Contribution to society.” Thinking of stakeholders thoroughly and acting accordingly will lead to business growth. We believe “Creating Shared Value (CSV)” to solve social issues through business activities is nothing less than practicing the Group’s corporate credo simply and honestly.

## Group Mission Statement

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We aim at providing  
high quality products and services  
that meet the changing times and  
satisfying customers  
beyond their expectations.

We aim at  
developing the Group  
by contributing to  
society at large  
as a fair and reliable corporation.

# Create and Bring to Life “New Happiness.”

Now is the time when lifestyles are changing speedily. To meet these changes quickly, and what is more, to find budding needs are J. Front Retailing's important missions. More women's social advancement. Changing lifestyles due to falling birthrate and aging population. Increasing globalization and digital consumption. Various factors bring you more new ways to enjoy your life as well as triggering concerns and stresses. Seeing both these “positive and negative” factors, we will evolve into a group that can serve you in all aspects of life. With regard to “enjoyment,” we will not only “sell goods” but create new events and experiences to excite you. With regard to “concerns,” we will cover “shortfall” such as “busyness,” “uneasiness” and “hassle” and create services to clear the fog in your mind. Our domain will expand beyond the framework of “retail.” And there should be creative ideas, or the creation of “new happiness.” Now is the time for J. Front Retailing to drastically change. And we promise you to closely support your life in a “present progressive form” after 10 years and even 100 years by “changing all the time.”



## Story behind the development of the Vision

J. Front Retailing Group was formed through the management integration of The Daimaru, Inc. and Matsuzakaya Holdings Co., Ltd. in September 2007, and with the vision of “establishing ourselves as a leading Japanese retail company both in terms of quality and quantity with the Department Store Business as its core,” we implemented various initiatives to become a multifaceted retailer. In the core Department Store Business, we deepened the establishment of new department store model as well as expanding our customer base. Furthermore, we have steadily expanded our business areas other than the Department Store Business through aggressive M&A including the conversion of StylingLife Holdings Inc. (SLH) into an associate accounted for using equity method in 2011 and the conversion of Parco Co., Ltd. into a consolidated subsidiary in 2012.

In the meantime, the business environment is greatly changing. We expect “lifestyles” to be increasingly “diversified” due to falling birthrate and aging population and changing family dynamics and the “means of seeking enjoyment” are also expected to grow increasingly “diverse” due to shift from product-based consumption to experience-based consumption and the evolution of ICT. That is to say, as it is difficult to grow just by continuing the current business model as it is, we see the present time as a turning point to drastically alter the course of the Group’s management.

In these circumstances, considering what makes people happy and strategically expanding business fields and transforming existing businesses to provide new forms of value with respect to “lifestyles” and “means of seeking enjoyment,” we developed the new Group Vision “Create and Bring to Life ‘New Happiness.’” with the aim of becoming a business group which contributes to realizing spiritually affluent lifestyles.

By showing the future directions to aim for with this Group Vision, we aim to greatly change the Group and realize discontinuous growth.

## New cause assumed by the Group

The main business of the Group was the offering of



products and services mainly for “festive occasions” by the core businesses including department store chains Daimaru and Matsuzakaya and Parco to meet customer needs. With increasingly diversified lifestyles, however, customer needs are seen not just on festive occasions but also widely in daily life. By relieving customers of “concerns” and “frustrations” in daily life so that they can live more conveniently and more comfortably, we hope many customers will be able to spare more time for festive occasions. I think that is the social role we will have to fill, i.e., the cause.

In fact, as the means of seeking enjoyment are diversified, many customers cannot gain sufficient satisfaction from a stereotypical form of consumption as in the past. Consumers “want new and different experiences” or “want to enjoy with like-minded people.” Thus the focus of consumption is shifting to experiences. Another recent big trend is heightened awareness of social contribution. People “want to care more about the environment and ethics” and “want to feel that their own existence is meaningful in society.” The Group has to be able to offer something more enjoyable and more exciting in response to such diversification of the means of seeking enjoyment.

## Dissemination of the Vision to drive specific actions

The Vision shows where we and the Company want to be in the future and helps clarify the organization’s strategy, direction and decision-making process. It is each and every employee who will realize the Vision in a concrete manner and the sum of their performance will constitute our corporate value. That is, we think the key will be how we will drive the specific actions of individual employees while disseminating the Vision in each site and offering directions.

To this end, firstly, the top management explained their thoughts put into the Vision in person to employees and had interactive dialogues. In the next step, all employees including people in the Executive Officer and higher management positions made pledges for actions toward the realization of the Vision via the Company magazines and intranet website. As initiatives to drive specific actions based on these pledges, we have created the “Challenge Card” program in which all employees can participate via the personnel system. Thus we have introduced a company-wide system that assesses the ideas and inspirations of individual employees and teams and helps realize them. And with regard to “creation” ideas with potential to expand, the Company provides an opportunity called “Creation Award” in which creators present their ideas in person to share company-wide the ideas themselves and information on the process to address them. We allow all employees to try to increase their motivation.

We will have the “creative nature” take root as our true corporate culture. – The Group’s grand challenge has started.



# We Will Respond to Changes and Commit Ourselves to “Creating Shared Value” in a Timeless Way.

## YAMAMOTO Ryoichi

Director, President and Representative Executive Officer  
J. Front Retailing Co., Ltd.

Kimono dealers, which originated in the Edo period, dramatically transformed themselves into department stores more than 100 years ago in response to changing times. Thus founded Daimaru and Matsuzakaya in the Group have achieved sustainable development over 300 and 400 years, respectively, because they have always grasped changes of the times accurately, have thought through what are values for society and for customers, and have been engaged in business activities simply and honestly following their corporate credos.

I recognize the environment surrounding our business is currently facing a “greater turning point” than these times and changing at a breakneck speed. The evolution of AI and robots has automated tasks and operations. And I feel the digital society where IoT connects everything to the Internet has been rapidly becoming familiar to us over the past year. I realize it is radically changing lifestyles and industrial systems.

As it is said to be the “era of 100-year life expectancy,” longevity is expected to be further extended. In the meantime, according to a study, the population in Japan is projected to be below 90 million 50 years later and decrease by half 100 years later. Actually, a dramatic change in the social structure that we have never experienced before is drawing near.

In addition, consumption is shifting from goods to services and experiences and the focus is shifting from retail to services. Therefore, the Group whose main business is retail such as department stores

needs to change its business structure beyond the framework of retail in order to continue to create new value beyond customers’ expectations and further develop.

Under the new Group Vision “Create and Bring to Life ‘New Happiness’” and the current Medium-term Business Plan, the Company drastically altered the course of the management toward “discontinuous growth,” which is not an extension of the present. In the process, while respecting the values that do not change over time, we will accurately capture changes in the times and the business environment and firmly capture both positive and negative risks to change into a new socially indispensable business group that combines tradition and innovation.

To this end, it is essential to change our mindset and working styles. Instead of being bound by our past successful experiences and familiar approaches, we will facilitate deeper communication inside and outside the Company and actively incorporate different cultures and thinking to “combine different elements,” which will lead to new achievements using diversity.

With the aim of developing as a “Multi Service Retailer” beyond the retail framework, we will create both “social value” and “economic value” and drastically change our business portfolio to ensure sustainable growth and increase corporate value over the medium to long term.

June 2018

# Blend of Tradition and Innovation – And Creation

Phase of founding

Phase of business integration and reorganization



## J. FRONT RETAILING

The Daimaru, Inc. and Matsuzakaya Holdings Co., Ltd. integrated management and established J. Front Retailing Co., Ltd.

● Phase I relocation and expansion of Daimaru Tokyo store

- Restaurant Peacock Co., Ltd. absorbed Shoei Foods Co., Ltd. to form J. Front Foods Co., Ltd.
- Matsuzaka Service Co., Ltd. was renamed JFR Service Co., Ltd.
- The north wing of Daimaru Shinsaibashi store opened
- JFR Service absorbed Daimaru Lease & Service Co., Ltd.

- The Daimaru Home Shopping, Inc. took over part of the direct marketing business split off from Daimaru Matsuzakaya and was renamed JFR Online Co. Ltd.

Acquired a 49% of stake in StylingLife Holdings Inc. and converted it into an equity method associate

- Daimaru Umeda store increased floor space

Sold all shares of Peacock Stores Ltd., which operated a supermarket business, to Aeon Co., Ltd.

Acquired a 70.52% stake in Forest Co., Ltd. and converted it into a consolidated subsidiary

2007



September 2007  
Established J. Front Retailing

1611

Ito Genzaemon Sukemichi, a son of Ito Ranmaru Sukehiro who served Oda Nobunaga, opened a kimono fabric and fancy goods wholesale store in Honmachi, Nagoya (Foundation of Matsuzakaya)

1717

Shimomura Hikoemon Shohei opened a kimono fabric store "Daimonjiya" in Fushimi, Kyoto (Foundation of Daimaru)

2008



November 2009  
North wing of Daimaru Shinsaibashi store opened

- Daimaru Credit Service, Inc. was renamed JFR Card Co., Ltd.
- Daimaru Design & Engineering Co., Ltd., Daimaru Mokko Co., Ltd., Matsuzakaya Seiko Co., Ltd. and Refix Japan, Inc. merged into J. Front Design & Construction Co., Ltd.
- Dimples' Co., Ltd. absorbed Daimaru Sales Associates Co., Ltd.
- Integrated the information systems of The Daimaru, Inc. and Matsuzakaya Co., Ltd.

2010



March 2011  
Larger Daimaru Umeda store opened



- The Daimaru, Inc. and Matsuzakaya Co., Ltd. merged into Daimaru Matsuzakaya Department Stores Co. Ltd. ("Daimaru Matsuzakaya")
- J. Front Design & Construction Co., Ltd. absorbed DHJ Co., Ltd.
- The Daimaru Tomonokai, Inc. absorbed Matsuzakaya Tomonokai Co., Ltd. to form Daimaru Matsuzakaya Tomonokai Co., Ltd.

2011

2012

2013



Acquired a 33.2% stake in Parco Co., Ltd. ("Parco") and converted it into an equity method associate

- Reached a basic agreement with Shanghai Xin Nan Dong Project Management Co., Ltd. and Shanghai New World Co., Ltd. to provide technical support and cooperation in opening and operating a new department store in Huangpu District, Shanghai, China
- Jointly established JFR Plaza Inc. with StylingLife Holdings Inc.

Increased a stake in Parco to 65% through TOB and converted it into a consolidated subsidiary

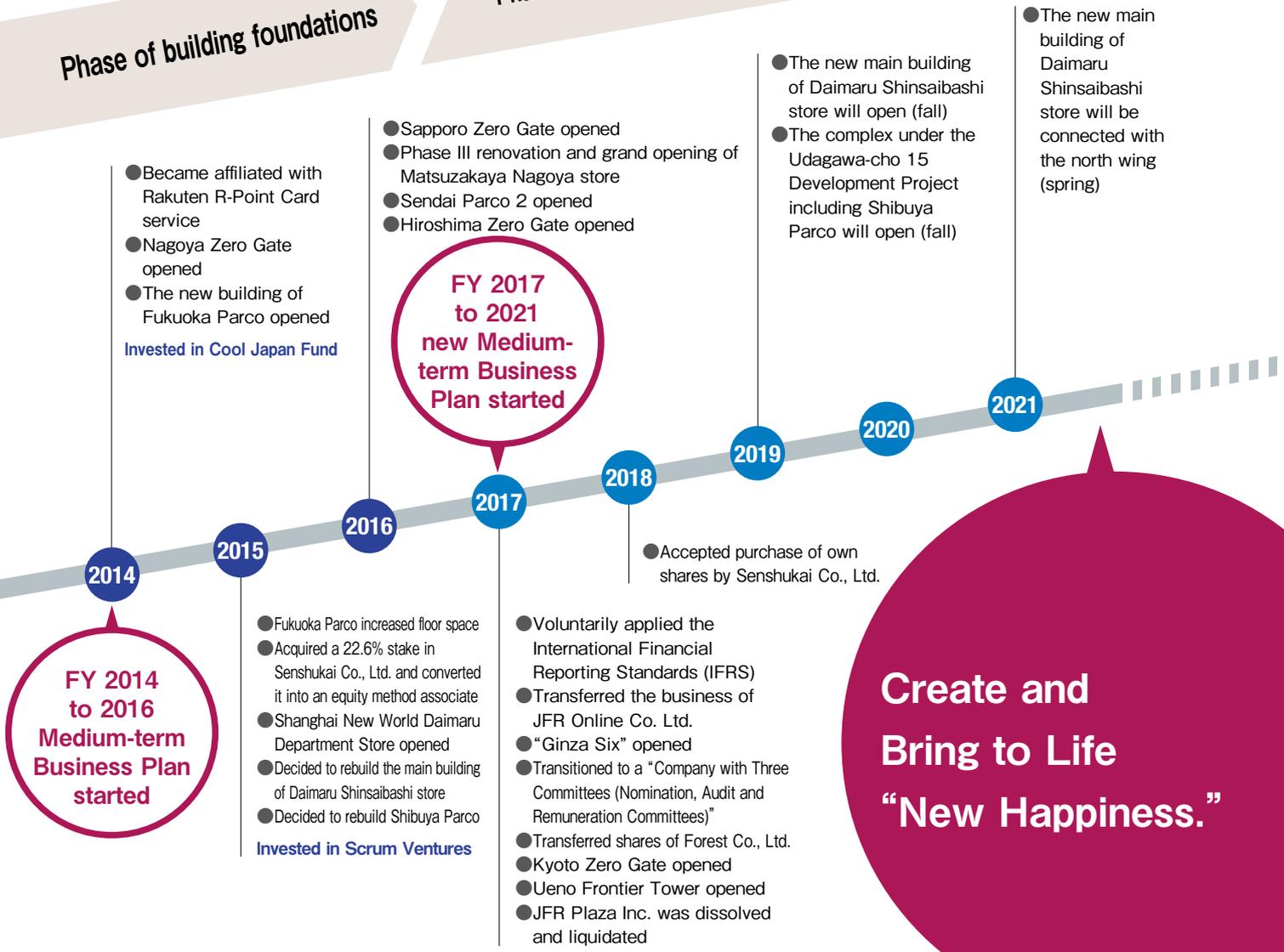
- Dimples' Co., Ltd. spun off Daimaru Matsuzakaya Sales Associates Co. Ltd.
- Phase II expansion of Daimaru Tokyo store



August 2012  
Converted Parco into a consolidated subsidiary

Phase of building foundations

Phase of dramatic growth / changing the Group structure



October 2012  
Phase II expansion and opening of Daimaru Tokyo store



April 2017  
Ginza Six opened



November 2017  
Ueno Frontier Tower opened



Rendering of new main building of Daimaru Shinsaibashi store



Rendering of Shibuya Parco

# J. Front Retailing Value Creation Process

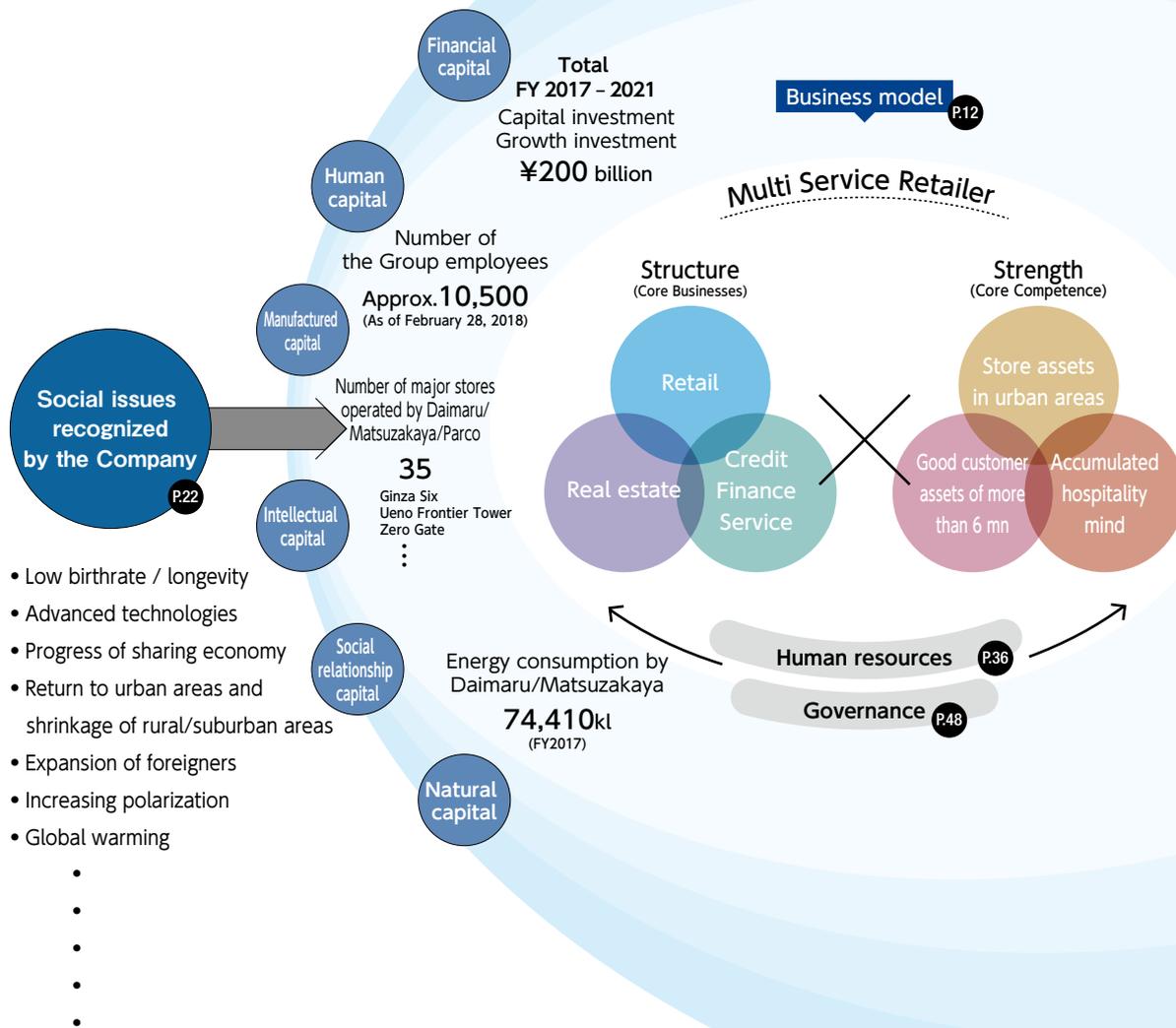
Under the Basic Mission Statement and the Group Vision, J. Front Retailing is committed to creating high quality, fresh, hospitable and affluent lifestyles with its stakeholders by promptly responding to the changing times.

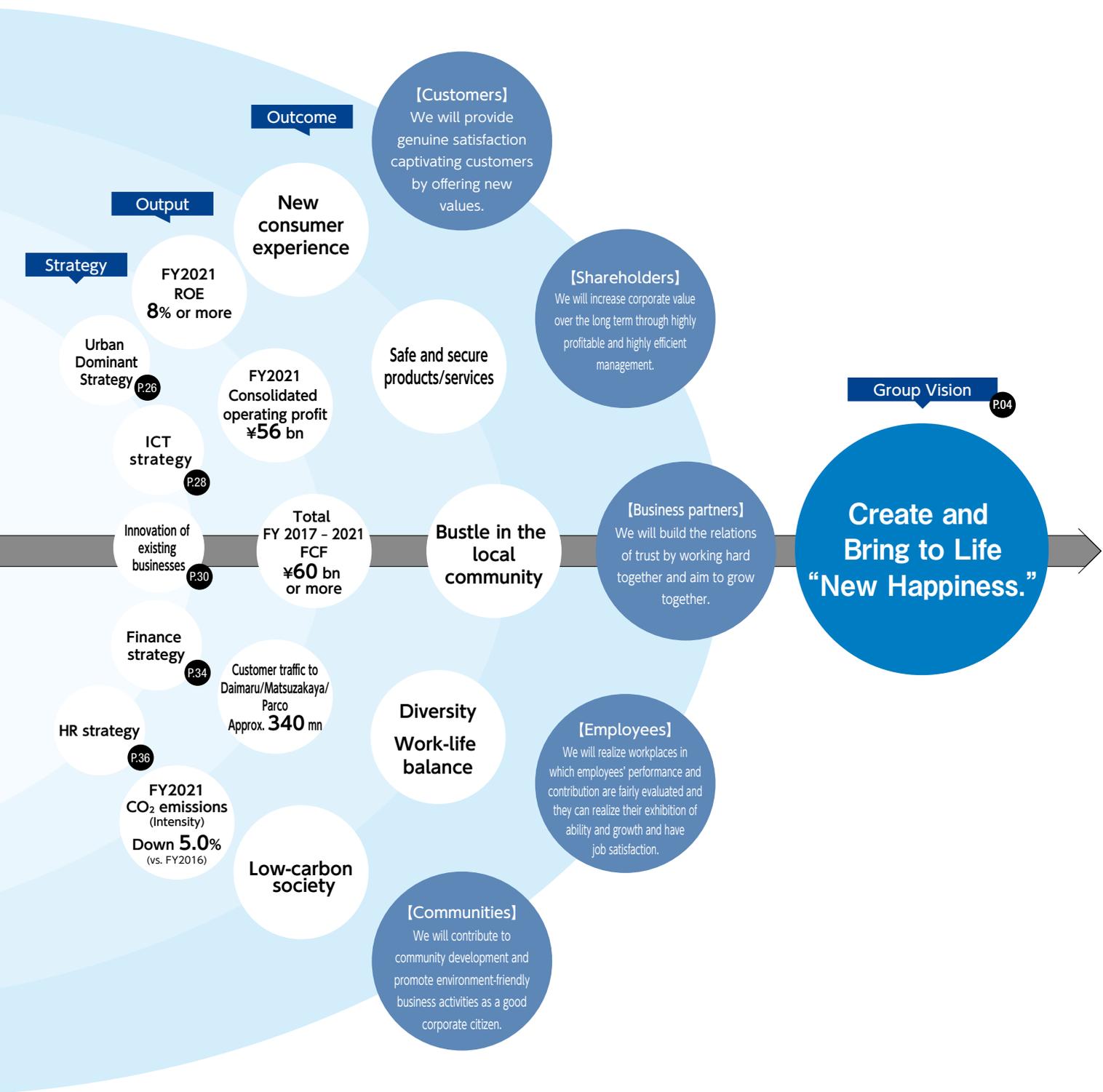
The business activity of J. Front Retailing is to constantly seek to create rich markets that grow with local communities, which is led by department stores and Parco.

It is nothing less than to create, as a public entity of society, new values with which its various stakeholders empathize.

Circulating the Group's business model and creating new values using the six capitals of J. Front Retailing effectively and efficiently are the process to create the brand value of J. Front Retailing, which will result in the creation of new values with which society empathizes.

Through this initiative, we will contribute to society at large as well as aiming at developing the Group.





# “Multi Service Retailer” beyond the Framework of Retail

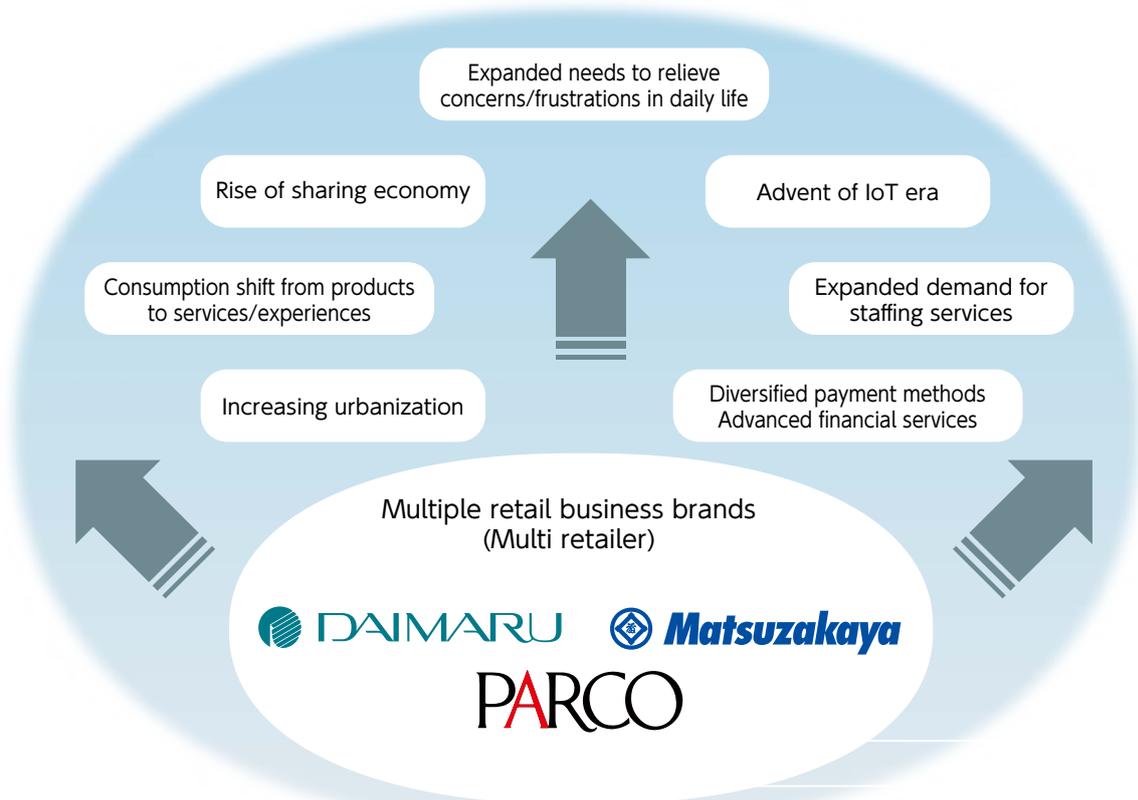
We are a business group with the retail business and the real estate business as its core, including department stores Daimaru and Matsuzakaya, commercial complexes Parco and a luxury commercial complex Ginza Six.

The histories of Daimaru and Matsuzakaya began respectively when Shimomura Hikoemon Shokei opened a kimono fabric store “Daimonjiya” in Fushimi, Kyoto in 1717 and Ito Genzaemon Sukemichi, a son of Ito Ranmaru Sukehiro who served Oda Nobunaga, opened a kimono fabric and fancy goods wholesale store in Honmachi, Nagoya in 1611. Both companies started as kimono dealers but have changed their business models for as long as 300 and 400 years, respectively, by responding appropriately to the changing times and grew as department stores.

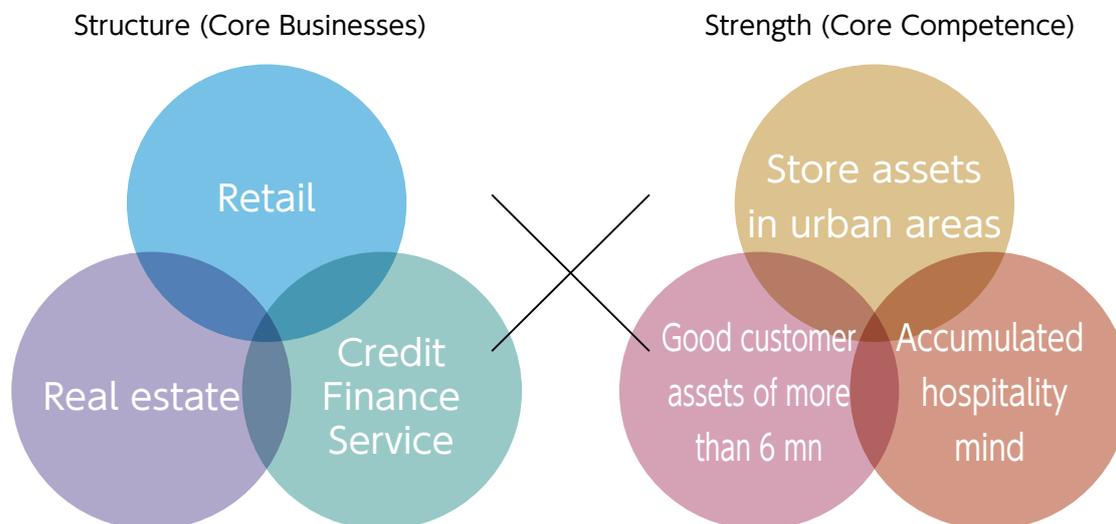
After management integration in September 2007, the Company aggressively pursues M&A opportunities to expand its business wings for growth. We converted Parco Co., Ltd. into a consolidated subsidiary and StylingLife Holdings Inc. and other companies into equity method associates to broaden our business as a multi retailer with department stores as our core.

And under the new “FY 2017 to 2021 Medium-term Business Plan,” we strive to change the Group structure toward development as a “Multi Service Retailer” beyond the framework of retail to expand our business domain for discontinuous growth based on the new Group Vision “Create and Bring to Life ‘New Happiness.’” With respect to the business portfolio, while growing the core Department Store Business and Parco Business, we will expand into new areas such as the Real Estate Business and Credit and Finance Business to increase their shares.

## Multi Service Retailer



## Source of Value Creation



### The Group's strengths

1

#### Store assets in urban areas nationwide

The Group has store assets including department stores, Parco and Ginza Six in major cities across Japan, from Sapporo to Tokyo, Nagoya, Osaka and Hakata. In key areas, we will promote the "Urban Dominant Strategy" for growing with local communities by putting together small- and medium-sized stores around these flagship stores as their core and attract new crowd to live in harmony with local communities.

2

#### Good customer assets of more than six million people

Daimaru, Matsuzakaya and Parco have good customer assets of more than six million cardholders. Department stores have an organization of affluent *gaisho* (out-of-store sales) customers whose sales share is more than 20%. As a new initiative, we will introduce an app with a payment function, which will further increase our customer assets under the concept of "Lifetime Service Hub."

3

#### Accumulated hospitality

Our hospitality mind has been accumulated in our history. Under the corporate credo of Service before Profit, the spirit born out of customer services provided by thoroughly putting the customer first and serving the community is alive in the Group value chain. It leads to the operation of a staffing service company Dimples' and Daimaru Matsuzakaya Sales Associates, which leverage this strength.

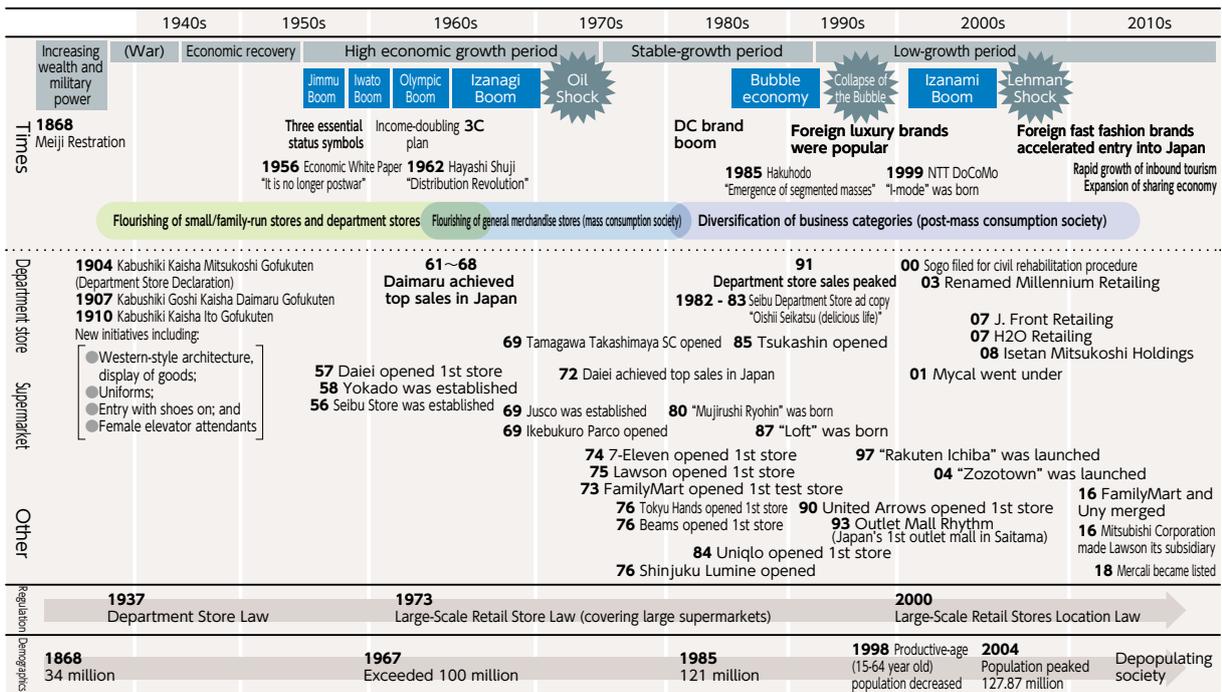
As a "Multi Service Retailer" beyond the framework of retail, we will capitalize on our business portfolio and core competence mentioned above and respond nimbly to changes in the times with the support of well-trained diverse human resources and effective governance that improves the transparency of management in an effort to create values demanded by society.

# Turning Point in Department Store Business Model

Japanese department store sales decreased from ¥9,713 billion in 1991 to ¥5,953 billion in 2017, almost 60% level. Amid environmental changes such as intensifying competition beyond industry boundaries and rapidly growing e-commerce, we think the biggest problem of department stores is that the department store business model including sales floor composition overly dependent on women's clothing in spite of the downward trend of spending on clothing and the product range and tenant composition based on *shoka shiire* (purchase recorded at the time of sale), which developed from the high-growth period to the stable-growth period, no longer adapt to changes in the times and in customers' sense of values.

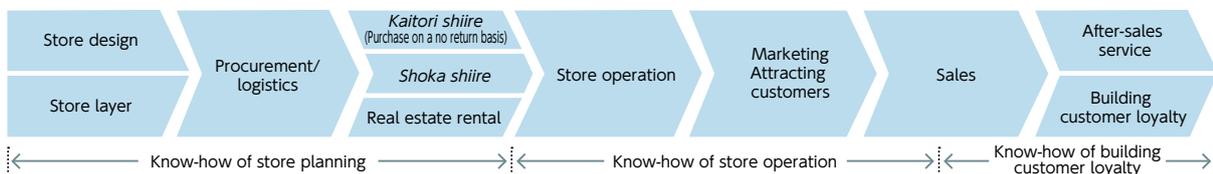
Therefore, from the standpoint of values department stores should create, we intend to change our business model in four main directions. Through these initiatives, we will strive to attract more customers and increase profitability by enhancing store appeal.

## History of Retail Industry



## Department Store Value Chain and Competitive Advantage

In order to entice customers to visit our stores, we need to offer the products they want and the experiences that can be given only in the store space or environment or through sales staff there, namely, new values. By changing our business model, we will strive to enhance store value by adding a perspective of values for customers and values for stakeholders.



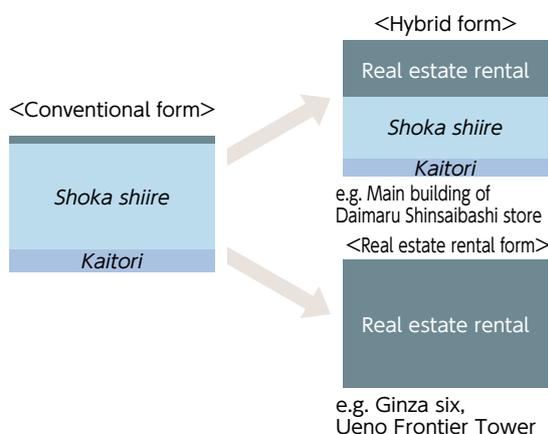
## Direction of Changing Business Model

### Point 1

#### Active introduction of real estate rental format

More than 80% of current typical department stores offer products and have tenants based on *shoka shiire*. In other words, such business practice limits the diversification of store planning.

Therefore, we will realize an optimal mix, for example, by expanding real estate leasing area to increase store appeal and transform the business model into a stable and highly profitable one.



### Point 2

#### Drastic reduction of allocation to women's clothing

While reducing women's clothing area, which remains bloated since the middle of 1980s, by 30% under the current Medium-term Business Plan, we will create new sales areas and newly zone the sales floors in response to changes in customers to increase store appeal. We will renovate our stores in a way that meets the market in each area, for example, by expanding beauty products, food products and daily sundries, which are growth categories.

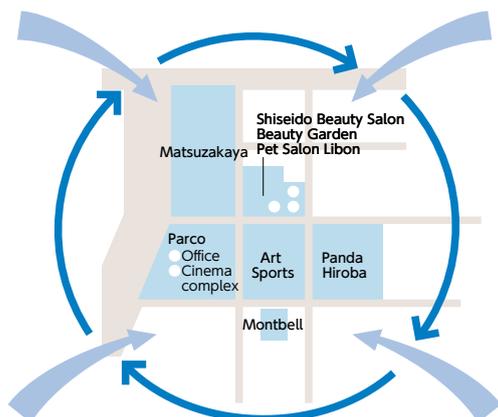
Women's clothing area  
**Down 30%**  
 (Total FY 2017 to 2021 vs. FY2016)

### Point 3

#### Area dominant formation that attracts customers with "areas"

Not as "points" of department stores but as "areas," the Group will dominantly operate Parco and brand shops around department stores and also conduct activities in concert with local communities so that we can attract more customers. This is our own strategy that aims to grow with local communities by attracting new crowd.

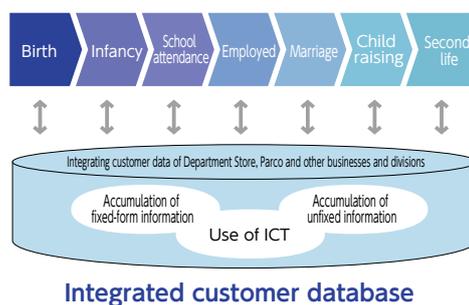
#### Example of Urban Dominant Strategy in the Ueno Okachimachi area



### Point 4

#### Strengthening of customer engagement using ICT

The "era of 100-year life expectancy" - "Lifetime Service Hub" is a challenge to establish a new customer information system in order to build stronger lifetime customer engagement. Using not only customer touch points through the Group's cards but also the app that will be released this fall, we will accumulate fixed-form information and unfixed-form information in a multi-layered way through cross-group initiatives. We will provide new products and services to relieve customers' "concerns" and "frustrations" by having more touch points with customers and building a long and deep relationship with them on various occasions and milestones for their entire life beginning with birth.





Top Interview

**YAMAMOTO Ryoichi**

Director, President and Representative Executive Officer

Management Strategy > Top Interview

## Steadily Capturing the Two Sides of Risks and Accelerating the Transformation of Business Portfolio

### Q. Would you explain about your business results for fiscal year 2017?

The Company has applied the International Financial Reporting Standards (IFRS) since fiscal year 2017. Therefore, results for fiscal year 2016 have been converted into IFRS-based figures and year-on-year comparison for fiscal year 2017 has been made with thus converted figures.

The Company's consolidated sales revenue was ¥469.9 billion, up 3.8% year on year, in fiscal year 2017. Consolidated operating profit and profit attributable to owners of parent were ¥49.5 billion, up 18.7% year on year, and ¥28.4 billion, up 5.3% year on year, respectively. Consolidated operating profit exceeded forecast in October by ¥0.5 billion.

Considering comparability with our past performance and other companies, we also release "gross sales" close to net sales under Japanese generally accepted accounting principle ("JGAAP"), which we had applied until fiscal year 2016, and "business profit," which has been calculated by excluding the impact of other operating income and other operating expense from operating profit under IFRS, as our own reference indicators.

"Gross sales" were ¥1,138.9 billion, up 0.4% year on year, and "business profit" was ¥46.8 billion, up 4.3% year on year. "Gross sales" were ¥3 billion below forecast in October but "business profit" was ¥0.3 billion above the same forecast. Consolidated ROE on which we place the most importance was 7.5%.

We paid a year-end ordinary dividend of ¥18 per share, ¥3 more than originally planned, and an additional dividend of ¥1 per share commemorating the 10th anniversary of the establishment of J. Front Retailing, totaling ¥19. The annual dividend including the interim dividend of ¥16 was ¥35 per share, up ¥5 year on year, marking the seventh consecutive year of increase.

### Q. How did you perform by business segment?

By segment, the Department Store Business saw further accelerated spending by inbound tourists to Japan in the second half. Spending by affluent people in Japan was also strong throughout the fiscal year. In the meantime, the severe sales slump in the suburban and rural stores continued.

We sold the real estate owned by Daimaru

Matsuzakaya Department Stores from the perspective of improving asset efficiency. As a result, sales revenue increased by 2.3% from the previous year and operating profit significantly increased by 20.0%. "Business profit" also grew by 9.1%

With respect to the Parco Business, "Parco\_ya," a store in new Parco format, which opened as the anchor tenant of "Ueno Frontier Tower" on November 4, 2017, performed well attracting many "a little older" people than Parco's existing target customers as expected. Meanwhile, partly due to the impact of Shibuya Parco, which closed temporarily in August 2016 for rebuilding, continuing until the first half, the impact of the closing of Chiba Parco and the sluggish performance of Neuve A, sales revenue and operating profit in total decreased by 2.3% and 9.7% year on year, respectively.

The "Real Estate Business" significantly increased sales revenue by 168.3% and operating profit by ¥3.7 billion compared to the previous year due to the great effect of "Ginza Six," which opened in April 2017, and "Ueno Frontier Tower," which opened in November 2017.



Ginza Six

In addition, the effect of withdrawal from unprofitable businesses including JFR Online and JFR Plaza contributed to improving consolidated performance.

The Company transferred all shares of Forest, a consolidated subsidiary operating a direct marketing business, which was included in Other, as of August 31, 2017 to replace the business.

In conjunction with that, the Company has decided to accede to Senshukai Co., Ltd., an associate accounted for using equity method, purchasing its own shares in February 2018.

**Q. The top line (sales) of the Department Store Business is growing.**

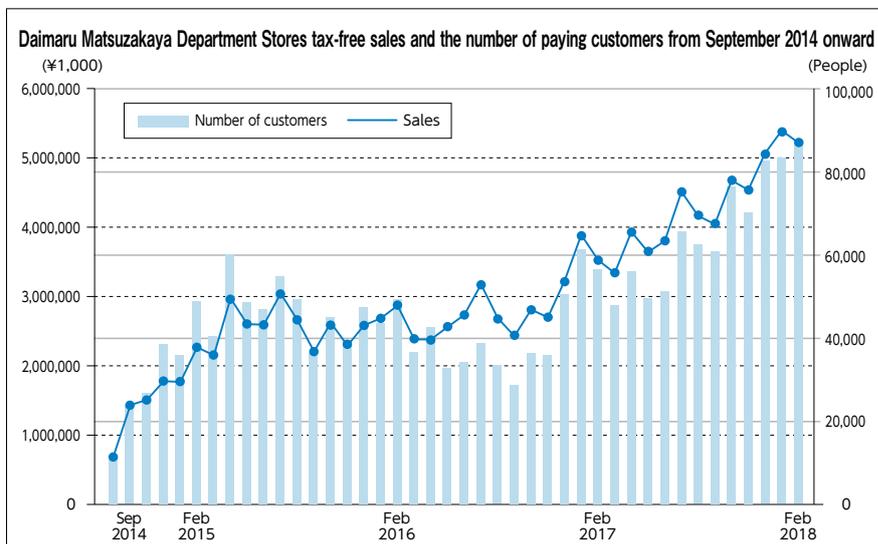
In Daimaru Matsuzakaya Department Stores, spending by inbound tourists dramatically increased due to the success of the measures taken by its flagship stores with strong sales to inbound tourists to cater to increasing foreign tourists to Japan including the expansion of timepiece area, the expansion of sales areas that accept mobile payments at the point of sale and the strengthening of promotion using SNS at stores.

Tax-free sales of Daimaru Matsuzakaya Department Stores grew by 62.8% year on year to ¥47.9 billion or 1.4 times from those amid shopping spree called "bakugai" in fiscal year 2015 and have reached a level where they can be expected to exceed ¥50 billion a year. In particular, the number of customers jumped by 50.6% year on year. By merchandise category, sales of "consumables" mainly including cosmetics doubled from the previous fiscal year to almost the same level as "general products."

Credit sales of their flagship stores, which represent the company's *gaisho* sales, increased by 1.5% from the previous year because the strengthening of events

including a rare "selection of products" and highly attractive "experience" value in response to brisker spending by affluent people in Japan against the backdrop of stable share price level and the expansion of customer base by acquiring new *gaisho* customers worked well. Thanks to the efforts to develop new *gaisho* cardholders, we could acquire 13,250 new accounts.

By store, sales of the Shinsaibashi store, which has



an overwhelming ability to attract inbound tourists, significantly increased for 14 consecutive months, up 14.0% year on year. The Tokyo store, which accurately brought in affluent people and increasing neighborhood office workers through strategic customer acquisition initiatives, increased sales for 18 consecutive months and the Sapporo store also increased sales for 15 consecutive months. Sales of six flagship stores were above the previous year's level and total sales of existing stores increased for 12 consecutive months.

In the meantime, in terms of costs, though advertising expenses (up ¥0.6 billion) and operational costs (up ¥0.4 billion) associated with the opening of "Ginza Six" and "Ueno Frontier Tower," repair expenses for replacement of facilities (up ¥0.1 billion) and supplies expense (up ¥0.05 billion) including utility costs increased, the whole company strived to further reduce costs by decreasing actual personnel expenses (down ¥0.1 billion) including outsourcing expenses and rent (down ¥0.1 billion). The company also sold its real estate from the perspective of improving asset efficiency.

As a result, operating profit of Daimaru Matsuzakaya Department Stores soared by 41.0% year on year to ¥28.2 billion and business profit as a reference indicator significantly increased by 22.7% from the previous year to ¥27.1 billion. Operating profit and business profit exceeded forecast in October by ¥2.6 billion and ¥0.9 billion, respectively.

Free cash flow was positive at ¥3.8 billion, better than forecast in October.

**Q. In the meantime, why do you expect both business profit and operating profit of the Department Store Business to decrease in the current fiscal year 2018?**

The Department Store Business is expected to increase sales revenue by 3.3% year on year because mainly the flagship stores of Daimaru Matsuzakaya Department Stores are projected to increase sales while the severe sales slump in rural and suburban stores is forecast to continue. However, factoring in system-related one-time costs including the replacement of POS systems with the ones that enable payment processing in the presence of customers in the second half and cost increase resulting from the improvement of facilities to make our stores safe and secure, we expect "business profit" to decrease by 2.2%. Since extraordinary income and extraordinary losses under JGAAP are included in operating profit under IFRS and there will



Parco\_ya

be an additional decline in reaction to gain on sales of real estate recorded at approximately ¥1.4 billion in the previous year, operating profit is expected to decrease by 6.6%.

Factoring in the full operation of "Parco\_ya," a store in a new format, which opened in "Ueno Frontier Tower" in November 2017, the opening of Harajuku Zero Gate and Sannomiya Zero Gate and the performance of Neuve A business, which was sluggish last year but is expected to improve in the second half and beyond due to the rebuilding of strategy, the Parco Business expects to increase sales revenue and "business profit" by 4.8% and 4.5% year on year, respectively. However, operating profit is expected to remain at the same level as the previous year partly due to the absence of reversal of impairment loss recorded in the previous year.

The Real Estate Business expects sales revenue and "business profit" to significantly increase by 27.4% and 26.1% year on year, respectively, to which the full operation of Ginza Six, which opened in April 2017, and "Ueno Frontier Tower," which opened in November 2017, will contribute. As is the case in the Department Store Business, however, operating profit is expected to decrease by 20.1% in reaction to gain on sales of real estate recorded in the previous year (¥1.6 billion).

The Credit and Finance Business expects sales revenue to increase by 7.1% year on year. While "business profit" is expected to decrease by 1.5%

because system costs associated with security enhancements will increase, operating profit is expected to increase by 0.3%. Other expects the growth rate of sales revenue to be almost at the same level as the previous year at 0.1% partly due to the negative impact of the transfer of shares of Forest. However, “business profit” and operating profit are expected to increase by 29.8% and 22.2%, respectively, factoring in the improvement of the performance of J. Front Design & Construction, which struggled in the previous fiscal year.

**Q. Collaboration with Parco seems to be progressing further in the wake of the opening of Ueno Frontier Tower.**

Customer traffic to the main building of the Matsuzakaya Ueno store significantly increased after opening Ueno Frontier Tower on November 4, 2017. I think positive factors will certainly emerge by adding various events while implementing the Urban Dominant Strategy with new elements such as Parco, a cinema complex and offices under the new concept of “Shitamachi. Front.” The Matsuzakaya Ueno store intends to change the main building after researching new visitors after the opening of Ueno Frontier Tower instead of making a large investment before its opening. With respect to Shitamachi. Front, I think Daimaru Matsuzakaya Department Stores and Parco are successfully working with local shopping malls and the government.

We have decided to open Parco in the north wing of the Daimaru Shinsaibashi store as its anchor tenant after completing the main building. We are working on this project with Parco closely exchanging information with each other. The main building will open first in fall 2019. We will share information on it to build the Parco and Real Estate Businesses in the north wing. It is important to develop an idea of what constitutes an ideal form as a large hybrid commercial complex with a floor area of more than 80,000 square meters. What we would like to borrow from Parco is information on what to do after departure from department store’s traditional merchandise mix by category or where the new markets which department stores fail to tap into are created. You can expect the advanced form of collaboration with Parco beyond the results achieved in Ueno Frontier Tower.

**Q. What are the achievements and challenges after fiscal year 2017 as the first year of the Medium-term Business Plan?**

I think the last fiscal year 2017 as the first year of



the Medium-term Business Plan, when big projects including “Ginza Six” and “Ueno Frontier Tower” contributed to growing the new Real Estate Business segment more than originally expected, got off to a good start as the first step of the “transformation of business portfolio” toward discontinuous growth which we are aiming at.

In the meantime, with respect to ICT initiatives as the measures to reinforce sales capabilities and a response to the Credit and Finance Business, which is highly positioned as a growth business, we are repeating trial and error. Unfortunately, however, it is undeniable that its progress lacks in speed and we have not achieved visible or tangible results yet. I think we need to shift gears to solve these urgent business issues.

The business environment is changing at an unprecedented speed. Various changes in the business environment mean “uncertainty” for businesses. Such uncertainty or risk includes an “opportunity” as a positive side and “threat” as a negative side. We need to capture these two sides of risk.

To this end, 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, 15 items were identified.

**Q. Could you talk about these risks a little more?**

138 risks are classified into strategic risks, finance risks, operation risks and hazard risks. We set priorities according to importance in the end. As a matter of course, however, the risks identified are different between the holding company and operating companies including department store operators and



Parco. Among 15 risks identified, I asked the operating companies to specify high-priority ones as their risks after discussions. Some operating companies may have to focus on defensive risks and others need to heighten their perspectives a little more like the holding company. The risks thus identified are threats. On the contrary, they can be considered as opportunities.

For example, consumption tax will be raised in fall 2019. While worrying about a decline in consumption, we can convert it into a chance thinking of where spending by the child-raising generation who will be less burdened will go. With respect to “low birthrate and longevity,” given the “era of 100-year life expectancy,” even consumers in their 60s and 70s may become more eager to buy. Accordingly, it can also be considered as a chance. With respect to the “evolution of technologies,” its speed is too high and it would be terrible if we fail to follow it. However, if we can successfully incorporate the evolution, it will become a chance. “Income” may become increasingly “polarized” in the future but we can make it a chance by serving affluent people well, which is department store’s strength. It is important to closely look at the both positive and negative sides of risk and incorporate them into a concrete strategy.

**Q. The recruitment of experts from outside the Group is becoming activated.**

The Company has strengthened the orientation toward so-called B/S-based management that is conscious of asset efficiency since last year, for example, by making a balance sheet for each department store. It was the perspective of Executive Officer in charge of finance strategy who had been invited from manufacturing industry, not from retail industry, that triggered this. He said he felt something was wrong with the situation where we discussed only

P/S at the internal performance report of department stores though they conduct business activities using significant assets. Therefore, we introduced store B/S and started the business management that incorporates ROA as a store manager’s performance indicator.

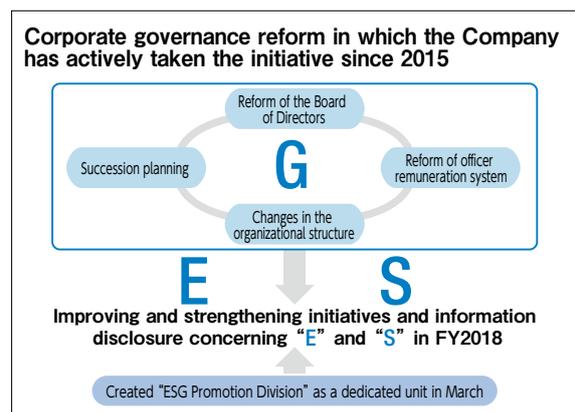
Also in the ICT field that currently requires a response with speed, we appointed a talent who possesses insight with respect to overall digital including AI from outside the Group as Executive Officer. Furthermore, in the credit and finance field that is expected to grow in the future, we appointed a highly professional person from outside the Group as the President of JFR Card, a consolidated subsidiary in the Group.

Recently, I often talk about the “combination of different elements” inside and outside the Company. I think it is possible that the new values demanded by the present times will be born in a place where different values and cultures bump into each other. It can be said that exactly the combination of different elements through discussions and collaboration among four companies that share high goals beyond company level enabled us to create and open an unprecedented luxury mall “Ginza Six” in April 2017.

I think “discontinuous growth” which the Company is aiming at is the aggregate results of new out-of-the-box initiatives born by breaking internal conventional rules and combining different elements.

**Q. You have actively proceeded with governance reforms. How will you address the reforms from an ESG perspective?**

As you know, GPIF, the world’s largest pension fund, signed the United Nations Principles for Responsible Investment (PRI) in 2015 and announced the selection of three ESG indices. This showed that financial information only is not enough to understand the reality of corporations and assess their



sustainability and growth potential and that non-financial information including ESG information plays a more important role. I recognize it as a great change in capital market trends and as a strong message addressed to corporations which are regarded as the “public entities of society.”

The Company has actively taken the initiative in the reform of the “G” of ESG or governance. In light of these trends in the capital markets, we created “ESG Promotion Division” as a dedicated unit in March. And going forward, we will also strengthen initiatives and information disclosure concerning the “E” and “S” both in terms of quality and quantity.

To this end, we identified materiality or “important tasks” we should address. Firstly, we conducted a questionnaire of stakeholders concerning 25 candidate materiality items and collected responses from 4,250 stakeholders. In the next step, we had internal discussions based on major guidelines including the GRI Standards and ISO 26000 and the assessment items of research institutes. And we have formally decided the degrees of materiality through discussions at the Board of Directors meetings. Thus by identifying and disclosing our materiality, we will make clearer the relevance between social issues and business activities and proceed with initiatives based on the concept of “CSV” or “Creating Shared Value.”

Going forward, we will set the medium- to long-term quantitative materiality goals which we should achieve, and in fall, we will hold “ESG briefings” for institutional investors.

**Q. Would you explain your view of shareholder return?**

During the five-year period of the Medium-term Business Plan, we will generate operating cash flows of ¥260 billion or more and allocate ¥200 billion to capital investment and growth investment for the innovation of existing businesses and the

transformation of business portfolio.

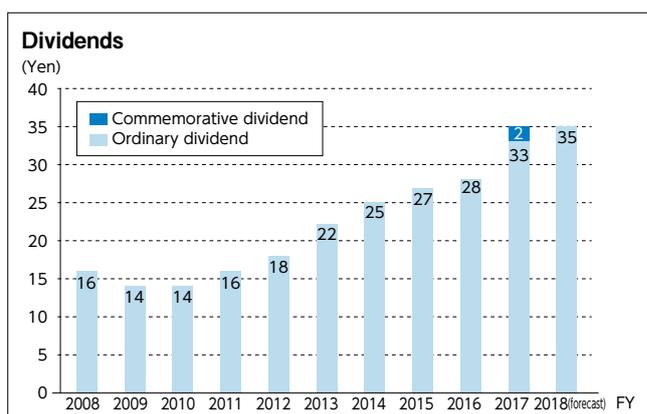
Investment in the five-year period of the Medium-term Business is expected to peak in fiscal year 2019 when the “main building of the Daimaru Shinsaibashi store” and “new Shibuya Parco,” which are being rebuilt, and subsequently, in fiscal year 2020 and 2021, free cash flows of more than ¥20 billion each are projected to be generated.

Five-year cumulative free cash flows of ¥60 billion or more will be allocated to shareholder return and the expansion of equity. Our shareholder return policy is to consider purchasing our own shares as appropriate on the basis of dividend payout ratio of at least 30% and in view of our financial condition.

The Company increased dividends for seven consecutive years until the previous fiscal year ended on February 28, 2018. Also in the fiscal year ending on February 28, 2019, we are planning to increase an annual ordinary dividend by ¥2, marking the 8th consecutive dividend increase.

As mentioned above, by promoting capital policy in consideration of the balance of strategic investment, the improvement of shareholder return and the expansion of equity, we will strive to realize the management structure that can achieve ROE of 8% continuously.

The Company’s current cost of shareholders’ equity has been calculated to be about 6%, and over the medium term, it is expected to remain within the range of 6 to 7%. Therefore, I recognize that the target ROE of 8% set under the current Medium-term Business Plan is the minimum level to be achieved in order to meet shareholders’ expectations. The transformation of business portfolio is expected to lead to reduction of equity cost as well as helping building up a business structure foundation. We would like to steadily accumulate tangible results to develop as a “Multi Service Retailer” beyond the framework of retail.



# 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

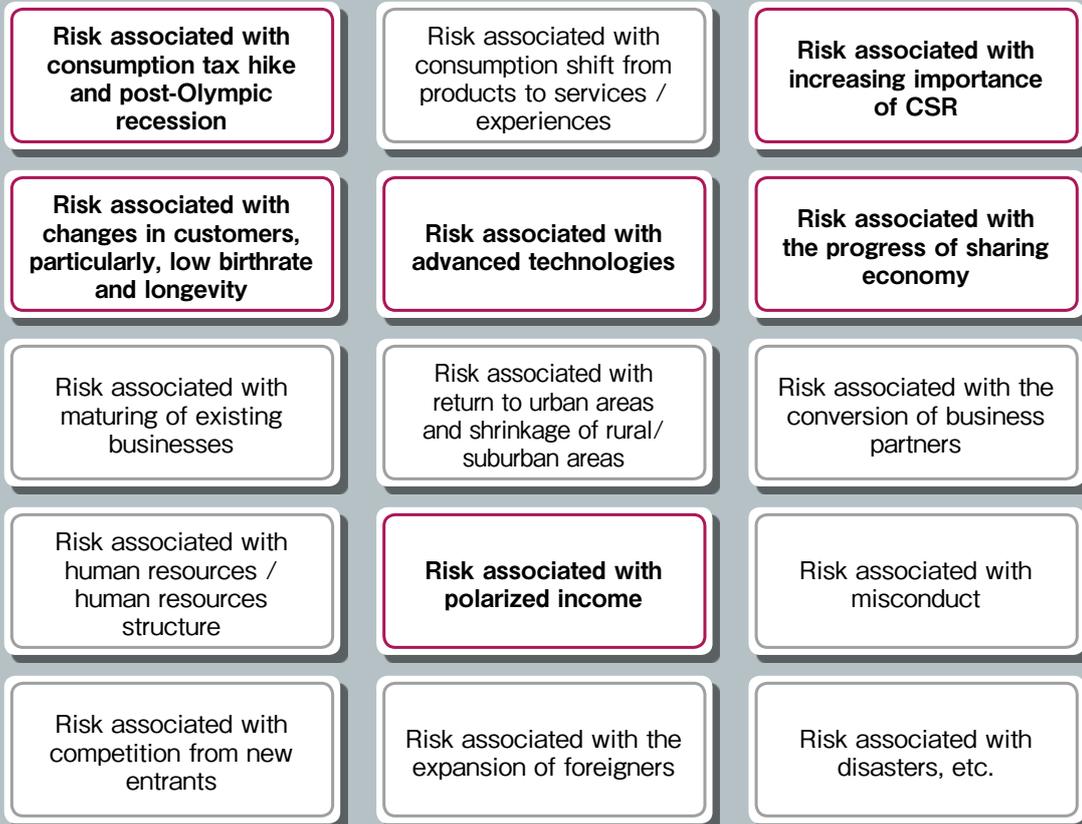
- Occurrence of wars/conflicts
- Aggravated terrorism issues
- Occurrence of economic crisis / financial crisis
- Occurrence of trade issues
- Surge of emerging countries
- Consumption tax hike
- Promotion of tourism-oriented country policy
- Reduction of corporate tax and measures for encouraging investment
- 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.

## Phase of changing the Group structure

# Got off to a Good Start toward Changing Business Portfolio

### FY 2017 to 2021 Medium-term Business Plan

We have defined the five years from fiscal year 2017 to 2021, when the big development projects launched under the FY 2014 to 2016 Medium-term Business Plan will be completed and generate revenue, as the period of the current Medium-term Business Plan. We will achieve dramatic growth by completing these development projects. And at the same time, positioning the period as a turning point to drastically alter the course of the management of the Group toward realizing discontinuous growth based on the new Group Vision, that is, a “phase of changing the Group structure,” we aim to achieve ROE of 8% or more in fiscal year 2021.

To this end, by taking 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 retail while further accelerating our efforts to identify unprofitable business fields, we will aggressively promote business reshuffle.

With these initiatives, we will achieve the Group’s sustainable growth and medium- to long-term enhancement of corporate value.

#### Idea on business portfolio

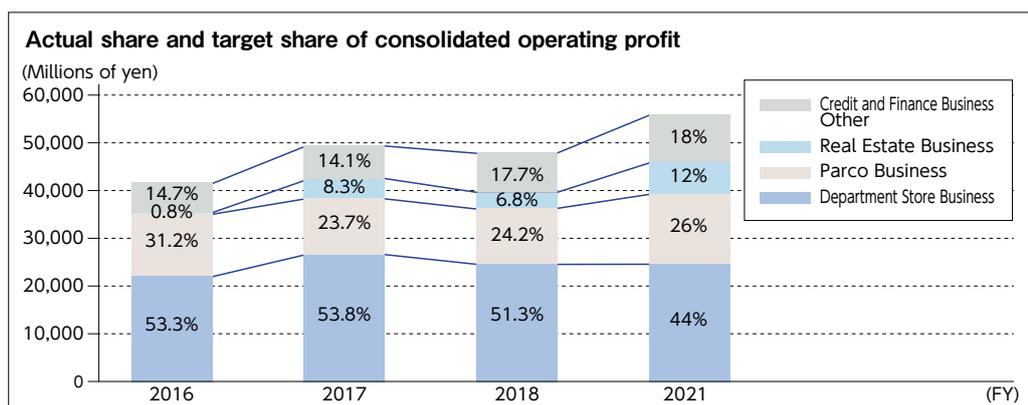
The “Real Estate Business” was newly added as a reportable segment in fiscal year 2017 and the Group has a total of four segments including the “Department Store Business,” the “Parco Business” and the “Credit and Finance Business.” We will decrease the share of the Department Store Business and the 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.

In fiscal year 2017, which is the first year of the current Medium-term Business Plan, the Real Estate Business segment grew substantially due to opening of “Ginza Six” and “Ueno Frontier Tower” for which preparations we had proceeded with as big projects. Thus we got off to a good start toward changing business portfolio at which we are aiming.

#### Transition to the International Financial Reporting Standards (IFRS)

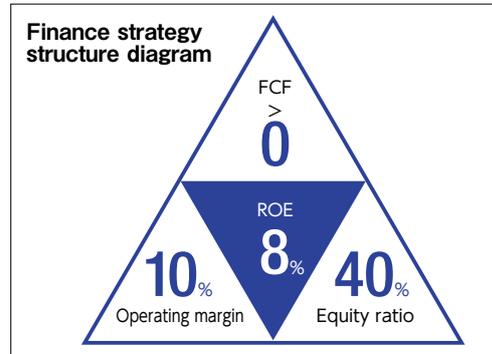
For the purpose of implementing efficient management based on appropriate asset evaluation and managing our business with a focus on profit for the current period as well as strengthening accountability to domestic and overseas investors by improving the international comparability of financial information, we decided to voluntarily apply the International Financial Reporting Standards (IFRS) beginning in March 2017 when the current Medium-term Business Plan started. We will disclose the Group’s business forecasts and results including the quantitative management objectives of the Medium-term Business Plans under IFRS.

When disclosing our financial results, considering comparability with our past performance and our peers, we release “gross sales” close to net sales under Japanese generally accepted accounting principle (JGAAP) and “business profit” as our own reference indicators.



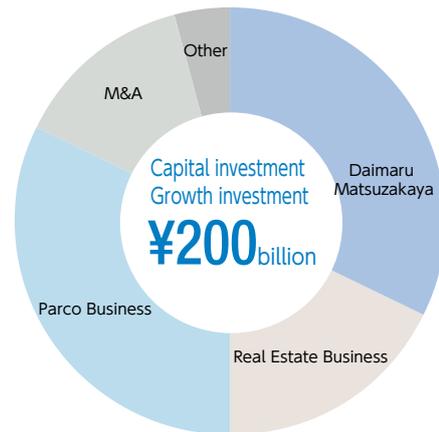
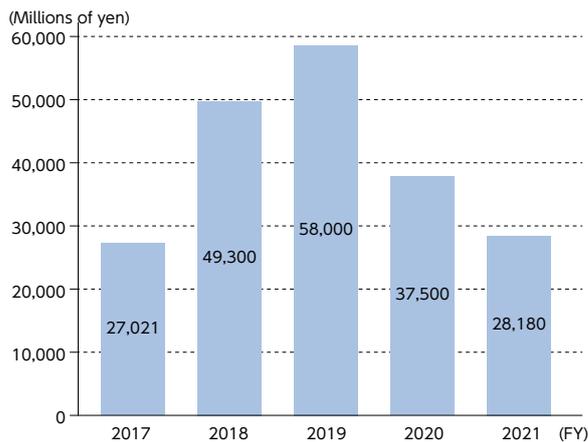
### Qualitative management objectives (IFRS)

	Target FY2021
Consolidated operating profit (IFRS)	¥56 billion
Consolidated operating margin (IFRS)	10.0%
Consolidated ROE (IFRS) (Ratio of profit to equity attributable to owners of parent)	8.0% or more
	Total FY 2017 - 2021
Consolidated operating cash flows	¥260 billion or more
Capital investment and growth investment	¥200 billion



### Capital investment under the Medium-term Business Plan

Capital investment is expected to peak in fiscal year 2019 when the new main building of the Daimaru Shinsaibashi store and new Shibuya Parco, which are being rebuilt, will open, and in the following fiscal year 2020 and beyond, free cash flows of ¥20 to 30 billion level are projected to be generated each year.



### Overview of Medium-term Business Plan

	FY 2014-2016 Medium-term Business Plan <Phase of building foundations>	FY 2017-2021 Medium-term Business Plan <Phase of changing the Group structure>	Realizing the Vision
<b>1</b> Growth strategy	<b>1</b> Multi Service Retailer Strategy	Promoting the expansion of business fields including service fields beyond the framework of retail and strengthening highly efficient businesses to realize the new Group Vision in consideration of increasingly diverse lifestyles	
	<b>2</b> Urban Dominant Strategy	Expanding real estate lease area by strengthening the function of the Real Estate Business and expanding Urban Dominant initiatives for growing with local communities	
	<b>3</b> ICT Strategy toward IoT era	Developing ICT infrastructure and strengthening EC to increase profitability and strengthening relations with customers and creating new businesses using ICT	
	<b>4</b> Initiatives to innovate existing businesses	Heightening the appeal of real stores including department stores and Parco and enhancing soft contents to respond to increasingly diverse means of seeking enjoyment	
<b>2</b> Strengthening business foundations that support growth strategy		Promoting strengthening of corporate governance [transition to a Company with Three Committees (Nomination, Audit and Remuneration Committees)], the Group finance strategy (transition to IFRS), renovation of the Group operations systems, the Group organization/HR reform and CSR activities	



Exterior of Ginza Six

## Growing and Coexisting with Local Communities

### Ginza Six

The Ginza area's largest luxury mall "Ginza Six" made its grand opening on April 20, 2017 drawing much attention from all over Japan and even from abroad. More than half of 241 world-class quality brands that were carefully selected and collected are flagship stores. In addition, the creation of unconventional store environment using art, customer management and analysis using ICT, and promotion creating a buzz and conscious of being spread on SNS are also a symbol of "discontinuous growth" we aim at.

By category, luxury brands are very popular among affluent people in Japan and inbound tourists to Japan. Fashion items are steadily creating customer loyalty by offering Ginza Six limited items. Cosmetics draw customers from Japan and abroad by actively providing unique services and events. Food products are also popular due to successful lineup of items available only at Ginza Six, many of which are sold out.

Another feature of this project is a great deal of attention from the media. In April when it opened, the total number of media exposures including



People in line at opening

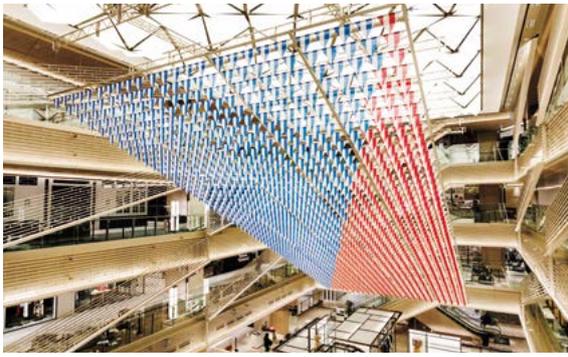
before and after its opening such as TV, newspaper, magazine and the Internet, was as many as 8,200. The overwhelming number of media exposures created a chain reaction

that "fame attracts fame."

We think there are two key factors for success (KFS) in Ginza Six.

One is the "combination of different elements" through initiatives beyond company level. Ginza Six is a big project for which four companies including J. Front Retailing, Mori Building, Sumitomo Corporation and L Catterton Real Estate collaborated. These four companies which have totally different backgrounds and corporate cultures jointly aimed at creating new world-class value and put together their wisdom and energy in the world's leading commercial area Ginza. As a result, we think the unprecedented "innovative luxury mall" causing a buzz worldwide was born by the chemical reaction that occurred among these four companies or "four different elements."

The other is many brand new ideas we tried toward "discontinuous" growth, not an extension of the status quo by choosing to abandon our past successful experiences and "not to make it a department store." We could create special experiences and values available only there including luxury duplex boutiques adding color to the façade, store space design such as the bold atrium welcoming visitors with art, the unique layout of passages reminiscent of the "back alleys in Ginza" and the floor composition beyond the so-called framework of department store's merchandise classification. In other words, in the era when online shopping is rapidly growing and it has already been said that "online shopping is driving out real stores" in Western countries, we think we could present an "answer" to the questions



Art in the atrium of Ginza Six



“What values are expected of real stores to provide and what is the meaning of the existence of real stores?”

### Ueno Frontier Tower

The south wing of the Matsuzakaya Ueno store was rebuilt and “Ueno Frontier Tower” opened on November 4, 2017. With an anchor tenant Parco on the 1st to 6th floors, the Matsuzakaya Ueno store on the 1st basement floor, Toho Cinemas on the 7th to 10th floors and highly functional offices on the 12th to 22nd floors, a commercial complex as a new landmark in the area was born.

This is the first big development project jointly implemented by Daimaru Matsuzakaya Department Stores and Parco. The initiatives of Daimaru Matsuzakaya Department Stores and Parco achieved a certain result in joint sales promotion and others in the areas where the stores of the two companies are adjacent to each other. And we think this project led us to enter into a stage where the Group synergy with Parco shifts into full swing in more situations. The new Parco store opened in this “Ueno Frontier Tower” was named “Parco\_ya,” which is an example of new initiatives with unprecedented concept. Specialty shops there were selected to attract the customers who visit the adjacent Matsuzakaya Ueno store or Toho Cinemas Ueno and workers in offices on upper floors. “Parco” opened a store in a new area in the 23 wards of Tokyo for the first time in 44 years. Under the new name “Parco\_ya,” the store contributes to tapping a new market in the area with a brand lineup suitable for the surrounding environment and catering to a little



Matsuzakaya Ueno store and Ueno Frontier Tower

older people than Parco’s existing target customers.

In conjunction with the opening of this “Ueno Frontier Tower,” the Urban Dominant Strategy in the Ueno

Okachimachi area, which was named “Shitamachi. Front,” started in full swing. Specifically, we enhanced dissemination of local information and appeal using the community site “Ueno ga Suki.” At the same time, by creating multiple sales spaces in conjunction with this “Ueno ga Suki,” we built a new mechanism to increase customer loyalty, which helps strengthen customer relations. In addition, by holding various events starting from the adjacent “Okachimachi Panda Hiroba” to dramatically increase our ability to attract customers, we will contribute to revitalizing the whole area.

### Promoting urban development in key areas

In addition to these big development projects, the Group will make active efforts to further expand real estate leasing area in urban areas which can be expected to grow.

New commercial facilities which opened, or will open, in fiscal year 2018 include four projects by the Real Estate Division of Daimaru Matsuzakaya Department Stores such as “Blue Bottle Coffee” in the Nanzenji area, Kyoto and three projects by the Zero Gate business of Parco such as Kyoto Zero Gate and Harajuku Zero Gate, totaling seven projects. Furthermore, we are considering promoting five projects or so around flagship department stores in fiscal year 2018.

At the same time, in five key areas including Shinsaibashi, Kyoto Karasuma, Kobe Motomachi, Nagoya Sakae and Ueno Okachimachi, we will also clarify respective “area strategies” by implementing

promotion programs for developing the areas around department stores and motivating people to visit the areas in collaboration with local communities to promote the Urban Dominant Strategy for growing with local communities.



Blue Bottle Coffee Kyoto Cafe



## “Aggressive” and “Defensive” toward Full-scale IoT Era

### “Lifetime Service Hub” concept

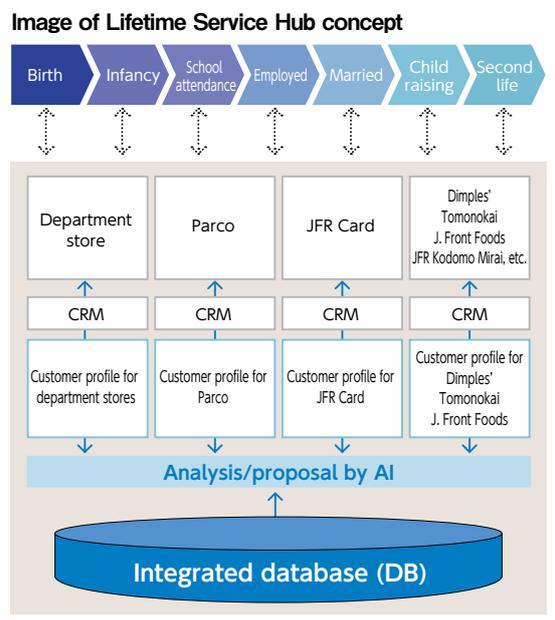
The Group has a great advantage of holding good customer assets mainly through Daimaru, Mtsuzakaya and Parco. Currently, however, most of our contact points with these customers are real stores and other retail, which is only a small part of their lives.

Therefore, we intend to build a new customer base named “Lifetime Service Hub” and create a system for “strengthening lifetime customer engagement.” And thereby we will collect and use not only “fixed information” obtained when providing products and services but also “unfixed information” obtained through daily conversations with customers and communities to understand customers more deeply than ever and dramatically enhance engagement.

The “Lifetime Service Hub” is illustrated by the chart on the right. With so-called “era of 100-year life expectancy” in mind, we will provide new products and services that help relieve customers’ “frustrations” and “concerns” by having more contact points than ever and building long and deep relations with them on various occasions and milestones throughout their lives beginning from birth to expand our business fields.

The “entry into early childhood education business”

through the establishment of a new company “JFR Kodomo Mirai Co., Ltd.” is a part of our initiatives based on the concept mentioned above. By contacting with people in their infancy, which is the beginning of life under the “Lifetime Service Hub” concept, and having many day-to-day communications with their parents while putting the provision of high quality and advanced early childhood education first, we would like to create opportunities for providing new value.

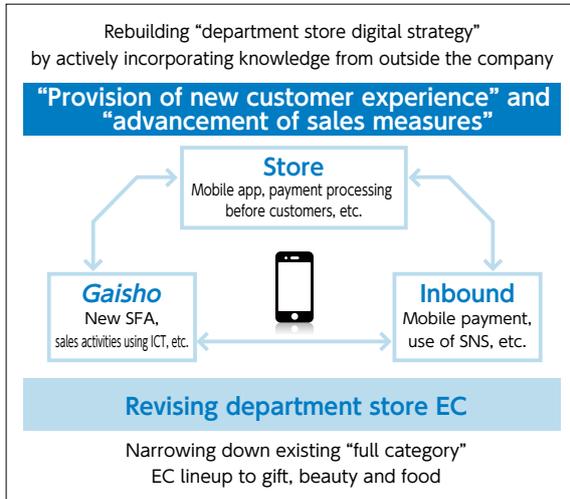


## Advancing sales activities using digital technology

What is expected in the use of ICT particularly in department stores is the perspectives of the “provision of new customer experience” and the “advancement of sales measures.” Beginning in the current fiscal year, Daimaru Matsuzakaya Department Stores will promote full-scale digital strategy by incorporating knowledge from outside the company.

Specifically, by introducing a communication-based mobile application equipped with point card function (The payment function is scheduled to become available next fiscal year.) starting from the Daimaru Tokyo store in fall 2018, improving *gaisho* sales activities using digital tools (SFA), and increasing sales areas where inbound tourists can make mobile payments, we will overhaul all sales process operations to reform department store operations so that they catch up with the era of ICT.

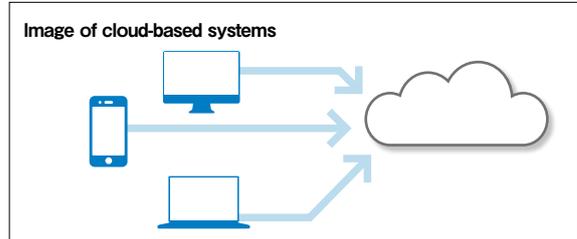
With respect to department store e-commerce (EC), we will revise the conventional “full category” lineup conscious of real department stores by narrowing it down to gift, beauty and food products in which the strength of department stores can be shown, we would like to achieve tangible results.



## Shift to cloud-based systems in the Group

It is necessary to introduce “high speed,” “low cost” and “secure” systems in order to diversify businesses and develop new businesses using IT. Therefore, the Group decided to build IT infrastructure, which serves as a basis for creating and operating systems, in the cloud, and beginning in fiscal year 2018, the systems of J. Front Retailing, Daimaru Matsuzakaya Department Store and other subsidiaries and associates in the Group will be basically developed and operated in the cloud. At the same time, we will study hundreds of

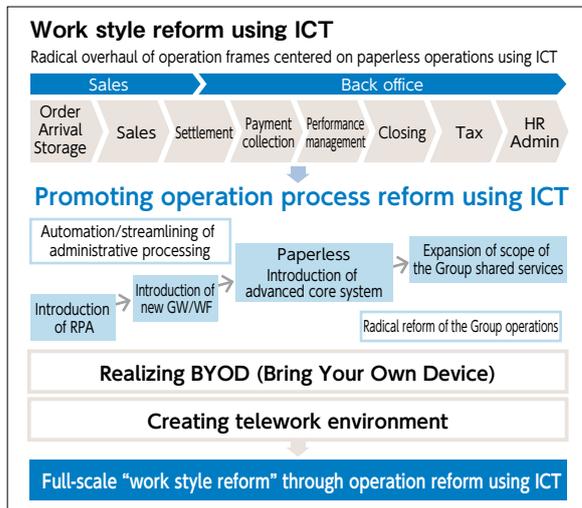
systems in the Group, mainly department stores, including how the aging of existing systems is addressed, and take inventory of these systems and we will start a full-scale shift to cloud-based systems according to the system policy developed based on their results.



## Work style reform starting from RPA

We are introducing RPA (Robotic Process Automation) to realize the “work style reform” using ICT. Specifically, at three companies including J. Front Retailing, Daimaru Matsuzakaya Department Stores and JFR Service, routine operations such as expense calculation, download and tabulation of accounting data, checkup of data and creation of and input to performance management table are picked up to be covered by RPA. In fiscal year 2017, RPA was introduced to 48 operations among them, reducing about 4,400 man-hours. In fiscal year 2018, RPA will cover additional 60 operations, expecting about 5,400 man-hour reduction. During the five-year period of the current Medium-term Business Plan, we will automate about 28,000 man-hours by expanding RPA to 300 operations across the Group to increase productivity.

While going paperless using this initiative, we will realize BYOD (Bring Your Own Device) ensuring system security and create a telework environment for full-scale “work style reform.”





Rendering of new main building of Daimaru Shinsaibashi store

# Creating “Future Department Store”

## Structural issues facing department stores

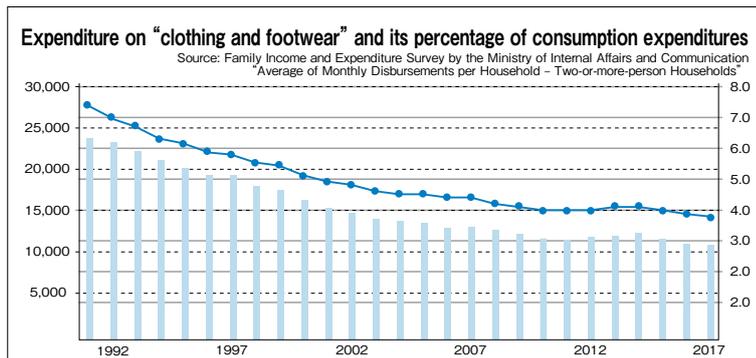
According to the statistics of the Japan Department Stores Association, department store sales in Japan remain on a downward trend after peaking at ¥9.7 trillion in 1991. There are multiple causes including store saturation, a shift in demographics, shrinking rural economy, globalization, changes in consumption quality and changes in customers. We think one of the important issues we should resolve is the store structure overly dependent on fashion clothing, which rapidly expanded in the early 1980s.

According to the Family Income and Expenditure Survey by the Ministry of Internal Affairs and Communication, the percentage of expenditure on clothing of the “annual average of monthly consumption expenditure per household” decreased from 7.3% in 1991 to 3.8% in 2017. Behind this trend, we assume that there are great changes in ways of self-expression and values particularly among young people as well as

increasing globalization and casualization of fashion, and furthermore, a shift to online shopping.

In spite of these changes in customers’ buying behavior, in flagship department stores, the sales floor area of women’s clothing remains bloated since the late 1980s. We are planning to reduce the area by about 30% or 16,000 square meters compared to fiscal year 2016 during the period of the current Medium-term Business Plan in an effort to correct this gap.

In the spaces newly created by such reduction, we will expand categories and contents that have growth potential and the ability to attract many customers. In the current fiscal year, we are planning to reduce sales area by around 10% compared to fiscal year 2016 mainly in the Daimaru Umeda and Sapporo stores and the Matsuzakaya Nagoya store. In thus created spaces, we will change merchandising by creating sales areas combining beauty products, food and daily sundries and introducing the brands that meet the demand for service and experience-focused consumption to respond to changes in the market for each store.



## Rebuilding of the main building of the Daimaru Shinsaibashi store looking ahead to the future

The rebuilding project of the main building of the Daimaru Shinsaibashi store is positioned as a symbol of innovation of the Department Store Business. The main building of the Shinsaibashi store is being

rebuilt aimed at opening in fall 2019. In the new main building, we would like to embody an innovative “new department store model” showing the future directions of department stores in all aspects including merchandise mix, service and environment, which have never been seen in existing department stores.

The strengths of the Shinsaibashi store are many affluent customers and the ability to pull in the greatest number of inbound tourists in Japan. While further strengthening these strengths, we will “create added value” including new services and experiences only available in real stores.

At the same time, by drastically revising our transaction format mix including “kaitori,” “shoka shire” and “real estate rental” to achieve an optimal balance among them, we would like to embody an innovative and profitable “new department store model.”

### Changing the business model of the north wing using synergy with Parco

After completing the reconstruction of the main building, the business model of the north wing will make a major shift from a department store to real estate rental. The north wing has two basement floors and 14 floors above ground. We decided to open “Parco” as its big anchor tenant occupying the 2nd basement floor to the 7th floor above ground.

There is no store in Parco format in the Osaka area and many local customers have eagerly awaited for the opening of Parco. We think this project will meet their expectations and be positioned as an important measure to help Parco enhance the strength of store brand. It is also very meaningful as store opening in one of the key areas of the Urban Dominant Strategy implemented by the Company.

The big full-scale joint development of stores by the “department store” and “Parco” in this north wing is the second case following “Ueno Frontier Tower.” Through this initiative, we will further expand the creation of the Group synergy.

And then, by connecting these two buildings, the new main building and the north wing, we will create an innovative and profitable hybrid commercial complex with a total floor space of more than 80,000 square meters to attract a wide range of customers from a wide area and draw new crowds to the area.

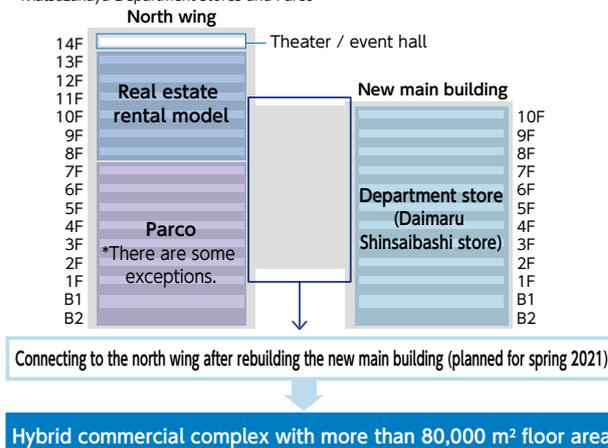
### Future Standard Laboratory

Five years from now, how will we live? What tools will become mainstream? What clothing will we wear? What food will we eat? And what will we experience? – We created “Future Standard Laboratory” in 2017 to propose and deliver information on what will become a standard in the future. Contacting with various creators, cultural figures, universities, local communities and NPOs and many companies, we will promote the “combination of different elements” to “create” things and services/experiences which will become standards in the future.

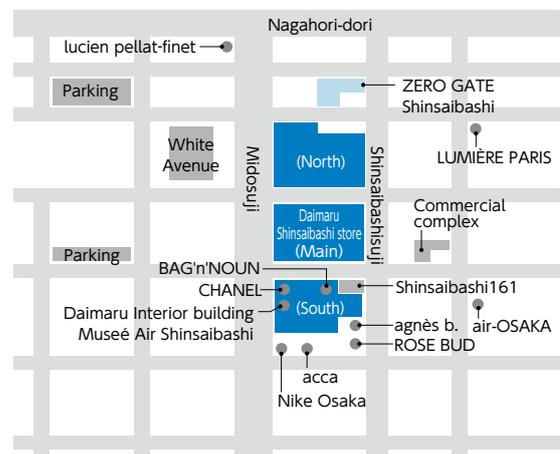


### Structure of new main building and north wing of Daimaru Shinsaibashi store

- Changing the business model of the north wing of the Shinsaibashi store to “real estate rental” after completing the new main building
- Anchor tenant “Parco” will occupy the 2nd basement floor to the 7th floor. Upper floors will be operated by Real Estate Division.
- Creating more synergy of the Group through the joint development of Daimaru Matsuzakaya Department Stores and Parco



< MAP around Shinsaibashi store >





Rendering of New Shibuya Parco

## “Next-generation Parco” in Shibuya

### New Shibuya Parco

The rebuilding project of Shibuya Parco is a pillar of the innovation of the Parco Business. Shibuya Parco, which is being rebuilt, has made various new proposals as the starting point of Parco’s uniqueness. In “new Shibuya Parco,” which is scheduled to open in fall 2019, we would like to bring together new initiatives which have never been done in conventional commercial facilities.

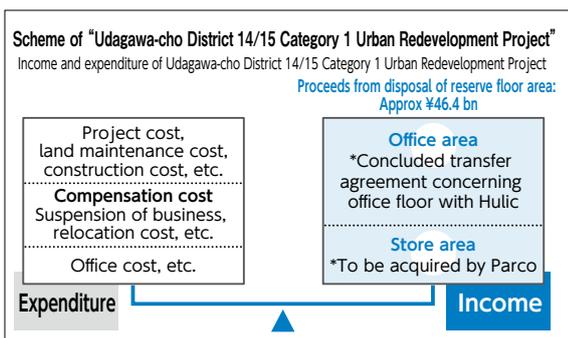
The scheme of this project was approved in December 2015 as an urban planning project of special urban renaissance district, not simple rebuilding. Based on evaluation of its contribution to urban renaissance, its floor-area ratio was allowed to increase. With respect to the income and expenditure of the redevelopment project, proceeds from the disposal of reserve floor area will cover project cost, land maintenance cost, construction cost, compensation cost for the suspension of business and others. The office area of reserve floor area was sold and the store area will be acquired by Parco.

With respect to the direction of store planning, we aim to create next-generation commercial space that provides appeal unique to Parco’s own real store including new shopping experiences using the latest technologies for customer services, payment methods and others, new ideas to meet changing lifestyles of mature urban consumers, and “learning” and “experiences” using “Parco Theater” that will be newly reborn. Using the advantages of commercial complex including offices, we will expand the business by expanding contact with various companies, provide advanced tenant services using ICT, and cooperate in the “creation of Entertainment City” in Shibuya-ku.

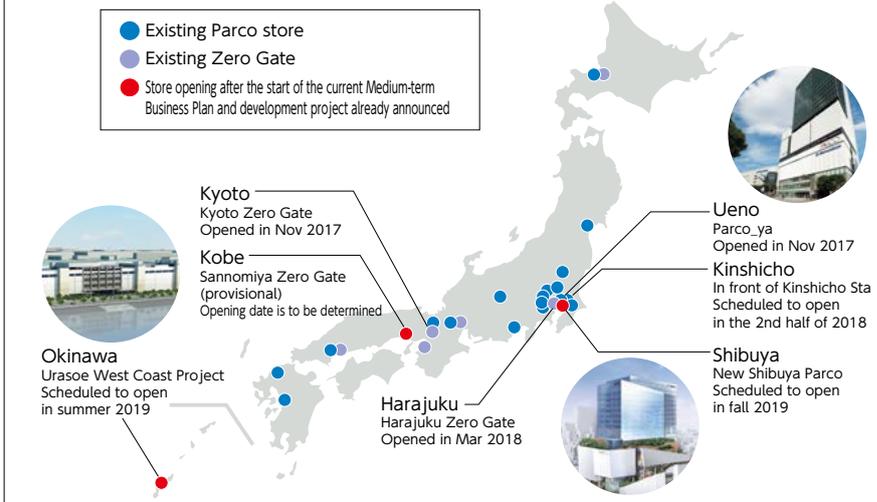
By spreading the new achievements and know-how gained through this project to other urban stores gradually, we will realize the evolution of the store brand of entire Parco.

### Expanding commercial real estate

As the initiatives of the Parco Business to expand commercial real estate including Zero Gate and new formats, eight development projects are in progress in fiscal year 2018. Specifically, Kyoto Zero gate, which partially opened in 2017, will fully open and three other stores including Harajuku Zero Gate and Sannomiya Zero Gate will open in fiscal year 2018. From late 2018 to fiscal year 2019, stores in new formats will open in Kinshicho and Urasoe, Okinawa. In addition, we decided to open Kawasaki Zero Gate in fall 2019 to cultivate the central part of Kawasaki-shi that is expected to grow and improve urban function.



**Cultivating urban areas with growth potential by developing new formats in addition to Parco and Zero Gate**



**Improvement of customer services and tenant services**

In the stores business, we provide customer services and tenant services using ICT as a customer service and tenant support policy.

Aiming at digital transformation that is expected to be adopted on a full scale in new Shibuya Parco, which is planned to open in fall 2019, we conduct the pilot tests of the measures to provide new consumption experiences by expanding in-store services of commercial facility Parco.

**Revitalizing existing stores**

In each Parco store, we promote renovation based on changes in consumption and store characteristics. In fiscal year 2017, we conducted renovation of approximately 35,000 square meters. In urban stores, mainly Nagoya Parco and Fukuoka Parco, “spaces” that offer new ways of communicating were provided and restaurants that offer information were introduced. In community stores, mainly Urawa Parco and Tsudanuma Parco, food floors, which play a central part in encouraging customers to make multiple purchases and stay longer in the store, were renovated and large-scale key tenants with strong ability to bring in customers were invited.

In fiscal year 2018, we are planning to renovate floor area of approximately 35,000 square meters under the theme of the creation of new added value that meets diversified consumption needs. By introducing key items, mainly “cosmetics” and “food”-related products, we will carry out renovations to expand the variety of fashion zones.

In urban stores, we will introduce “health & beauty” as a provider of added value for lifestyles and provide new food style ideas including formats and shop interior and common space decoration. In community stores, we will continue to strengthen their offering by introducing high quality supermarkets that meet market needs and improving food specialty shops.

For customers, we introduced a 3D scanner, which enables customers to post the 3D images of their coordinated styles on social media, at SR6 in Shibuya in December and use it to sell fashion items. We also developed voice search service Alexa Skill that provides voice guidance service in Parco stores and installed it in Ikebukuro Parco in April. Furthermore, aiming at improving our ability to offer information as media, we will implement various initiatives, beginning in the 2nd half of 2018, including increasing buying menu in conjunction with information on Pocket Parco.

For tenants and brands in Parco stores, we help them strengthen sales and the transmission of information. We changed the orientation training programs for newly employed people to be provided online so that they can take them at their convenient time and focus on customer services at stores.

When opened “Parco\_ya” in Ueno Frontier Tower, we introduced at each shop Japan’s first service to analyze “store traffic” and “customer attributes” such as age and gender, which can be used to ensure appropriate personnel structure according to store traffic by time of day and changes in store traffic by date and time and revise product lineup according to customer attributes.



Commercial facility’s first shared office / co-working space (Fukuoka Parco)



Tested a 3D scanner for coordinated styles (Shibuya SR6)

# Building a Financial Base to Achieve an ROE of 8%

## Promoting management in recognition of capital cost

The Group aims to achieve a consolidated ROE of 8% or more in fiscal year 2021, which is the final year of the Medium-term Business Plan. We began with recognizing shareholders'/ investors' expected return, that is, our cost of shareholders' equity to set an ROE target of 8%.

The cost of shareholders' equity has been calculated at a little less than 6% at the end of February 2018 but we see it moving in the range of 6% to 7% over the medium to long term. Therefore, we think we are expected to stably achieve an ROE of 8% or more exceeding the cost of shareholders' equity mentioned above.



The WACC (weighted average cost of capital) has been calculated at a little less than 5% at the end of February 2018. But we recognize the WACC of the whole Group has been at the level of around 5% over the medium to long term and each of our main businesses including the Department Store Business, Parco Business, Real Estate Business and Credit and Finance Business also recognizes its WACC.

In the process of changing our business portfolio, we will be conscious of decreasing capital cost by reducing shareholders'/investors' recognition of business risks and pursuing an optimal capital structure.

## Generation of cash flows and the balance between growth and return

The Group will generate operating cash flows of ¥260 billion or more in total during the five-year period of the current Medium-term Plan (FY 2017 to 2021), and from them, ¥200 billion will be allocated mainly to capital investment in existing businesses and growth strategy investment to expand into new businesses toward restructuring its business portfolio.

A little more than 60% of such investment will be allocated to the Department Store Business and Parco Business, which are the Group's core businesses, a little less than 20% to the Real Estate Business, which was newly created as an independent segment, and a little less than 10% to Other. We are planning to invest ¥27 billion in M&A for growth.

We expect to generate free cash flows of

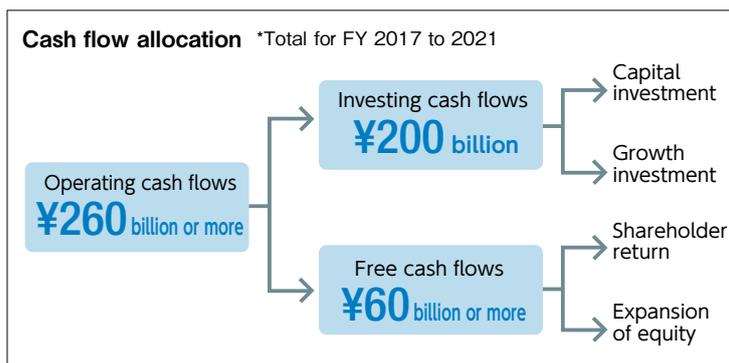
¥60 billion or more in five years. They will be used to expand equity targeting an equity ratio of 40% and to return profits to shareholders targeting a consolidated dividend payout ratio of at least 30%. We will also consider purchasing our own shares as appropriate.

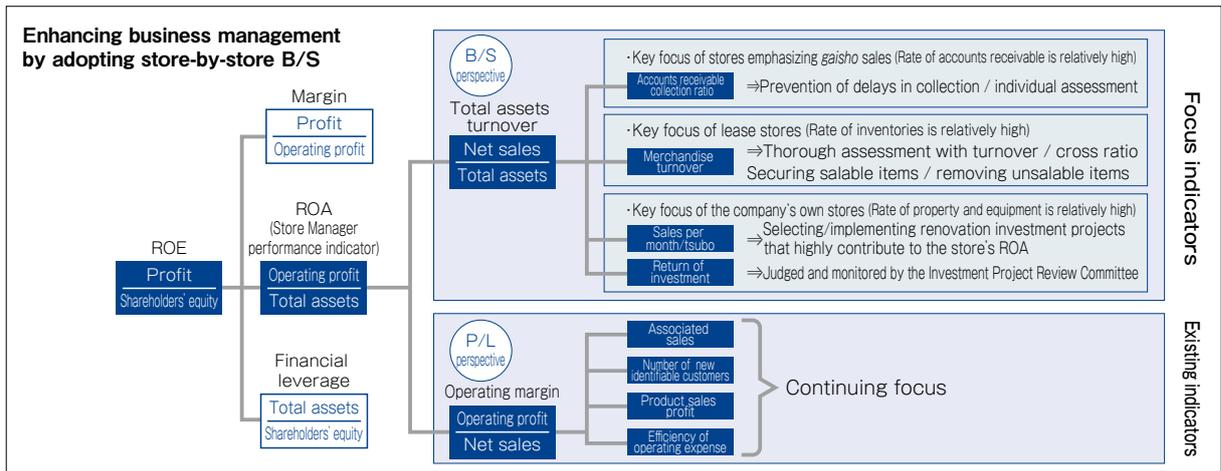
## Adopting store-by-store balance sheet

The Department Store Business operates using large assets. In fact, however, a strong focus had been put on profit and loss statement (P/L) at a store level. In other words, stores had been less conscious of balance sheet (B/S). Therefore, we have decided to "change employee mindset" to increase ROE across the Department Store Business including all its companies and stores by adding a B/S perspective (assets/liabilities/shareholders' equity) to business management and clarifying the management targets of the whole Business and each department store.

Specifically, beginning in March 2017, each department store develops a B/S budget, which enables us to compare it with results and understand asset profitability. We prioritize investments considering each store's ability to achieve a return on investment and expect effects from this that will lead to a curb on investment plans intended only to maintain or increase sales and drastic measures for poorly performing divisions. Each store will actively implement measures to enhance asset efficiency according to business size, regional characteristics and asset composition in an effort to improve ROA, asset turnover and performance.

In the first year of adoption, we visualized each store's B/S like an independent company by transferring land and buildings, operating receivables and payables and others, which had been recorded by the head office, to each store and budgeted ROA of each store and added it to the performance indicators of Store Managers and others. As a result, partly thanks to an increase in operating margin





due to profit growth, “inventories” and “property and equipment” in B/S, which can be managed by each store, were generally controlled against the budget set at the beginning of the period and ROA was improved.

Going forward, we will promote strategic initiatives to enhance asset efficiency including: (i) defining KPIs from a perspective of asset efficiency (B/S) and breaking them down at a store level; (ii) verifying the investment action plan of each store and implementing the PDCA cycle; and (iii) developing a growth investment model to improve ROA by replacing and adding assets.

### Investment Project Review Committee and Revitalization Plan Review Committee

The Company has created the “Investment Project Review Committee” and the “Revitalization Plan Review Committee” to support management decision-making on investment, business revitalization and withdrawal from a financial perspective.

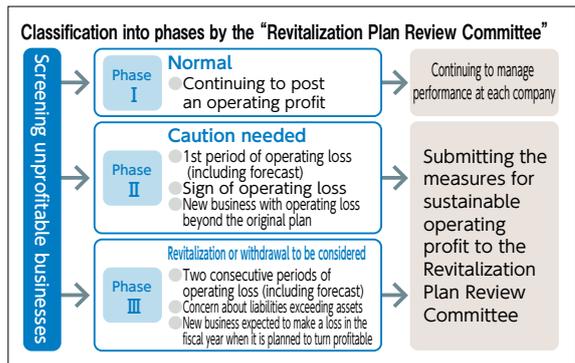
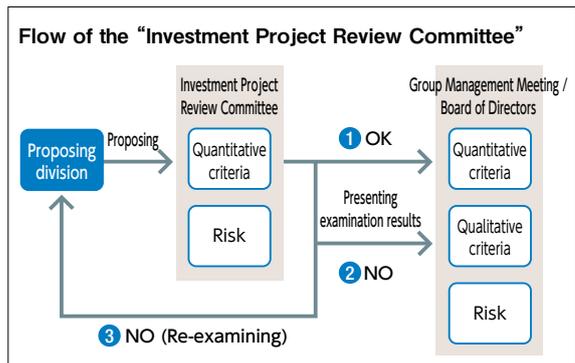
The “Investment Project Review Committee” consists of the Senior Executive General Manager of Financial Strategy Unit as its Chairperson, the Senior General Manager of Management Planning Division as its Vice Chairperson and other members from Financial Strategy Unit, Management Planning Division and Legal Division. The Committee has in place a system that enables the participation of external institutions in order to present more objective and stricter opinions. We make an investment decision using the payback method for investment in store renovations, the NPV method for development investment (present value discounted using  $WACC \geq 0$ ), and the DCF method for M&A. In addition, the Committee checks many areas including legal risks and financial risks (calculation of shareholder value).

Specifically, in fiscal year 2017, they examined Parco’s new store opening projects in Kinshi-cho and the north wing of the Daimaru Shinsaibashi store and the establishment of new operating company (JFR Kodomo Mirai Co., Ltd.).

The “Revitalization Plan Review Committee” is composed of the Senior General Manager of Management Planning Division of Management Strategy Unit as its

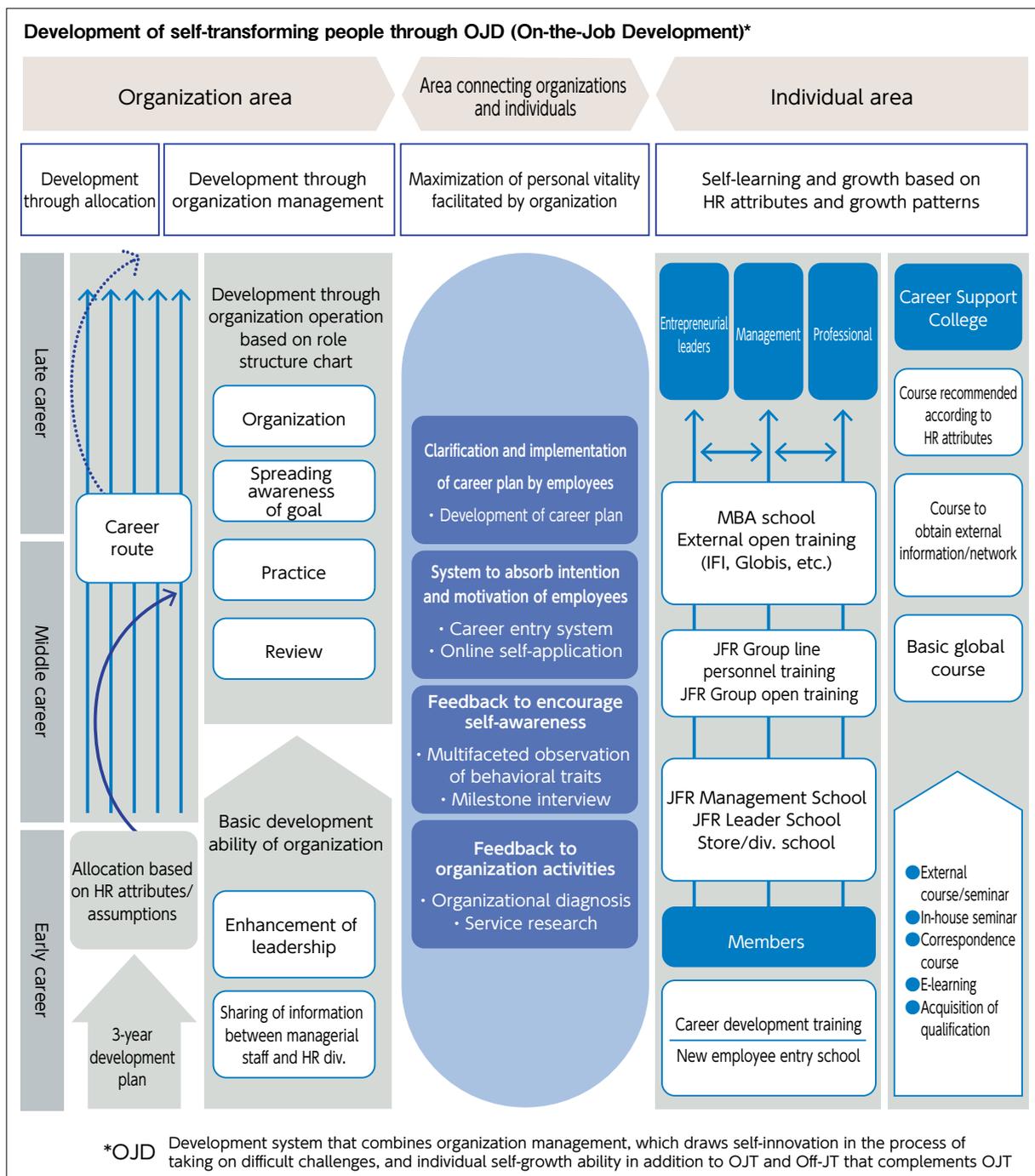
Chairperson, the Senior General Manager of Budget and Management Support Division of Financial Strategy Unit as its Vice Chairperson, the Senior Executive General Manager of Management Strategy Unit and other members from Budget and Management Support Division.

Specifically, the Committee classifies the businesses of the Group into three phases including “I. Normal,” “II. Caution needed” and “III. Revitalization or withdrawal to be considered” and reviews them on a regular basis. One of the criteria for the “phase III” in which revitalization or withdrawal is to be considered is “two consecutive periods of operating loss.” Concerning the companies, businesses, stores and others that meet the criterion, mainly a relevant company prepares the measures for “revitalization or withdrawal.” The Committee validates these businesses and determines the validity of the measures as well as providing information to facilitate swift management decision-making at the Group Management Meetings and the Board of Directors meetings.



# Human Resources “Creating” Happiness

J. Front Retailing (the “Company”) believes individual employees, that is, “human resources” lead the creation of added value, which is essential for sustainable corporate growth, and that human resources are the most important management resources. Based on the belief that “people grow by getting their job done,” we will develop human resources by linking four elements including recruitment, allocation, evaluation and development and maximizing energy that drives growth valuing the thoughts of each and every employee.



### (1) Systems to help employees develop their careers

We thoroughly develop and strengthen employees' "personal basic skills" required for leaders with a focus on their first three-year career at the JFR three-year training school for new employees with college degrees (JES). We provide a "career development training" to employees aged 27 where employees review their experiences from the past to the present for future career development.



Training at JFR three-year training school for new employees with college degrees (JES)\*  
\*JES stands for JFR Entry School.

With the aim of creating new value by combining different elements, we actively give employees opportunities to work for external bodies and attend MBA programs and external training sessions (IFI, Globis, etc.). In addition, we provide them with opportunities to show their intentions including the self-application system, milestone interviews and the career entry system. We also strive to improve the expertise courses of the Career Support College (self-development school) to give opportunities for obtaining professional knowledge and skills. In fiscal year 2017, a total of 539 employees attended the Career Support College including correspondence courses.

With respect of "allocation," which is an important factor in "developing human resources through jobs," we put the "right people in the right jobs," which vitalizes each person and brings out the best in him/her, at the Group level by focusing on each employee, finding new human resources and actively providing opportunities. To this end, using the human resources information system named "Talent Management System," which integrates human resources big data on approximately 10,000 employees of the Group, human resources divisions and job sites work together to promote allocation and development planning based on human resource attributes and certain human resource assumptions.

### (2) Systems to develop the next senior management team

The selection of the chief executive officer is the most important strategic decision-making and the Company positions the development and implementation of succession plans (for the next senior management team) as matters of particular importance in terms of

management strategy. Therefore, we select some people from "all the human resources of the Group" as candidates for the next senior management team members and provide the employees selected from them with focused development programs organized by the "JFR School."

The "JFR School" is composed of the "JFR Business Management School" (for candidates for the next senior management team members), the "JFR Management School" (for candidates for the next general managers) and the "JFR Leader School" (for candidates for the next managers) to produce managerial talents over the medium to long term. We aim to develop the next generation leaders as soon as possible by fostering management perspectives, sharing awareness of issues with the senior management team and applying strategies to specific action plans and implementing these plans with a focus on five desirable qualities required of the Group managerial talents in addition to allocating these human resources in a well-planned and strategic way based on the belief that "a person's growth depends on his/her job."

\*Desirable qualities required of the Group managerial talents: "strategic mindset," "reform-oriented leadership," "tenacity to achieve results," "organization development strengths" and "human resource development strengths"

\*The total number of employees who attended the training programs including the Group general manager training programs and the Group manager training programs in fiscal year 2017 was 621 and the total time of these programs was approximately 22,400 hours.

### (3) Systems to support each employee's creativity and willingness to take on a challenge

In order to realize the Group Vision "Create and Bring to Life 'New Happiness,'" we introduced the "Employee Pledges for Action" and "Challenge Card" programs in fiscal year 2017 to support each employee's willingness to take on a challenge. In fiscal year 2017, a total of 1,728 challenges were submitted and nine best teams were selected from the whole Group in the first half of the year and gave presentations to the management team in the Takatsuki training institute.

Beginning in fiscal year 2018, the contents of the "Challenge Card" have been divided into three categories including "sales measures," "operational improvement" and "new business" and the ideas for new businesses are examined at the Company. The event named the "Creation Award" is held semiannually at each company and each store and the Group-wide "JFR Group Creation Award" is held annually.



The "1st JFR Creation Award" presentation at Ginza Six

# Sustainability Initiatives

The Company newly formulated the “Sustainability Policy” and identified “materiality” after discussions at the Management Meetings and the Board of Directors meetings. Based on the premise that the medium- to long-term quantitative goals will be set, we have decided to formulate and release a specific action plan around October 2018 to achieve them.

In this Integrated Report, we show the five materiality issues selected by the Company and the process to identify these issues and the direction of future specific actions as well as reporting our past sustainability activities.

## Sustainability Policy

### With People, with Local Communities, with Environment to Realize New Happiness in Sustainable Society and Life

The society where we live, whether in Japan or overseas, faces various social issues including unusual weather, water resource crisis, resource depletion, widening gap, incomplete employment and human rights issues. Among them, environmental risks have been getting particularly remarkable in recent years. The environment surrounding us is changing significantly due to global warming and worsening global environment. Companies are increasingly expected to contribute to sustainable society including actions to address climate change under the Paris Agreement and social issues covered by the “Sustainable Development Goals (SDGs)” adopted by the United Nations as part of global initiatives. It is essential for companies to tackle environmental, social and governance (ESG) issues.

In the meantime, Daimaru and Matsuzakaya, which are the foundations of J. Front Retailing Group, have conducted business activities under the corporate credos “Service before profit” and “Abjure all evil and practice all good,” which show their commitment to pursuing the right path, over their long histories of 300 and 400 years. Based on this, we newly developed the Vision “Create and Bring to Life ‘New Happiness.’” And we always think of each and every customer’s life and conduct business activities to make their futures happy.

We have many places where we communicate with customers, including retail stores. Various people including customers, employees, business partners and local people get together and meet there. Local communities in which people root assume an important role in keeping these communication places rich. And we believe it is important to hand down the irreplaceable global environment that supports all to the next generation smoothly so that local communities will continue forever as contact points always filled with vitality. That is to say, it is important to keep communication places in order to create and bring to life new happiness, which we aim to realize. And this cannot be realized without a sustainable society.

We defined the places for communicating with customers as a focus area of J. Front Retailing’s sustainability management and we will unite and make proactive and serious efforts to realize a sustainable society. To this end, we have received various opinions from stakeholders through questionnaires and have had many discussions at the Management Meetings and the Board of Directors meetings since last year. As a result, we identified five materiality issues to be addressed by us including “contribution to a low-carbon society,” “management of the entire supply chain,” “coexistence with local communities,” “promotion of diversity” and “realization of work-life balance.” We believe our efforts to address these materiality issues will contribute to achieving the global “Sustainable Development Goals (SDGs).” Among these five materiality issues, the management team put the greatest focus on “contribution to a low-carbon society (action on climate change),” which is an urgent issue. We are addressing this issue as the mission of a member of society and working on developing the “JFR Eco Vision” with an eye to 2050 to help realize a sustainable society. Based on this vision, we will aim to achieve both the resolution of environmental issues and corporate growth.

As mentioned above, we will meet our environmental and social responsibilities to all customers to realize a sustainable society, and as a Multi Service Retailer, we will create new happiness to be brought to each and every stakeholder’s life. At the same time, we will continue sustainable growth by strengthening corporate governance to tirelessly continue this initiative.



## Process to identify materiality

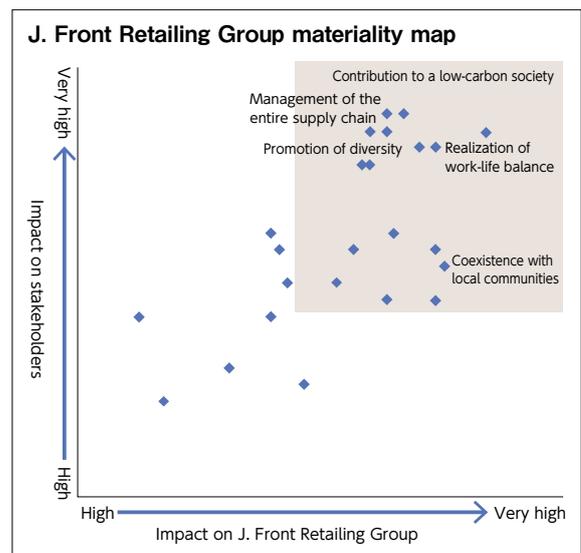
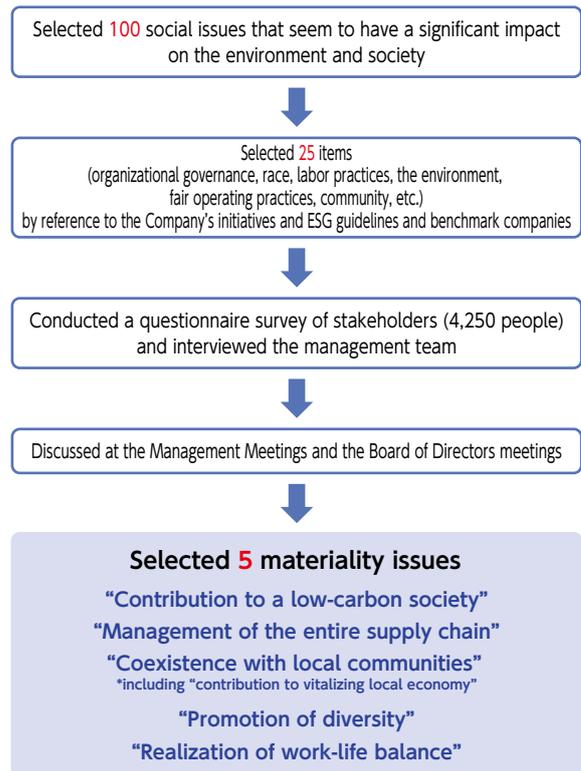


We strive to build a relationship of trust with all stakeholders (customers, shareholders, business partners, employees, local communities, etc.) through business activities and actively address sustainability issues including environmental and social issues based on the spirit of the Corporate Credo, the Basic Mission Statement and the Group Vision in order to achieve the Group's sustainable growth and medium- to long-term enhancement of corporate value.

With the aim of further deepening these efforts, we identified materiality that contributes to the realization of "sustainable growth of companies and society" and "sustainable society" in the process of clarifying the relationship between business activities and social issues.

Specifically, firstly, we selected 25 candidate materiality issues from the perspectives of: (i) the environmental/social issues that are meaningful for us to address and can produce results and (ii) the issues we can tackle using our core businesses. Secondly, we conducted a questionnaire survey of 4,250 stakeholders on these 25 issues to secure objectivity and diversity. And based on the results of the survey in which the GRI Standards (GRI: Global Reporting Initiative, a nonprofit organization that develops international sustainability guidelines), the assessment items of ISO 26000 and SRI (Socially Responsible Investment), SDGs (Sustainable Development Goals)\* and review by the President are reflected and after discussions at the Management Meetings and others within the Company, we developed a materiality map. And finally, we narrowed down the list of materiality issues to and formally determined five items at the Board of Directors meetings.

Concerning these materiality issues, we will set long-term goals to be achieved and formulate an action plan to contribute to resolving social issues through business activities and develop as a company.



## Five priority materiality issues to be addressed by J. Front Retailing



**SUSTAINABLE DEVELOPMENT GOALS**  
17 GOALS TO TRANSFORM OUR WORLD

**\*SDGs (Sustainable Development Goals)**

Global goals for the period from 2016 to 2030, which are included in the “2030 Agenda for Sustainable Development” adopted at the United Nations summit in September 2015. They contain 17 goals with 169 targets including “climate action,” “good health and well-being,” “gender equality” and “decent work and economic growth” and pledge to leave no one behind.

## Materiality principles and specific actions

 <p>Contribution to a low-carbon society</p>	<p><b>Principles</b> We will aim to contribute to preventing global warming and air pollution and make the global environment sustainable by developing the long-term environmental vision and working by ourselves to reduce energy consumption, increase the efficiency of energy use and use renewable energy and working with business partners to achieve zero emissions.</p> <p><b>Specific actions</b></p> <ul style="list-style-type: none"> <li>Reduction of energy consumption           <ul style="list-style-type: none"> <li>Installing LED lighting in stores, rooftop greening, paperless operations, promoting telework, etc.</li> </ul> </li> <li>Shift to low-carbon energy           <ul style="list-style-type: none"> <li>Shift to renewable energy in directly managed stores</li> </ul> </li> <li>Energy shift           <ul style="list-style-type: none"> <li>Shifting company cars to electric cars</li> </ul> </li> <li>Other           <ul style="list-style-type: none"> <li>Reducing and recycling food waste</li> <li>Expanding ethical consumption and promoting awareness activities</li> </ul> </li> </ul>
 <p>Management of the entire supply chain</p>	<p><b>Principles</b> We will enhance the corporate values of both the Company and its suppliers by fulfilling social responsibilities and promoting environment-friendly initiatives at the entire supply chain to eliminate risks at the entire supply chain and providing the products that customers can use pleasantly and securely in terms of society and the environment.</p> <p><b>Specific actions</b></p> <ul style="list-style-type: none"> <li>Supply chain policy           <ul style="list-style-type: none"> <li>Developing and sharing supply chain initiatives to address social issues including human rights, the environment and safety and security</li> <li>Promoting initiatives with the suppliers who agree to the policy</li> <li>Evaluating the CSR of suppliers</li> </ul> </li> <li>CSR for procurement and delivery           <ul style="list-style-type: none"> <li>Working with suppliers to promote the improvement of fuel efficiency and the reduction of delivery frequency in the entire business activity including product procurement</li> </ul> </li> </ul>
 <p>Coexistence with local communities</p>	<p><b>Principles</b> We will aim to contribute to revitalizing the area and grow with local communities over the medium to long term by combining the realization of sustainable society and the realization of pleasant shopping unifying stores and communities in the area through coexistence with local communities to increase the appeal of the area.</p> <p><b>Specific actions</b></p> <ul style="list-style-type: none"> <li>Urban Dominant Strategy           <ul style="list-style-type: none"> <li>Increasing the appeal of the area by developing shops around a store as its core</li> <li>Enhancing the strength of area brand by realizing services through collaboration between stores and areas</li> </ul> </li> <li>Contribution to vitalizing local economy           <ul style="list-style-type: none"> <li>Promoting initiatives to revitalize the area using know-how to operate a retail business (e.g. expansion of products produced locally for local consumption )</li> </ul> </li> <li>Other           <ul style="list-style-type: none"> <li>Supporting post-disaster recovery</li> <li>Promoting industry-government-academia partnership that contributes to the development of the area and human resource development</li> </ul> </li> </ul>
 <p>Promotion of diversity</p>	<p><b>Principles</b> Realizing a company in which people with different cultures and customs, ages, genders and disabilities exist together and diversity is respected and accepted as a source of growth, J. Front Retailing Group will make contact points with various stakeholders diverse and attractive.</p> <p><b>Specific actions</b></p> <ul style="list-style-type: none"> <li>Diversity initiatives           <ul style="list-style-type: none"> <li>Developing diversity policy</li> <li>Developing a policy to address women's empowerment, LGBTs, people with disabilities, etc. and providing trainings</li> <li>Improving systems to receive employees (improvement of the work environment)</li> <li>Increasing the ratio of women in leadership positions</li> </ul> </li> <li>Providing seniors with opportunities to take active roles and revising or abolishing the retirement benefit scheme</li> <li>Lifting the ban on second jobs and side jobs</li> <li>Respect for human rights           <ul style="list-style-type: none"> <li>Developing human rights policy, providing in-house trainings and installing service environment equipment (e.g. the one to cater to LGBTs)</li> </ul> </li> </ul>
 <p>Realization of work-life balance</p>	<p><b>Principles</b> With the aim of realizing true work-life balance that meets changes in lifestyles and diversified values, J. Front Retailing Group will innovate work styles using technologies, streamline operations, shift to creative operations and realize the work environment in which employees and their families feel happy.</p> <p><b>Specific actions</b></p> <ul style="list-style-type: none"> <li>Promoting work-life balance           <ul style="list-style-type: none"> <li>Work style reform including the institutionalization of homeworking and remote working using IoT, etc.</li> <li>Improving operations and promoting RPA at each operating company</li> <li>Expanding support for the work styles of employees with small children</li> </ul> </li> <li>regardless of gender (developing a paid child care leave system and a system to secure replacement workers)</li> <li>Developing a nursing care leave system</li> <li>Employee healthcare           <ul style="list-style-type: none"> <li>Formulating a "plan for realizing health and productivity management" and establishing PDCA cycle</li> </ul> </li> </ul>



Planning to set the medium- to long-term quantitative goals to be achieved around October 2018



# Steadily Reducing Environmental Load

Recently, various environmental issues arise on earth. In particular, the emission of greenhouse gases (CO<sub>2</sub>, etc.), which leads to global warming, and biodiversity loss, which affects food and health, are issues common to all humankind because they affect the entire earth.

Since the Group mainly operates a retail business, it can make the greatest contribution through product sales and other activities at stores and we believe that it is our social mission.

Therefore, we formulated the “J. Front Retailing Environmental Policy” and each company in the Group has in place a system to promote environmental conservation activities through business activities and conducts such activities.

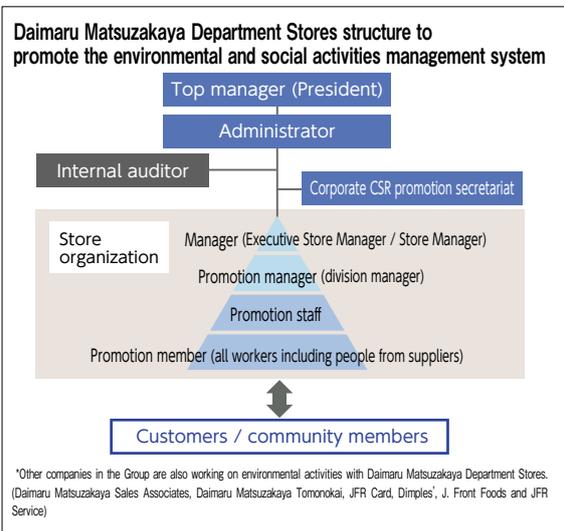
## J. Front Retailing Environmental Policy

Recognizing our roles and responsibilities to hand down the irreplaceable global environment to the next generation, we at J. Front Retailing Group (the “Group”) proactively promote “environment-friendly corporate management” toward the “realization of a sustainable society” with customers, business partners and community members.

- 1 Recognizing environmental impacts and their causes, we will establish structures and systems to promote environmental conservation activities through the business activities of each company in the Group and strive for continuous improvement to reduce environmental load.
  - (1) Provision of environment-friendly products, services and information;
  - (2) Effective use of resources and energy;
  - (3) Reduction of CO<sub>2</sub> emissions;
  - (4) Waste reduction and recycling; and
  - (5) Promotion of environmental conservation activities and social contribution activities with customers, business partners and community members
- 2 We will comply with the requirements of environmental laws, regulations and agreements and strive to prevent contamination.
- 3 We will raise awareness of environmental conservation through educational and awareness activities to strengthen the foundation on which each worker in the Group will tackle environmental tasks voluntarily.
- 4 We will make this environmental policy known to all workers of each company in the Group and make the policy available to the public.

## Environmental and social activities management system

Daimaru Matsuzakaya Department Stores expands the ISO 14001 environmental management system and has in place an environmental and social activities management system. In order to promote these activities, we appoint the Senior Executive General Manager of Administration Headquarters as an “administrator”, Executive Store Managers and Store Managers as “managers” and division managers as “promotion managers” and “promotion staff” members in charge of practical operations are placed. They educate workers including people from suppliers.



## Goals for FY 2017 to 2021 Daimaru Matsuzakaya Department Stores environmental and social activities

Daimaru Matsuzakaya Department Stores set the medium-term quantitative environmental targets for FY 2017 to 2021 in conjunction with the Medium-term Business Plan to conduct environmental activities.

### <Quantitative targets>

- Reducing CO<sub>2</sub> emissions from energy use by cutting energy use intensity by 5% in FY2021 compared to FY2016.
 

\*CO<sub>2</sub> emissions in the business activities of department stores are caused by use of air conditioning and lighting.
- Reducing the intensity of final waste disposal volume (Volume of waste generated - Recycling volume) by 5% in FY2021 compared to FY2016.
- Increasing the food recycling rate to the 60% level by FY2021.

**FY 2017 to 2021 Daimaru Matsuzakaya Department Stores quantitative environmental targets** (including Hakata Daimaru, Shimonoeki Daimaru, Kochi Daimaru and Tottori Daimaru)

	FY2017	FY2018	FY2019	FY2020	FY2021
CO <sub>2</sub> emissions (intensity) *1	0.0424	0.0414	0.0410	0.0405	0.0401
Energy consumption (intensity) *2	0.0204	0.0197	0.0196	0.0195	0.0193
Final waste disposal (intensity) *3	11.13	10.97	10.85	10.74	10.63
Food waste recycling rate *4	59.8%	57.0%	58.0%	59.0%	60.0%

\*1 Intensity: CO<sub>2</sub> emissions (t-CO<sub>2</sub>)/Business hours (h) × Total floor area (m<sup>2</sup>)  
CO<sub>2</sub> emissions targets for FY2018 and beyond have been calculated using the CO<sub>2</sub> emission factor for FY2016.

\*2 Intensity: Crude oil equivalent energy (kl)/Business hours (h) × Total floor area (m<sup>2</sup>)

\*3 Intensity: Final waste disposal volume (kg) / Sales (¥million)

\*4 Intensity: Volume of food waste recycled / Volume of food waste generated

## Daimaru Matsuzakaya Ecoff recycling activities

Daimaru Matsuzakaya Department Stores conducts the “Ecoff recycling campaign” on a regular basis. Customers bring disused clothing, shoes and bags to the stores, and in exchange, we give them shopping support tickets so that they can buy new items at a small discount.



A total of 299,170 renewable articles were collected in the campaign in April 2018 and the total number of articles collected since the first campaign in August 2016 exceeded one million. The collected articles are recycled into bioethanol and coke as well as the raw materials of textile products.



## Promoting the installation of high energy efficient equipments and LED lighting

The Group adopts various energy saving measures to reduce CO2 emissions and prevent global warming. High energy efficient equipments are installed on the occasions of facility replacement, store renovation and new store opening.



Installed LED lighting on the ceiling when the store was renovated (Daimaru Tokyo store)

Daimaru Matsuzakaya Department Stores strives to reduce electricity consumption and CO2 emissions by replacing existing lighting with LED units. In fiscal year 2017, we replaced approximately 7,000 units, mainly basic lights in the Tokyo, Kyoto and Kobe stores, with LED units, and by February 2018, 204,000 units, which account for about 48% of the total number of relevant lighting fixtures, were replaced with LED units.

## Installing solar panels

At the Daimaru Kyoto store, a solar panel (rated output: 10kW), which is 11 meters long and 6.6 meters wide, was installed behind the peacock bronze sculpture. It is expected to generate approximately 6,000 kWh of electricity per year, which powers digital signage and external signs.

## Forestation project

In October 2009, “Trojan,” Daimaru Matsuzakaya Department Stores private brand of men’s clothing, launched a project “Trojan Forest Carbon Free” in collaboration with Carbon Free Consulting Corporation. One larch tree is planted in a forestation site in Inner Mongolia, China, for every 10 Trojan suits or jackets sold and 250 trees were planted on the first occasion. After that, we continue to plant trees, and at the end of February 2018, a total of 4,350 larch trees are changing the drought-stricken region in Inner Mongolia to a green zone. The growing of “Trojan Forest” contributes to preventing global warming caused by absorbing CO2, preventing the desert from expanding, preventing yellow dust from blowing, and creating jobs of planting trees for local people.



Trojan Forest

## Ginza Six was certified as an “Urban Oasis” under SEGES\*

In October 2017, the rooftop garden of Ginza Six “Ginza Six Garden” was certified as an “Urban Oasis” under the “SEGES (Social and Environmental Green Evaluation System)” (administered by the Organization for Landscape and Urban Green Infrastructure), which recognizes comfortable and attractive urban green areas.

The Ginza’s largest about 4,000-square-meter rooftop garden “Ginza Six Garden” is located on the roof of the about 56-meter-high building with 13 floors above ground. A green area of approximately 2,200 square meters, which accounts for about 56% of the rooftop garden, was newly created. Our large-scale greening efforts in the prime downtown location were highly recognized and we obtained such certification.



\*SEGES (Social and Environmental Green Evaluation System)  
A system to recognize and certify outstanding green areas of the companies that contribute to society and the environment through greening activities



# With Local Communities, with Customers

As a corporate citizen, J. Front Retailing uses the resources of the companies in the Group and implements initiatives through business activities to contribute to revitalizing local communities and resolving various social issues.

## ① Contribution to revitalizing local communities

Our Urban Dominant Strategy is a “business model for growing with local communities” by enhancing the appeal of the whole area with the stores at its core. Implementing the strategy helps attract more customers to the area and contribute to the area.

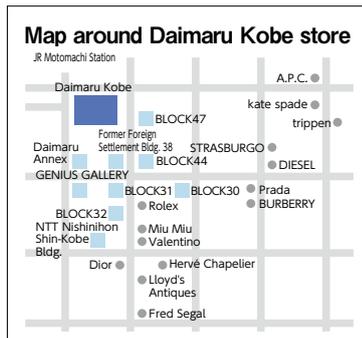
\*For Ginza Six and Ueno Frontier Tower, please see pages 26 and 27.

### ● Shop development around the Daimaru Kobe store

The Daimaru Kobe store has developed shops around it since 1987, about 30 years ago. Cutting-edge fashion brands are invited to open their boutiques in exotic buildings in Motomachi, Kobe, which historically developed as a foreign settlement, to



attract more customers to the area. Currently approximately 60 shops operate around the store and the area combining shopping and sightseeing



attracts customers from a wider area. The store organizes events using the appeal of the Former Foreign Settlement on a regular basis. In March 2017, Vogue’s shopping event “Vogue Fashion’s Night Out” was held. It was the first time in the world that the event was held in spring.

### ● Kyoto Machiya project

In 2016, Daimaru opened the “Daimaru Kyoto Store Gion Machiya” as a special project celebrating the 300th anniversary of its foundation. In Gion, which has a taste of the old capital, we revived a dilapidated *machiya* (a Japanese traditional townhouse) and operate a luxury

brand boutique that matches Kyoto, which combines “tradition” and “innovativeness” (Hermes from November 2016 to July 2017 and Hublot from August 2017). By preserving and using the *machiya*, we inherit historical value and contribute to revitalizing the area. And we are well received by people in Japan and abroad as well as residents in Kyoto.



Daimaru Kyoto Store Gion Machiya (Hublot Boutique Kyoto)

### ● Proposal for local production for local consumption

“Local production for local consumption” helps revitalize the local economy. It also helps reduce environmental emissions from transportation and refrigeration decrease due to short transportation distance. Each of the Daimaru and Matsuzakaya stores organizes events to provide a wide range of products including food, clothing and crafts and expand their sales.



Event to recommend the products produced in Yamaguchi (Shimonoseki Daimaru)

## ② Contribution to resolving the issues of the child-raising generation

With the aim of taking away some of the worries and inconveniences that accompany early childhood parenting, we launched the operation of unlicensed infant child care facilities that provide both enhanced early-childhood education and extended-hour child care. We will operate the facilities under franchise in collaboration with Tact Kodomomirai Co., Ltd., a group company of Yaruki Switch Group Holdings Co., Ltd., to provide a curriculum



including not only “intellectual training” but also “physical exercise” and “English.” The first facility named “Daimaru Matsuzakaya Kids Duo International Aobadai” will open in Aoba-ku, Yokohama in April 2019.

### ③ Contribution to the safety and security of customers

#### ● Operation of Customer Service Office

At the “Consultation Corners for Consumers” of the Daimaru and Matsuzakaya stores, consultants certified as advisory specialists for consumers’ affairs



accept comments from customers regarding product quality. Comments from customers are sent to Consumer Product End-Use Research Institute online for scientific quality inspection. Consultants inform customers of the results. These test results are also provided to relevant stores and manufacturers to prevent recurrence and improve quality.

#### ● “Consumer Product End-Use Research Institute” as a quality professional in the retail industry

Consumer Product End-Use Research Institute (the “Institute”) operates in Osaka, Tokyo and Nagoya. Its operations include tests to identify product performance and the causes of complaints, the verification of product labels and expressions in sales promotion media under relevant laws and regulations, and consulting, trainings and seminars concerning product control in general.

For the companies in the Group, the Institute conducts various tests to ensure the safety of products in use including quality tests of various products for sale, load bearing tests of wrapping paper and shopping bags and color fastness tests, as well as pre-sale tests, product label checks at stores and hygiene inspections of food floors and restaurants.

#### ● Creation of safe and secure store environment

At department stores and other stores and offices, we organize self-defense fighting teams and conduct emergency drills and BCP trainings\* in preparation for earthquakes and fires. We also promote the improvement of systems by introducing an earthquake early warning alert system, a safety confirmation system for all employees and satellite-based mobile phones. Self-defense firefighting teams at stores carry out drills on a regular basis with the participation of all workers including people from suppliers to ensure that we can take prompt and appropriate actions including firefighting, evacuation guidance for customers and information collection. AED (automatic external defibrillator) units

are installed mainly in department stores and we continuously train employees in their use.

\*BCP: A plan that allows an organization to continue to operate or restore business early in the event of disaster

### ④ Social contribution activities with customers

J. Front Retailing continuously conducts social contribution activities with customers through business activities.

The unnecessary PET bottle caps collected mainly in the Daimaru and Matsuzakaya stores are recycled through the nonprofit organization “Re Lifestyle” and we donate the full amount paid for them to the authorized nonprofit organization “Japan Committee Vaccines for the World’s Children” to fund vaccines for children around the world. Since we started this initiative in December 2009, the total amount donated through the collection of caps and other activities reached the equivalent of polio vaccines for 260,000 children in May 2018. Our other charity support activities include the “Pink Ribbon Campaign” and “Blue Clover Campaign” that promote early diagnosis, detection and treatment of breast cancer and prostate cancer, respectively, the “Table for Two” program that helps provide school meals for children in developing countries and support for people in the areas affected by the Great East Japan Earthquake, the Kumamoto Earthquake and other disasters.



Blue Clover Campaign

#### Major charity support in FY2017 (Daimaru Matsuzakaya Department Stores)

(Unit: ¥1,000)

Recipient	Description	Amount donated
Japanese Red Cross Society “We will never forget. - Project for the future”	Supported the rehabilitation assistance project by announcing online, wearing awareness badges, putting stickers on cars and donating the full amount raised in stores and employee facilities	114
Scholarship funds to support children affected by the Great East Japan Earthquake	Donated a portion of the proceeds from the sale of the “charity pins celebrating the 10th anniversary of Sakura Panda’s birth” under the intent of support for Tohoku “Smile for Japan”	1,699
Authorized NPO Orange Clover	Donated the money raised through the Love 49 campaign and a portion of the proceeds from the sale of original eco bags, etc. to support cervical cancer prevention awareness activities	288
Local Pink Ribbon support groups	Donated a portion of the proceeds from the sale of original pins, heart bread, beverages from Pink Ribbon vending machines, etc. to support breast cancer prevention awareness activities	1,081
Kumamoto Earthquake Relief Fund	Donated a portion of the proceeds from the sale of the “charity pins celebrating the 10th anniversary of Sakura Panda’s birth”	992
Authorized NPO Table for Two International	Donated a portion of the proceeds from the sale of healthy meals to help provide school meals in developing countries	311
Authorized NPO Japan Committee Vaccines for the World’s Children	Donated the full amount received at the auction of Rob Ryan’s original drawings of Christmas promotion charity program “Baton Relay for the Future” and raised in conjunction with posting with hashtags and the view counts of special videos	1,126



# Using Diversity. Changing Work Styles.

Based on the recognition that the diversity of human resources is the source of corporate competitiveness, J. Front Retailing believes it is important to ensure as a company “non-discriminatory treatment” in terms of nationality, gender, thought, belief and even working conditions and maintain and improve it.

Work-life balance is important to keep employees healthy both mentally and physically and we aim to realize a workplace in which employees can work lively and achieve high productivity by creating a pleasant working environment and taking care of employees’ health.

## ① Promoting women’s empowerment

### Appointment of female leaders

Regardless of gender, we promote the assignment and use of human resources based on individual ability, performance, aptitude and motivation. At Daimaru Matsuzakaya Department Stores, women accounted for 32.5% of total leadership positions in March 2018. And three female Executive Officers serve as the Executive Store Managers of its flagship stores (21.4% of a total of 14 Executive Officers). We will actively appoint women to leadership positions and other important positions to further empower motivated women.

### Mother Recruitment

Recently, while more and more women are entering into the workforce, they leave their jobs for childbirth at a high rate, which has become a social issue. We launched the “Mother Recruitment” program in fiscal year 2017 to hire experts who left their jobs for child care. Six people

were hired by June 2018 and they are working for legal, finance, real estate and other divisions using their expertise and skills.

### JFR Women’s School

We opened the “JFR Women’s School” in fiscal year 2018 for short-time workers of the Group who keep working while raising children. They aim to continuously enhance their career by acquiring time management and leadership skills, financial knowledge and others to perform at their best within a limited time.

\*The average lengths of service of the male and female employees of Daimaru Matsuzakaya Department Stores are 23.4 years and 23.2 years, respectively.

## ② Employment of disabled people

We recognize that the employment of people with disabilities is a corporate social responsibility and actively strive to promote that. “JFR Create” was established in April 2017 for the purpose of securing a stable working environment for disabled people and creating a workplace in which they can exercise their abilities and it was certified as a special subsidiary by the Health, Labor and Welfare Ministry in September 2017. The company was registered as an “Excellent Support Company for the Disabled in Osaka” for actively hiring and providing job assistance for disabled people.



Work at JFR Create (enclosing)

\*Employment rate of disabled people (total of Daimaru Matsuzakaya Department Stores, JFR Create, JFR Service, Dimples\* and Daimaru Matsuzakaya Sales Associates): 2.21% (as of June 1, 2018)

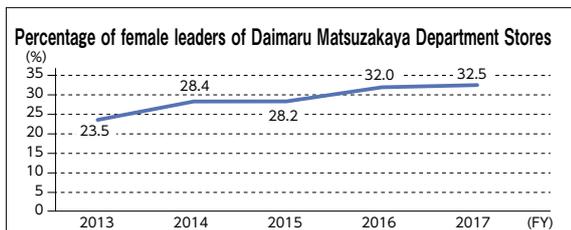


Daimaru Matsuzakaya Department Stores female employees in leadership positions (as of March 1, 2018)

	Number of females	Total	Percentage of females
General Manager	12	102	11.8%
Other leadership positions	221	616	35.9%
Total	233	718	32.5%

\*The figures above include workers temporarily transferred to Daimaru Matsuzakaya Sales Associates.

\*The number of “other leadership positions” is the total of Managers, Submanagers, Buyers (including Supervisors and Section Leaders from Daimaru Matsuzakaya Sales Associates).



## ③ Post-retirement reemployment program

In order to respond to changes in the social environment such as the rapid aging of the population amid extremely low birthrates and the raising of the age at which public pension payments begin and effectively use highly professional people, we adopt a reemployment program for employees who have reached the mandatory retirement age. The “My Life Plan Seminar” is held for employees aged 53 and over to help make their life after retirement rich and 316 employees attended the seminar in fiscal year 2017. Lecturers from inside and outside the Company provide information and advice on the future economic

design, healthcare, job satisfaction and purposes in life for employees before reaching the retirement age.

#### ④ Promoting human rights education

We provide human rights education and strive to raise employees' awareness of human rights from the perspective that individual employees should correctly recognize and understand human rights issues and that we should further promote the creation of corporate culture and corporate social responsibility based on respect for human rights. Daimaru Matsuzakaya Department Stores has a Human Rights Awareness Promotion Committee, which is chaired by the Executive General Manager of Human Resources Development Division. (The Committees in stores are chaired by their Executive Store Managers or Store Managers.) Its activities include human rights education through trainings when employees join the company and in-house seminars as well as various seminars organized by the governments and various educational materials distributed to employees.

#### ⑤ Systems to realize work-life balance

Daimaru Matsuzakaya Department Stores has in place the following systems.

##### Systems related to child care and family care

Systems with coverage exceeding statutory limits are in place.

##### Systems related to child care and family care exceeding statutory limits at Daimaru Matsuzakaya Department Stores and the number of takers in FY2017

	System	Description	No. of takers
Child care	Child care leave	Up to the last day of the month in which the child enters an elementary school (at the longest until the child reaches two years of age under law)	175
	Shortened working hours for child care	Up to the last day of the month in which the child enters an elementary school (for children under three years old under law). The "optional working hours system" allows shortened working hours until the child enters a junior high school.	137
	Sick/injured child care leave	Paid (Unpaid leave is permitted by law.)	144
	Child care support leave	Four days of paid leave for raising children under three years old (No such leave is granted by law.)	20
	Maternity leave for spouse	One day of paid leave (No such leave is granted by law.)	8
Family care	Family care leave	Up to a total of one year of leave per subject family member can be taken consecutively or separately any number of times. (Up to 93 days of leave can be taken separately up to three times under law.)	2
	Nursing care leave	Paid (Unpaid leave is permitted by law.)	31

##### Optional working hours system

We adopt a system that allows employees to choose shortened working hours for child care, family care, hobbies to enrich senior life and other reasons.

(Purpose and period: Up to the last day of the month in which the child enters a junior high school for child care, a period in which the employee needs to take care of his/her family member for family care, etc.)

##### Area Limited Employee System

In response to diversifying sense of working, values and lifestyles, we adopt the "Area Limited Employee System" to increase work options and build a foundation on which employees autonomously think of the balance between their career formation and life and act accordingly. Employees can choose their place of work from among five areas including Sapporo, Tokyo, Kansai, Chubu and Shizuoka.

#### ⑥ Changing work styles

As a holding company, J. Front Retailing strives to change work styles so that employees can create something new. On the occasion of the relocation of the head office in



Meeting space in the head office of J. Front Retailing

January 2018, we reduced

documents by approximately 80% and adopted a "free address system" that allows workers to freely choose their seats. We also promote paperless operations by digitalizing meetings, that is, "seeing meeting materials on a computer screen instead of printing them."

#### ⑦ Health care measures

Based on the basic idea that employees are the company's greatest asset and that it is the most important of all things to keep employees healthy both mentally and physically in order to provide better services to customers, our specific health care measures focus on primary disease prevention.

To this end, we conduct health examinations to prevent lifestyle diseases and gynecological examinations for all employees aged 35 and over, as well as legal regular health examinations.\* Dealing with mental health within the large framework of total mental and physical health care, we offer stress checks as a self-care tool. We put importance on health guidance provided by health care teams based on their results.

\*In fiscal year 2017, 99.7% of the employees of Daimaru Matsuzakaya Department Stores had regular health examinations.

#### ⑧ Labor-management relations

In Japan, the Labor Standards Act and other labor relations-related laws set forth basic rules regarding labor rights including employment opportunities, working hours and health and safety and require both labor and management to comply with them.

At each operating company in the Group, issues concerning working conditions and the improvement of economic status are resolved autonomously by labor and management in line with the actual situation of the unit labor union. J. Front Retailing and the Federation of J. Front Retailing Group Labor Unions hold the "JFR Labor-Management Meetings" to deepen the mutual understanding of labor and management and help operating companies in the Group develop smooth labor-management relations.

\*In fiscal year 2017, 88.3% of the employees of Daimaru Matsuzakaya Department Stores belong to the labor union.



Governance > Corporate Governance

# Corporate governance

As a holding company, J. Front Retailing puts the strengthening of corporate governance at the top of its business agenda to ensure the legal compliance, transparency, objectivity and soundness of the business of the entire Group and focus on and thoroughly fulfill its accountability to its stakeholders (customers, shareholders, employees, business partners, local communities and others) as the core of the unified governance of the Group.

## Transition to a Company with Three Committees (Nomination, Audit and Remuneration Committees)

The Company made the transition to a Company with Three Committees (Nomination, Audit and Remuneration Committees) through the resolution adopted at the Annual Shareholders Meeting in May 2017. The purpose of this change is to further strengthen corporate governance from the following standpoints.

### (1) Strengthening of the management oversight function by separating oversight from execution

The Company will strengthen the oversight function for business execution of the Board of Directors by separating oversight from execution. In addition, the Company aims to promote sophistication of strategy by having the Board of Directors actively include the insights of external persons in order to hold rigorous discourse on important issues relating to the management of the Group.

### (2) Greater clarity of authority and responsibility in business execution and promotion of agile management

The Company will enable decisions of business execution to be delegated to Executive Officers, clarify the authority and responsibility between the Board of Directors and Executive Officers and between the holding company and its operating subsidiaries, and carry out

speedy management decision making.

### (3) Improvement of transparency and objectivity of management

The Company will improve the transparency and objectivity of management by transitioning to a Company with Three Committees including Nomination, Audit and Remuneration Committees. The majority of the members of each committee are Outside Directors.

### (4) Building of a globally applicable governance system

The Company will build a governance system that is easy to understand from global perspectives, such as those of overseas investors.

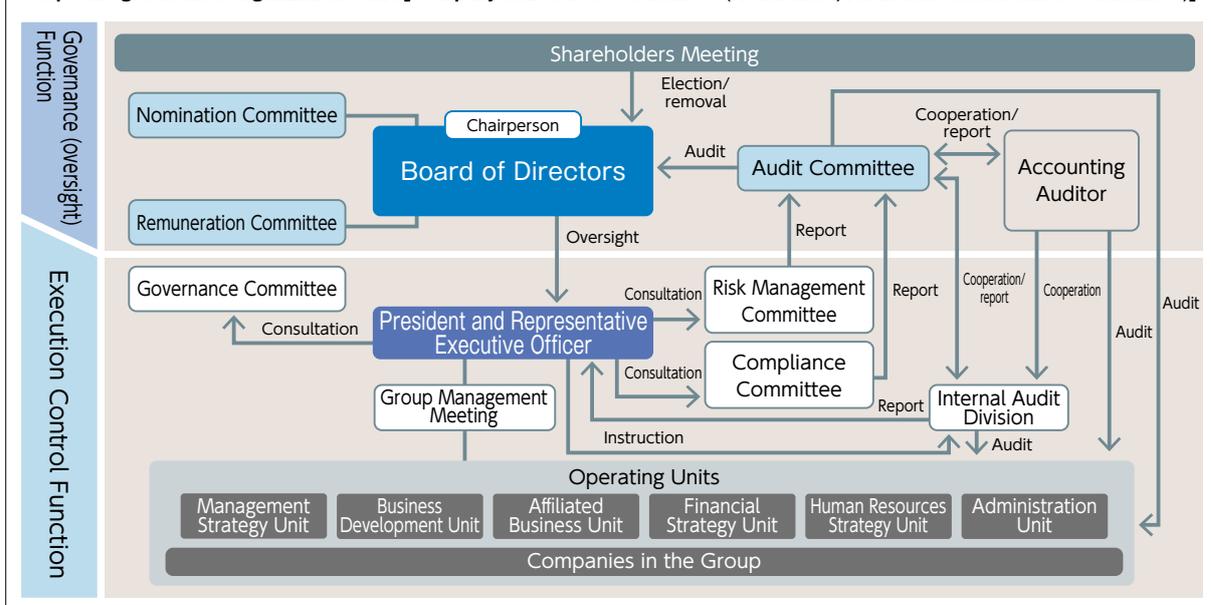
## Overview of corporate governance system

The Company is a pure holding company and, with the exception of authority for important matters relating to the management of the Group, it delegates authority to its respective operating subsidiaries with respect to matters involving business execution by the operating subsidiaries in an effort to speed up business decisions and to make managerial responsibilities clear.

The roles and responsibilities of the Company, as a pure holding company, are as described below:

- Establishment of corporate governance practices for the entire Group;
- Planning and formulating of the Group Vision, the Group Medium-term Business Plan and the Group Management Policy and tracking of the progress and results thereof;
- Optimal allocation of the Group's management resources;
- Establishment of the Group-wide risk management system and involvement in internal audits;
- Decision making on important matters involving business execution relating to the management of the Group; and

**Corporate governance organization chart [Company with Three Committees (Nomination, Audit and Remuneration Committees)]**



- Provision of advice and approval for the management policies and management strategies of respective operating companies and oversight and evaluation of the progress thereof.

The Company has six supervisory units (Management Strategy Unit, Business Development Unit, Affiliated Business Unit, Financial Strategy Unit, Human Resources Strategy Unit and Administration Unit) as management bodies to clarify each unit's roles, responsibilities and authorities, thereby strengthening the oversight function and improving the internal control system of the entire Group.

## Board of Directors

### (1) Basic roles and responsibilities of the Board of Directors

Directors who are elected by shareholders and are entrusted with the management of the Company are to carry out the following roles and responsibilities in the Board of Directors in accordance with their fiduciary responsibility and accountability to shareholders with the aim of realizing the Group Vision.

- Indicating the overall direction that the Group management is to take by engaging in constructive discussions with respect to the Group Vision, the Group Medium-term Business Plan, the Group Management Policy and other fundamental management policies and carrying out multifaceted and objective deliberations that include evaluation of risks with respect to the aforementioned;
- Appropriately making decisions in terms of overall policy and plans pertaining to the Group management on the basis of the direction noted above and overseeing the progress and results of the plans;
- Improving the environment to drive aggressive management toward discontinuous growth;
- Taking steps to build and develop internal control systems of the Group overall and otherwise overseeing the operational status of such systems;
- Overseeing conflicts of interest between related parties; and
- On the basis of summary reports furnished by the Nomination Committee, overseeing the progress of senior management

team succession planning, personnel assignment plans pertaining to managerial talent and management team training, as delegated to the Nomination Committee.

### (2) Composition of the Board of Directors

The Board of Directors of the Company is comprised of the appropriate number of 15 or less Directors as set forth in the Articles of Incorporation. The number of Directors is thirteen (five of whom are independent Outside Directors including two female Directors) as of May 24, 2018 and the term of office is one year.

From the standpoint of separating oversight from execution and enhancing the effectiveness of discussions at the Board of Directors meetings, one-third or more of Directors are independent Outside Directors and the majority of Directors are independent Outside Directors and internally promoted Directors who do not execute business.

When nominating Director candidates, the Company ensures diversity in consideration of the balance of knowledge, experience and ability on the Board of Directors as a whole.

With regard to the agenda for discussion at the Board of Directors meetings concerning important policies related to the Group's overall management, we deliberate in advance at the "Group Management Meetings," which consists of Executive Officers and the Senior Executive General Managers of the supervisory units.

### (3) Matters discussed at the Board of Directors meetings in fiscal year 2017

In fiscal year 2017, the Board of Directors had 14 meetings to deliberate and resolve the "dissemination of the Group Vision" and the "progress of the Medium-term Business Plan" as strategic discussion for the medium- to long-term growth of the Group, the "validation of the rationale for cross-shareholdings and sales of such shares" and a "basic policy to build internal control systems" as discussion concerning corporate governance, the "opening of Parco in the Daimaru Shinsaibashi store" and the "launch of the early childhood education" as discussion concerning individual growth businesses, the "transfer of shares of Forest," the "sale of unused real

estates” and the “acceptance of the share buyback planned by Senshukai, an associate accounted for using equity method” as the replacement of businesses and assets to improve capital efficiency, as well as approving budgets and financial statements.

## Nomination Committee / Audit Committee / Remuneration Committee

### (1) Nomination Committee

The Nomination Committee is composed of three Outside Directors, the Chairperson of the Board of Directors who does not execute business and President and Representative Executive Officer.

In fiscal year 2017, concerning the appointment of Directors including Outside Directors and the Executive Officers of J. Front Retailing and its major operating subsidiaries, the Committee ensured objectivity, transparency and rationality using assessment data from third-party institutions as well as the Company’s internal information on human resources and through the opportunities to have direct contact with candidates’ personalities and mindsets such as interviews conducted as needed. While having discussions on succession planning for the top management, they verified the system to develop candidates for the next officers in a planned manner and confirmed the status of results achieved by successor candidates on a regular basis.

### (2) Audit Committee

The Audit Committee is composed of three Outside Directors and two full-time Inside Directors who do not execute business and are well informed about the Company’s internal information to maintain and improve the accuracy of audit.

In fiscal year 2017, the Committee drafted and implemented an audit plan for the current fiscal year in accordance with the Audit Committee Rules, Audit Standards, Audit Practice Standards for Internal Control Systems and others set by the Committee and reported details to the Board of Directors. In particular, as its key audit items, the Committee audited the status of developing and operating internal control systems determined by the Board of Directors and the progress status of the key strategies in the first year of the Medium-term Business Plan of the Group in close cooperation with Internal Audit Division, Accounting Auditor and the Audit & Supervisory Board Members of the Group companies. And the Committee assessed Ernst & Young ShinNihon LLC by comparing its quality management, expertise, etc. with other audit firms in accordance with the Accounting Auditor Selection Criteria newly developed by the Committee.

An internally promoted Director who does not execute business chairs the Committee from the standpoint of achieving a smooth transition from the Audit & Supervisory Board system. However, the Company will reconsider reviewing this system and establishing the most appropriate system.

### (3) Remuneration Committee

The Remuneration Committee is composed of three Outside Directors, the Chairperson of the Board of Directors who does not execute business and President and Representative Executive Officer. The chairperson is chosen from among independent Outside Directors from

the standpoint of ensuring transparency and objectivity. The Remuneration Committee determines the policies on deciding the contents of individual remuneration of management personnel of the Company and Daimaru Matsuzakaya Department Stores and these contents themselves.

In fiscal year 2017, the Committee achieved an appropriate allocation between basic remuneration and performance-based remuneration (bonuses and stock-based remuneration) and also disclosed the performance indicators that will determine the level of stock-based remuneration in the Officer Remuneration Policy resolved on May 25, 2017. With respect to bonuses, which reflect the status of the achievements of individual officers, the Committee formulated a new performance evaluation sheet and has adopted it from fiscal year 2018 after revising evaluation items, performance indicators and the evaluation rank determination process so that results will be shown with greater fairness and objectivity. At the same time, entering into the first year when the Company’s shares are issued as remuneration, the Committee is working on the verification of the stock-based remuneration system for officers for appropriate operation as planned.

## Committees to which Directors belong (as of May 31, 2018)

(◎ Chairperson)

Name	Nomination Committee	Audit Committee	Remuneration Committee	Remarks
KOBAYASHI Yasuyuki	○		○	Chairperson of the Board of Directors
DOI Zenichi		◎		Non-executive
TSUTSUMI Hiroyuki		○		Non-executive
TACHIBANA FUKUSHIMA Sakie	◎		○	Independent Outside Director
OTA Yoshiakatsu	○		◎	Independent Outside Director
ISHII Yasuo		○		Independent Outside Director
NISHIKAWA Koichiro		○		Independent Outside Director
SATO Eriko	○	○	○	Independent Outside Director
YAMAMOTO Ryoichi	○		○	President and Representative Executive Officer
YOSHIMOTO Tatsuya				Representative Managing Executive Officer
MAKIYAMA Kozo				Managing Executive Officer
SAWADA Taro				Managing Executive Officer
WAKABAYASHI Hayato				Managing Executive Officer

## Governance Committee (optional advisory committee)

The Company, in principle, holds monthly meetings of the Governance Committee, an optional advisory committee comprised of the Chairperson of the Board of Directors, President and Representative Executive Officer, and all Outside Directors. The Governance Committee engages in constructive discussions and exchanges of views with respect to matters such as addressing issues to make the meetings of the Board of Directors more effective in view of the results of evaluation of the Board of Directors, and considering options with respect to organizational structure.

In fiscal year 2017, new personnel have been appointed as the presidents of three important associates (JFR Card, J. Front Design & Construction and Dimples’) in business areas with high management efficiency, and these presidents have also been concurrently appointed as the Executive Officers of the Company. This is because the Company has confirmed that the

strengthening of the Group governance requires the strengthening of oversight, auditing and business execution functions of operating companies. Governance is also strengthened by assigning Audit & Supervisory Board Members to each main associated operating company, setting up auditing functions horizontally covering these companies, and taking other measures. From now on, the Company will engage in discussions and exchanges of views with respect to various issues on corporate governance, such as governance of the Group companies and the role of the holding company.

### Appointment of Outside Directors

The Company has appointed five independent Outside Directors out of 13 Directors to separate oversight from execution, ensure the effectiveness of the Board of Directors' discussions, and maintain and improve transparency and objectivity. In appointing Outside Directors, we confirm, in accordance with the Criteria for Determining Independence of Outside Directors set by the Company, that nominees are not susceptible to conflicts of interest with the Company's shareholders and

are in an objective position, independent of the management team that executes business.

### Environmental improvement that supports appropriate risk taking by the management

Changes in the business environment are a source of uncertainty that a company cannot avoid. But that uncertainty or "risk" provides an "opportunity" as a positive side and a "threat" as a negative side. In addressing such uncertainty, we tackle strategic issues raised in the Medium-term Business Plan in terms not only of "risk-hedging," but also of "risk-taking" for growth.

The Company has also established the "Risk Management Committee" as an advisory body for its President and Representative Executive Officer to extract risks related to the Group and formulate, implement and monitor measures against individual risks.

During the current fiscal year, the Company extracted 138 risk items as those related to the Group, identified 15 items out of them as "business risk items," including six items that were reflected in strategies for the current fiscal year, and continues to monitor the progress.

## Evaluation of the effectiveness of the Board of Directors

Evaluation methodology	<p>Continued from 2016, the Company performed the third evaluation by third-party organization of the Board of Directors from July to September 2017, in line with the transition to a Company with Three Committees (Nomination, Audit and Remuneration Committees). The evaluation was performed using a methodology whereby the third-party organization prepared a report containing summaries and analyses of the results of "individual interviews" conducted for all Directors and "direct observation of the Board of Directors through attendance at its meetings" based on self-assessment by Directors concerning the progress of the evaluation items below and the Board of Directors carried out deliberations on the evaluation based on the report.</p>
Items evaluated	<p>In light of the roles and responsibilities of the Board of Directors, an analysis/evaluation was performed for each of the items for evaluation, including the Board of Directors' composition and its operational status, agenda items, materials for deliberations, level of explanation for proposals, supporting system for Outside Directors, and the effectiveness of three Committees' (Nomination, Audit and Remuneration Committees) activities. We set new questions each time to get answers according to their positions such as Inside Director, Outside Director, Committee Member and Non-Committee Member, as well as giving consideration to ensure comparability.</p>
Evaluation results and improvements	<p>Evaluation results are shared between Directors and they discuss the solutions to the issues found from the evaluation to improve the effectiveness of the Board of Directors continuously. The evaluation of the Board of Directors conducted from July to September 2017 identified significant improvements compared to the previous evaluation regarding the level of the "Board of Directors' contribution to the entire Group," the "selection of appropriate agenda items and substantive discussions," "each Director's contribution to discussions" and other matters. The "enhancement of the corporate governance system through organizational structure changes" and the "level of each Committee's contribution to the Board of Directors" were also highly evaluated. On the other hand, since there are opinions that there are still some problems remaining in the strengthening of execution (execution speed) to formulate the Group strategies expeditiously due to expectations toward further improving the effectiveness of the Board of Directors, the timing of implementing the solutions to the issues pointed out in the Board of Directors meetings and their contents are confirmed at the beginning of each meeting of the Board of Directors. We are working on improvements including the strengthening of the organizational structure of Management Strategy Unit to promote "Multi Service Retailer strategy" and "ICT strategy toward the era of IoT," which are the pillars of the Medium-term Business Plan started in fiscal year 2017. Since there are opinions demanding the improvement of execution planning and proposal ability, the Company has started to review discussion materials to improve the planning and proposal accuracy from shareholder viewpoints. The Company has also newly established the "Business Development Unit" that is responsible for completing the business portfolio reforms and achieving corporate value enhancement to strengthen execution and the "Human Resources Strategy Unit" that is responsible for preparing HR policies and further strengthening the promotion activities related to recruitment, assignment, cultivation and evaluation so that the growth of human resources, which are the most important management resources, can lead to the entire Group organization's growth. The Company will continue to share issues based on the evaluation of the effectiveness of the Board of Directors to ensure the effectiveness of the entire Board of Directors.</p>

## Officer remuneration system

### 1 Policy on determining remuneration for Directors and Executive Officers

To carry out the Medium-term Business Plan steadily for realizing the new Group Vision, the Company has formulated the new "Officer Remuneration Policy" including the introduction of a stock-based remuneration system for officers. The basic policies on the officer remuneration are as follows:

- Contributing to the sustainable growth of the Group and increasing corporate value over the medium to long term;
- A highly performance-based remuneration system that provides incentives to Executive Officers both for accomplishing objectives set under management strategies and business plans and for achieving targets with respect to corporate performance;
- Remuneration levels that can secure and retain personnel who have the "desirable managerial talent qualities" required by the Company;
- Increasing shared awareness of profits with shareholders and awareness of shareholder-focused management; and
- Enhanced transparency and objectivity in the remuneration determining process.

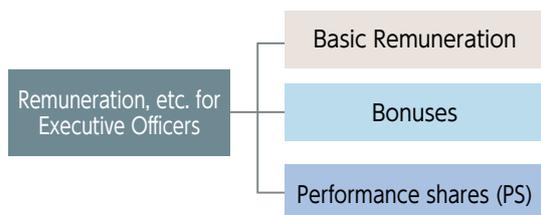
### 2 Procedures for determining remuneration for Directors and Executive Officers

To ensure that remuneration levels and remuneration amounts are appropriate and that their determination process is transparent, the determination of the specific remuneration amounts to be paid is made by discussion and resolution of the "Remuneration Committee," which comprises a majority of independent Outside Directors and is chaired by an independent Outside Director. The Remuneration Committee meetings are to be held at least four times per year and the Company plans to conduct a review of the officer remuneration system upon the completion of the period of each Medium-term Business Plan.

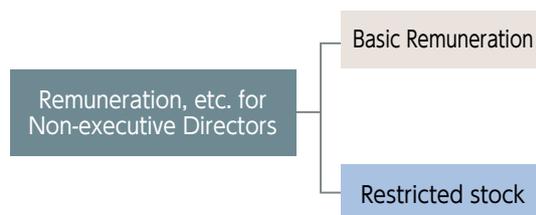
#### (Basic remuneration)

Basic remuneration is positioned as a fixed remuneration and is decided for each rank (position) based on the size (weight) of the responsibility borne by each officer.

#### Remuneration composition for Executive Officers



#### Remuneration composition for Non-executive Directors



#### (Restricted stock)

Restricted stock is a system for issuing the Company's shares in a way that is not linked to performance with the objective of involving Non-executive Directors in management with a medium- to long-term view in order that they should strengthen the aggressive and defensive governance of the Company from a different standpoint from that of Executive Officers as the representatives of stakeholders. The shares are issued upon their retirement from office.

#### Proportion of remuneration by type for Executive Officers of each rank

##### <President>

Basic remuneration 38.5%	Bonuses 23.0%	PS 38.5%
Monetary remuneration 61.5%		Stock-based remuneration 38.5%
Fixed remuneration 38.5%	Performance-linked remuneration 61.5%	

##### <Executive Officers excluding President>

Basic remuneration 45.4%	Bonuses 27.3%	PS 27.3%
Monetary remuneration 72.7%		Stock-based remuneration 27.3%
Fixed remuneration 45.4%	Performance-linked remuneration 54.6%	

Note: The above figure represents the case of a bonus for a standard ranking where the performance achievement rate for stock-based remuneration was 100%.

Note: The remuneration composition for Directors and Executive Officers at Daimaru Matsuzakaya Department Stores is the same as that shown for "Executive Officers excluding President" in the figure above.

#### Details of performance shares

KPI		Short term	Medium to long term	Methods of use
Profitability	(1) Consolidated operating profit	○	○	Evaluation based on the achievement rate of targets (absolute value) Evaluation is weighed as 50% for each indicator.
	(2) Basic earnings per share	○	○	
	(3) Free cash flows	—	○	If targets are not achieved, the amount of stock-based remuneration is reduced by 50% (reduced by 25% if one target is not achieved).
Efficiency	(4) ROE	—	○	

Note: KPI stands for Key Performance Indicator.

Note: Short-term targets are the initial forecasts for the relevant fiscal year as announced in the Consolidated Financial Results each April (IFRS basis).

#### Calculation method for performance-linked coefficient

Performance achievement rate	Performance-linked coefficient
150% or more	2.0
50% to less than 150%	$(\text{Actual value} / \text{Targets} - 0.5) \times 2$
Less than 50%	0

## Succession planning

The selection and dismissal of the chief executive officer are the most important strategic decision-making and the Company positions the development and implementation of succession plans (for the next senior management team) as matters of particular importance in terms of management strategy.

The Company ensures clarity and transparency in the process of selecting successor candidates through repeated reviews of successor candidates' individual evaluations based on assessments made by a third-party organization using internal data. The deliberations are conducted by the Nomination Committee and Remuneration Committee, in which Outside Directors comprise a majority. In the process of deciding a successor, the Board of Directors plays a supervisory role focused on realizing the Basic Mission Statement and the Group Vision, based on proposals received from the Nomination Committee. With regard to the qualities required of successors, the Company clearly defines the necessary values, capabilities, and behavioral traits in the form of the five qualities required of an officer in the Corporate Governance Guidelines under "Desirable qualities required of JFR Group managerial talent." These are a "strategic mindset," "reform-oriented leadership," "tenacity to achieve results," "organization development strengths" and "human resource development strengths." The Company endeavors to ensure impartial cultivation and selection of successors by sharing these qualities among all members of the Nomination Committee to make them all aware of the indicators used in cultivating and assessing successors.

In addition, the dismissal of the chief executive officer is determined by the Board of Directors after being discussed and resolved by the Nomination Committee based on the goals set, expected and actual results (e.g. annual performance and strategy execution status), and the status of results, etc., achieved by successor candidates who are selected under the succession plan resolved by the Nomination Committee.

The Nomination Committee will continue to have discussions on succession planning in a planned manner so that changes in the environments and situations surrounding the Company, the progress of strategies formulated, etc., can be reflected in such planning.

Both the Committees mentioned above also discuss and resolve the dismissal of senior management team members as in the case of the chief executive officer.

## Basic capital policy

The Company believes that any increase in free cash flows and improvement in ROE should help to ensure its sustainable growth and increase corporate value over the medium to long term. To such ends, the Company promotes a capital policy that takes a balanced approach to "undertaking strategic investment," "enhancing shareholder returns" and "expanding net worth" being equipped to address risks.

Moreover, in procuring funds through interest-bearing

debt, we aim to achieve an optimal structure of debt to equity in a manner cognizant of our funding efficiency and cost of capital, carried out on the basis of having taken into consideration our capacity for generating free cash flows and our balance of interest-bearing debt.

A "business strategy" where higher sales are accompanied by profits and a "finance strategy (encompassing the capital policy)" that heightens the rate of return on invested capital are essential elements with respect to improving free cash flows and ROE. In addition, we believe it is crucial that we maximize our operating profit and continually improve our operating margin by strengthening our core businesses and concentrating management resources on initiatives such as business field expansion and active development of new businesses.

## Shareholder return policy

The Company's basic policy is to appropriately return profits. Hence, while maintaining and enhancing its sound financial standing, the Company strives to provide stable dividends and target a consolidated dividend payout ratio of no less than 30%, taking profit levels, future capital investment, free cash flow trends and other such factors into consideration. The Company also gives consideration to the option of purchasing its own shares as appropriate, in accordance with aims that include improving capital efficiency and implementing a flexible capital policy.

## Policy on cross-shareholdings

The Group reduces its cross-shareholdings as appropriate considering the market environment, share price trends and other such factors (cross-shareholdings are the holdings of listed shares other than those of subsidiaries and associates which are not held for pure investment purposes). However, this does not apply to shares with respect to which rationale for such holdings has been verified by means of validation as described below.

The Board of Directors validates the rationale for the Group to maintain its cross-shareholdings on a yearly basis from both qualitative and quantitative perspectives. From a qualitative perspective, the Board of Directors considers such business strategies as maintaining harmonious and favorable business relationships with corporate customers and business partners and securing supply chains, and from a quantitative perspective, it considers dividend income and other economic rationale.

Decisions with respect to voting on matters regarding cross-shareholdings are made from both of the perspectives of whether cross-shareholdings contribute to the sustainable growth of and the medium- to long-term enhancement of the corporate value of the company whose shares are held and whether the cross-shareholdings contribute to the Group's sustainable growth and medium- to long-term enhancement of corporate value. Specifically, in regard to proposals that we consider to be of high priority with respect to strengthening corporate governance, such as proposals

relating to the corporate governance system (appointment of officers), proposals relating to shareholder return (appropriation of surplus) and proposals that have an effect on shareholder value (introduction of takeover defense measures), we establish policies upon which to base judgment of our exercise of voting rights, and acting as the Group as a whole, we take a response that is in line with such policies. We engage in dialogue with companies whose shares we hold if necessary when we exercise voting rights.

In accordance with the aforementioned policy, in fiscal year 2017, the Company sold all shares of 12 companies and partially sold shares of two companies (proceeds from the sales amounted to approximately ¥1.32 billion). As a result, the Group maintained cross-shareholdings in 48 companies (approximately ¥6.3 billion recorded on the statements of financial position) as of February 28, 2018. Also, from the current fiscal year, the Company has established the guidelines for exercising voting rights relating to cross-shareholdings and implemented them in line with the entire Group's policy.

In case a holder of cross-held shares which holds the Company's shares for the purpose of cross-shareholding indicates intention to sell the Company's shares, the Company will never conduct activities to hinder the sale of cross-held shares by implying a reduction of business transaction, etc., and appropriately handle the sale, etc.

### Improvement of Shareholders Meetings

With the aim of engaging in constructive dialogue with shareholders, we ensure that there is adequate time for our shareholders to consider matters with respect to which they will exercise their voting rights. To that end, we send convocation notices as early as possible (at least three weeks prior to the date on which a Shareholders Meeting is to be held) and at the same time we submit such content to financial instruments exchanges and post it on the Company's website as early as practicably possible before sending out convocation notices. The convocation notice of the 11th Annual Shareholders Meeting was provided to financial instruments exchanges and made available on the Company's website before delivery of the printed version and four weeks prior to the date of the Shareholders Meeting.

We give consideration to ensuring that our shareholders including domestic and overseas institutional investors are able to conveniently exercise their voting rights. To that end, we have adopted online and other means of exercising voting rights and otherwise use an electronic platform for exercising voting rights. We also prepare English translations of our convocation notices and make them available on our website and the Electronic Voting Platform so that our overseas shareholders are able to properly exercise their voting rights.

For many shareholders, the venue of the Shareholders Meetings was moved further away from their residences compared to the times when they had been the shareholders of Daimaru and Matsuzakaya before J. Front Retailing was established as a holding company. Therefore, in order to provide them with opportunities to

view the Meetings, we have set up live relay venues in the Osaka area (the Daimaru Shinsaibashi store) and the Nagoya area (the Matsuzakaya Nagoya store).

### Participation of beneficial shareholders in Shareholders Meetings

Respecting the requirements of the Corporate Governance Code, at the 10th Annual Shareholders Meeting held in May 2017, the Company amended the Articles of Incorporation to enable an institutional investor that owns shares in the name of a trust bank, etc. and does not own shares in their own name to attend a Shareholders Meeting and exercise voting rights as a proxy.

There were no special requests filed by beneficial shareholders at the 11th Annual Shareholders Meeting.

### Disclosure and IR activities

Under the Basic Mission Statement that "we aim at developing the Group by contributing to society at large as a fair and reliable corporation," the Company promotes IR activities for the purpose of maintaining and developing relations of trust with stakeholders including shareholders and investors. By accurately and plainly disclosing important information about the Company in a fair, timely and appropriate manner, we promote IR activities with the aim of improving management transparency and helping stakeholders better understand the Company.

The Company discloses important company information to which the timely disclosure rules apply through the TDnet (Timely Disclosure Network) system provided by the Tokyo Stock Exchange, while posting the same information on the Company's website, etc. as quickly as possible. With respect to any information that is deemed to help stakeholders better understand the Company, even where the timely disclosure rules do not apply to it, the Company works to publicize such information on its website as well as by using SNS and publishing integrated reports. The Company releases information in a timely and appropriate manner by making use of the TDnet and EDINET platforms, the Company's website and other means in line with the attributes of the information being disclosed. Moreover, to ensure that we disclose information in an impartial manner, we prepare and release English translations of our convocation notices of the Shareholders Meetings, integrated reports, timely disclosure information, financial information and the Company's website.

The Company's efforts to improve communication include timely disclosure and information transmission on its website in combination with various briefings and meetings and responses to inquiries from shareholders and investors on a daily basis. The comments and requests received from shareholders and investors are widely shared among the Company and the



relevant companies in the Group, and we refer to them in managing the Company to increase corporate value.

Furthermore, the Company was chosen as No. 1 in the retail category of the “2017 Award for Excellence in Corporate Disclosure” (sponsored by The Securities Analysts Association of Japan). Its evaluation items include: (1) top management attitude, the function of IR department and the basic stance on IR; (2) information disclosure in briefings, interviews and description materials; (3) fair disclosure; (4) disclosure of information on corporate governance; and (5) voluntary information disclosure in line with the situation of each industry. The Company was highly evaluated, selected as No. 1 in two items out of five, and as the overall No.1 in the retail category among 20 retail companies.



**Major dialogue activities with investors in fiscal year 2017**

For individual investors	Participation in briefings hosted by securities companies, etc.	Seven times in total
For analysts / institutional investors	Results presentations	Every six months
For overseas institutional investors	Overseas IR roadshows	Three times in total
	Participation in overseas conferences	Once
	Participation in conferences for overseas investors held in Japan	Three times in total

Combining the above and individual meetings, we held a total of 287 dialogues with analysts and institutional investors.

From the standpoint of fair disclosure, we release the Japanese and English texts of the summary of questions and answers in the results presentations and conference calls held after the release of financial results beginning in the fiscal year ended February 28, 2018.

**Risk management and compliance**

The Risk Management Committee manages and addresses strategic and other risks as a whole systematically from a company-wide perspective, and makes management decisions specifically focusing on risk management. The Committee is chaired by President and Representative Executive Officer and the Committee members include the Senior Executive General Managers of the supervisory units and the presidents of main subsidiaries. The Committee assesses a variety of risks, prepares necessary measures, and conducts progress

management, etc. using extensive specialized knowledge of the Committee members chosen from among the supervisory units.

The Company has established the “Compliance Committee” (whose membership includes a corporate lawyer) for the purpose of appropriately addressing the issues of the Group compliance management practices. The Committee draws up a policy for addressing matters involving serious compliance-related violations, continuously oversees development of the foundations of compliance system (e.g. preparation of promotion systems and plans) and the status of implementation through close collaboration with departments in charge of promoting compliance and promotes compliance with laws and regulations, corporate ethics and other such standards.

Both the Committees report details of their deliberations to the Audit Committee regularly (about two times a year) and in a timely manner.

**Whistleblowing system**

The Company has established a whistleblowing system that enables all the Group’s officers and employees as well as all individuals working at the Group (including part-timers and employees seconded from business partners) to notify the Compliance Committee directly with respect to compliance-related issues, and to seek corrective action. The Company has set up points of contact for whistleblowers both internally and outside the Company (a corporate lawyer).

The Group’s internal company rules rigorously provide for the whistleblowing system in terms of protecting the confidentiality of whistleblowers and prohibiting any disadvantageous treatment of any whistleblower.

\*There were 28 whistleblowing cases in fiscal year 2017.



Governance > Interview with Outside Director

## Interview ISHII Yasuo

### Biography

- Apr 1970 Joined Yamanouchi Pharmaceutical Co., Ltd.
- Jun 2000 Director of the Board and Director of Ethical Products Marketing Department of Sales & Marketing Division of the same company
- Jan 2001 Director of the Board of the same company and Chairman of Yamanouchi Europe B. V.
- Mar 2003 Director of the Board of Yamanouchi Pharmaceutical Co., Ltd. and Chairman of Yamanouchi U.K. Limited and Yamanouchi Europe B. V.
- Jun 2003 Managing Director of the Board of Yamanouchi Pharmaceutical Co., Ltd.
- Jun 2004 Senior Corporate Executive of the same company
- Jun 2005 Senior Corporate Executive of Astellas Pharma Inc. and Chairman & CEO of Astellas Pharma Europe Ltd.
- Jun 2008 Executive Vice President and Representative Director of Astellas Pharma Inc.
- Jun 2011 Vice Deputy Chairman and Representative Director of the same company
- Jun 2013 Retired from the office of Vice Deputy Chairman and Representative Director of the same company
- May 2015 Outside Audit & Supervisory Board Member of J. Front Retailing Co., Ltd.  
Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co. Ltd.
- May 2017 Outside Director of J. Front Retailing Co., Ltd. (present)
- May 2018 Director of Daimaru Matsuzakaya Department Stores Co. Ltd. (present)

### The Company's governance initiatives

When I became the Company's Audit & Supervisory Board Member three years ago, people were talking about the importance of outside officers and corporate governance. In such a situation, the Company, which was a Company with an Audit & Supervisory Board, established a voluntary "Governance Committee." And the Company discussed the way the organizational structure should be. As a result, the direction that it should transition to a Company with Three Committees (Nomination, Audit and Remuneration Committees) was shown.

I think there are three points of changes in the Company's governance. Firstly, they have promoted initiatives to ensure the effectiveness of the Board of Directors as a whole. Secondly, they introduced the International Financial Reporting Standards (IFRS) and B/S-based management from the standpoint of governance in a broad sense. It is particularly symbolic that they have set an ROE target of 8% or more in the recent and current Medium-term Business Plans. And thirdly, they created a specialized unit named "ESG Promotion Division" in March 2018 to clarify their stance on important sustainability issues. I think these three points are great changes that represent the development of the Company's governance.

Also at the 11th Annual Shareholders Meeting, I saw obvious changes. I think they are typified by the following three matters. Firstly, the Chairperson of the Board of Directors reported the operational status of the Board of Directors and the chairpersons of the three statutory committees reported the operational status of these committees at the Shareholders Meeting. This exactly

represents the development of the governance of the Company as a Company with Three Committees (Nomination, Audit and Remuneration Committees). Secondly, I also saw changes in questions from shareholders this year. I have the impression that there were many questions concerning requests from a customer's perspective in the past. This year, however, many questions were raised concerning the policies, strategies and governance of the Company. I think this change occurred because shareholders understood changes in the Company's governance. Thirdly, the President of the Company who chaired the Shareholders Meeting explained very precisely in person in his own words. These three matters have renewed my feeling that the Company's governance has changed.

In addition, I feel the Group structure is changing. For example, they discuss the roles of the auditors of consolidated subsidiaries. I think studying such a thing itself is a specific example of proceeding with the Group management. Their view is that it is not easy to survive in the future without considering new businesses and associated businesses other than the Department Store Business beyond the framework of retail and aiming to change their business portfolio. Business portfolio was actively discussed at my previous company, and as a result, they pulled out of associated businesses one after another to focus on their main business. Meanwhile, given the industry structure, I think it will be difficult for the Company to focus excessively on retail in the future. Though I think the Company's direction and idea of "exceeding the framework of retail" is correct, the questions are what business to choose and where to expand it.

## Changes seen in the Board of Directors

Compared to my first year as an outside Board member, I think the Company's policies and strategies are much more intensively discussed at the Board of Directors meetings. The Board members including myself discussed in depth the Group Vision, the Medium-term Business Plans, annual strategies and others. It was striking that the Company ran into issues concerning "people" such as the development and securing of human resources in any discussions. Each strategy is not a "pie in the sky" and it is important to realize it. Another keyword for realizing strategies is "speed." In discussions on strategies, issues of "people" and "speed" were always raised.

The Company evaluated the Board of Directors three times. Seeing the results, I feel the evaluations were generally correct. Inside Directors also told what they really thought more than I had thought. The results of the evaluation of the Board of Directors are not its purpose but what to do thereafter based on issues seen from the evaluation is important. Evaluation results are only interim evaluation at that point in major governance reform and it is important to continuously conduct evaluations. Currently the Board of Directors of the holding company is evaluated and I think the evaluation should be expanded in the future to cover major consolidated subsidiaries partly in order to deepen discussions on the Group management.

The main item on the agenda of the meetings of the voluntarily established Governance Committee is the way the organizational structure should be to improve effectiveness based on the evaluation of the Board of Directors. In the past, the Committee discussed the members of the Board of Directors, agenda items to be discussed, time allocation, the number of the Board meetings, etc. Presently, the Committee discusses even the way related operating subsidiaries and their roles and functions and audit systems should be as well as the functions and roles of the holding company. I feel the Governance Committee has also entered the second phase.

In general, diversity is considered as the issue of women, nationality and race, and age. However, I think diversity is the issue of how to use people with different thoughts as well as genders, nationalities and ages. I think the final form of diversity is to use the individuality of each and every worker, regardless of whether he/she is an officer or an employee, instead of excluding people who think differently, so that people with different thoughts can perform well in a company. As discussed with Mr. Yamamoto, President, previously, it is important to create an environment where consolidated subsidiaries can easily provide advice to the holding company. I think openness to accept different opinions is critical to enhance corporate value.

## Roles to be filled as Outside Director

I think people with different insights and experiences in different industries should be appointed as Outside Directors. I am conscious of an external perspective as well as the standpoint of a representative of shareholders. I think to say consciously in the position of Outside Director what is difficult to ask or say in the position of Inside Director helps improve corporate value and actually I am doing so. I think it is important to improve the executive level first in a company. If only Outside Directors are strong and Executive Officers are not strong, the company will become an armchair theorist. I exercise oversight and provide advice consciously so that the executive level will be improved.

In such a situation, I think it is good that the "Risk Management Committee" focuses on the both positive and negative sides of risk. Literally, there is a "risk of not investing." The Company has many things to consider including ICT and e-commerce, M&A, and new businesses. Japan as a whole will trend toward depopulation and market shrinkage in the future. They are the issues facing not only the Company but also all industries in Japan. However, I think the Company should make a little more effort to address these issues.

I think the Company put in place an internal control system and formulated the great Medium-term Business Plan during the past year. Going forward, it is important how they will be operated and promoted, and to this end, I would like to thoroughly fulfill my supervisory role. It is also important how the policy and direction of the entire Group Management will be established beyond the framework of retail. Currently the Company is at a major "turning point" and in the very phase of changing the Group structure. How will the Company proceed with these changes? I would like to look at the future of the Group management from the standpoint of the business plan, development of new businesses and overseas business management, in which I had engaged over my career.

I think the Company is in the course of very interesting change now. For example, the business concept of the present pharmaceutical companies has changed completely from before. They are a so-called "information industry" in which it is important not to sell products but to input and output information. In these circumstances, the perspective of how to use data is becoming important. Though there may be ways of doing business continuing for hundreds of years in the retail industry, I think some of them can be changed. A keyword "creation" is shown in the new Group Vision and I give attention to how the Company will become a "creative company" in the future. For example, it may be interesting to aim for a "research-and-development-based retailer." I expect the Company will produce tangible results that meet the keyword "creation" in the Vision.

# Management (as of May 31, 2018)

## Directors



**KOBAYASHI Yasuyuki**

Number of the Company's shares held: 35,300

Chairperson of Board of Directors  
Nomination Committee Member  
Remuneration Committee Member

Apr 1973 Joined The Daimaru, Inc.  
Feb 2003 Associate Director and General Manager of Sapporo Store of the same company  
May 2003 Corporate Officer of the same company  
Jan 2004 General Manager of Tokyo Store of the same company  
Sep 2007 Corporate Officer of J. Front Retailing Co., Ltd.  
Jan 2008 Director and Corporate Officer, Deputy Executive General Manager of Department Store Operations Headquarters and Executive General Manager of Merchandising Management Unit of Head Office of The Daimaru, Inc.  
Mar 2010 Director and Corporate Officer, Senior Executive General Manager of Sales and Marketing Headquarters and Senior General Manager of Merchandise Strategy Unit of Daimaru Matsuzakaya Department Stores Co. Ltd.  
May 2010 Director and Corporate Executive Officer of the same company  
May 2012 Director of Parco Co., Ltd. (present)  
Apr 2013 General Executive Officer and Senior Executive General Manager of Affiliated Business Unit of J. Front Retailing Co., Ltd.  
May 2013 Director and Managing Executive Officer of the same company  
May 2015 Senior Managing Executive Officer of the same company  
May 2016 Representative Director of the same company  
May 2017 Director and Chairperson of Board of Directors of the same company (present)



**DOI Zenichi**

Number of the Company's shares held: 35,700

Chairperson of Audit Committee

Mar 1976 Joined Matsuzakaya Co., Ltd.  
May 2002 Executive General Manager of Corporate Planning Unit of Nagoya Business Division of the same company  
May 2006 Executive Officer and Executive General Manager of Sales Planning Unit of the same company  
May 2008 Managing Executive Officer, Executive General Manager of General Planning Unit, Executive General Manager of Sales Reform Promotion Unit and Executive General Manager of Sales Planning Unit of the same company  
Jan 2009 Director and Executive Officer and Executive General Manager of Sales Management Unit of the same company  
Mar 2010 Director and Corporate Officer and Senior General Manager of Sales Planning Unit of Sales and Marketing Headquarters of Daimaru Matsuzakaya Department Stores Co. Ltd.  
Mar 2012 Senior General Manager of Out-of-Store Sales Management Division of Sales and Marketing Headquarters of the same company  
May 2012 Director and Managing Executive Officer of the same company  
Jan 2015 Senior Executive General Manager of Administration Headquarters and in charge of Compliance and Risk Management of the same company  
May 2015 Director and Managing Executive Officer, Senior Executive General Manager of Administration Unit and in charge of Compliance and Risk Management of J. Front Retailing Co., Ltd.  
Mar 2017 Outside Director of Hakyu-sha Co., Ltd. (present)  
May 2017 Director of J. Front Retailing Co., Ltd. (present)



**TSUTSUMI Hiroyuki**

Number of the Company's shares held: 15,698

Audit Committee Member

Apr 1980 Joined The Daimaru, Inc.  
Mar 1993 General Manager of Accounting Division of Hong Kong Daimaru Limited  
Mar 2001 General Manager of Finance Headquarters of The Daimaru, Inc.  
Sep 2007 General Manager of Finance Division of Administration Unit of J. Front Retailing Co., Ltd.  
Mar 2010 General Manager of Finance Division of Administration Unit of Daimaru Matsuzakaya Department Stores Co. Ltd.  
May 2013 Executive Officer and Senior General Manager of Finance Division of Administration Unit of J. Front Retailing Co., Ltd.  
Mar 2016 Senior General Manager of Finance and Accounting of Financial Strategy Unit of the same company  
May 2017 Director of the same company (present)



**TACHIBANA FUKUSHIMA Sakie**

Outside Director  
Number of the Company's shares held: 4,700

Chairperson of Nomination Committee  
Remuneration Committee Member

Jun 1980 Joined Braxton International  
Sep 1987 Outside Bain & Company, Inc.  
Aug 1991 Principal Consultant of Japan Branch Office of Korn/Ferry International  
Jun 1993 Partner of the same company  
Sep 2000 Regional Managing Director of Korn/Ferry International-Japan and Member of the Board of Korn/Ferry International (Global Headquarters)  
May 2001 President and Representative Director of Korn/Ferry International-Japan and Member of the Board of Korn/Ferry International (Global Headquarters)  
Sep 2007 President and Representative Director of Korn/Ferry International-Japan  
May 2009 Chairman and Representative Director of the same company  
Mar 2010 Outside Director of Bridgestone Corporation  
Jul 2010 President and Representative Director of G&S Global Advisors Inc. (present)  
Aug 2010 Asia Pacific Senior Advisor of Korn/Ferry International  
Jun 2011 Outside Director of Ajinomoto Co., Inc. (present)  
May 2012 Outside Director of J. Front Retailing Co., Ltd. (present)  
Jun 2013 Outside Director of Mitsubishi Corporation  
Jun 2016 Outside Director of Ushio Inc. (present)



**OTA Yoshikatsu**

Outside Director  
Number of the Company's shares held: 6,800

Chairperson of Remuneration Committee  
Nomination Committee Member

Apr 1964 Joined Minolta Camera Co., Ltd.  
Jun 1991 Director, General Manager of Copying Machine Business Division and General Manager of Copying Machine Sales Division of the same company  
Jul 1994 Director and Executive General Manager of Information Device Business Management Unit and Executive General Manager of Information Device Sales Unit of Minolta Co., Ltd.  
Jun 1995 Managing Director of the same company  
Jun 1999 President and Representative Director of the same company  
Apr 2001 President and Executive Officer and Representative Director of the same company  
Aug 2003 Director and Vice President and Representative Executive Officer of Konica Minolta Holdings, Inc.  
Oct 2003 President and CEO of Konica Minolta Technologies, Inc.  
Apr 2006 Director, President and CEO of Konica Minolta Holdings, Inc.  
Apr 2009 Director and Chairman of the Board of Directors of the same company  
Jun 2012 Outside Director of Yamaha Corporation  
Apr 2013 Director and Chairman of the Board of Directors of Konica Minolta, Inc.  
Apr 2014 Director of the same company  
Jun 2014 Special Advisor of the same company  
May 2015 Outside Director of J. Front Retailing Co., Ltd. (present)  
Jun 2017 Honorary Advisor of Konica Minolta, Inc. (present)



**ISHII Yasuo**

Outside Director  
Number of the Company's shares held: 1,900

Audit Committee Member

Apr 1970 Joined Yamanouchi Pharmaceutical Co., Ltd.  
Jun 2000 Director of the Board and Director of Ethical Products Marketing Department of Sales & Marketing Division of the same company  
Jan 2001 Director of the Board of the same company and Chairman of Yamanouchi Europe B. V.  
Mar 2003 Director of the Board of Yamanouchi Pharmaceutical Co., Ltd. and Chairman of Yamanouchi U.K. Limited and Chairman of Yamanouchi Europe B. V.  
Jun 2003 Managing Director of the Board of Yamanouchi Pharmaceutical Co., Ltd.  
Jun 2004 Senior Corporate Executive of the same company  
Apr 2005 Senior Corporate Executive of Astellas Pharma Inc. and Chairman & CEO of Astellas Pharma Europe Ltd.  
Jun 2008 Executive Vice President and Representative Director of Astellas Pharma Inc.  
Jun 2011 Vice Deputy Chairman and Representative Director of the same company  
May 2015 Outside Audit & Supervisory Board Member of J. Front Retailing Co., Ltd.  
May 2017 Outside Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co. Ltd.  
May 2017 Outside Director of J. Front Retailing Co., Ltd. (present)  
May 2018 Director of Daimaru Matsuzakaya Department Stores Co. Ltd. (present)



**NISHIKAWA Koichiro**

Outside Director  
Number of the Company's shares held: 900

Audit Committee Member

Apr 1970 Joined Hitachi, Ltd.  
Aug 1995 Vice President of Hitachi America, Ltd.  
Jun 2001 Managing Officer and General Manager of Global Business Development Division of Hitachi, Ltd.  
Apr 2003 Manager of Business Development Division of the same company  
Jun 2003 Executive Officer and Manager of Business Development Division of the same company  
Jan 2006 Vice President and Executive Officer in charge of Business Development of the same company  
Apr 2007 Senior Vice President and Executive Officer in charge of Business Development of the same company  
Apr 2012 Senior Vice President and Executive Officer of Hitachi Cable, Ltd.  
Apr 2010 Senior Advisor of Hitachi Research Institute  
Mar 2014 Outside Director of Kyowa Hakko Kirin Co., Ltd.  
May 2015 Outside Audit & Supervisory Board Member of J. Front Retailing Co., Ltd.  
Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co. Ltd.  
May 2017 Outside Director of J. Front Retailing Co., Ltd. (present)  
May 2018 Director of Daimaru Matsuzakaya Department Stores Co. Ltd. (present)



**SATO Rieko**

Outside Director  
Number of the Company's shares held: 0

Nomination Committee Member  
Remuneration Committee Member  
Audit Committee Member

Apr 1984 Registered as attorney at law  
Aug 1989 Shearman & Sterling LLP  
Jul 1998 Partner of Ishii Law Office (present)  
Jun 2004 External Audit & Supervisory Board Member of Ajinomoto Co., Inc.  
Jun 2012 Outside Corporate Auditor of NTT Data Corporation (present)  
Jun 2015 Outside Director of The Dai-ichi Life Insurance Company, Limited  
Oct 2016 Outside Director of Dai-ichi Life Holdings, Inc. (Audit & Supervisory Committee Member) (present)  
May 2018 Outside Director of J. Front Retailing Co., Ltd. (present)

\*The numbers of the Company's shares held by Directors are as of February 28, 2018.

\*The Company transitioned to a Company with Three Committees (Nomination, Audit and Remuneration Committees) as of May 25, 2017 by resolving to amend the Articles of Incorporation at the Annual Shareholders Meeting held on the same day.

## Directors



**YAMAMOTO Ryoichi**

Number of the Company's shares held: 64,700

President and Representative Executive Officer  
Nomination Committee Member  
Remuneration Committee Member

Apr 1973 Joined The Daimaru, Inc.  
May 2003 President and COO and General Manager of Department Store Operations of Group Headquarters of the same company  
Mar 2005 General Manager of Metropolitan Area New Business Development Division of Group Headquarters of the same company  
Jan 2007 Executive General Manager of Planning Office for New Umeda Store of Department Store Operations Headquarters of Group Headquarters of the same company  
Sep 2007 Director and in charge of Sales Reform and Out-of-Store Sales Reform of J. Front Retailing Co., Ltd. Executive General Manager of Department Store Operations Headquarters and Executive General Manager of Planning Office for New Umeda Store of Head Office of The Daimaru, Inc. Director of Matsuzakaya Co., Ltd.  
Mar 2008 Executive General Manager of Sales Headquarters of Head Office of The Daimaru, Inc.  
Mar 2010 President and Representative Director of Daimaru Matsuzakaya Department Stores Co. Ltd.  
Sep 2012 President and Representative Director of the same company and President and Representative Director of Daimaru Matsuzakaya Sales Associates Co. Ltd.  
Apr 2013 President and Representative Director of J. Front Retailing Co., Ltd.  
May 2017 Director, President and Representative Executive Officer of the same company (present)



**YOSHIMOTO Tatsuya**

Number of the Company's shares held: 36,500

Representative Managing Executive Officer

Apr 1979 Joined The Daimaru, Inc.  
Mar 2000 Senior Manager of Preparatory Office for Opening Sapporo Store of Planning Office for Sapporo Store of Head Office of the same company  
Jan 2008 General Manager of Tokyo Store of the same company  
May 2008 Corporate Officer and General Manager of Tokyo Store of the same company  
Jan 2010 Corporate Officer, General Manager of Sales Planning Promotion Division and General Manager of Marketing Planning Promotion Division of Department Stores Coordination Division of J. Front Retailing Co., Ltd.  
Mar 2010 Corporate Officer and Senior General Manager of Management Planning Division of Daimaru Matsuzakaya Department Stores Co. Ltd.  
May 2012 Director and Corporate Officer of the same company  
Apr 2013 President and Representative Director of the same company (present) and President and Representative Director of Daimaru Matsuzakaya Sales Associates Co. Ltd. (present)  
May 2013 Director of J. Front Retailing Co., Ltd.  
May 2017 Director and Representative Managing Executive Officer of the same company (present)



**MAKIYAMA Kozo**

Number of the Company's shares held: 14,100

Managing Executive Officer

Apr 1981 Joined Parco Co., Ltd.  
Mar 2004 Executive Officer and Executive General Manager of Store Operation Division of the same company  
Mar 2007 Managing Executive Officer and Executive General Manager of Store Management Division of the same company  
Mar 2008 Senior Executive Officer, Senior Executive General Manager of Store Operation Headquarters and Executive General Manager of Store Management Division of the same company  
May 2008 Director and Senior Executive Officer of the same company  
Mar 2009 Supervisor of Store Operation Division of the same company  
Mar 2010 In charge of Store Management of the same company  
Mar 2011 In charge of Business Management of the same company  
May 2011 Director, President and Representative Executive Officer of the same company (present)  
May 2013 Director of J. Front Retailing Co., Ltd.  
May 2017 Director and Managing Executive Officer of the same company (present)



**SAWADA Taro**

Number of the Company's shares held: 9,800

Managing Executive Officer

Apr 1983 Joined The Daimaru, Inc.  
Jun 2004 Department Manager of Sales Promotion Department of Sales Planning & CS Promotion Division of Kobe Store  
Mar 2010 Division Manager of Management Planning Division of Daimaru Matsuzakaya Department Stores Co. Ltd. Executive Store Manager of Daimaru Kobe of the same company  
Jan 2011 Corporate Officer of the same company  
May 2012 Executive Store Manager of Daimaru Osaka Shinsaibashi of the same company  
Sep 2015 Executive General Manager of Daimaru Osaka Shinsaibashi and Executive General Manager of Shinsaibashi New Store Planning Office of the same company  
Jul 2016 Executive General Manager of Management Planning Unit of the same company  
Mar 2017 Executive General Manager of Management Planning Unit and Executive General Manager of Future Standard Laboratory of the same company  
May 2017 Director and Managing Executive Officer of the same company  
May 2018 Director and Managing Executive Officer, Senior Executive General Manager of Management Strategy Unit and in charge of Risk Management of J. Front Retailing Co., Ltd. (present) Director of Daimaru Matsuzakaya Department Stores Co. Ltd. (present) Director of Parco Co., Ltd. (present)

## Executive Officers



**WAKABAYASHI Hayato**

Number of the Company's shares held: 1,800

Managing Executive Officer

Apr 1985 Joined Matsushita Electric Industrial Co., Ltd. (present Panasonic Corporation)  
Apr 1998 President of Panasonic Financial Center Malaysia Co., Ltd.  
Apr 2007 Director and Chief Executive Officer of Matsushita Electric (China) Finance Limited  
Feb 2009 Finance Planning Team Leader (Manager) of Headquarters Finance & IR Group of Panasonic Corporation  
Jul 2013 General Manager of Finance & IR Group of Corporate Strategy Division and Finance Planning Team Leader (Director) of Panasonic Corporation  
May 2015 Joined J. Front Retailing Co., Ltd. In charge of Finance Policy of Administration Unit of the same company  
Sep 2015 Executive Officer and in charge of Financial Strategy and Policy of Administration Unit of the same company  
Mar 2016 Senior Executive General Manager of Financial Strategy Unit and in charge of Finance Policy of the same company  
May 2016 Director of the same company  
May 2017 Director and Managing Executive Officer, Senior Executive General Manager of Financial Strategy Unit and in charge of Financing and Finance Policy of the same company  
May 2018 Director and Managing Executive Officer, Senior Executive General Manager of Financial Strategy Unit and Senior General Manager of Financing and Finance Policy Division of the same company (present)

**YAMAMOTO Ryoichi**

President and Representative Executive Officer

**YOSHIMOTO Tatsuya**

Representative Managing Executive Officer

**MAKIYAMA Kozo**

Managing Executive Officer

**SAWADA Taro**

Managing Executive Officer  
Senior Executive General Manager of Management Strategy Unit and in charge of Risk Management

**WAKABAYASHI Hayato**

Managing Executive Officer  
Senior Executive General Manager of Financial Strategy Unit and Senior General Manager of Financing and Finance Policy Division

**FUJINO Haruyoshi**

Managing Executive Officer  
Senior Executive General Manager of Business Development Unit

**ARISAWA Hisashi**

Managing Executive Officer  
Senior Executive General Manager of Affiliated Business Unit

**MURATA Soichi**

Managing Executive Officer  
Senior Executive General Manager of Administration Unit and in charge of Compliance

**TADATSU Takehiko**

Executive Officer  
Senior General Manager of Human Resources Strategy Unit and Senior General Manager of Group Human Resources Development Division and Executive Officer and Executive General Manager of Human Resources Development Division of Administration Headquarters of Daimaru Matsuzakaya Department Stores Co. Ltd.

**MAKITA Takayuki**

Executive Officer  
Senior General Manager of Management Planning Division of Management Strategy Unit

**NAKAYAMA Takashi**

Executive Officer  
Senior General Manager of Group Digital Strategy Division and Senior General Manager of New Business Division of Business Development Unit

**IWATA Yoshimi**

Executive Officer  
Senior General Manager of Budget and Management Support of Financial Strategy Unit

**NINOBE Mamoru**

Executive Officer  
President and Representative Director of JFR Card Co., Ltd.

**KONDO Yasuhiko**

Executive Officer  
President and Representative Director of J. Front Design & Construction Co., Ltd.

**ONO Keiichi**

Executive Officer  
President and Representative Director of Dimples Co., Ltd.

### Corporate profile

Company name : J. Front Retailing Co., Ltd.  
Main store : 10-1, Ginza 6-chome, Chuo-ku, Tokyo  
Office : Nihonbashi 1-chome Mitsui Building, 4-1, Nihonbashi 1-chome, Chuo-ku, Tokyo  
Established : September 3, 2007  
Capital : ¥31,974 million  
The Group's business lines : Department store operation; retail; restaurants; wholesale; import and export; design, supervision and contracting of construction works; direct marketing; credit cards; labor dispatch service; merchandise inspection and consulting; and others

Number of employees (consolidated) : 6,723 (as of February 28, 2018)

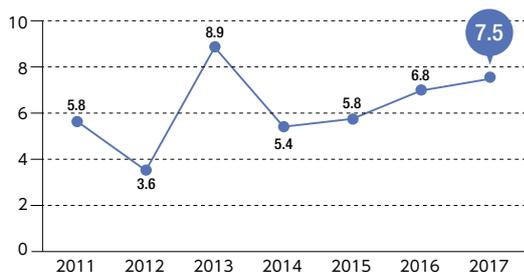
Note: In addition to the above, there are 1,573 dedicated employees who became indefinite-term employees on June 1, 2017 and 2,133 fixed-term employees on average during fiscal year 2017.

U R L : <http://www.j-front-retailing.com/>

# Financial/Non-financial Highlights

## Consolidated ROE

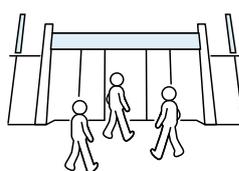
# 7.5%



In the fiscal year ended February 28, 2018, return on equity (ROE) as the most important management indicator was 7.5% due to the efforts to enhance profit level and capital efficiency. We aim to achieve an 8% or more ROE in FY2021, the final year of the new Medium-term Business Plan.

## Customer traffic

# 340 million people



About 340 million customers visited 15 stores directly managed by Daimaru Matsuzakaya Department Stores and 18 Parco stores during the year. This shows that our stores are loved by and familiar to local people and contribute to revitalizing local communities. (As of February 28, 2018)

## Identifiable customers of Daimaru/Matsuzakaya/Parco

# 6 million people

As of February 28, 2018, Daimaru Matsuzakaya Department Stores and Parco have 4.2 million and 1.88 million cardholders, respectively, totaling more than six million. We also have a *gaisho* organization of affluent customers and such good customer assets are the strength of the Group.

## Annual dividend

# 7th consecutive year of increase

Our basic policy is to maintain stable dividend payments and appropriately return profits targeting a dividend payout ratio of at least 30% in view of profit level, future capital investment, FCF trends, etc. while maintaining and enhancing the sound financial condition.

## Share of sales to inbound tourists

# 7.3%

In fiscal year 2017, Daimaru Matsuzakaya Department Stores posted tax-free sales to foreign tourists to Japan of ¥47.9 billion and their sales share increased to 7.3%. The product selection and hospitality of our department stores attract foreign tourists and sales continue to grow.



New employees in FY2017

Ratio of female employees

50.5%



At Daimaru Matsuzakaya Department Stores, female employees account for 50.5%, half of total employees, as of February 28, 2018. We have in place various systems that consider work-life balance including "shortened working hours for child care" and "child care leave," which were designed beyond statutory limits, to support female employees.

Ratio of female leaders

32.5%



The ratio of female leaders to total leadership positions of Daimaru Matsuzakaya Department Stores was 32.5% as of March 1, 2018. Women can play an active role in a wide range of work areas. Regardless of gender and nationality, we promote management with diversity as a source of competitive advantage.

Ratio of Outside Directors

5 / 13

The organizational structure transitioned from a Company with Audit & Supervisory Board to a Company with Three Committees (Nomination, Audit and Remuneration Committees) by a resolution of the Annual Shareholders Meeting held in May 2017. Five out of 13 Directors are Outside Directors. With a stronger outside perspective, we strengthen governance.

Outside Directors' attendance rate at the Board meetings

100%

A total of 14 meetings of the Board of Directors were held in the fiscal year ended February 28, 2018. The attendance rate of Outside Directors at these Board meetings was 100%. Oversight function was further strengthened by transitioning to a Company with Three Committees (Nomination, Audit and Remuneration Committees) and they have highly transparent and vigorous discussions using an outside perspective.

CO2 emissions

147,000 tons

In fiscal year 2017, Daimaru Matsuzakaya Department Stores emitted 147,000 tons of CO2, down 6.4% in intensity compared to fiscal year 2016. We promote conversion to LED lighting at stores and make various energy saving efforts in back-office sections to contribute to preventing global warming and improve productivity at the same time.

Number of items collected for recycling

1.022 million pieces

Daimaru Matsuzakaya Department Stores launched "Ecoff" recycling campaign in August 2016. The number of disused clothing, shoes and bags brought by customers finally exceeded one million pieces in total till April 2018. The collected items are recycled as energy, fabric and others.



# Financial/Non-financial Highlights

← JGAAP

Millions of yen (except where otherwise indicated)

	FY2008	FY2009	FY2010	FY2011
<b>Net sales / Gross sales</b>	1,096,690	982,533	950,102	941,415
— / Sales revenue	—	—	—	—
Rent income	4,242	4,652	5,962	6,961
Gross profit	269,282	240,211	229,588	226,646
SGA	241,189	221,627	209,265	205,052
Business profit	—	—	—	—
Operating profit	28,092	18,584	20,323	21,594
Ordinary profit / Profit before tax	28,289	19,966	21,092	22,941
Profit / Profit attributable to owners of parent	7,170	8,167	8,862	18,804
<b>Total assets</b>	776,616	804,534	775,029	767,543
Equity	307,861	314,494	318,033	332,917
Net assets	316,268	323,506	327,242	342,561
Interest-bearing debt	94,677	125,937	108,658	106,025
<b>Cash flows from operating activities</b>	22,686	22,996	21,270	24,365
Cash flows from investing activities	(11,676)	(40,879)	(8,432)	(26,781)
Cash flows from financing activities	(13,510)	29,212	(23,128)	(6,872)
<b>Capital expenditures</b>	18,095	59,566	20,020	19,246
Depreciation (including cost)	13,257	13,295	13,610	13,347
<b>Per share information [Yen]</b>				
Earnings per share (EPS) / Basic earnings per share*1	27.13	30.90	33.53	71.15
Book value per share (BPS) **1	1,164.53	1,189.79	1,203.24	1,259.60
Dividends per share*1	16.00	14.00	14.00	16.00
<b>Financial indicators [%]</b>				
Ratio of gross profit to net sales / Ratio of gross profit to sales revenue	24.55	24.45	24.16	24.08
Ratio of SGA to net sales / Ratio of SGA to sales revenue	22.0	22.6	22.0	21.8
Ratio of operating profit to net sales / Ratio of operating profit to sales revenue	2.6	1.9	2.1	2.3
Return on equity (ROE) / Return on equity attributable to owners of parent (ROE)	2.3	2.6	2.8	5.8
Return on assets (ROA) / Return on assets (ROA)	3.6	2.4	2.6	2.8
Return on investment (ROI) / Return on investment (ROI)	7.0	4.7	4.9	5.3
Equity ratio / Equity ratio attributable to owners of parent	39.6	39.1	41.0	43.4
Dividend payout ratio	59.0	45.3	41.8	22.5
<b>Non-financial indicators</b>				
Number of employees (consolidated) [People]	16,873	15,431	14,307	13,413
Ratio of female employees (Daimaru Matsuzakaya*10) [%]	42.6	43.5	44.7	45.9
Ratio of female leaders [%]*2	30.8	26.2	26.3	19.0
Employee turnover rate (Daimaru Matsuzakaya) [%]*3	2.1	3.5	3.7	2.3
Post-retirement re-employment rate (Daimaru Matsuzakaya) [%]*4	64.3	55.6	57.2	68.1
Department store sales floor area (directly managed stores) [m <sup>2</sup> ]	541,546	570,117	549,739	573,323
Parco sales floor area [m <sup>2</sup> ]	447,500	444,500	454,000	443,000
Customer traffic (Daimaru Matsuzakaya) [1,000 people]	—	—	224,242	236,876
Average spend per customer (Daimaru Matsuzakaya) [Yen]	—	—	3,842	3,797
Number of cards issued by Daimaru Matsuzakaya [1,000 cards]	4,307	3,872	4,056	4,365
Number of holders of cards issued by Parco [1,000 people]	1,564	1,574	1,618	1,612
GHG (CO <sub>2</sub> ) emissions (CO <sub>2</sub> -t)*5	—	—	166,801	151,341
Energy consumption [kl (crude oil equivalent)]*6	—	—	98,013	98,128
Packaging material consumption [t]*7	—	—	2,574	2,627
Waste disposal [t]*8	—	—	10,803	11,004
Food waste disposal [t]*9	—	—	2,517	2,327

\*1 The Company's common shares were consolidated at the ratio of one share for every two shares as of September 1, 2014.

Per share information has been calculated as if this consolidation of shares was conducted at the beginning of FY2007.

\*2 Until FY2012: Total numbers of General Managers, Managers, Buyers, Team Leaders and Assistant Buyers of Daimaru Matsuzakaya

FY2013 and after: Total numbers of General Managers, Managers, Submanagers, Buyers and Team Leaders of Daimaru Matsuzakaya and Daimaru Matsuzakaya Sales Associates ("DMSA") and Supervisors and Section Leaders of DMSA

\*3 Number of retired employees during the year / Number of employees at the beginning of the year × 100 (%)

The number of retired employees above excludes employees who retired because of retirement age, transfer and becoming officers.

\*4 Daimaru Matsuzakaya has introduced a transfer system for employees aged 55 and above in September 2013.

IFRS

FY2012	FY2013	FY2014	FY2015	FY2016	FY2016	FY2017
1,092,756	1,146,319	1,149,529	1,163,564	1,108,512	1,134,342	1,138,981
—	—	—	—	—	452,505	469,915
9,076	10,195	10,727	12,094	13,547	13,545	17,156
245,615	244,130	243,739	245,532	234,785	212,567	212,935
214,757	202,313	201,572	197,494	190,205	167,668	166,688
—	—	—	—	—	44,898	46,842
30,857	41,816	42,167	48,038	44,580	41,727	49,546
32,202	40,502	40,480	47,910	44,425	42,608	48,271
12,183	31,568	19,967	26,313	26,950	27,052	28,486
1,009,165	998,730	1,018,495	1,019,146	1,050,109	1,005,069	1,022,348
341,318	370,173	375,886	383,699	406,336	368,571	395,519
390,667	422,215	430,260	440,594	465,839		
213,085	187,950	168,458	180,922	187,799	205,952	184,202
26,025	37,532	44,650	36,799	36,239	33,764	57,079
(73,977)	(8,858)	(16,272)	(39,741)	(30,353)	(27,952)	(19,030)
58,275	(32,027)	(27,587)	(1,041)	(2,189)	(2,097)	(31,048)
19,038	52,758	24,277	37,110	44,999	44,999	27,021
16,482	17,698	17,963	18,345	17,189	17,284	18,683
46.11	119.55	75.66	100.42	103.04	103.43	108.92
1,292.36	1,402.53	1,424.28	1,467.05	1,553.60	1,409.20	1,511.91
18.00	22.00	25.00	27.00	28.00	28.00	35.00
22.48	21.30	21.20	21.10	21.18	46.98	45.31
19.7	17.6	17.5	17.0	17.2	37.1	35.5
2.8	3.6	3.7	4.1	4.0	9.2	10.5
3.6	8.9	5.4	6.9	6.8	7.6	7.5
3.5	4.2	4.2	4.7	4.3	4.2	4.9
6.5	7.3	7.3	8.6	7.7	7.6	8.4
33.8	37.1	36.9	37.6	38.7	36.7	38.7
39.0	18.4	33.1	26.9	27.2	27.1	32.1
14,838	11,561	11,149	11,023	10,732	-	10,429
44.8	48.5	48.9	49.9	50.2	-	50.5
15.7	24.6	27.7	28.1	32.0	-	32.5
1.2	5.9	0.7	1.5	1.4	-	1.7
67.8	69.8	78.0	88.5	95.6	-	85.0
569,137	543,785	529,460	498,460	498,460	-	495,331
442,600	442,600	451,000	456,000	409,000	-	389,000
246,764	237,647	220,411	207,512	197,250	-	200,966
3,838	4,107	4,215	4,414	4,420	-	4,676
4,580	4,659	4,595	4,217	4,062	-	4,029
1,614	1,643	1,754	1,885	1,990	-	2,031
156,843	168,825	167,613	167,189	157,575	-	147,191
93,338	88,027	81,666	80,009	75,934	-	74,410
2,669	2,978	2,682	2,553	2,412	-	2,369
10,797	10,456	9,205	8,198	8,256	-	8,136
2,109	1,955	1,718	1,527	1,826	-	2,104

\*5-9 Total of Daimaru Matsuzakaya, Hakata Daimaru, Shimonoseki Daimaru, Kochi Daimaru and Tottori Daimaru

\*6 Energy consumption is the crude oil equivalent of the total consumption of electricity, gas, gasoline, light/heavy oil, etc. (kiloliter).

\*7 Packaging material consumption is the weights of wrapping paper, shopping bags, plastic bags for food products, etc. (ton).

\*8 Waste disposal is the weights after subtracting the weights of waste recycled from the total weights of waste generated including general waste, raw garbage and industrial waste (ton).

\*9 Food waste disposal is included in waste disposal.

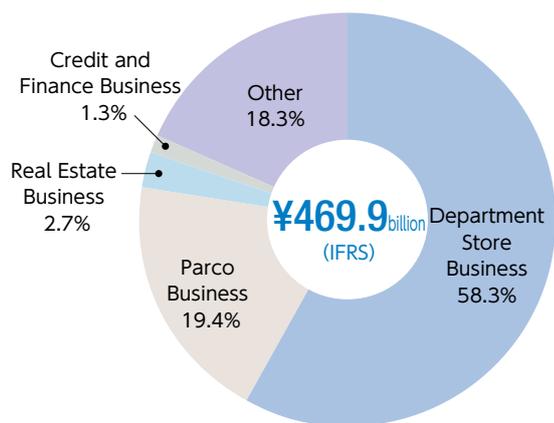
\*10 Daimaru Matsuzakaya: Daimaru Matsuzakaya Department Stores

# Business Overview (FY2017)

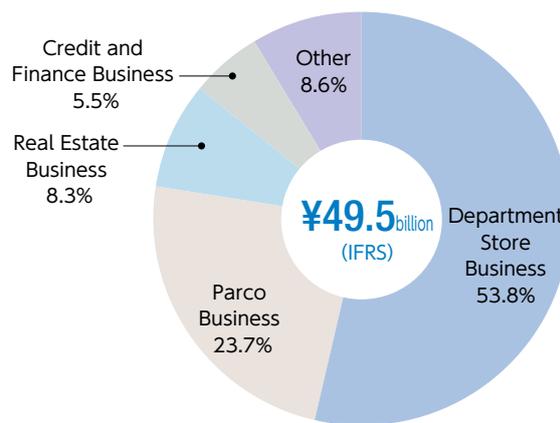
## At a Glance

\*The Company has applied the International Financial Reporting Standards (IFRS) beginning in fiscal year 2017.

### Sales revenue



### Operating profit



Consolidated ROE  
**7.5%**

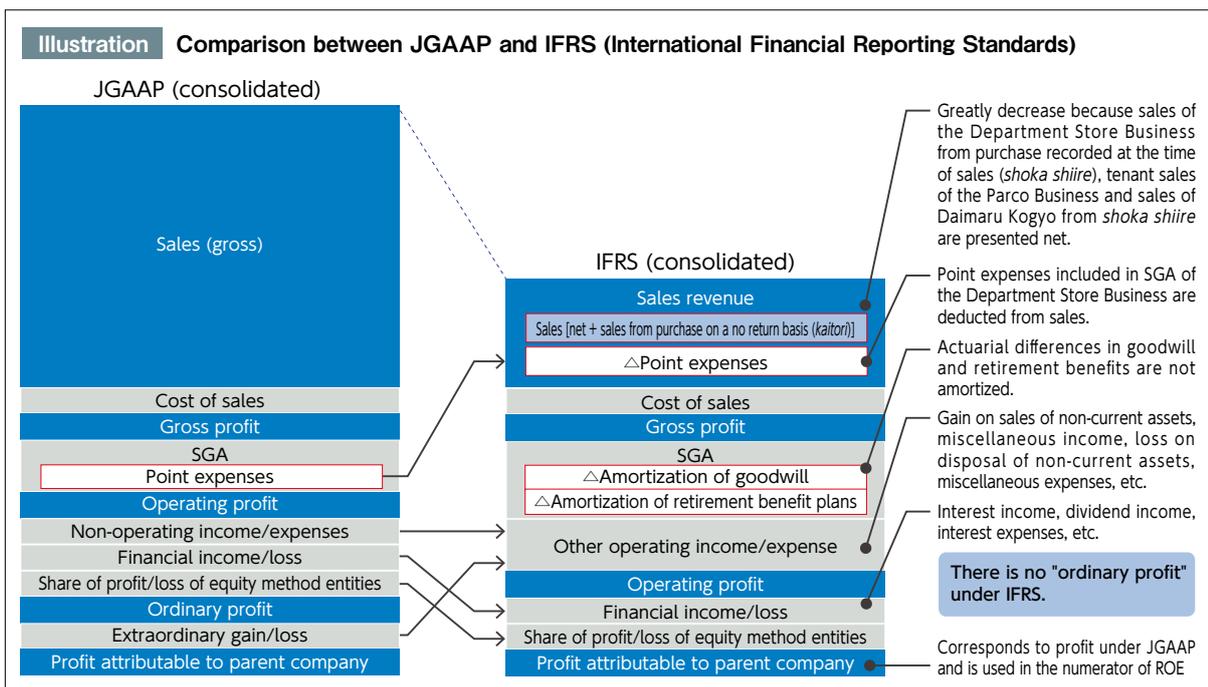
Consolidated ROA  
**4.9%**

Consolidated operating margin  
**10.5%**

EPS  
**¥108.92**

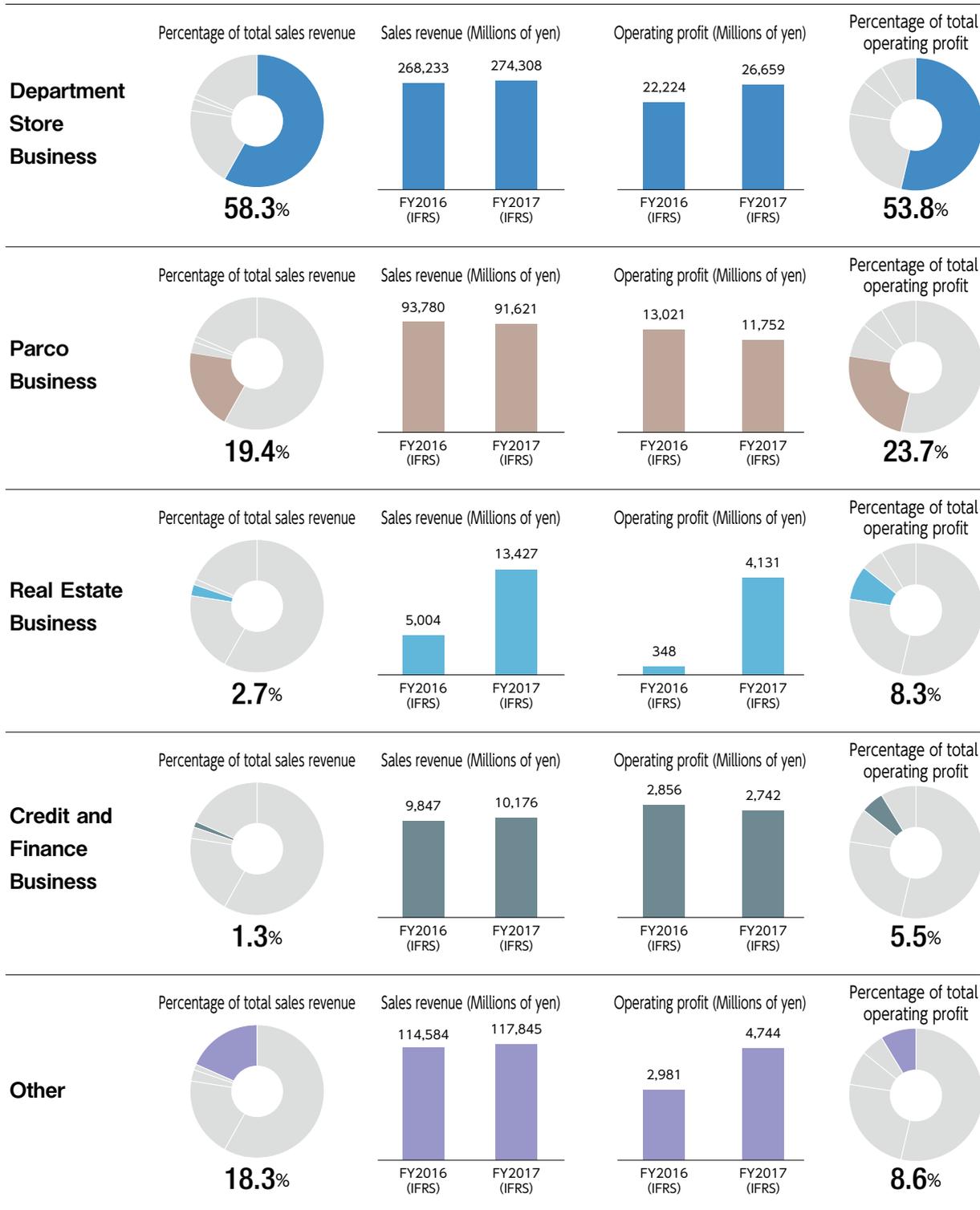
Consolidated dividend payout ratio  
**32.1%**

Equity ratio  
**38.7%**



## Sales revenue and operating profit

- The percentage of total sales revenue represents the ratio of sales revenue to external customers after eliminating intersegment transactions.
- Sales revenue and operating profit include intersegment transactions.



\*Beginning in fiscal year 2017, the Group has designated the "Department Store Business," "Parco Business," "Real Estate Business" and "Credit and Finance Business" as reportable segments to highlight its focus on the Real Estate Business. The Wholesale Business has been included in "Other."

\*The percentage of total operating profit of "Other" includes adjustments.

# Group Companies

## Department Store Business / Real Estate Business

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### Daimaru Matsuzakaya Department Stores Co. Ltd.

Location: 18-11, Kiba 2-chome, Koto-ku, Tokyo 135-0042  
Capital: ¥10,000 million Investment ratio: 100%  
<http://www.daimaru-matsuzakaya.com>

#### Daimaru Osaka Shinsaibashi Store

Location: 7-1, Shinsaibashisuji 1-chome, Chuo-ku, Osaka 542-8501  
Phone: +81-6-6271-1231 Opened (Present location): November 1726

#### Daimaru Osaka Umeda Store

Location: 1-1, Umeda 3-chome, Kita-ku, Osaka 530-8202  
Phone: +81-6-6343-1231 Opened: April 1983

#### Daimaru Tokyo Store

Location: 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6701  
Phone: +81-3-3212-8011 Opened: October 1954

#### Daimaru Kyoto Store

Location: 79, Tachiiri Nishimachi, Shijo-dori Takakura Nishi-iru,  
Shimogyo-ku, Kyoto 600-8511  
Phone: +81-75-211-8111 Opened (Present location): October 1912

#### Daimaru Kobe Store

Location: 40, Akashimachi, Chuo-ku, Kobe, Hyogo 650-0037  
Phone: +81-78-331-8121 Opened (Present location): April 1927

#### Daimaru Sapporo Store

Location: 7, Nishi 4-chome, Kita 5-jo, Chuo-ku, Sapporo, Hokkaido 060-0005  
Phone: +81-11-828-1111 Opened: March 2003

#### Matsuzakaya Nagoya Store

Location: 16-1, Sakae 3-chome, Naka-ku, Nagoya, Aichi 460-8430  
Phone: +81-52-251-1111 Opened: March 1910

#### Matsuzakaya Ueno Store

Location: 29-5, Ueno 3-chome, Taito-ku, Tokyo 110-8503  
Phone: +81-3-3832-1111 Opened: April 1768

#### Daimaru Yamashina Store

Location: 91, Takehana Takenokaido-cho, Yamashina-ku, Kyoto 607-8080  
Phone: +81-75-255-7365 Opened: October 1998

#### Daimaru Suma Store

Location: 2-4, Nakaochiai 2-chome, Suma-ku, Kobe, Hyogo 654-0154  
Phone: +81-78-791-3111 Opened: March 1980

#### Daimaru Ashiya Store

Location: 1-31, Funato-cho, Ashiya, Hyogo 659-0093  
Phone: +81-797-34-2111 Opened: October 1980

#### Matsuzakaya Shizuoka Store

Location: 10-2, Miyuki-cho, Aoi-ku, Shizuoka 420-8560  
Phone: +81-54-254-1111 Opened: November 1932

#### Matsuzakaya Takatsuki Store

Location: 2-1, Konyamachi, Takatsuki, Osaka 569-8522  
Phone: +81-72-682-1111 Opened: November 1979

#### Matsuzakaya Toyota Store

Location: 85-1, Nishimachi 6-chome, Toyota, Aichi 471-8560  
Phone: +81-565-37-1111 Opened: October 2001

#### Real Estate Division

Location: 18-11, Kiba 2-chome, Koto-ku, Tokyo 135-0042  
Phone: +81-3-6860-1141

#### Corporate Sales Division

Location: 6th Fl., Kuromon Annex, Matsuzakaya Ueno Store, 18-6,  
Ueno 3-chome, Taito-ku, Tokyo 110-0005  
Phone: +81-3-5846-1431

### The Hakata Daimaru, Inc.

Location: 4-1, Tenjin 1-chome, Chuo-ku, Fukuoka 810-8717  
Phone: +81-92-712-8181 Capital: ¥3,037 million Investment ratio: 69.9%  
<http://www.daimaru.co.jp/fukuoka/index.html>

### The Shimonoseki Daimaru, Inc.

Location: 4-10, Takezaki-cho 4-chome, Shimonoseki, Yamaguchi 750-8503  
Phone: +81-83-232-1111 Capital: ¥480 million Investment ratio: 100%  
<http://shimonoseki.daimaru.co.jp/>

### Kochi Daimaru Co., Ltd.

Location: 6-1, Obiyamachi 1-chome, Kochi 780-8566  
Phone: +81-88-822-5111 Capital: ¥300 million Investment ratio: 100%  
<http://www.kochi-daimaru.co.jp/>

## Parco Business

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### Parco Co., Ltd. (Shopping complex business)

Location: Shibuya First Place Bldg., 8-16, Shinsen-cho, Shibuya-ku, Tokyo 150-0045  
Phone: +81-3-3477-5710 Capital: ¥34,367 million Investment ratio: 64.9%

### PARCO (Singapore) Pte Ltd (Shopping complex business)

Location: 10 Anson Road #09-05/06 International Plaza Singapore 079903  
Phone: +65-6595-9100 Capital: S\$4.5 million Investment ratio: 64.9%

### Neuve A Co., Ltd. (Retail business)

Location: Shibuya First Place Bldg., 8-16, Shinsen-cho, Shibuya-ku, Tokyo 150-0045  
Phone: +81-3-5428-2600 Capital: ¥490 million Investment ratio: 64.9%

### Parco Space Systems Co., Ltd.

(Space engineering and management business)

Location: Shibuya First Place Bldg., 8-16, Shinsen-cho, Shibuya-ku, Tokyo 150-0045  
Phone: +81-3-5459-6811 Capital: ¥490 million Investment ratio: 64.9%

### Parco Digital Marketing Co., Ltd.

(Internet-related business)

Location: Shibuya First Place Bldg., 8-16, Shinsen-cho, Shibuya-ku, Tokyo 150-0045  
Phone: +81-3-3477-8910 Capital: ¥10 million Investment ratio: 64.9%

## Credit and Finance Business

### JFR Card Co., Ltd.

Location: 2-1, Konyamachi, Takatsuki, Osaka 569-8522  
 Phone: +81-72-686-0108 Capital: ¥100 million Investment ratio: 100%  
<http://www.jfr-card.co.jp/>

## Other

### Daimaru Kogyo, Ltd. (Wholesale business)

Location: Yushutsu Seni Kaikan, 4-9, Bingomachi 3-chome, Chuo-ku, Osaka 541-0051  
 Phone: +81-6-6205-1000 Capital: ¥1,800 million Investment ratio: 100%  
<http://www.daimarukogyo.co.jp/>

### Daimaru Kogyo International Trading (Shanghai) Co., Ltd. (Wholesale business)

Location: 6th Fl., Heng Seng Bank Tower, 1000 Lujiazui Ring Rd., Pudong New Area, Shanghai, China  
 Phone: +86-21-6841-3588 Capital: U.S.\$2 million Investment ratio: 100%

### Daimaru Kogyo (Thailand) Co., Ltd. (Wholesale business)

Location: Unit 1902, 19th Fl., Sathorn Square Office Building, 98 North Sathorn, Kwaeng Silom, Khet Bangrak, Bangkok 10500, Thailand  
 Phone: +66-2163-2903  
 Capital: THB202 million Investment ratio: 100%

### Taiwan Daimaru Kogyo, Ltd. (Wholesale business)

Location: Room 709, No. 142, Sec. 3, Ming Chuan East Road, Taipei 10542, Taiwan, R.O.C.  
 Phone: +886-2-2718-7215  
 Capital: NT\$60 million Investment ratio: 100%

### J. Front Design & Construction Co., Ltd.

(Design and construction contracting and manufacture and sale of furniture)

Location: 36-20, Higashinippori 4-chome, Arakawa-ku, Tokyo 116-0014  
 Phone: +81-3-5850-4700  
 Location: 2nd Fl., Nomura Fudosan Osaka Bldg., 8-15, Azuchimachi 1-chome, Chuo-ku, Osaka 541-0052  
 Phone: +81-6-4705-6200  
 Capital: ¥100 million Investment ratio: 100%  
<http://www.jfdc.co.jp/>

### Dimples<sup>7</sup> Co., Ltd. (Staffing service)

Location: 22nd Fl., Osaka Ekimae 4th Bldg., 11-4, Umeda 1-chome, Kita-ku, Osaka 530-0001  
 Phone: +81-6-6344-0312 Capital: ¥90 million Investment ratio: 100%  
<http://www.dimples.co.jp/>

### J. Front Foods Co., Ltd. (Restaurant)

Location: 101, Louis Chatelet Nakanoshima, 3-92, Nakanoshima 5-chome, Kita-ku, Osaka 530-0005  
 Phone: +81-6-7220-0290 Capital: ¥100 million Investment ratio: 100%  
<http://www.j-frontfoods.co.jp/>

### Consumer Product End-Use Research Institute Co., Ltd. (Merchandise test and quality control)

Location: 20th & 21st Fls., Edobori Center Bldg., 1-1, Edobori 2-chome, Nishi-ku, Osaka 550-0002  
 Phone: +81-6-6445-4670  
 Location: 5th Fl., Matsuzakaya Ryutsu Center, 36-20, Higashinippori 4-chome, Arakawa-ku, Tokyo 116-0014  
 Phone: +81-3-5615-5390  
 Location: 10th Fl., Matsuzakaya Park Place, 2-36, Sakae 5-chome, Naka-ku, Nagoya, Aichi 460-0008  
 Phone: +81-52-261-2030  
 Capital: ¥450 million Investment ratio: 100%  
<http://www.shoukaken.jp/>

### Angel Park Co., Ltd. (Parking)

Location: 16-10, Sakae 3-chome, Naka-ku, Nagoya, Aichi 460-0008  
 Phone: +81-52-261-5746 Capital: ¥400 million Investment ratio: 50.2%  
<http://www.angelpark.co.jp/>

### JFR Service Co. Ltd.

(Commissioned back-office service / leasing / parking management)

Location: 2-1, Konyamachi, Takatsuki, Osaka 569-8522  
 Phone: +81-72-681-7245 Capital: ¥100 million Investment ratio: 100%

### JFR Information Center Co., Ltd. (Information service)

Location: 3-24, Osaka 1-chome, Tennoji-ku, Osaka 543-0062  
 Phone: +81-6-6775-3700 Capital: ¥10 million Investment ratio: 100%  
<http://www.jfr-ic.jp/>

### Daimaru Matsuzakaya Sales Associates Co. Ltd.

(Commissioned sales and store operations)

Location: 2-1, Konyamachi, Takatsuki, Osaka 569-8522  
 Phone: +81-72-684-8145 Capital: ¥90 million Investment ratio: 100%

### Daimaru Matsuzakaya Tomonokai Co., Ltd.

(Specified prepaid transaction service)

Location: 2-1, Konyamachi, Takatsuki, Osaka 569-8522  
 Phone: +81-72-684-8101 Capital: ¥100 million Investment ratio: 100%  
<http://www.dmtomonokai.co.jp/>

# Daimaru, Matsuzakaya and Parco Cover Major Big Cities across Japan

J. Front Retailing Group operates stores in major cities across Japan, from Hokkaido in the north to Kumamoto, Kyushu in the south.

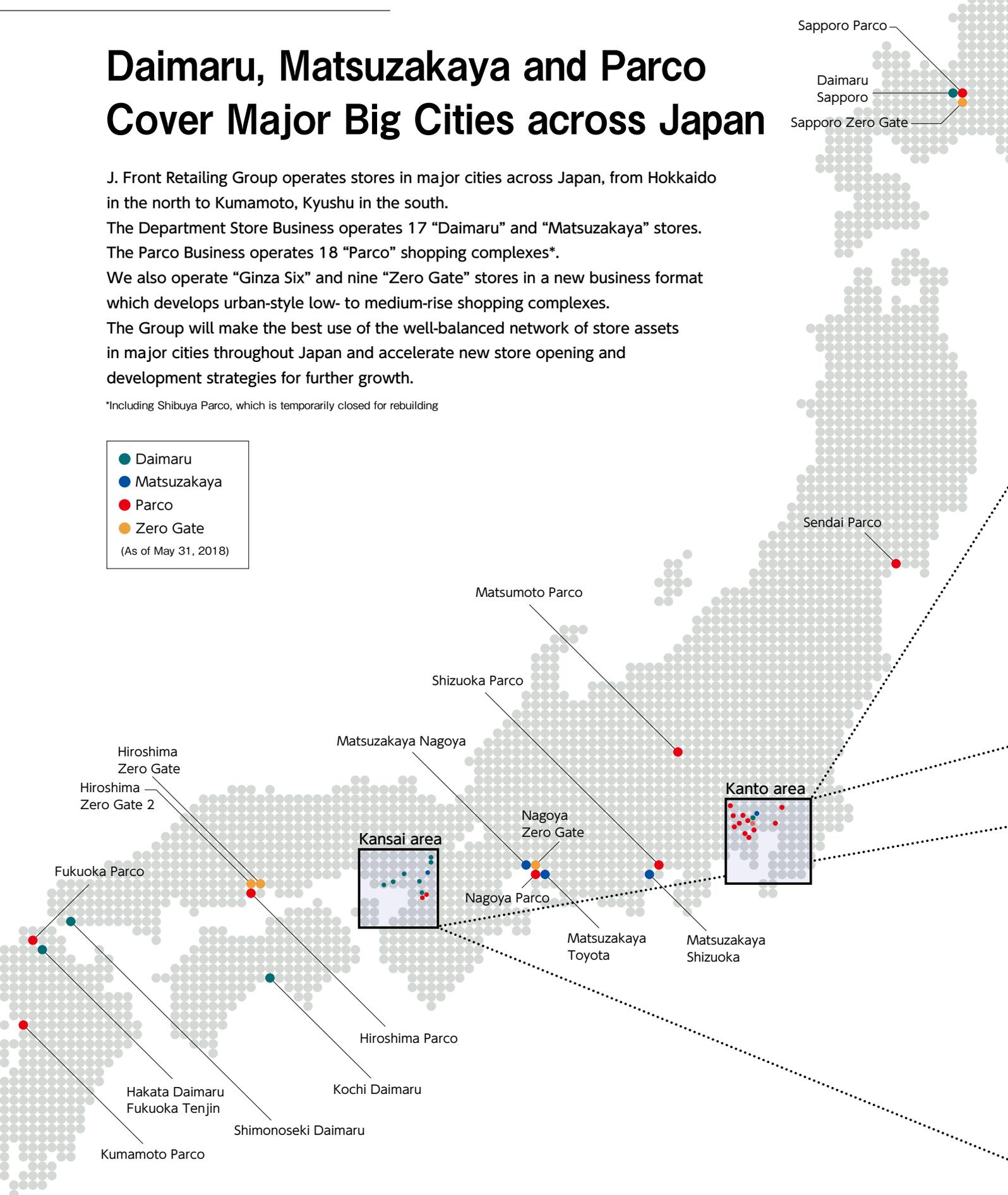
The Department Store Business operates 17 “Daimaru” and “Matsuzakaya” stores.

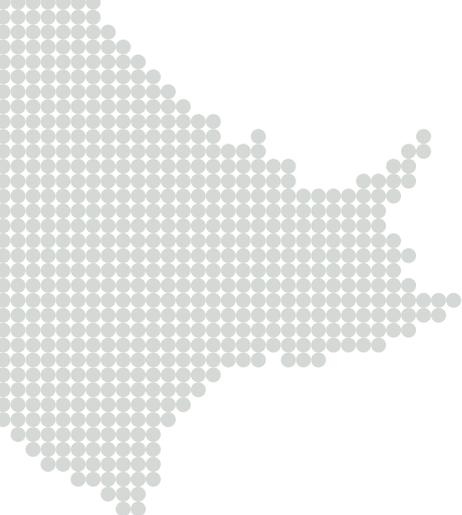
The Parco Business operates 18 “Parco” shopping complexes\*.

We also operate “Ginza Six” and nine “Zero Gate” stores in a new business format which develops urban-style low- to medium-rise shopping complexes.

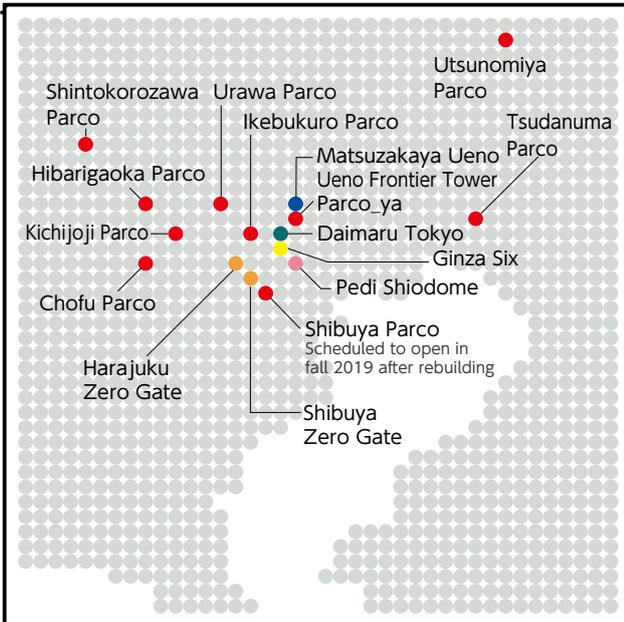
The Group will make the best use of the well-balanced network of store assets in major cities throughout Japan and accelerate new store opening and development strategies for further growth.

\*Including Shibuya Parco, which is temporarily closed for rebuilding





Kanto area



Ginza Six (Opened in April 2017)

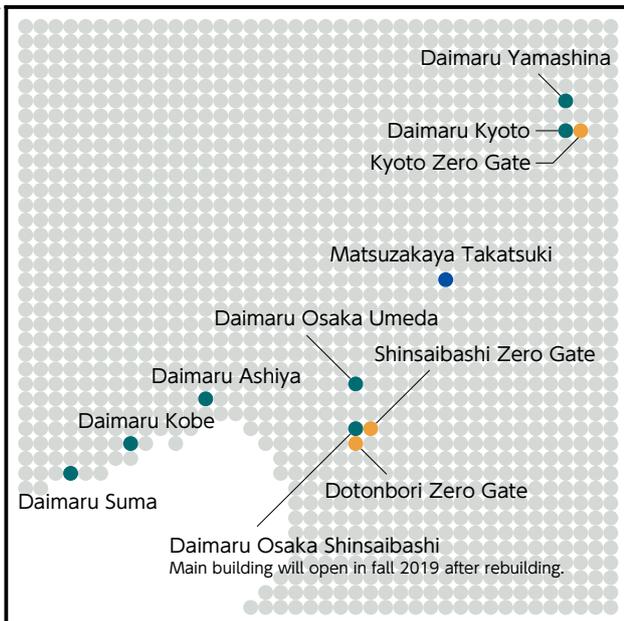


Ueno Frontier Tower / Parco\_ya (Opened in November 2017)



Rendering of Udagawa-cho 15 Development including Shibuya Parco (Scheduled to open in fall 2019 after rebuilding)

Kansai area



Rendering of main building of Daimaru Shinsaibashi store (Main building will open in fall 2019 after rebuilding.)

# Daimaru and Matsuzakaya Stores



Daimaru Osaka Shinsaibashi (Floor space: 46,490m<sup>2</sup>)  
\*The new main building is scheduled to open in fall 2019.



Daimaru Kyoto (Floor space: 50,830m<sup>2</sup>)



Daimaru Yamashina (Floor space: 5,403m<sup>2</sup>)



Shimonoseki Daimaru (Floor space: 23,912m<sup>2</sup>)



Daimaru Osaka Umeda (Floor space: 64,000m<sup>2</sup>)



Daimaru Kobe (Floor space: 50,656m<sup>2</sup>)



Daimaru Suma (Floor space: 13,076m<sup>2</sup>)



Kochi Daimaru (Floor space: 16,068m<sup>2</sup>)



Daimaru Tokyo (Floor space: 46,000m<sup>2</sup>)



Daimaru Sapporo (Floor space: 45,000m<sup>2</sup>)



Daimaru Ashiya (Floor space: 4,300m<sup>2</sup>)



Hakata Daimaru Fukuoka Tenjin  
(Floor space: 44,192m<sup>2</sup>)



Matsuzakaya Nagoya (Floor space: 86,758m<sup>2</sup>)



Matsuzakaya Takatsuki (Floor space: 17,387m<sup>2</sup>)



Matsuzakaya Toyota (Floor space: 18,220m<sup>2</sup>)



Matsuzakaya Ueno (Floor space: 21,759m<sup>2</sup>)



Matsuzakaya Shizuoka (Floor space: 25,452m<sup>2</sup>)



Ginza Six (Floor space: 47,000m<sup>2</sup>)

## Overseas Offices and Company

**Paris Representative Office**  
21 rue Auber, 75009 Paris, France  
Phone : +33-1-4574-2151

**Milan Representative Office**  
Conservatorio 22 Business Center, Via Conservatorio 22, 20122 Milan, Italy  
Phone : +39-02-77291

**Daimaru Matsuzakaya Department Stores (Shanghai) Consulting Co., Ltd.**  
Huaxin Haixin Building 13F Rm-B1, 666 Fuzhou Rd, Shanghai 200001, China  
Phone : +86-21-6248-1538

As of September 1, 2018

# Parco Stores

## Parco urban complexes



**Sapporo Parco**  
3-3, Minami 1-jo Nishi, Chuo-ku, Sapporo, Hokkaido  
B2F-8F  
Opened: August 24, 1975  
sapporo.parco.jp



**New Shibuya Parco**  
Udagawa-cho 15 and part of Udagawa-cho 14, Shibuya-ku, Tokyo  
B3F-19F  
Scheduled to open in fall 2019  
Club Quattro  
32-13, Udagawa-cho, Shibuya-ku, Tokyo  
4F-5F  
Opened: June 28, 1988  
club-quattro.com



**Sendai Parco**  
1-2-3, Chuo, Aoba-ku, Sendai, Miyagi  
Main Building: B1F-9F  
Opened: August 23, 2008  
Parco 2: 1F-9F  
3-7-5, Chuo, Aoba-ku, Sendai, Miyagi  
Opened: July 1, 2016  
sendai.parco.jp



**Parco\_ya**  
3-24-6, Ueno, Taito-ku, Tokyo  
1F-6F  
Opened: November 4, 2017  
parcoya-ueno.parco.jp



**Ikebukuro Parco**  
1-28-2, Minami-Ikebukuro, Toshima-ku, Tokyo  
Main Building: B2F-8F  
Opened: November 23, 1969  
P Parco: B2F-8F  
Opened: March 10, 1994  
ikebukuro.parco.jp



**Shizuoka Parco**  
6-7, Koyamachi, Aoi-ku, Shizuoka  
B1F-8F  
Opened: March 15, 2007  
shizuoka.parco.jp



**Nagoya Parco**  
3-29-1, Sakae, Naka-ku, Nagoya, Aichi  
West Building: B1F-11F  
East Building: B1F-8F  
Opened: June 29, 1989  
South Building: B1F-10F  
Opened: November 6, 1998  
Parco midi: 1F-3F  
Opened: March 27, 2015  
nagoya.parco.jp



**Hiroshima Parco**  
10-1, Hondori, Naka-ku, Hiroshima  
Main Building: B1F-10F  
Opened: April 9, 1994  
New Building: B1F-9F  
Opened: September 21, 2001  
hiroshima.parco.jp



**Fukuoka Parco**  
2-11-1, Tenjin, Chuo-ku, Fukuoka  
Main Building: B1F-8F  
Opened: March 19, 2010  
New Building: B2F-6F  
Opened: November 13, 2014  
fukuoka.parco.jp

## Parco community complexes



**Utsunomiya Parco**  
3-1-1, Baba-dori, Utsunomiya, Tochigi  
B1F-10F  
Opened: March 20, 1997  
utsunomiya.parco.jp



**Kichijoji Parco**  
1-5-1, Kichijojihoncho, Musashino, Tokyo  
B2F-8F  
Opened: September 21, 1980  
kichijoji.parco.jp



**Urawa Parco**  
11-1, Higashitakasago-cho, Urawa-ku, Saitama  
B1F-7F  
Opened: October 10, 2007  
urawa.parco.jp



**Chofu Parco**  
1-38-1, Kojima-cho, Chofu, Tokyo  
B1F-10F  
Opened: May 25, 1989  
chofu.parco.jp



**Shintokorozawa Parco**  
1-2-1, Midori-cho, Tokorozawa, Saitama  
Parco: B1F-5F  
Let's: B1F-4F  
Opened: June 23, 1983  
shintokorozawa.parco.jp



**Matsumoto Parco**  
1-10-30, Chuo, Matsumoto, Nagano  
B1F-6F  
Opened: August 23, 1984  
matsumoto.parco.jp



**Tsudanauma Parco**  
2-18-1, Maebanishii, Funabashi, Chiba  
Building A: B1F-6F  
Building B: B1F-6F  
Opened: July 1, 1977  
tsudanauma.parco.jp



**Kumamoto Parco**  
5-1, Tetorihoncho, Chuo-ku, Kumamoto  
B1F-9F  
Opened: May 2, 1986  
kumamoto.parco.jp



**Hibarigaoka Parco**  
1-1-1, Hibarigaoka, Nishitokyo, Tokyo  
B1F-5F  
Opened: October 8, 1993  
hibarigaoka.parco.jp

## Zero Gate

**Sapporo Zero Gate**  
3-15-1, Minami 2-jo Nishi, Chuo-ku, Sapporo, Hokkaido  
B2F, 1F-4F  
Opened: February 26, 2016

**Shinsaibashi Zero Gate**  
1-9-1, Shinsaibashisuji, Chuo-ku, Osaka  
B2F-4F  
Opened: April 13, 2013

**Shibuya Zero Gate**  
16-9, Udagawa-cho, Shibuya-ku, Tokyo  
B1F-4F  
Opened: April 16, 2011

**Dotonbori Zero Gate**  
1-8-22, Dotonbori, Chuo-ku, Osaka  
1F-3F  
Opened: April 20, 2013

**Harajuku Zero Gate**  
4-31-12, Jingumae, Shibuya-ku, Tokyo  
1F-4F  
Opened: March 17, 2018

**Hiroshima Zero Gate**  
2-7, Shintenchu, Naka-ku, Hiroshima  
1F-3F  
Opened: October 10, 2013

**Hiroshima Zero Gate 2**  
9-4, Hondori, Naka-ku, Hiroshima  
1F-3F  
Opened: September 10, 2016

**Nagoya Zero Gate**  
3-28-11, Sakae, Nagoya, Aichi  
1F-3F  
Opened: October 10, 2014

**Kyoto Zero Gate**  
83-1, Tachiuri Nakanocho, Shijo-dori  
Takakura Higashi-iru, Shimogyo-ku, Kyoto  
B2F-7F  
Partially opened: November 2017

## Other store

**Pedi Shiodome**  
1-9-1, Higashishinbashi, Minato-ku, Tokyo  
B2F-B1F, 2F  
Opened: February 16, 2005 www.pedi-s.com

# Share Information

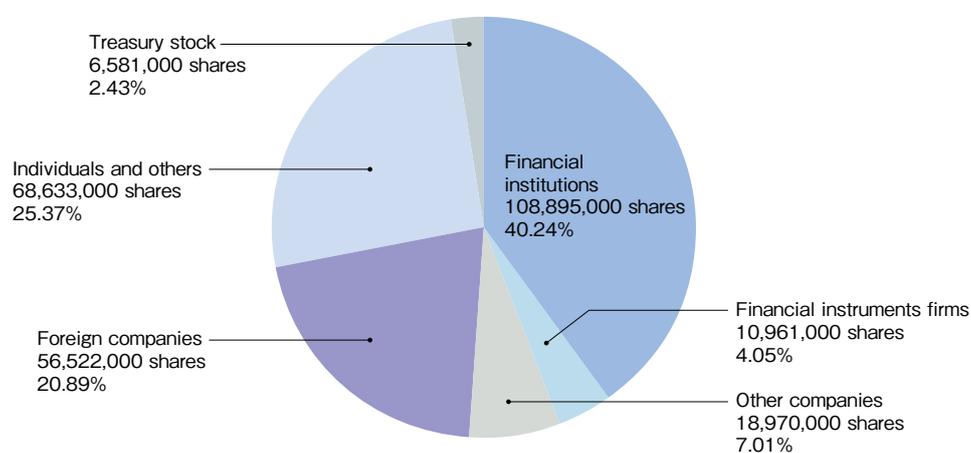
## Status of Shares (As of February 28, 2018)

Number of shares authorized: 1,000,000,000 shares	Stock exchange listings: Tokyo and Nagoya
Number of shares issued: 270,565,764 shares	Transfer agent: Mitsubishi UFJ Trust and Banking Corporation
Stock code: 3086	Number of shareholders: 100,931

Major shareholders	Number of shares held (1,000 shares)	Shareholding ratio (%)
1 The Master Trust Bank of Japan, Ltd. (Trust Account)	19,743	7.47
2 Japan Trustee Services Bank, Ltd. (Trust Account)	14,727	5.57
3 Nippon Life Insurance Company	7,862	2.97
4 J. Front Retailing Kyoei Supplier Shareholding Association	6,273	2.37
5 The Dai-ichi Mutual Life Insurance Company	5,732	2.17
6 MUFG Bank, Ltd.	5,624	2.13
7 Trust & Custody Services, Ltd. (Investment Trust Collateral Account)	5,286	2.00
8 Japan Trustee Services Bank, Ltd. (Trust Account 9)	4,870	1.84
9 Japan Trustee Services Bank, Ltd. (Trust Account 5)	4,494	1.70
10 State Street Bank West Client - Treaty 505234	4,228	1.60

Note: Shareholding ratio is calculated by deducting treasury stock (6,581,000 shares).  
The said treasury stock does not include the Company's shares held by the BIP Trust.

Distribution by shareholder type	Number of shareholders (People)	Number of shares (1,000 shares)	Ratio (%)
Government and local public entities	—	—	—
Financial institutions	78	108,895	40.24
Financial instruments firms	41	10,961	4.05
Other companies	838	18,970	7.01
Foreign companies	560	56,522	20.89
Individuals and others	99,413	68,633	25.37
Treasury stock	1	6,581	2.43







**J. FRONT RETAILING**

