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[Securities code: 3086]
May 2, 2016

To Our Shareholders

Ryoichi Yamamoto, President
**J. FRONT RETAILING Co., Ltd.**
10-1, Ginza 6-chome, Chuo-ku, Tokyo

# Notice of Convocation of the 9th Annual Shareholders Meeting

You are cordially invited to attend the 9th Annual Shareholders Meeting of J. FRONT RETAILING Co., Ltd. (hereinafter the "Company"). The meeting will be held as described below.

**If you are unable to attend the meeting in person, you may exercise your voting rights in writing or via the Internet. In each case, you are requested to exercise your voting rights so that your vote is received by 6:00 p.m. on Wednesday, May 25, 2016 (JST).**

## Details

**1. Date and time:** Thursday, May 26, 2016, at 10:00 a.m. (JST) (Reception opens at 9:00 a.m.)
**2. Venue:** NEW PIER HALL, 11-1, Kaigan 1-chome, Minato-ku, Tokyo
**3. Purpose of the meeting:**
*Matters to be reported:*
1. Business Report, Consolidated Financial Statements, and Non-consolidated Financial Statements for the 9th fiscal year (from March 1, 2015 to February 29, 2016)
2. Audit reports of the Accounting Auditor and the Audit & Supervisory Board on Consolidated Financial Statements for the 9th fiscal year

*Matters to be resolved:*
Proposal 1: Election of Nine (9) Directors
Proposal 2: Payment of Bonuses to Directors and Audit & Supervisory Board Members for Fiscal Year 2015

**4. Decisions made for convocation:**
Please refer to Guide to the Exercise of Voting Rights on pages 3 to 4.

* If you are attending the meeting in person, please submit the enclosed voting form at the reception of the meeting.
Please note that persons who are not shareholders who can exercise voting rights, such as proxies who are not shareholders, and accompanying persons, will not be admitted. (The accompanying persons of shareholders with disabilities are exempt and will be admitted.)

- Of the documents attached to Notice of Convocation of the Annual Shareholders Meeting, Notes to Consolidated Financial Statements and Notes to Non-consolidated Financial Statements are provided on the Company's website in accordance with relevant laws and regulations and Article 16 of the Company's Articles of Incorporation, hence are not indicated on this Notice of Convocation.
- Consolidated Financial Statements and Non-consolidated Financial Statements, which have been audited by Audit & Supervisory Board Members and the Accounting Auditor, shall include not only the documents stated in this Notice of Convocation, but also Notes to Consolidated Financial Statements and Notes to Non-consolidated Financial Statements, which are provided on the Company's website.
- If any amendments to Reference Materials for Shareholders Meeting, Business Report, Consolidated Financial Statements or Non-consolidated Financial Statements are made, the revised version will be provided on the Company's website.

The Company's website: http://www.j-front-retailing.com/

# Guide to the Exercise of Voting Rights

**Attending the Shareholders Meeting in Person**
Please submit the enclosed voting form at the reception of the meeting.

*You do not need to exercise your voting rights either by postal mail or via the Internet.

**Attending a live relay venue**
The live relay venues are not recognized as the venue of the shareholders meeting under the Companies Act. Please exercise your voting rights either by postal mail or via the Internet before arriving.

If you are unable to attend the meeting in person, please exercise your voting rights by either of the following methods.

**Exercising voting rights by postal mail**
Please indicate on the enclosed voting form whether you approve or disapprove of each proposal, and return the completed form to us.
Exercise due date: Received by 6:00 p.m. on Wednesday, May 25, 2016 (JST)

**To institutional investors**

To exercise voting rights at this meeting, institutional investors can use the electronic voting rights exercise platform for institutional investors operated by ICJ, Inc.

**Exercising voting rights via the Internet**
Please read the following items before exercising voting rights via the Internet.
Exercise due date: Received by 6:00 p.m. on Wednesday, May 25, 2016 (JST)

(*Instructions concerning the exercise of voting rights via the Internet*)
1. Access the voting website
   Access the voting website and click the "Next" button.
   Voting website: http://www.evote.jp/
2. Login to the voting website
   Enter the "Login ID" and the "Temporary password" shown on the enclosed voting form and click the "Login" button.

   >>> With this your login is complete. Next, please follow the guidance on the screen.

- To prevent unauthorized access by parties other than shareholders and the alteration of shareholder votes, shareholders voting via the Internet will be asked to change their "temporary password" on the voting website.
- You will receive a new "log-in ID" and a new "temporary password" with each convocation notice for a Shareholders Meeting.
- If you exercise your voting rights both in writing and via the Internet, we will only accept the exercise of your voting rights via the Internet as effective.
- If you exercise your voting rights more than once via the Internet, we will only accept the last exercise of your voting rights as effective. If you exercise your voting rights more than once by using your personal computer, smartphone and mobile phone, we will only accept the last exercise of your voting rights as effective.

* Fees for accessing the voting website (Internet access fees, telephone charges, packet communication fees, etc.) shall be borne by the shareholder.
* Exercising voting rights via the Internet may not be possible depending on your Internet usage environment, for example if you use a firewall, etc. or if you have anti-virus software installed.

**For inquiries about the system, please contact:**

Corporate Agency Division (Help Desk)
Mitsubishi UFJ Trust and Banking Corporation
**(Toll free) 0120-173-027**
(available 9:00 a.m. – 9:00 p.m., only in Japan)

**[Reference Document for the 9th Annual Shareholders Meeting]**

# Business Report (From March 1, 2015 to February 29, 2016)

## 1. Current status of the corporate group

### (1) Business summary and results

With respect to the Japanese economy in the current fiscal year, the pace of recovery slowed despite positive effects of economic and financial policies implemented by the Japanese government and the Bank of Japan along with a trend toward more upbeat corporate earnings and employment, amid an uncertain outlook in the latter half of the fiscal year largely involving concerns of a global economic slowdown.

In the retail sector, we faced a scenario of rapidly deteriorating consumer sentiment and diminishing strength in personal spending overall, largely evidenced by intensifying budget-minded consumer behavior. This was a result of sluggish growth in real wages and increasingly polarized consumption patterns, and also reflects the downturn in stock prices beginning in the latter half of the fiscal year along with a prevailing sense of uncertainty about what lies ahead.

Amid this environment, the J. Front Retailing Group (hereinafter the "Group"), under its "FY 2014 - FY 2016 Medium-term Business Plan," worked to further strengthen the competitiveness and profitability of existing businesses while also investing management resources, such as M&A, in fields of growth in a focused manner, with the aim of developing as a multifaceted retailer operating multiple businesses with the Department Store Business at their core.

In the Department Store Business, the Group pressed ahead with large-scale refurbishments of the Matsuzakaya Nagoya store, the Daimaru Sapporo store and other key stores as part of our initiatives to establish "A new department store business model" geared to creating appealing stores that attract a wide range of customers and constructing a highly productive store management structure. We have also reinforced our efforts to serve the firmly performing affluent customer market and the market of foreign visitors to Japan which continues to grow.

In the PARCO Business, we adopted ICT (information and communications technology) solutions and forged ahead with store refurbishments. We also extended the floor space in the Main Building of the Fukuoka PARCO in March 2015, and opened the Nagoya "PARCO midi" facility, with the aim of boosting profitability by expanding new commercial locations in major urban areas. We also opened the new Sapporo ZERO GATE in February 2016.

In addition, in April 2015, J. FRONT RETAILING Co., Ltd. (hereinafter the "Company") concluded a capital and business alliance agreement with Senshukai Co., Ltd. and converted it into an equity method associate, with the aim of developing as a multifaceted retailer operating multiple businesses. We are now pursuing initiatives that involve mutual sales and product development, drawing on the group assets and expertise of both companies.

With the aim of constructing a business model for growth along with regions in which it operates with its stores at the core of such growth (strategy of urban market dominance), we have been pursuing efforts that include the Ginza 6-chome District 10 Urban Redevelopment Project, plans for rebuilding the South Wing of the Matsuzakaya Ueno store, plans for rebuilding the Main Building of the Daimaru Shinsaibashi store, and the Udagawa-cho 15 Development Project (plans for rebuilding the Shibuya PARCO).

Our initiatives for promoting omni-channel retailing have entailed efforts with the "Click & Collect," "Snap Diary" and other services, and creating synergies through collaboration with Senshukai.

With respect to overseas operations, "Shanghai New World Daimaru Department Store," to which the Company has been providing technical support, fully opened for business in May 2015. Also, as of March 2016, there are a total of nine "PLAZA TOKYO" general merchandise retailing store locations, operated in Taiwan by JFR PLAZA. Meanwhile, PARCO entered into a business and capital alliance with Apparel-Web, Inc., with the aims of achieving more widespread market dominance in the retail store business through use of ICT solutions, and strengthening overseas business operations centered on e-commerce.

The Group also worked to construct a stronger operating structure and strove to improve management efficiencies by such means as reviewing all cost structures.

As a result of various measures including those mentioned above, in the current fiscal year, net

sales was ¥1,163,564 million, up 1.2% year on year, operating income was ¥48,038 million, up 13.9%, ordinary income was ¥47,910 million, up 18.4%, and net income was ¥26,313 million, up 31.8%.

The Company has decided to pay a year-end dividend of ¥14 per share. The annual dividend with the addition of an interim dividend of ¥13 per share is ¥27 per share, as calculated in accordance with the standard after the consolidation of shares, marking a year-on-year increase of ¥2.

Results by segment are as follows.

**Department Store Business**

Our initiatives to establish "A new department store business model" involved refurbishing individual stores. In so doing, we reworked merchandise categories and sales floor configurations in response to changes in the market, while enhancing the competitive strengths and profitability of those stores. At the Matsuzakaya Nagoya store, we have forged ahead with efforts under the third-period refurbishment plan since March 2015 with the aim of having a "high-quality, evolutionary department store that is loved by customers in the area." We have developed a department store framework geared to attracting customers of all ages to our stores as a result of efforts that include bringing in a "Yodobashi Camera" store in October 2015 to operate on the fourth to sixth floors of the South Building, and opening a retailer under the name "Matsuzakaya GENTA" in April 2016 to operate in the North Building on the refurbished men's floor. At the Daimaru Sapporo store, we began featuring luxury brands on the first floor in October 2015, and progressively refurbished the women's accessories section occupying the second floor.

To serve the firmly performing affluent customer market we continued to push ahead with efforts taken to land new customer accounts for the "Otokuisama Gold Card." To better serve customers among the growing number foreign visitors to Japan, we implemented measures at respective stores that included promoting sales and allocating staff in a manner that accommodates customer traffic during peak seasons of inbound tourism.

As for our initiatives with Senshukai, we featured Senshukai's fashion brand "Kcarat" shops for a limited time at the Daimaru Kobe store and the Matsuzakaya Nagoya store, and otherwise took steps to build a framework for collaboration that will enable us to develop merchandise and create synergies heading toward next fiscal year. Also, for the first time in six years we updated Daimaru Matsuzakaya Department Stores' private "TROJAN" menswear brand.

As of December 30, 2015, the Main Building of the Daimaru Shinsaibashi store is temporarily closed for rebuilding. Going forward, we will proceed with construction of the new Main Building in a manner that ensures that the facility helps develop the area. To that end, we will make sure that its value as a historic building designed by the architect W.M.Vories can be retained while at the same time improving the building's safety features.

As a result of the various initiatives mentioned above, net sales in this business was ¥763,222 million, up 0.4% year on year, and operating income was ¥28,786 million, up 24.1% year on year.

**PARCO Business**

Net sales in the shopping center business exceeded previous year levels, reflecting the success of numerous initiatives. For instance, we increased overall urban store sales floor space in part by increasing floor space of the Main Building of the Fukuoka PARCO, opening the Nagoya "PARCO midi" facility, and opening the Sapporo ZERO GATE. We also refurbished stores based on the concept of targeting a greater range of customers with respect to our existing PARCO stores, and implemented store measures that call for adopting ICT solutions such as "Kaeru PARCO" and "POCKET PARCO." Meanwhile, the bottom line was aided by new store openings and the development of new business formats in the shopping complex business, along with an increase in construction orders received in the space engineering & management business. As a result, net sales in this business was ¥281,050 million, up 2.5% year on year, and operating income was ¥12,582 million, up 2.7% year on year.

**Wholesale Business**

Sales decreased in the area of food products as a result of diminished business in the marine and animal products, but sales were strong in the fields of electronic devices and automobile parts. As a result, net sales in this business was ¥57,849 million, down 2.6% year on year, and operating income

was ¥1,315 million, up 23.2% , reflecting improvement in the gross profit margin along with positive outcomes from having reviewed outlays for selling, general and administrative expenses.

**Credit Business**

A review of the commission rate for transactions adversely affected results in this business, but card member accounts increased and initiatives were taken to boost earnings, such as by promoting the use of credit cards at external member stores. As a result, net sales in this business was ¥10,455 million, up 0.7% year on year, but operating income was ¥2,703 million, down 21.1%, due to a temporary increase in card renewal expenses.

**Other Businesses**

In Other Businesses, sales decreased in JFR Online direct marketing business and other such operations, but J. Front Design & Construction performed well. As a result, net sales in this business was ¥104,739 million, up 7.6% year on year, and operating income was ¥2,807 million, up 16.1% year on year.

Net sales and operating income by business segment of the corporate group

(Millions of yen)

| Business segment | 8th fiscal year (Fiscal 2014) | | | | 9th fiscal year (Current fiscal year) (Fiscal 2015) | | | |
|---|---|---|---|---|---|---|---|---|
| | Net sales | | Operating income | | Net sales | | Operating income | |
| | Results | Composition | Results | Composition | Results | Composition | Results | Composition |
| | | % | | % | | % | | % |
| Department Store Business | 759,866 | 66.1 | 23,192 | 55.0 | 763,222 | 65.6 | 28,786 | 59.9 |
| PARCO Business | 274,212 | 23.9 | 12,255 | 29.1 | 281,050 | 24.2 | 12,582 | 26.2 |
| Wholesale Business | 59,371 | 5.2 | 1,067 | 2.5 | 57,849 | 5.0 | 1,315 | 2.7 |
| Credit Business | 10,381 | 0.9 | 3,424 | 8.1 | 10,455 | 0.9 | 2,703 | 5.6 |
| Other Businesses | 97,298 | 8.4 | 2,418 | 5.7 | 104,739 | 9.0 | 2,807 | 5.8 |
| Adjustments | (51,600) | (4.5) | (190) | (0.4) | (53,752) | (4.7) | (156) | (0.2) |
| Total | 1,149,529 | 100.0 | 42,167 | 100.0 | 1,163,564 | 100.0 | 48,038 | 100.0 |

(Note) The Company has changed its inventory valuation method beginning with the current fiscal year. Respective financial figures have been revised based on the assumption of the change being implemented at the beginning of the 8th fiscal year (fiscal 2014).

Net sales by product and by company and store of the Department Store Business are as follows.

Net sales by product of the Department Store Business (Millions of yen)

| Product | Amount | Composition | Year-on-year changes |
|---|---|---|---|
| | | (%) | (%) |
| Men's clothing and haberdashery | 51,935 | 6.8 | (2.8) |
| Ladies' clothing and haberdashery | 224,833 | 29.5 | (1.1) |
| Children's clothing and haberdashery | 16,851 | 2.2 | 0.7 |
| Kimono, bedding and other clothing | 12,744 | 1.7 | (8.5) |
| Personal belongings | 77,513 | 10.2 | (0.6) |
| Furniture | 7,253 | 1.0 | (13.6) |
| Home appliances | 1,019 | 0.1 | (28.5) |
| Household goods | 25,363 | 3.3 | (5.8) |
| Food products | 181,678 | 23.8 | (0.8) |
| Food halls and cafes | 22,783 | 3.0 | (0.4) |
| General goods | 111,787 | 14.6 | 13.8 |
| Services | 3,030 | 0.4 | 15.6 |
| Other | 26,426 | 3.4 | (1.2) |
| Total | 763,222 | 100.0 | 0.4 |

Net sales by company and store of the Department Store Business (Millions of yen)

| Company / Store | | | Amount | Composition | Year-on-year changes |
|---|---|---|---|---|---|
| | | | | % | % |
| Daimaru Matsuzakaya Department Stores Co. Ltd. | | | | | |
| | Daimaru | | | | |
| | | Osaka Shinsaibashi store | 91,072 | 11.9 | 7.8 |
| | | Osaka Umeda store | 65,212 | 8.5 | 2.1 |
| | | Tokyo store | 73,169 | 9.6 | 4.3 |
| | | Urawa Parco store | 3,777 | 0.5 | (6.8) |
| | | Kyoto store | 70,000 | 9.2 | (0.5) |
| | | Yamashina store | 3,970 | 0.6 | (5.0) |
| | | Kobe store | 85,079 | 11.1 | (1.1) |
| | | Suma store | 9,537 | 1.3 | (5.1) |
| | | Ashiya store | 7,132 | 0.9 | (3.2) |
| | | Sapporo store | 62,710 | 8.2 | 2.2 |
| | | Sub total | 471,663 | 61.8 | 2.1 |
| | Matsuzakaya | | | | |
| | | Nagoya store | 124,834 | 16.4 | (0.6) |
| | | Ueno store | 41,577 | 5.4 | (4.0) |
| | | Shizuoka store | 22,027 | 2.9 | (4.0) |
| | | Takatsuki store | 9,061 | 1.2 | (4.8) |
| | | Toyota store | 8,346 | 1.1 | (1.3) |
| | | Sub total | 205,847 | 27.0 | (1.9) |
| | Sub total | | 677,511 | 88.8 | 0.9 |
| The Hakata Daimaru, Inc. | | | 56,747 | 7.4 | (1.2) |
| The Shimonoseki Daimaru, Inc. | | | 15,694 | 2.1 | (6.5) |
| Kochi Daimaru Co., Ltd. | | | 13,269 | 1.7 | (4.4) |
| Total | | | 763,222 | 100.0 | 0.4 |

(Notes) 1. The South Wing of the Matsuzakaya Ueno store closed temporarily on March 11, 2014, for rebuilding.

2. The Main Building of the Daimaru Shinsaibashi store closed temporarily on December 30, 2015, for rebuilding.

**(2) Status of capital investment**

The basic approach taken regarding the Group's recurring capital investment is to keep such investment within the scope of the amount of depreciation. In the current fiscal year total capital investment was ¥37,110 million, which was a result of recurring investment combined with proactive implementation of strategic investment.

(i) Major facilities completed during the current fiscal year

The main investments in the Department Store Business included ¥2,590 million for refurbishments at respective sales spaces of the Matsuzakaya Nagoya store, the Daimaru Kyoto store and others, and intensive relocation work involving the North Wing and South Wing of the Daimaru Shinsaibashi store in line with rebuilding of the Main Building of that store. In addition, the main investments in the PARCO Business included ¥4,957 million for asset purchases largely associated with store refurbishment of the Hiroshima PARCO.

(ii) New establishments and expansions of major facilities with ongoing construction works during the current fiscal year

Mainly, in the Department Store Business this included rebuilding of both the South Wing of the Matsuzakaya Ueno store and the Main Building of the Daimaru Shinsaibashi store, and the Ginza 6-chome District 10 Urban Redevelopment Project, and in the PARCO Business this included new construction of New Wing (provisional name) of the Sendai PARCO.

(iii) Sales, removals and losses of major non-current assets

Mainly, this consisted of retirement of non-current assets associated with rebuilding the Main Building of the Daimaru Shinsaibashi store.

**(3) Status of procurement**

The Group's basic policy is to source funds needed for business activities using funds obtained from operating activities. Moreover, when the need arises to finance investment or other expenditure, such funds are procured mainly by issuing bonds and borrowing from financial institutions, with consideration placed on maintaining financial soundness and stability.

As a general rule, Group subsidiaries do not procure funds from financial institutions, but instead we promote centralized and streamlined means of procuring funds by means of intra-Group financing using a cash management system.

In the current fiscal year, the Company issued unsecured straight bonds amounting to a total of ¥15,000 million in August 2015. In November 2015, ¥12,000 million of the 2nd series of unsecured bonds (issued in November 2012) was redeemed upon those bonds having reached maturity. As a result, the balance of unsecured straight bonds outstanding as of the end of the current fiscal year is ¥27,000 million.

**(4) Issues to be addressed**

We aim to prevail over the competition and make our vision of securing a position as a leading retail company a reality amid a challenging business environment. To that end, we will work to generate consolidated operating income of ¥50,000 million in fiscal 2016, which is the final year of our "FY 2014 - FY 2016 Medium-term Business Plan." Moreover, throughout the year we will also work to put ourselves in position to take a substantial leap forward as we embark on our next Medium-term Business Plan which is set to start in fiscal 2017. In so doing, we will pursue the initiatives described below.

■ **Dramatically strengthening competitiveness and profitability as a multifaceted retailer operating multiple businesses**

With the aim of acting as a retail group composed of competitive businesses centered on department stores, we have extended the breadth of our operations through initiatives that have included acquiring shares of PARCO, StylingLife Holdings and Forest, and making Senshukai an equity method associate in April 2015. Going forward, we will take steps to innovate each of our businesses, generate Group synergies, and strength the competitiveness and profitability of the entire Group.

**(Department Store Business)**

We aim to establish "A new department store business model," and are forging ahead with efforts geared to strengthening our capacity to serve markets in a manner aligned with the distinctive characteristics of the areas in which our individual stores operate, and revamping our management structure with the aim of boosting profitability. In fiscal 2016, we will work toward making our stores more appealing by creating sales space that is tailored to changes in the market and wins the backing of a wide range of customers, primarily by refurbishing our key stores such as the Matsuzakaya Nagoya store. We are also redoubling efforts to encourage new customers visiting our stores to become card members. We will also take steps to build customer loyalty through CRM (customer relationship management) efforts that will involve enticing customers to repeatedly visit our stores by offering them timely and appropriate information tailored to their specific preferences, as gleaned from card data analysis.

With respect to serving the affluent customer market, which is an area of strength in our Department Store Business, we will continue fortifying our efforts to gain new out-of-store customer accounts, while also working to upgrade both our product lineup in line with the needs of such customers and customer service. We will also redouble our efforts to serve our customers from overseas who are visiting Japan, a segment which is poised for further growth, through initiatives that include introducing services geared to the prime customer category.

**(PARCO Business)**

We will compensate for the adverse effects of the Shibuya PARCO's temporary closure during its rebuilding beginning in August 2016, and the Chiba PARCO's closure in November, through initiatives that involve promoting store-specific strategies tailored respectively to our "urban" and "community" store formats, communicating information using ICT solutions, and restructuring tenant merchandising operations including those focused on inbound tourism. At the same time, we will focus on cultivating business in major urban areas and bringing about greater market dominance of our stores.

We will open a new building at the Sendai PARCO in early summer 2016, along with a ZERO GATE as our second store in Hiroshima this autumn. Our efforts will also include promoting development plans geared to achieving growth next fiscal year and beyond. To that end, we will open stores under the PARCO business format in the new South Wing of the Matsuzakaya Ueno store which is now under construction and is slated to open for business in autumn 2017, and we will also open ZERO GATE stores in Kyoto and Sannomiya.

In addition, with respect to operations related to the PARCO Business, we will redouble our efforts involving new projects and promote initiatives to achieve greater external expansion.

**(Business Alliance with Senshukai)**

To draw on our strengths as a multifaceted retailer operating multiple businesses, we are taking on efforts that involve joint planning and mutual development of private brands for Daimaru Matsuzakaya Department Stores and Senshukai. These efforts will entail opening physical stores featuring Senshukai's "Kcarat" brand in Daimaru Matsuzakaya Department Stores beginning in March 2016, and making Daimaru Matsuzakaya Department Stores' "SOFUOL" brand available through Senshukai's e-commerce website. Going forward, we aim to increase sales of the "Kcarat" brand of original fashion products by venturing beyond offering the brand in our own retail stores and

online, through initiatives that involve opening street-level stores and making the brand available through commercial facilities and e-commerce websites externally. Also, given that Senshukai excels in the bridal, baby product and maternity segments, we will pursue joint initiatives in that regard and work to develop synergies with that company.

■ **Promoting omni-channel retailing**

We will promote omni-channel retailing drawing on diverse sales channels that include Daimaru Matsuzakaya Department Stores, PARCO and Senshukai. During fiscal 2016, we will respond to diversifying customer needs and purchasing patterns. This will involve swiftly enhancing our department store online shopping business platform by drawing on Senshukai's know-how in that regard, engaging in joint efforts between Daimaru Matsuzakaya Department Stores and Senshukai with respect to marketing, merchandise planning, promotions, customer intelligence, and other such operations, and offering products and services in a manner that extends beyond the physical store and online realms. In addition, we will promote initiatives geared to expanding our range of merchandise and developing new collaborative brands following on efforts with the "Kcarat" brand.

■ **Constructing a business model for growth along with regions in which it operates with its stores at the core of such growth (strategy of urban market dominance)**

We aim to ensure our survival amid a harsh competitive environment where the geographic areas in which Group stores operate are pitted against other localities. To that end, we are pursuing our "strategy of urban market dominance" where we help create vibrant communities, and achieve growth alongside those communities, by promoting urban development in a manner that enlists the support of Daimaru Matsuzakaya Department Stores, PARCO, Daimaru COM Development and other Group companies.

**(Ginza 6-chome District 10 Urban Redevelopment Project — the Ginza Redevelopment Project)**

The Ginza Redevelopment Project involves integrated redevelopment of an approximately 9,080 square-meter, two-block site located in the Ginza district of Chuo-ku, Tokyo, and encompassing the former site of the Matsuzakaya Ginza store.

Slated to open in April 2017, the complex will be world-class in terms of quality and one of the largest in the Ginza district. It will consist of commercial facilities with approximately 46,000 square meters (approximately 13,900 tsubo) of sales floor space, and large offices with single- floor leasable units of approximately 6,100 square meters (approximately 1,850 tsubo).

**(Plan for the rebuilding of the South Wing of the Matsuzakaya Ueno store)**

We are in the process of building the new South Wing of the Matsuzakaya Ueno store, which will consist of a department store, PARCO, TOHO Cinemas, offices and other facilities. Refurbishment of the Main Building was completed in spring 2014, and the new South Wing is slated for completion in autumn 2017. We are taking on other development projects mainly involving the Company's properties in the vicinity of the Matsuzakaya Ueno store, in the Okachimachi district where the store is located. Going forward, we will work with that community in efforts geared to attracting more visitors to the area and making it more vibrant.

**(Plan for the rebuilding of Main Building of the Daimaru Shinsaibashi store)**

To help make the Osaka-Shinsaibashi district more vibrant and to further revitalize the area, at the end of 2015 we temporarily closed the Main Building of the Daimaru Shinsaibashi store, and got started with construction to rebuild the facility. Slated to open for business in autumn 2019, the new Main Building will consist of three underground floors and 11 stories above ground, and feature a sales floor area of approximately 40,000 square meters. In spring 2021, the Main Building and North Wing will be connected, which will result in a more unified facility that is easier for people to navigate. At the same time, we will also continue to help make the area more dynamic by enlisting the entire Group in efforts to develop sites in the vicinity of the store.

**(Udagawa-cho 15 Development Project — plans for rebuilding the Shibuya PARCO)**

In December 2015, the government decided to proceed with an urban development plan in the special urban renaissance district situated on approximately 5,380 square meters of land in the Udagawa-cho 15 area, which encompasses the Shibuya PARCO Part 1 and Part 3, along with a commercial office complex which is also slated for development in that area. With our store situated in a pivotal location, we will promote initiatives aimed at making the town easier for people to navigate and fueling greater vibrancy in the area, while also engaging in efforts to educate and inform people about fashion and theater arts.

**(Sakae district of Nagoya City)**

In Nagoya City's Sakae district, location of a Matsuzakaya store and an adjacent PARCO store, we will pursue expansion such as has been the case with PARCO's opening of the Nagoya ZERO GATE store in October 2014 and "PARCO midi" in March 2015. Furthermore, we are moving forward with refurbishment plans that address changes in the market, with respect to both the Matsuzakaya Nagoya store and the Nagoya PARCO. Looking ahead, we will engage in development projects with the aim of revitalizing communities and efforts to fortify the competitive strengths of our stores.

## ■ Enhancing the financial strategy

We will redouble our efforts to formulate and promote our "Financial Strategy" with the aim of increasing our medium- to long-term corporate value. Specifically, this will involve implementing financial initiatives guided by the aims of generating free cash flows and improving return on equity, and to such ends we will further strengthen business management practices from the perspective of making profits in terms of net sales and operating income, and from the perspective of ensuring efficient use of assets and capital in a manner that is cognizant of the balance sheet and costs of capital. As a Group, we will optimally allocate our management resources, taking into account the need for improving our financial standing and monitoring trends in financial and capital markets. In so doing, we will take a flexible approach to securing funds in order to better pursue our growth strategy, while at the same time spelling out investment criteria with respect to development projects, store refurbishment, and merger and acquisition deals, while clarifying criteria for withdrawing from unprofitable and underperforming businesses.

## ■ Strengthening corporate governance

In December 2015, the Company established and disclosed its "Corporate Governance Guidelines," with the aim of ensuring sustainable growth of the Group and increasing its corporate value over the medium to long term by implementing the best possible corporate governance practices. The Company released its Corporate Governance Report on the same day, in conjunction with the Corporate Governance Guidelines.

The Corporate Governance Guidelines describe our ideals with respect to the Group's corporate governance, such as in terms of practices involving, "Relationships with Shareholders," "Information Disclosure," "Roles and Responsibilities of the Board of Directors, etc.," and other such content, including fundamental requirements of disclosure under Japan's Corporate Governance Code ("Group Philosophy," "Basic Ideas on Corporate Governance," and "Human Resources and Remuneration and Other Matters Involving Directors, Audit & Supervisory Board Members and Executive Officers"). We also disclosed information on matters including officer selection criteria, policy for determining officer remuneration, and basic policy regarding cross-shareholdings.

Going forward, we will work to address priority issues that include: 1.) improving the effectiveness of the Board of Directors by further drawing on the knowledge of Outside Directors and Outside Audit & Supervisory Board Members, while focusing on management strategy discussions involving proposals and 2.) improving functional capabilities of management personnel by strengthening the Personnel and Remuneration Committee and enhancing our managerial talent.

■ **Establishing the Group Vision and the next Medium-term Business Plan**

With the aim of achieving further Group-wide growth in fiscal 2017 and beyond, we will move forward in establishing a new Group Vision that illustrates where we would like to see ourselves in the future and pointing us in that direction, and also establishing our next Medium-term Business Plan.

We appreciate the continued support and encouragement of our shareholders.

### (5) Status of assets and profit or loss

(i) Changes in assets and profit or loss of the corporate group

(Millions of yen, unless otherwise stated)

| Category | 6th fiscal year (Fiscal 2012) | 7th fiscal year (Fiscal 2013) | 8th fiscal year (Fiscal 2014) | 9th fiscal year (Current fiscal year) (Fiscal 2015) |
|---|---|---|---|---|
| Net sales | 1,092,756 | 1,146,319 | 1,149,529 | 1,163,564 |
| Operating income | 30,857 | 41,816 | 42,167 | 48,038 |
| Ordinary income | 32,202 | 40,502 | 40,480 | 47,910 |
| Net income | 12,183 | 31,568 | 19,967 | 26,313 |
| Net income per share (Yen) | 23.05 | 59.77 | 75.66 | 100.42 |
| Total assets | 1,009,165 | 998,730 | 1,018,495 | 1,019,146 |
| Net assets | 390,667 | 422,215 | 430,260 | 440,594 |

(Notes) 1. The Company has conducted a consolidation of common shares at a rate of one share for every two shares with the effective date of September 1, 2014. Net income per share has been calculated as if this consolidation of shares was conducted at the beginning of the 8th fiscal year (fiscal 2014).
2. The Company has changed its inventory valuation method beginning with the current fiscal year. Respective financial figures have been revised based on the assumption of the change being implemented at the beginning of the 8th fiscal year (fiscal 2014).
3. The Company has adopted the Accounting Standard for Retirement Benefits, etc., beginning with the current fiscal year. As such, respective financial figures for the beginning of the 9th fiscal period (fiscal 2015) have been revised in line with transitional measures provided in Paragraph 37 of the Accounting Standard for Retirement Benefits.

(ii) Changes in assets and profit or loss of the Company

(Millions of yen, unless otherwise stated)

| Category | 6th fiscal year (Fiscal 2012) | 7th fiscal year (Fiscal 2013) | 8th fiscal year (Fiscal 2014) | 9th fiscal year (Current fiscal year) (Fiscal 2015) |
|---|---|---|---|---|
| Net sales | 22,744 | 8,983 | 11,147 | 12,213 |
| Operating income | 20,394 | 6,280 | 8,391 | 9,194 |
| Ordinary income | 19,972 | 6,398 | 8,460 | 9,201 |
| Net income | 19,930 | 12,405 | 8,388 | 6,872 |
| Net income per share (Yen) | 37.69 | 23.48 | 31.77 | 26.22 |
| Total assets | 450,201 | 438,491 | 429,226 | 428,175 |
| Net assets | 299,508 | 306,654 | 308,681 | 303,737 |

(Note) The Company has conducted a consolidation of common shares at a rate of one share for every two shares with the effective date of September 1, 2014. Net income per share has been calculated as if this consolidation of shares was conducted at the beginning of the 8th fiscal year (fiscal 2014).

**(6) Status of significant parent company and subsidiaries**

(i) Relationship with the parent company

No items to report.

(ii) Status of major subsidiaries

| Name | Capital (Millions of yen unless otherwise stated) | Ratio of ownership by the Company (%) | Major business |
|---|---|---|---|
| Daimaru Matsuzakaya Department Stores Co. Ltd. | 10,000 | 100.0 | Department Store Business |
| The Hakata Daimaru, Inc. | 3,037 | 69.9 | Department Store Business |
| The Shimonoseki Daimaru, Inc. | 480 | 100.0 | Department Store Business |
| Kochi Daimaru Co., Ltd. | 300 | 100.0 | Department Store Business |
| PARCO Co., Ltd. | 34,367 | 64.9 | PARCO Business |
| Parco (Singapore) Pte Ltd | S$4 million | 64.9 | PARCO Business |
| NEUVE A Co., Ltd. | 490 | 64.9 | PARCO Business |
| PARCO SPACE SYSTEMS Co., Ltd. | 490 | 64.9 | PARCO Business |
| PARCO-CITY Co., Ltd. | 10 | 64.9 | PARCO Business |
| Daimaru Kogyo, Ltd. | 1,800 | 100.0 | Wholesale Business |
| Daimaru Kogyo International Trading (Shanghai) Co., Ltd. | US$2 million | 100.0 | Wholesale Business |
| Daimaru Kogyo (Thailand) Co., Ltd. | THB202 million | 99.9 | Wholesale Business |
| Taiwan Daimaru Kogyo, Ltd. | NT$60 million | 100.0 | Wholesale Business |
| JFR Card Co., Ltd. | 100 | 100.0 | Credit Business |
| J. Front Design & Construction Co., Ltd. | 100 | 100.0 | Design and construction contracting and manufacture and sale of furniture |
| JFR Online Co. Ltd. | 100 | 100.0 | Direct marketing |
| Dimples' Co., Ltd. | 90 | 100.0 | Staffing service |
| J. Front Foods Co., Ltd. | 100 | 100.0 | Restaurant |
| Daimaru COM Development Inc. | 50 | 100.0 | Real estate leasing and tenant service |
| Consumer Product End-Use Research Institute Co., Ltd. | 450 | 100.0 | Merchandise test and quality control |
| JFR PLAZA Inc. | NT$185 million | 90.0 | General merchandise retailing |
| Forest Co., Ltd. | 90 | 72.9 | Direct marketing |
| Angel Park Co., Ltd. | 400 | 50.2 | Parking |
| JFR Office Support Co., Ltd. | 100 | 100.0 | Commissioned back-office service |
| JFR Service Co. Ltd. | 100 | 100.0 | Leasing and parking management |
| JFR Consulting Co. Ltd. | 100 | 100.0 | Consulting |
| JFR Information Center Co., Ltd. | 10 | 100.0 | Information service |
| Daimaru Matsuzakaya Sales Associates Co. Ltd. | 90 | 100.0 | Commissioned sales and store management operations |
| Daimaru Matsuzakaya Tomonokai Co., Ltd. | 100 | 100.0 | Specified prepaid transaction service |

(iii) Matters relating to specified wholly-owned subsidiaries

(Millions of yen)

| Name | Address | Total book value | Total assets of the Company |
|---|---|---|---|
| Daimaru Matsuzakaya Department Stores Co. Ltd. | 18-11 Kiba 2-chome, Koto-ku, Tokyo | 222,080 | 428,175 |

**(7) Major businesses**

The Department Store Business, the PARCO Business, the Wholesale Business, the Credit Business, and the Other Businesses including design and construction contracting and direct marketing.

**(8) Major sales offices**

(Department Store Business)

| Name | | Location | Name | | Location |
|---|---|---|---|---|---|
| Daimaru Matsuzakaya Department Stores Co. Ltd. | | | | | |
| | Head Office | Koto-ku, Tokyo | Matsuzakaya | Nagoya store | Naka-ku, Nagoya |
| Daimaru | Osaka Shinsaibashi store | Chuo-ku, Osaka | | Ueno store | Taito-ku, Tokyo |
| | Osaka Umeda store | Kita-ku, Osaka | | Shizuoka store | Aoi-ku, Shizuoka |
| | Tokyo store | Chiyoda-ku, Tokyo | | Takatsuki store | Takatsuki, Osaka |
| | Urawa Parco store | Urawa-ku, Saitama | | Toyota store | Toyota, Aichi |
| | Kyoto store | Shimogyo-ku, Kyoto | The Hakata Daimaru, Inc. | | Chuo-ku, Fukuoka |
| | Yamashina store | Yamashina-ku, Kyoto | | | |
| | Kobe store | Chuo-ku, Kobe | The Shimonoseki Daimaru, Inc. | | Shimonoseki, Yamaguchi |
| | Suma store | Suma-ku, Kobe | | | |
| | Ashiya store | Ashiya, Hyogo | Kochi Daimaru Co., Ltd. | | Kochi, Kochi |
| | Sapporo store | Chuo-ku, Sapporo | | | |

(PARCO Business)

| Name | | Location | Name | | Location |
|---|---|---|---|---|---|
| PARCO Co., Ltd. | | | | | |
| | Headquarters | Toshima-ku, Tokyo | | Matsumoto PARCO | Matsumoto, Nagano |
| | Shibuya Head Office | Shibuya-ku, Tokyo | | Shizuoka PARCO | Aoi-ku, Shizuoka |
| | Sapporo PARCO | Chuo-ku, Sapporo | | Nagoya PARCO | Naka-ku, Nagoya |
| | Sendai PARCO | Aoba-ku, Sendai | | Otsu PARCO | Otsu, Shiga |
| | Utsunomiya PARCO | Utsunomiya, Tochigi | | Hiroshima PARCO | Naka-ku, Hiroshima |
| | Urawa PARCO | Urawa-ku, Saitama | | Fukuoka PARCO | Chuo-ku, Fukuoka |
| | Shintokorozawa PARCO | Tokorozawa, Saitama | | Kumamoto PARCO | Chuo-ku, Kumamoto |
| | Ikebukuro PARCO | Toshima-ku, Tokyo | | Sapporo ZERO GATE | Chuo-ku, Sapporo |
| | Shibuya PARCO | Shibuya-ku, Tokyo | | Nagoya ZERO GATE | Naka-ku, Nagoya |
| | Hibarigaoka PARCO | Nishi-Tokyo, Tokyo | | Shinsaibashi ZERO GATE | Chuo-ku, Osaka |
| | Kichijoji PARCO | Musashino, Tokyo | | Dotonbori ZERO GATE | Chuo-ku, Osaka |
| | Chofu PARCO | Chofu, Tokyo | | Hiroshima ZERO GATE | Naka-ku, Hiroshima |
| | Tsudanuma PARCO | Funabashi, Chiba | | PediSHIODOME | Minato-ku, Tokyo |
| | Chiba PARCO | Chuo-ku, Chiba | | | |
| NEUVE A Co., Ltd. | | Shibuya-ku, Tokyo | PARCO SPACE SYSTEMS Co., Ltd. | | Shibuya-ku, Tokyo |
| PARCO-CITY Co., Ltd. | | Shibuya-ku, Tokyo | Parco (Singapore) Pte Ltd | | Singapore |

(Wholesale Business)

| Name | Location |
|---|---|
| Daimaru Kogyo, Ltd. | Head Office: Chuo-ku, Osaka<br>Office: Tokyo 1, Nagoya 1, Nagano 1, Oita 1, Overseas 5 |
| Daimaru Kogyo International Trading (Shanghai) Co., Ltd. | Head Office: Shanghai, China |
| Daimaru Kogyo (Thailand) Co., Ltd. | Head Office: Bangkok, Thailand |
| Taiwan Daimaru Kogyo, Ltd. | Head Office: Taipei, Taiwan |

(Credit Business)

| Name | Location |
|---|---|
| JFR Card Co., Ltd. | Head Office: Takatsuki, Osaka<br>Office: Tokyo 2, Osaka 2, Kyoto 1, Kobe 1, Sapporo 1, Nagoya 1, Shizuoka 1 |

(Other subsidiaries)

| |
|---|
| Head Office: Tokyo 2, Osaka 9, Kobe 1, Nagoya 1, Saitama 1, Taiwan 1 |

**(9) Status of employees**

(i) Employees of the corporate group

| Category | Number of employees |
|---|---|
| J. FRONT RETAILING Co., Ltd. | 112 |
| Department Store Business | 2,615 |
| PARCO Business | 1,496 |
| Wholesale Business | 198 |
| Credit Business | 114 |
| Other Businesses | 2,503 |
| Total | 7,038 |

(Note) Other than the employees shown above, the average number of temporary employees during the period is 3,985.

(ii) Employees of the Company

| Number of employees | Average age |
|---|---|
| 112 | 45.1 |

(Note) Other than the employees shown above, the average number of temporary employees during the period is 13.

(iii) Employees of major subsidiaries

| Name | Number of employees | Average age |
|---|---|---|
| Daimaru Matsuzakaya Department Stores Co. Ltd. | 2,029 | 46.1 |
| PARCO Co., Ltd. | 477 | 41.5 |
| Daimaru Kogyo, Ltd. | 164 | 44.0 |

### (10) Status of major creditors

**Major creditors of the corporate group**

(Millions of yen)

| Creditor | Amount payable | Creditor | Amount payable |
|---|---|---|---|
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 33,909 | Development Bank of Japan Inc. | 12,225 |
| Sumitomo Mitsui Banking Corporation | 15,635 | Mizuho Bank, Ltd. | 11,675 |

### (11) Other important matters relating to current status of the corporate group

No items to report.

## 2. Matters relating to shares of the Company

**(1) Number of shares authorized:** 1,000,000,000 shares

**(2) Number of shares issued:** 268,119,164 shares

**(3) Number of shareholders:** 86,095

**(4) Major shareholders**

| Name of shareholders | Number of shares held (Thousands of shares) | Shareholding ratio (%) |
|---|---|---|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 15,914 | 6.08 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 13,583 | 5.19 |
| Nippon Life Insurance Company | 9,828 | 3.75 |
| Trust & Custody Services Bank, Ltd. (Investment Trust Collateral Account) | 7,565 | 2.89 |
| J. Front Retailing Kyoei Supplier Shareholding Association | 6,318 | 2.41 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 6,250 | 2.38 |
| The Dai-ichi Mutual Life Insurance Company | 5,732 | 2.19 |
| Japan Trustee Services Bank, Ltd. (Trust Account 9) | 3,666 | 1.40 |
| STATE STREET BANK WEST CLIENT - TREATY 505234（Standing Proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.) | 3,348 | 1.28 |
| Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account re-entrusted by Sumitomo Mitsui Trust Bank, Limited) | 3,204 | 1.22 |

(Note) Shareholding ratio is calculated by deducting treasury shares (6,575 thousand shares).

## 3. Matters relating to subscription rights to shares of the Company

### (1) Status of subscription rights to shares held by the Company's Officers, etc. and granted as remuneration for the duties performed at the end of the fiscal year

5th subscription rights to shares of J. Front Retailing Co., Ltd. (*September 3, 2007)

* In accordance with a share transfer carried out on September 3, 2007, these were granted in lieu of subscription rights to shares issued by Matsuzakaya Co., Ltd.

(i) Persons and number of holders of subscription rights to shares (number of shares to be issued upon exercise of subscription rights to shares)

Directors 1 (8,500 shares)

(ii) Class of shares to be issued upon exercise of subscription rights to shares

Common shares of the Company

(iii) Amount to be paid in for subscription rights to shares

¥635,000 per each subscription right to shares (¥1,270 per share)

(iv) The value of assets to be contributed upon exercise of subscription rights to shares

¥500 per each subscription right to shares (¥1 per share)

(v) Exercise period of subscription rights to shares

September 3, 2007 to July 14, 2026

(vi) Main conditions for exercise of subscription rights to shares

a. A holder of subscription rights to shares who holds a position of either Director, Audit & Supervisory Board Member or Executive Officer of the Company or any of its subsidiaries during the period in (v) shall not be able to exercise subscription rights to shares.

b. A holder of subscription rights to shares shall exercise the rights only during a period of ten days starting on the day immediately following the day on which the holder loses his/her position of either Director, Audit & Supervisory Board Member or Executive Officer of the Company or any of its subsidiaries.

c. If a holder of subscription rights to shares is unable to exercise the rights due to holding a position of either Director, Audit & Supervisory Board Member or Executive Officer of the Company or any of its subsidiaries until July 14, 2025, the said holder of subscription rights to shares shall exercise the rights from July 15, 2025 to July 14, 2026.

d. A holder of subscription rights to shares who relinquishes his/her subscription rights to shares shall not be able to exercise such rights.

(vii) Main provisions for acquisition of subscription rights to shares

Not provided.

(viii) Transfer of subscription rights to shares

Transfer of subscription rights to shares shall be subject to approval by resolution of the Company's Board of Directors.

(ix) Particularly advantageous terms

No items to report.

### (2) Status of subscription rights to shares granted as remuneration for the duties performed during the fiscal year

No items to report.

## 4. Matters relating to corporate officers

### (1) Names, etc. of Directors and Audit & Supervisory Board Members

| Position in the Company | Name | Areas of responsibility in the Company and important concurrent positions outside the Company |
|---|---|---|
| Chairman (Representative Director) | SAMURA Shunichi | |
| President (Representative Director) | YAMAMOTO Ryoichi | |
| Director | YOSHIMOTO Tatsuya | President of Daimaru Matsuzakaya Department Stores Co. Ltd.<br>President of Daimaru Matsuzakaya Sales Associates Co. Ltd. |
| Director | MAKIYAMA Kozo | Director, President and Representative Executive Officer of PARCO Co., Ltd. |
| Director and Senior Managing Executive Officer | KOBAYASHI Yasuyuki | Senior Executive General Manager of Affiliated Business Unit<br>External Director of PARCO Co., Ltd. |
| Director and Managing Executive Officer | FUJINO Haruyoshi | Senior Executive General Manager of Management Strategy Unit<br>External Director of PARCO Co., Ltd.<br>Outside Director of Hakuseisha Co., Ltd. |
| Director and Managing Executive Officer | DOI Zenichi | Senior Executive General Manager of Administration Unit and in charge of Compliance and Risk Management |
| Director | TACHIBANA FUKUSHIMA Sakie | President and Representative Director of G&S Global Advisors Inc.<br>Outside Director of Bridgestone Corporation<br>Outside Director of Ajinomoto Co., Inc.<br>Outside Director of Mitsubishi Corporation |
| Director | OTA Yoshikatsu | Special Advisor of KONICA MINOLTA, INC.<br>Outside Director of YAMAHA CORPORATION |
| Audit & Supervisory Board Member | TSURUTA Rokurou | Attorney at law<br>Outside Director of TPR Co., Ltd.<br>Outside Audit & Supervisory Board Member of Sumitomo Mitsui Financial Group, Inc.<br>Outside Member of the Board of Directors of KYB Corporation |
| Audit & Supervisory Board Member | ISHII Yasuo | Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co. Ltd. |
| Audit & Supervisory Board Member | NISHIKAWA Koichiro | Outside Director of Kyowa Hakko Kirin Co., Ltd<br>Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co. Ltd. |
| Audit & Supervisory Board Member (full-time) | OCHI Bunshiro | Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co. Ltd. |
| Audit & Supervisory Board Member (full-time) | KATO Yoichi | Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co. Ltd. |

(Notes) 1. Tachibana Fukushima Sakie and Ota Yoshikatsu are Outside Directors.
2. Tsuruta Rokurou, Ishii Yasuo and Nishikawa Koichiro are Outside Audit & Supervisory Board Members.

(Reference)

○ Executive Officers of the Company as of February 29, 2016 are as follows (excluding ones concurrently serving as Director).

| Position in the Company | Name | Areas of responsibility in the Company and important concurrent positions outside the Company |
|---|---|---|
| Executive Officer | IMAZU Takahiro | Senior General Manager of Management Planning, Management Strategy Unit |
| Executive Officer | ENOMOTO Tomohiko | Senior General Manager of Group ICT Strategy Promotion, Management Strategy Unit |
| Executive Officer | TADATSU Takehiko | Group Organization and Personnel Policy, Management Strategy Unit and Executive Officer and Senior General Manager of Human Resources Division of Daimaru Matsuzakaya Department Stores Co. Ltd. |
| Executive Officer | KUBOI Satori | Senior General Manager of Affiliated Business, Affiliated Business Unit |
| Executive Officer | TSUTSUMI Hiroyuki | Senior General Manager of Finance Division, Administration Unit |
| Executive Officer | WAKABAYASHI Hayato | Financial Strategy and Policy, Administration Unit |

(Note) On March 1, 2016, "Areas of responsibility in the Company and important concurrent positions outside the Company" for an Executive Officer was changed as follows.

| Name | Areas of responsibility in the Company and important concurrent positions outside the Company |
|---|---|
| IMAZU Takahiro | Senior General Manager of Group Management Strategy Promotion, Management Strategy Unit |
| WAKABAYASHI Hayato | Senior Executive General Manager of Financial Strategy Unit and in charge of Finance Policy |
| TSUTSUMI Hiroyuki | Senior General Manager of Finance and Accounting, Financial Strategy Unit |

Please note that Enomoto Tomohiko retired from his office on March 1, 2016.

**(2) Attendance of Directors and Audit & Supervisory Board Members at meetings of the Board of Directors**

(i) Attendance of Directors at meetings of the Board of Directors

Samura Shunichi, Yamamoto Ryoichi, Yoshimoto Tatsuya, Makiyama Kozo, Kobayashi Yasuyuki, Fujino Haruyoshi and Tachibana Fukushima Sakie attended all 16 meetings of the Board of Directors held during the current fiscal year.

In addition, Doi Zenichi and Ota Yoshikatsu attended all 12 meetings of the Board of Directors held during the current fiscal year, subsequent to their appointment as Directors.

(ii) Attendance of Audit & Supervisory Board Members at meetings of the Board of Directors

Tsuruta Rokurou attended 15 of the 16 meetings of the Board of Directors held during the current fiscal year.

In addition, Ishii Yasuo, Nishikawa Koichiro, Ochi Bunshiro and Kato Yoichi attended all 12 meetings of the Board of Directors held during the current fiscal year, subsequent to their appointment as Audit & Supervisory Board Members.

**(3) Total amount of remuneration, etc. to Directors and Audit & Supervisory Board Members**

| | Number of payees | Total amount of remuneration, etc. (Millions of yen) |
|---|---|---|
| Director | 11 | 312 |
| [of which, Outside Director] | [ 3] | [ 23] |
| Audit & Supervisory Board Member | 9 | 42 |
| [of which, Outside Audit & Supervisory Board Member] | [ 5] | [ 20] |
| Total | 20 | 355 |

(Notes) 1. The total amount of remuneration, etc. includes ¥89 million in bonuses for Directors and Audit & Supervisory Board Members scheduled for approval at the 9th Annual Shareholders Meeting.

2. Other than the above, the total amount of remuneration, etc. received by Outside Audit & Supervisory Board Members from subsidiaries of the Company in the current fiscal year is ¥10 million.
3. The maximum remuneration for Directors is set at ¥50 million per month by resolution of the Annual Shareholders Meeting held in May 2008.
4. The maximum remuneration for Audit & Supervisory Board Members is set at ¥7 million per month by resolution of the Annual Shareholders Meeting held in May 2008.

**(4) Outline of method for determining policy regarding decisions on amounts of remuneration, etc. of each corporate officer or calculation method thereof, and contents of such policy**

(i) Policy on determining remuneration of Directors and Audit & Supervisory Board Members

For the current fiscal year (fiscal 2015), remuneration of the Company's Directors and Audit & Supervisory Board Members consists of monthly compensation, as well as bonuses for Directors and Audit & Supervisory Board Members which are tied to results and success in accordance with each year's business performance.

With respect to fiscal 2016 remuneration of the Company's Directors and Audit & Supervisory Board Members, we plan to make the following changes applicable to amounts paid for June 2016 and thereafter.

**Remuneration of Internal Directors**

- The Company has increased the proportion of bonuses for Directors and Audit & Supervisory Board Members (performance-based remuneration) in terms of total remuneration, with monthly compensation at 60% and bonuses for Directors and Audit & Supervisory Board Members at 40% (standard ranking), in order to provide incentives both for accomplishing objectives set under management strategies and business plans, and for achieving targets with respect to corporate performance.

**Remuneration of Outside Directors and Audit & Supervisory Board Members (both internal and outside)**

- The Company will discontinue bonuses for Directors and Audit & Supervisory Board Members and provide monthly compensation only.

In conjunction with that, with the aim of ensuring that the Group achieves sustainable growth and increases corporate value over the medium to long term, the Company aims to introduce remuneration for Internal Directors linked to their medium- to long-term performance (stock-based remuneration, etc.) beginning in fiscal 2017, and will forge ahead in reviewing such options.

(ii) Procedures for determining remuneration for Directors and Audit & Supervisory Board Members

The total monthly remuneration amount for the Company's Directors and Audit & Supervisory Board Members will be limited to that set upon passage of a resolution of a shareholders meeting, and the total amount of bonuses for Directors and Audit & Supervisory Board Members for the fiscal year will be that set upon passage of a resolution of an annual shareholders meeting held every fiscal year. The specific amounts of remuneration paid to respective Directors will be set based on standards for officer remuneration that are determined beforehand, and will be determined on the basis of respective performance evaluations conducted each fiscal year. Such amounts will be deliberated on and decided by the Human Resources and Remuneration Committee, which has a majority membership composed of Outside Directors and Outside Audit & Supervisory Board Members, and which is also chaired by an Outside Director. The committee will then report such details to the Board of Directors. The amount of remuneration paid to respective Audit & Supervisory Board Members will also be deliberated on by the Human Resources and Remuneration Committee, and such details will be subsequently reported to all Audit & Supervisory Board Members.

### (5) Matters relating to Outside Directors and Outside Audit & Supervisory Board Members

[Outside Director]

| | | TACHIBANA FUKUSHIMA Sakie | OTA Yoshikatsu |
|---|---|---|---|
| A. | Important concurrent positions | President and Representative Director of G&S Global Advisors Inc.<br>Outside Director of Bridgestone Corporation<br>Outside Director of Ajinomoto Co., Inc.<br>Outside Director of Mitsubishi Corporation | Special Advisor of KONICA MINOLTA, INC.<br>Outside Director of YAMAHA CORPORATION |
| | Relationship with the Company | No special relationships exist | No special relationships exist |
| B. | Relationship with specified affiliated business operator | No items to report | No items to report |
| C. | Major activities during current fiscal year | Tachibana Fukushima Sakie attended all 16 meetings of the Board of Directors held during the current fiscal year.<br>She contributes to ensuring more effective meetings of the Board of Directors by drawing on points of view and perspectives that vary from those of the Internal Directors in providing advice and oversight with respect to the direction of overall management and other such matters. She does so based on her in-depth understanding regarding globally-minded human resources and her abundant experience and knowledge as an international corporate manager.<br>Moreover, she serves as the chairman of the Human Resources and Remuneration Committee which acts as an advisory committee to the Board of Directors, and helps ensure transparency and objectivity in matters of staffing and remuneration involving the management team. | Ota Yoshikatsu attended all 12 meetings of the Board of Directors held during the fiscal year, subsequent to his appointment as a Director.<br>He contributes to ensuring more effective meetings of the Board of Directors by drawing on points of view and perspectives that vary from those of the Internal Directors in providing advice and oversight with respect to promoting Group management and other such matters. He does so based on his extensive experience and abundant knowledge as a corporate manager, underpinned by his background which includes promoting the corporate merger between Minolta Co., Ltd. and Konica Corporation, acting as a manager of a company that, like this Company, is a holding company, and serving as a chairman of the board of directors of a company with three committees (nomination, audit and remuneration committees).<br>Moreover, he serves as a member of the Human Resources and Remuneration Committee which acts as an advisory committee to the Board of Directors, and helps ensure transparency and objectivity in matters involving the appointment of executives. |

(Note) Outside Directors Tachibana Fukushima Sakie and Ota Yoshikatsu are independent officers, which are required to be put in place by Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc. for the protection of general shareholders.

[Outside Audit & Supervisory Board Member]

| | | TSURUTA Rokurou | ISHII Yasuo | NISHIKAWA Koichiro |
|---|---|---|---|---|
| A. | Important concurrent positions | Attorney at law<br>Outside Director of TPR Co., Ltd.<br>Outside Audit & Supervisory Board Member of Sumitomo Mitsui Financial Group, Inc.<br>Outside Member of the Board of Directors of KYB Corporation | Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co. Ltd. | Outside Director of Kyowa Hakko Kirin Co., Ltd<br>Audit & Supervisory Board Member of Daimaru Matsuzakaya Department Stores Co. Ltd. |
| | Relationship with the Company | No special relationships exist | No special relationships exist | No special relationships exist |
| B. | Relationship with specified affiliated business operator | No items to report | No items to report | No items to report |
| C. | Major activities during current fiscal year | Tsuruta Rokurou attended 15 of the 16 meetings of the Board of Directors held during the current fiscal year. He contributes to ensuring more effective meetings of the Board of Directors by actively and assertively furnishing advice, recommendations and other feedback to the Board of Directors, with respect to matters such as regulatory compliance in managing operations such as internal controls and audits. He does so based on his in-depth understanding of legal affairs as a legal professional. Moreover, he serves as a member of the Human Resources and Remuneration Committee which acts as an advisory committee to the Board of Directors, and helps ensure transparency and objectivity in matters involving the appointment of executives.<br>In addition, he attended 14 of the 15 meetings of the Audit & Supervisory Board held during the current fiscal year, where his input included exchanging opinions on audit results and participating in deliberations on important audit matters. | Ishii Yasuo attended all 12 meetings of the Board of Directors held during the fiscal year, subsequent to his appointment as an Audit & Supervisory Board Member. He contributes to ensuring more effective meetings of the Board of Directors by actively and assertively furnishing advice, recommendations and other feedback to the Board of Directors, with respect to concepts of management strategy and other such matters. He does so based on his longstanding experience working abroad, along with his abundant experience and suitable knowledge in the field of global management outside the retail industry, encompassing expertise in developing business overseas. Moreover, drawing on his experience as a director of a company with an audit & supervisory board, he furnishes advice on heightening precision with respect to initiatives of the Board of Directors and the Audit & Supervisory Board operating under the company with an audit & supervisory board.<br>He attended all 11 meetings of the Audit & Supervisory Board held during the fiscal year subsequent to his appointment as an Audit & Supervisory Board Member, accordingly exchanging opinions on audit results and participating in deliberations on important audit matters. | Nishikawa Koichiro attended all 12 meetings of the Board of Directors held during the fiscal year, subsequent to his appointment as an Audit & Supervisory Board Member. He contributes to ensuring more effective meetings of the Board of Directors by actively and assertively furnishing advice, recommendations and other feedback to the Board of Directors, with respect to matters such as taking risks regarding new business and M&As. He has been involved in business alliances, M&A activities, management reforms and other such endeavors, and also has suitable knowledge from a financial perspective gained through his experience being involved in important international negotiations on many occasions.<br>He attended all 11 meetings of the Audit & Supervisory Board held during the fiscal year subsequent to his appointment as an Audit & Supervisory Board Member, accordingly exchanging opinions on audit results and participating in deliberations on important audit matters. |

(Note) The three above-mentioned Outside Audit & Supervisory Board Members are independent officers, which are required to be put in place by Tokyo Stock Exchange, Inc. and Nagoya Stock Exchange, Inc. for the protection of general shareholders.

**(6) Outline of limited liability agreements**

The Company enters into agreements limiting liability for damages such that are stipulated in Paragraph 1, Article 423 of the Companies Act, pursuant to Paragraph 1, Article 427 of the said Act, with Outside Directors Tachibana Fukushima Sakie and Ota Yoshikatsu, and with full-time Audit & Supervisory Board Members Ochi Bunshiro and Kato Yoichi, and with Outside Audit & Supervisory Board Members Tsuruta Rokurou, Ishii Yasuo and Nishikawa Koichiro. These agreements limit the amount of their liability for damages to the higher of either ¥12,000,000 or the minimum amount of liability such that is stipulated in Paragraph 1, Article 425 of the said Act.

## 5. Matters relating to Accounting Auditor

### (1) Name of Accounting Auditor

Ernst & Young ShinNihon LLC

### (2) Amount of remuneration, etc. of Accounting Auditor

| | |
|---|---|
| (i) Amount of remuneration, etc. to be paid by the Company | ¥65 million |
| (ii) Total cash and other financial profits to be paid by the Company and its subsidiaries | ¥167 million |

(Notes) 1. Among the significant subsidiaries of the Company, PARCO Co., Ltd. and its 4 subsidiaries are audited by auditing firms other than the Accounting Auditor of the Company. PARCO Co., Ltd. is audited by KPMG AZSA LLC.

2. The audit agreement entered into by the Accounting Auditor and the Company does not clearly distinguish the amount being derived from the audit under the Companies Act and that being derived from the audit under the Financial Instruments and Exchange Act, and the two amounts cannot be practically distinguished from each other. Therefore, the amount in (i) above indicates the total of these two kinds of amounts.

### (3) Content of non-audit service

Consulting service for the introduction of International Financial Reporting Standards (IFRS)

### (4) Rationale for Audit & Supervisory Board's agreement on remuneration of the Accounting Auditor

The Audit & Supervisory Board furnished its agreement with respect to the amount of remuneration, etc. provided to the Accounting Auditor upon conducting a review regarding audit appropriateness with respect to the Accounting Auditor's audit plan, its execution of duties, the basis used for calculating remuneration estimates and other factors.

### (5) Policy for determining dismissal or non-reappointment of Accounting Auditor

The Audit & Supervisory Board is to take necessary measures that include dismissing the Accounting Auditor upon gaining consent of all Audit & Supervisory Board Members, or otherwise making a decision on proposals to dismiss or not reappoint the Accounting Auditor submitted to the Shareholders Meeting, in the event that the Audit & Supervisory Board deems it appropriate to dismiss or otherwise not reappoint the Accounting Auditor, either if there are grounds for dismissal as provided for in Article 340, Paragraph 1 of the Companies Act of Japan, or if a situation arises whereby the audit of the Company has been significantly impeded such as would be the case if the supervisory authorities were to issue an order requiring suspension of auditing activities.

### (6) Business suspension imposed on Accounting Auditor during the current fiscal year

Details regarding disciplinary action announced by Japan's Financial Services Agency (FSA) on December 22, 2015, are as follows.

(i) Entity subject to disciplinary action

Ernst & Young ShinNihon LLC

(ii) Details of disciplinary action

- Three-month suspension of operations related to conclusion of new contracts (January 1, 2016 to March 31, 2016)
- Business improvement order

(iii) Grounds for disciplinary action

A) With respect to Ernst & Young ShinNihon LLC's audit of Toshiba Corporation's financial statements for the fiscal years ended March 31, 2010, 2012 and 2013, seven certified public accountants acted in negligence of due care by having attested that those financial statements contained no material misstatements, even though those statements did in fact contain material misstatements.

B) The audit firm's operations were deemed conspicuously inappropriate.

On January 22, 2016, the FSA made the decision to impose a ¥2,111,000,000 fine.

## 6. Basic Ideas on Corporate Governance

### (1) Role of Corporate Governance

We believe that ensuring sustainable growth of the JFR Group and increasing corporate value over the medium to long term is paramount to realizing ideals of the Group Philosophy. Accordingly, the role of corporate governance in the JFR Group must be to help enable us to realize the ideals of the Group Philosophy.

The Company assumes responsibility as a pure holding company for ensuring managerial transparency, soundness and compliance centered on corporate governance of the JFR Group, with the aim of realizing the ideals of the Group Philosophy.

### (2) Relationship with Shareholders

Our shareholders are the providers of the Company's capital and act as the main source of the JFR Group's corporate governance. Accordingly, the Company respects shareholder rights to the maximum extent (including those of minority shareholders and foreign shareholders), and substantively ensures their rights.

The Company treats its shareholders equitably and impartially, in accordance with types and numbers of shares held by shareholders. Moreover, neither the Company nor the JFR Group provides property benefits to any person, such that relate to the exercise of the rights of specific shareholders.

### (3) Information Disclosure

We believe that promoting constructive dialogue with our shareholders and investors helps the JFR Group achieve sustainable growth while increasing corporate value over the medium to long term. The Company is committed to timely and appropriate disclosure of information premised on constructive dialogue, and through such initiatives maintains and develops trusting relations with its stakeholders.

The Company discloses important information of the JFR Group in a timely and appropriate manner, in accordance with Japan's Financial Instruments and Exchange Act and other such laws and regulations, as well as in accordance with rules for timely disclosure stipulated by financial instruments exchanges on which the Company's shares are listed. Even in cases where such laws, regulations and the timely disclosure rules do not apply, the Company recognizes information deemed useful to shareholders, investors and other stakeholders as important with respect to its corporate activities as called for by society. As such, the Company proactively discloses such information in an impartial and swift manner using appropriate means, and with the added aim of facilitating more extensive understanding regarding the JFR Group.

**(4) Roles and Responsibilities of the Board of Directors, etc.**

Directors and Audit & Supervisory Board Members, who are appointed by the shareholders and are entrusted with management of the Company, are to carry out the roles and responsibilities in the Board of Directors as listed below. They are to do so in accordance with of their fiduciary responsibility and accountability to shareholders, and with the aim of realizing the ideals of the Group Philosophy. Accordingly, these roles and responsibilities include:

(i) Indicating the overall direction that Group management is to take, by engaging in constructive discussions with respect to the vision, management strategies, business plans and other fundamental management policies, and carrying out multifaceted and objective deliberations that include evaluation of risks with respect to the aforementioned;

(ii) Making swift and resolute decisions regarding important matters of business execution involving Group management on the basis of the direction noted above, while ensuring that the decision-making process is transparent, fair and rational;

(iii) Tracking progress of management strategies and business plans, and also determining matters of staffing and remuneration involving the management team on the basis of assessing the aforementioned;

(iv) Taking steps to build and develop internal control systems of the JFR Group overall, and otherwise overseeing the operational status of such systems;

(v) Overseeing conflicts of interest between related parties; and

(vi) Drawing up plans regarding successors (next senior management team) and overseeing progress made in that regard.

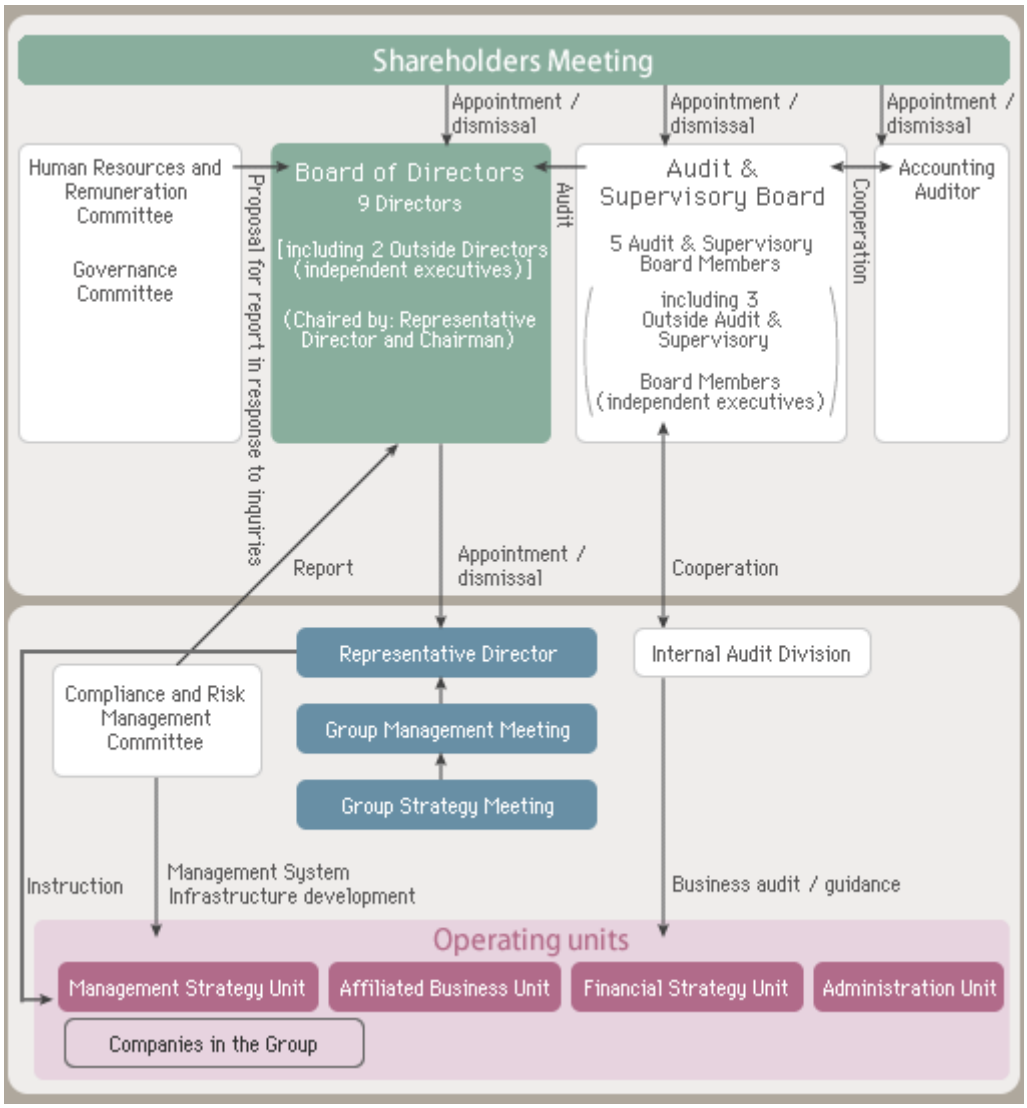
The Company has recently adopted the company with an Audit & Supervisory Board organizational structure*. Rationale used in adopting this structure is as described below.

(i) Under the structure, responsible persons who execute business of respective JFR Group businesses ensure that tasks are executed in a cohesive and ongoing manner by taking part in meetings of the Board of Directors where those involved deliberate and make decisions on important matters relating to business of the Group.

(ii) The structure provides a rational means of carrying out audits for the purpose of ensuring legal compliance of Group management. Accordingly, Audit & Supervisory Board Members whose independence and autonomy are legally ensured perform highly objective audits, and full-time Audit & Supervisory Board Members perform extremely precise audits drawing on sophisticated capabilities to gather information.

Moreover, under the company with an Audit & Supervisory Board structure, multiple independent Outside Directors are appointed to supplement functions of the Board of Directors, particularly with the aim of ensuring the effectiveness of the oversight function. Meanwhile, we take initiatives to enhance functions of the Board of Directors by establishing the Human Resources and Remuneration Committee and the Governance Committee to act as advisory committees of the Board of Directors.

*) We continually review options for adopting optimal systems with respect to the Company's organizational structure (involves selecting a corporate governance structure among options that include the company with an Audit & Supervisory Board, company with supervisory committee, and company with three committees {nomination, audit and remuneration committees} structures) and with respect to making use of Internal Directors who do not execute business, in order to further heighten the effectiveness of our corporate governance, and to help the JFR Group achieve sustainable growth while increasing corporate value over the medium to long term.




## 7. System and policies of the Company

### (1) Systems to ensure properness of operations <Basic Policy to Build Internal Control System>

(Revised on March 25, 2016)

This policy sets forth basic policy on developing internal control systems with the aim of ensuring appropriateness of operations performed by the entire corporate group which is composed of the Company and its subsidiaries (hereinafter, the "Group"). Accordingly, we aim to increase corporate value through specific initiatives geared toward promoting this policy.

I. System to ensure that execution of duties by Directors, etc., and employees of all Group companies complies with laws and regulations and the Articles of Incorporation

(Item 6, Paragraph 4, Article 362 of the Companies Act and Item 4 and Item 5 (d), Paragraph 1, Article 100 of the Ordinance for Enforcement of the Companies Act)

(1) Corporate governance

(i) Final decision making on important matters relating to management and supervision of execution of duties by Directors shall be in compliance with the "Rules of the Board of Directors" and shall be carried out at meetings of the Board of Directors held at least once every month.

(ii) For decision making, monitoring action and the like by the Board of Directors, highly independent Outside Directors able to make judgments with independence from top

management and to make appropriate decisions shall be appointed.

(iii) Audit & Supervisory Board Members shall carry out auditing of execution of duties by Directors and Executive Officers in compliance with the "Rules of the Audit & Supervisory Board" and the "Audit & Supervisory Board Members' Audit Standard."

(iv) The Company shall bring in Outside Audit & Supervisory Board Members with knowledge and experience to monitor the management of the Company from an objective standpoint and shall strengthen its auditing function.

(v) Other than the Board of Directors and the Audit & Supervisory Board, the Company shall operate the following meeting structures.

Group Management Meeting

(This meeting shall be composed of Internal Directors and attendance by Full-time Audit & Supervisory Board Members shall be required. It shall deliberate over and determine important policies and measures with respect to overall group management.)

Group Strategy Meeting

(This meeting shall be composed of Internal Directors. It shall carry out debates on important issues with respect to group management and shape approaches to such issues.)

Group Results and Strategy Examination Meeting

(This meeting shall be composed of Internal Directors, etc. Its activities shall include carrying out debates on group results and related important issues and following them up.)

Group Liaison Meeting

(This meeting shall be composed of Internal Directors, etc. Its activities shall include sharing information on important matters among all Group companies.)

Affiliated Business Presidents Meeting, SS Business Presidents Meeting

(These meetings shall confirm progress of results, confirm issues and exchange information at all Group companies excluding department stores.)

(vi) The Company shall establish the Management Strategy Unit, the Affiliated Business Unit, Financial Strategy Unit and the Administration Unit and clarify the roles, responsibilities and authorities of organizations, and shall introduce an Executive Officer system and work to separate management decision making from the execution of business.

(2) Compliance and risk management

(i) The Company shall ensure that all officers and employees of all Group companies are thoroughly familiarized with the "JFR Group Mission Statement" and the "JFR Group Compliance and Risk Management Manual."

(ii) The Company shall establish the Compliance and Risk Management Committee. The President shall be the chairperson and the members of the committee shall be corporate lawyers and Directors, Audit & Supervisory Board Members and others selected by the chairperson.

(iii) An officer shall be put in charge of compliance and risk management in order to promote the operation of compliance and risk management.

(iv) At each Group company, departments and responsible persons shall be put in charge of promotion of compliance and risk management, and shall carry out daily supervision and direction of business operations that are in accordance with laws and regulations and internal company rules.

(v) The Compliance and Risk Management Committee shall work to develop the foundations of compliance and risk management such as internal company rules, operation management manuals and formulation of management systems. In addition, the committee shall strengthen systems that are in compliance with laws and regulations and internal company rules at all Group companies by periodically carrying out work rank-tailored compliance and risk management training through departments in charge of promotion of compliance and risk management at each company. Internal company rules, manuals and the like shall be made

available for inspection and verification by all officers and employees at any time by posting them on the intranet.

(vi) The Compliance and Risk Management Committee shall periodically request reports from persons in charge of promotion of compliance and risk management at each Group company regarding the status of compliance and risk management in their respective areas of responsibility, and take proper rectification measures. In addition, the committee shall formulate guidelines and measures to prevent recurrence to be followed and taken by the Group as a whole, and implement the said guidelines and measures.

(vii) The Company shall establish the "JFR Group Compliance Hotline" as the whistle-blowing system of the JFR Group that also extends beyond companies (to a corporate lawyer), which may be used by all persons working at all Group companies.

(viii) The Company shall establish the Internal Audit Division, which shall audit the operations of all Group companies or which shall properly report the results of audits of operations, examine the properness and effectiveness of the processes for these operations, and provide guidance and education to all departments at the Company and all Group companies. Important matters shall be properly reported to the Board of Directors and the Audit & Supervisory Board.

(3) System to secure appropriateness of financial reporting

The Company shall be in compliance with accounting standards and various associated laws and regulations, and shall construct an internal company system to secure the legality and appropriateness of its financial reporting. In addition, all Group companies shall also construct the same system.

II. Rules concerning management of risk of losses of all Group companies and other systems

(Item 2 and Item 5 (b), Paragraph 1, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) For risks involved in business operations, the Compliance and Risk Management Committee shall carry out evaluations and management, and for important risks, the committee shall periodically report on the risk management status to the Board of Directors.

(ii) Of the risks involved in business operations that are identified, for particularly serious items, the Compliance and Risk Management Committee shall deliberate over and determine a policy in response, and shall prevent them from occurring by having each of the responsible departments of all Group companies execute the said policy.

(iii) For crisis events such as large-scale earthquakes, fires and accidents, crisis management shall be controlled by the "Emergency Response Headquarters" headed by the President.

III. System for storage and management of information regarding execution of duties by Directors

(Item 1, Paragraph 1, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) For the below-mentioned documents relating to the execution of duties by Directors, in accordance with the rules on document management, each responsible department shall carry out document storage and management during the stipulated period and shall develop a system to enable inspections of such documents at any time.

1) Minutes of shareholders meetings and related documents
2) Minutes of Board of Directors meetings and related documents
3) Circular approval memos, applications, and reports
4) Documents relating to financial reporting

(ii) For minutes and related documents regarding meetings chaired by Directors and other important documents relating to the execution of duties by Directors, each responsible department shall carry out document storage and management and shall develop a system to enable inspections of such documents at any time.

IV. System to ensure efficient execution of duties by Directors, etc. of all Group companies

(Item 3 and Item 5 (c), Paragraph 1, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) The Company shall have the Management Strategy Unit, the Affiliated Business Unit, the Financial Strategy Unit and the Administration Unit as management bodies of the Company, and Directors shall be, in principle, appointed as the heads of the units. Under this structure, communication of decision-making matters at the Board of Directors to the Executive Officers shall be facilitated and business shall be executed expeditiously.

(ii) The President and the unit heads of the Company shall work to achieve management targets and medium- and long-term plans based on their respective roles, responsibilities and authorities by thoroughly making them known to all officers and employees of all Group companies, and giving execution instructions and carrying out monitoring of efficient execution of business. Regarding progress in achieving targets at each department based on the management targets and medium- and long-term plans, they shall also demand reports at the Group Results and Strategy Examination Meeting and the like, and manage such progress accordingly.

(iii) For deliberation and determination of company-wide important matters, the Group Management Meeting, the Group Strategy Meeting and others shall be used effectively to contribute to decision making by the Board of Directors.

(iv) The Company shall plan and formulate the Group's business strategies, optimally allocate the Group's management resources, and track the progress and results of the Group's strategies. Moreover, the Company shall provide to Group companies various types of services, such as necessary and appropriate guidance and management, etc. for management operations, based on the contracts with each Group company to increase the business value of the entire Group.

(v) The Company shall construct systems to raise overall efficiency of the Group such as the introduction of the Group's common accounting system in principle and promotion of centralized management of Group funds.

V. System for reporting to the Company on matters involving execution of duties by Directors, etc. of all Group companies

(Item 5 (a), Paragraph 1, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) The President and the unit heads of the Company shall provide guidance to all Group companies for the development of a proper internal control system regarding operations deemed necessary.

(ii) The President and the unit heads of the Company shall require all Group companies to make reports on their businesses through bodies such as the Group Results and Strategy Examination Meeting, the Affiliated Business Presidents Meeting and the SS Business Presidents Meeting, and shall supervise the proper execution of business.

(iii) The Internal Audit Division shall carry out internal audits of everyday operations at all Group companies or which shall properly report the results of audits of operations, examine the properness and effectiveness of the processes for these operations, and provide guidance and education to all departments at the Company and all Group companies. Important matters shall be properly reported to the Board of Directors and the Audit & Supervisory Board.

(iv) The Compliance and Risk Management Committee shall control the departments and persons in charge of promotion of compliance and risk management at each Group company and promote compliance and risk management operations at all Group companies through use of the meeting bodies.

(v) In cases where the Company's business management or the contents of its management guidance is in violation of laws and regulations or other problems in terms of compliance and risk management are recognized, Group companies shall report the matter to the Audit & Supervisory Board Members and the Compliance and Risk Management Committee of the Company. If this occurs, the Audit & Supervisory Board Members and the Compliance and Risk Management Committee of the Company may state an opinion to the Board of Directors and request the formulation of an improvement plan.

(vi) Group companies shall report to the Company with respect to matters involving business

operational risk and situations involving any occurrence of a crisis event such as a large-scale earthquake, fire or accident.

VI. Matters regarding employees who assist Audit & Supervisory Board Members in their duties when Audit & Supervisory Board Members request assignment of such employees, and the independence of such employees from Directors, and ensuring that effective instructions are provided to such employees from Audit & Supervisory Board Members

(Items 1, 2 and 3, Paragraph 3, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) Dedicated staff assigned to Audit & Supervisory Board Members shall be in charge of assistance for Audit & Supervisory Board Members in their duties.

(ii) Appointments and transfers of staff assigned to Audit & Supervisory Board Members shall be carried out with the consent of Internal Audit & Supervisory Board Members.

(iii) Personnel evaluations of staff assigned to Audit & Supervisory Board Members shall be carried out with the consent of Internal Audit & Supervisory Board Members.

(iv) The authority to give directions and commands to staff assigned to Audit & Supervisory Board Members shall reside with the Audit & Supervisory Board Members.

VII. System for reporting by Directors, etc., and employees of all Group companies to Audit & Supervisory Board Members and other systems to ensure effective execution of audits by Audit & Supervisory Board Members

(Item 4 (a), (b) and Item 7, Paragraph 3, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) If there is an event or risk of event that is significantly damaging to all Group companies, if unlawful or wrongful conduct by a Director, etc. or an employee of all Group companies is discovered, or if any other event stipulated by the Audit & Supervisory Board as a matter to be reported occurs, Directors, and employees of the Company shall report such fact to the Audit & Supervisory Board. Furthermore, notwithstanding the foregoing, an Audit & Supervisory Board Member may at any time request a report from a Director, etc. or an employee of all Group companies as necessary.

(ii) In order to enable Audit & Supervisory Board Members to grasp important decision-making processes and the status of execution of duties, Audit & Supervisory Board Members may attend important meetings and committees such as meetings of the Board of Directors and the Group Management Meeting. In addition, they may inspect important documents associated with the execution of duties, such as circular approval memos, and request explanations of the said documents from officers and employees of all Group companies where necessary.

(iii) Audit & Supervisory Board Members of subsidiaries and the Internal Audit Division and the Internal Audit Departments of all Group companies shall carry out necessary audits, submissions of audit reports and other duties if requested or demanded to do so by an Audit & Supervisory Board Member.

(iv) The Audit & Supervisory Board shall be in compliance with the "Rules of the Audit & Supervisory Board" and shall have periodic meetings and the like with the Representative Directors in order to develop the environment for auditing by Audit & Supervisory Board Members, strengthen the relationship between them and the Representative Directors, and provide feedback to management based on their auditing.

(iv) The Audit & Supervisory Board shall be in compliance with the "Rules of the Audit & Supervisory Board" and shall have periodic meetings and the like with the Representative Directors in order to develop the environment for auditing by Audit & Supervisory Board Members, strengthen the relationship between them and the Representative Directors, and provide feedback to management based on their auditing.

(v) The head of the secretariat of the Compliance and Risk Management Committee shall swiftly report to the Compliance and Risk Management Committee and the Audit & Supervisory Board Members on the details of matters (excluding immaterial matters) reported to the "JFR Group Compliance Hotline."

(vi) Audit & Supervisory Board Members of subsidiaries and the Internal Audit Division and Internal Audit Departments of all Group companies shall swiftly report to the Audit &

Supervisory Board Members of the Company on the results of internal audits and when unlawful or wrongful conducts are discovered.

(vii) The department managing the Group companies, such as the Affiliated Business Unit shall swiftly report to the Audit & Supervisory Board Members of the Company on unlawful or wrongful conduct from each of the Group companies.

(viii) Audit & Supervisory Board Members of the Company shall have periodic meetings and the like with the Audit & Supervisory Board Members of subsidiaries to enhance and strengthen the auditing of the entire Group.

VIII. System to ensure that persons who report the matters of VII above do not receive disadvantageous treatment for making such reporting

(Item 5, Paragraph 3, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) No Group company shall subject a person who made a report to disadvantageous treatment for the reason that the person made the report.

(ii) If it is reported that a person who made a report is receiving disadvantageous treatment, then the head of the secretariat of the Compliance and Risk Management Committee shall instruct the relevant Group company to carry out investigation of the facts.

IX. Matters related to policy on the processing of costs, etc. incurred by Audit & Supervisory Board Members as part of their execution of duties

(Item 6, Paragraph 3, Article 100 of the Ordinance for Enforcement of the Companies Act)

(i) Budgets shall be provided for in the annual budget plan for miscellaneous costs relating to audits.

(ii) When an invoice is received for miscellaneous costs relating to audits, the payment procedures shall, in principle, be carried out swiftly based on the aforementioned invoice.

(iii) Even when there are miscellaneous costs expended by the Audit & Supervisory Board Member in extraordinary cases or in times of emergency not included in the budget, the payment procedures shall, in principle, be carried out swiftly based on the aforementioned invoice.

**(2) Operational status of systems to ensure properness of operations <Basic Policy to Build Internal Control Systems>**

The Company endeavors to maintain its internal control systems and properly operate such systems on the basis of its "Basic Policy to Build Internal Control Systems." Details regarding the overall status of such operations during the current fiscal year are as follows.

I. Corporate governance

(i) The Company has prepared its "Corporate Governance Guidelines" specifying the role of corporate governance within the Group, with the aims of sustainable growth, increasing corporate value over the medium to long term, and bringing about the best possible corporate governance practices with respect to the Group.

(ii) In accordance with the Group Philosophy, the Company believes that parties who assume management of the Group should be equipped with qualities that include a "strategic mindset," "reform-oriented leadership," "tenacity for achieving results," "organization development strengths," and "human resource development strengths." To that end, matters involving human resources with respect to Directors, Audit & Supervisory Board Members and Executive Officers of the Company and its major subsidiaries are carried out on the basis of the policy for nominations and appointments, and such decisions are made in accordance with results of managerial talent evaluations performed by a third-party organization.

(iii) Over the months June to September 2015, the Company had a third-party organization perform an evaluation with respect to the Board of Directors. The evaluation itself brought the roles and responsibilities of the Board of Directors into focus, and accordingly involved performing analyses and evaluation with respect to each evaluation category, which included the Board of Directors' composition, its operational status, meeting agenda items, and

materials for deliberations. The evaluation was performed using a methodology where the Board of Directors carried out deliberations on the basis of a report that had been prepared by the third-party organization, containing summaries and analyses of the results of individual interviews regarding the views and issue awareness of those interviewed with respect to all Audit & Supervisory Board Members and the Board of Directors, along with direct observations of the Board of Directors.

(iv) The Company has been reviewing the composition, operations and rules of the Human Resources and Remuneration Committee, which acts as an advisory committee to the Board of Directors, and at the same time has established a new Governance Committee, which has been holding discussions and exchanging views regarding issues of corporate governance and business management overall (this includes views with respect to the Company's organizational structure).

II. Compliance and risk management system and managing risk of loss

(i) The Company has posted the "J. Front Retailing Group Mission Statement" and the "J. Front Retailing Group Compliance and Risk Management Manual" to the corporate intranet, and furthermore implements educational instruction on the basis of job position and e-learning instruction to promote awareness of compliance issues. During the current fiscal year, the central themes in this regard included measures for ensuring security of personal information and measures against falsely misrepresenting the advantages or quality of a product or service, with a focus on claims made in advertising.

(ii) The Company has established the Compliance and Risk Management Committee whose membership includes corporate lawyers for the purpose of addressing issues of JFR Group compliance management practices and appropriately managing and evaluating risks involved in business operations. The Compliance and Risk Management Committee draws up policy for addressing matters involving serious compliance-related violations and matters involving risk. In addition, the committee also works to develop the foundations of compliance and risk management systems (such as establishing internal company rules, operation management manuals and management systems) for departments in charge of promoting compliance and risk management.

The committee also reports details on deliberations of Compliance and Risk Management Committee meetings (held four times during the current fiscal year) to the Board of Directors regularly and in a timely manner.

(iii) The Company has established a whistle-blowing system (JFR Group Compliance Hotline). Under the whistle-blowing system, the Company has established internal rules of the Group which rigorously protect the confidentiality of whistle-blowers and prohibit disadvantageous treatment of such individuals. Moreover, the Company also appropriately addresses issues that have been reported.

(iv) For crisis events such as large-scale earthquakes, fires and accidents, crisis management shall be controlled by the "Emergency Response Headquarters" headed by the President. During the current fiscal year, there were no large-scale earthquakes, fires, accidents or other such calamities.

III. Execution of duties by Directors

(i) The Board of Directors carries out its roles and responsibilities with respect to management strategies, business plans and other fundamental management policies, by indicating the overall direction that Group management is to take through constructive discussions in that regard, and through multifaceted and objective deliberations that included evaluation of risks in that regard; and the Board of Directors carries out its roles and responsibilities with respect to important matters of business execution by making swift and resolute decisions.

With respect to meetings of the Board of Directors, the Directors have reviewed meeting agenda items stipulated in the "Rules of the Board of Directors" in order to better focus discussions in a strategic direction. On the basis of the "Rules of the Board of Directors," the Board of Directors is also engaging in discussions taking into account the opinions of the outside officers during their meetings (held 16 times during the current fiscal year).

(ii) To support outside officers and coordinate information with them, explanations of the overall business are being provided upon newly assuming their office. Also, proposals to be made at

meetings of the Board of Directors are being explained to them before such meetings are held, including details on proceedings of discussions that have taken place within the Company and the background to such matters.

(iii) Annual agendas are being scheduled; in terms of making decisions on executing management strategy and other important matters of business, an effective and efficient management framework has been established, which involves engaging in a series of discussions beginning in the direction planning phase; minutes of the meetings of the Board of Directors are being accurately recorded and prepared, and; information is being properly stored and managed.

IV. System to ensure properness of operations at the corporate group

(i) Systems are being developed for receiving resolutions of the Company's Board of Directors and other approvals involving important matters pertaining to Group management.

(ii) The "Group Management Meeting" and other such forums are receiving reports from respective Group companies with respect to the status of business execution.

(iii) With respect to internal controls for financial reporting, the Internal Audit Division is evaluating internal controls of respective Group companies that are subject to evaluation, on the basis of the "Rules on Internal Controls for Financial Reporting."

V. System to ensure effective execution of duties and audits by Audit & Supervisory Board Members

(i) In attending important meetings that include meetings of the Board of Directors, the Group Management Meeting, and the Compliance and Risk Management Committee, the Audit & Supervisory Board Members check details of decisions made on business execution.

(ii) The Audit & Supervisory Board Members conduct on-site audits at respective Group companies. They also regularly exchange information and opinions with the Representative Directors, the Internal Audit Division, the Accounting Auditor and others, and they improve the effectiveness and efficiency of audits.

(iii) The Company has established the Audit & Supervisory Board Secretariat and assigned to it one person, in order for it to function as a system for enabling Audit & Supervisory Board Members to smoothly carry out their duties. Moreover, a budget is set to cover anticipated expenses required by Audit & Supervisory Board Members in carrying out their duties.

**(3) Basic policy regarding control of the Company**

I. Contents of basic policy

The Company believes it is necessary for the party controlling the Company's financial and business policy decisions to be a party who sufficiently understands the financial and business details of the Group and the sources of the Group's corporate value, continuously and sustainably ensures that the corporate value of the Group and, by extension, the common interests of shareholders are served, and enables further improvement in this area.

As the Company is a listed enterprise, the Company's policy regarding its shareholders is that, in general, they are determined through free market transactions on the financial instruments market. Furthermore, even in the case of a purchase of shares of the Company above a certain scale by specific shareholders or specific groups (hereinafter "Large-Scale Purchase"), if this Large-Scale Purchase will contribute to the corporate value of the Group and, by extension, the common interests of its shareholders, the Company believes that this should not be rejected outright and that, ultimately, the decision on whether to accept or reject it should be left to the discretion of the Company's shareholders.

Nevertheless, a Large-Scale Purchase that involves a serious risk of causing damage to the corporate value of the Group may be envisaged. This may include a Large-Scale Purchase that, in view of its purpose and other factors, would demonstrably harm the Group's corporate value; one with the potential to involve substantial coercion of shareholders to sell shares of the Company; or one that would not provide sufficient time and information for the Company's Board of Directors and shareholders to consider factors such as the details of the large-scale purchaser's proposal, or for the Company's Board of Directors to make an alternative proposal.

A party attempting this kind of Large-Scale Purchase, which would not contribute to the corporate value of the Group and, by extension, the common interests of its shareholders

(hereinafter, the "Large-Scale Purchaser"), would not be appropriate as a party controlling the Company's financial and business policy decisions. Accordingly, the Company believes that it is the duty of the Company's Board of Directors, which is entrusted by the shareholders to manage the Company, to respond to this kind of Large-Scale Purchase by ensuring that processes such as provision of information by the Large-Scale Purchaser and considerations and evaluations by the Company's Board of Directors are carried out, and securing sufficient time for the Company's Board of Directors and shareholders to consider the details of the Large-Scale Purchaser's proposal in order to prevent damage to the corporate value of the Group and, by extension, the common interests of its shareholders.

II. Frameworks contributing to realization of basic policy

Since the foundation of Daimaru and Matsuzakaya, the Group has been engaged in businesses of kimono fabric stores and department stores for many years based on the corporate philosophies and traditional spirits of these businesses, which are: "Service before profit (those who place service before profit will prosper)," "Abjure all evil; pursue all good" and "In doing good to others, we do good to ourselves."

The Company believes that the sources of the Group's corporate value are the relationships of trust it has established with customers and with society, which have been refined on the basis of these philosophies and spirits.

Accordingly, in order to exemplify the principles of "customer-first principle" and "contribution to society," which are in common with these philosophies and spirits, the Company has established the following basic philosophies of the Group: "to aim at providing high quality products and services that meet the changing times and satisfying customers beyond their expectations" and "to aim at developing the Group by making a broad contribution to society as a fair and trusted business entity." Based on these basic philosophies, the Company implements a wide range of measures with the aim of realizing the Group's vision, which is to secure a position as a leading Japanese retail company both in terms of quality and quantity, with the Department Store Business at its core, in order to make a contribution to securing and enhancing the corporate value of the Group and, by extension, the common interests of shareholders.

III. Framework to prevent parties deemed inappropriate in light of basic policy from controlling the financial and business policy decisions of the Company

At present, the Company has not specifically stipulated a concrete framework for a case in which a Large-Scale Purchaser appears, commonly known as takeover defense measures.

Nevertheless, the Company believes that, in order to prevent damage to the Group's corporate value if a Large-Scale Purchaser appears, it is necessary to carefully examine the impact a Large-Scale Purchase would have on the Group's corporate value after ascertaining certain information about the Large-Scale Purchaser. Such information would include the nature of the Large-Scale Purchaser, the purpose of the Large-Scale Purchase, the Large-Scale Purchaser's proposed financial and business policies and their policy for handling shareholders, the Group's customers, business partners, employees, the communities that surround the Group and other stakeholders.

Accordingly, if this occurs, the Company will establish an independent committee composed of outside officers and experts with viewpoints that are independent from the Company's Internal Directors. If the Company judges that the said Large-Scale Purchaser is inappropriate in light of the aforementioned basic policy after considering advice and opinions from the committee, the Company will act to secure the Group's corporate value and, by extension, the common interests of shareholders by taking necessary and appropriate countermeasures.

IV. Judgment of the Company's Board of Directors regarding concrete framework and reasons for such judgment

Various measures formulated by the Group are formulated based on the Group's basic philosophy, and are intended to further build up the relationships of trust with customers and with society, which are the sources of the Group's corporate value. Therefore, the Company believes that these measures are in line with the contents of the basic policy and contribute to securing and enhancing the corporate value of the Group and, by extension, the common interests of shareholders.

Furthermore, if the Company takes necessary and appropriate countermeasures against a Large-Scale Purchaser judged to be inappropriate in light of the basic policy, the fairness, neutrality and rationality of this judgment will be ensured by making it in consideration of advice and opinions from an independent committee whose independence from the Internal Directors of the Company is assured. Accordingly, the Company believes that these measures would not damage the corporate value of the Group or the common interests of shareholders, and that they are not intended to maintain the positions of the officers of the Company.

**(4) Basic Capital Policy**

The Company believes that any increase in free cash flow 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 financial strategy (encompassing the capital policy) that heightens profitability of 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 income 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.

**(5) Policy regarding decisions on dividends of surplus, etc.**

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.

# Consolidated Financial Statements

## Consolidated Balance Sheet (As of February 29, 2016)

(Millions of yen)

| Item | Amount | Item | Amount |
|---|---|---|---|
| **Assets** | | **Liabilities** | |
| **Current assets** | **180,890** | **Current liabilities** | **302,944** |
| Cash and deposits | 30,039 | Notes and accounts payable - trade | 90,768 |
| Notes and accounts receivable - trade | 68,049 | Short-term loans payable | 40,219 |
| Securities | 1,233 | Commercial papers | 30,798 |
| Inventories | 28,205 | Income taxes payable | 8,322 |
| Deferred tax assets | 11,671 | Advances received | 19,318 |
| Other | 41,865 | Gift certificates | 38,599 |
| Allowance for doubtful accounts | (173) | Provision for bonuses | 5,709 |
| | | Provision for directors' bonuses | 204 |
| | | Provision for sales returns | 21 |
| | | Provision for books unsold | 121 |
| | | Provision for sales promotion expenses | 709 |
| | | Reserve for gift certificates | 13,913 |
| | | Provision for loss on business liquidation | 487 |
| | | Provision for loss on stores rebuilding | 1,245 |
| | | Other | 52,504 |
| **Non-current assets** | **838,170** | **Non-current liabilities** | **275,607** |
| **Property, plant and equipment** | **668,651** | Bonds payable | 27,000 |
| Buildings and structures | 182,772 | Long-term loans payable | 82,905 |
| Land | 360,297 | Deferred tax liabilities | 89,158 |
| Construction in progress | 120,751 | Net defined benefit liability | 32,707 |
| Other | 4,829 | Provision for directors' retirement benefits | 37 |
| | | Provision for loss on business liquidation | 564 |
| | | Provision for loss on stores rebuilding | 1,191 |
| **Intangible assets** | **41,444** | Other | 42,043 |
| Goodwill | 568 | | |
| Other | 40,876 | **Total liabilities** | **578,552** |
| | | **Net assets** | |
| **Investments and other assets** | **128,074** | **Shareholders' equity** | **392,236** |
| Investment securities | 46,985 | Capital stock | 30,000 |
| Long-term loans receivable | 1,503 | Capital surplus | 209,551 |
| Lease and guarantee deposits | 61,515 | Retained earnings | 163,971 |
| Net defined benefit asset | 5,687 | Treasury shares | (11,286) |
| Deferred tax assets | 5,112 | **Accumulated other comprehensive income** | **(8,537)** |
| Other | 9,980 | | |
| Allowance for doubtful accounts | (2,710) | Valuation difference on available-for-sale securities | 2,113 |
| | | Deferred gains or losses on hedges | 223 |
| | | Foreign currency translation adjustment | 516 |
| | | Remeasurements of defined benefit plans | (11,391) |
| **Deferred assets** | **85** | | |
| Bond issuance cost | 85 | **Subscription rights to shares** | **14** |
| | | **Minority interests** | **56,880** |
| | | **Total net assets** | **440,594** |
| **Total assets** | **1,019,146** | **Total liabilities and net assets** | **1,019,146** |

(Note) Amounts have been rounded down to the nearest one million yen.

## **Consolidated Statement of Income** (From March 1, 2015 to February 29, 2016)

(Millions of yen)

| Item | Amount | |
|---|---|---|
| **Net sales** | | |
| Net sales of goods | 1,151,469 | |
| Rent income of real estate | 12,094 | **1,163,564** |
| **Cost of sales** | | |
| Cost of goods sold | 910,927 | |
| Cost of real estate rent | 7,104 | 918,031 |
| **Gross profit** | | **245,532** |
| **Selling, general and administrative expenses** | | **197,494** |
| **Operating income** | | **48,038** |
| **Non-operating income** | | |
| Interest income | 369 | |
| Dividend income | 365 | |
| Share of profit of entities accounted for using equity method | 1,886 | |
| Other | 3,595 | 6,216 |
| **Non-operating expenses** | | |
| Interest expenses | 1,419 | |
| Other | 4,924 | 6,344 |
| **Ordinary income** | | **47,910** |
| **Extraordinary income** | | |
| Gain on sales of investment securities | 960 | |
| Gain on sales of shares of subsidiaries and associates | 131 | 1,091 |
| **Extraordinary losses** | | |
| Loss on disposal of non-current assets | 2,629 | |
| Impairment loss | 1,570 | |
| Loss on stores rebuilding | 7,492 | |
| Loss on liquidation of business | 1,719 | |
| Other | 891 | 14,303 |
| **Income before income taxes and minority interests** | | **34,698** |
| Income taxes - current | 14,626 | |
| Income taxes - deferred | (9,791) | 4,834 |
| **Income before minority interests** | | **29,863** |
| Minority interests in income | | 3,549 |
| **Net income** | | **26,313** |

(Note) Amounts have been rounded down to the nearest one million yen.

## **Consolidated Statement of Changes in Equity** (From March 1, 2015 to February 29, 2016)

(Millions of yen)

| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |
| Balance as of March 1, 2015 | 30,000 | 209,556 | 147,760 | (6,369) | 380,947 | 2,352 | (35) | 659 | (7,832) | (4,855) |
| Cumulative effects of changes in accounting policies | | | (3,270) | | (3,270) | | | | | |
| Restated balance | 30,000 | 209,556 | 144,490 | (6,369) | 377,677 | 2,352 | (35) | 659 | (7,832) | (4,855) |
| Changes of items during the fiscal year | | | | | | | | | | |
| Dividends of surplus | | | (6,832) | | (6,832) | | | | | |
| Net income | | | 26,313 | | 26,313 | | | | | |
| Purchase of treasury shares | | | | (5,025) | (5,025) | | | | | |
| Disposal of treasury shares | | (4) | | 108 | 103 | | | | | |
| Net changes of items other than shareholders' equity | | | | | | (238) | 258 | (143) | (3,558) | (3,681) |
| Total changes of items during the fiscal year | – | (4) | 19,481 | (4,917) | 14,559 | (238) | 258 | (143) | (3,558) | (3,681) |
| Balance as of February 29, 2016 | 30,000 | 209,551 | 163,971 | (11,286) | 392,236 | 2,113 | 223 | 516 | (11,391) | (8,537) |

| | Subscription rights to shares | Minority interests | Total net assets |
|---|---|---|---|
| Balance as of March 1, 2015 | 15 | 54,357 | 430,465 |
| Cumulative effects of changes in accounting policies | | (114) | (3,384) |
| Restated balance | 15 | 54,243 | 427,080 |
| Changes of items during the fiscal year | | | |
| Dividends of surplus | | | (6,832) |
| Net income | | | 26,313 |
| Purchase of treasury shares | | | (5,025) |
| Disposal of treasury shares | | | 103 |
| Net changes of items other than shareholders' equity | (1) | 2,637 | (1,045) |
| Total changes of items during the fiscal year | (1) | 2,637 | 13,513 |
| Balance as of February 29, 2016 | 14 | 56,880 | 440,594 |

(Note) Amounts have been rounded down to the nearest one million yen.

[Reference]

## Consolidated Statement of Cash Flows (Summary)

(From March 1, 2015 to February 29, 2016)

(Millions of yen)

| Item | Amount |
|---|---|
| Cash flows from operating activities | 36,799 |
| Cash flows from investing activities | (39,741) |
| Cash flows from financing activities | (1,041) |
| Effect of exchange rate change on cash and cash equivalents | (0) |
| Net increase (decrease) in cash and cash equivalents | (3,985) |
| Cash and cash equivalents at beginning of period | 32,132 |
| Cash and cash equivalents at end of period | 28,147 |

(Note) Amounts have been rounded down to the nearest one million yen.

# Non-consolidated Financial Statements

## Non-consolidated Balance Sheet (As of February 29, 2016)

(Millions of yen)

| Item | Amount | Item | Amount |
|---|---|---|---|
| **Assets** | | **Liabilities** | |
| **Current assets** | **41,911** | **Current liabilities** | **51,543** |
| Cash and deposits | 11,457 | Short-term loans payable | 31,100 |
| Short-term loans receivable from subsidiaries and associates | 28,325 | Commercial papers | 19,398 |
| | | Accrued expenses | 337 |
| Deferred tax assets | 129 | Income taxes payable | 64 |
| Other | 1,998 | Provision for bonuses | 169 |
| | | Provision for directors' bonuses | 89 |
| | | Other | 385 |
| **Non-current assets** | **386,178** | **Non-current liabilities** | **72,894** |
| **Property, plant and equipment** | **55** | Bonds payable | 27,000 |
| Buildings and structures | 54 | Long-term loans payable | 45,880 |
| Other | 0 | Deferred tax liabilities | 5 |
| | | Other | 9 |
| **Intangible assets** | **23** | **Total liabilities** | **124,438** |
| Software | 22 | **Net assets** | |
| Other | 0 | **Shareholders' equity** | **303,705** |
| | | Capital stock | 30,000 |
| | | Capital surplus | 247,100 |
| **Investments and other assets** | **386,100** | Legal capital surplus | 7,500 |
| Investment securities | 813 | Other capital surplus | 239,600 |
| Shares of subsidiaries and associates | 324,054 | Retained earnings | 37,126 |
| Long-term loans receivable from subsidiaries and associates | 61,090 | Other retained earnings | 37,126 |
| | | Retained earnings brought forward | 37,126 |
| Other | 142 | Treasury shares | (10,521) |
| | | **Valuation and translation adjustments** | **17** |
| | | Valuation difference on available-for-sale securities | 17 |
| | | **Subscription rights to shares** | **14** |
| **Deferred assets** | **85** | Subscription rights to shares | 14 |
| Bond issuance cost | 85 | | |
| | | **Total net assets** | **303,737** |
| **Total assets** | **428,175** | **Total liabilities and net assets** | **428,175** |

(Note) Amounts have been rounded down to the nearest one million yen.

## **Non-consolidated Statement of Income** (From March 1, 2015 to February 29, 2016)

(Millions of yen)

| Item | Amount | |
|---|---|---|
| **Operating revenue** | | |
| Dividend income | 9,172 | |
| Consulting fee income | 3,040 | **12,213** |
| **General and administrative expenses** | | **3,018** |
| **Operating income** | | **9,194** |
| **Non-operating income** | | |
| Interest income | 746 | |
| Other | 100 | 846 |
| **Non-operating expenses** | | |
| Interest expenses | 701 | |
| Other | 138 | 839 |
| **Ordinary income** | | **9,201** |
| **Extraordinary income** | | |
| Gain on sales of investment securities | 50 | 50 |
| **Extraordinary losses** | | |
| Loss on valuation of shares of subsidiaries and associates | 1,963 | |
| Loss on support to subsidiaries and associates | 300 | 2,263 |
| **Income before income taxes** | | **6,989** |
| Income taxes - current | 31 | |
| Income taxes - deferred | 84 | 116 |
| **Net income** | | **6,872** |

(Note) Amounts have been rounded down to the nearest one million yen.

## Non-consolidated Statement of Changes in Equity (From March 1, 2015 to February 29, 2016)

(Millions of yen)

| | Shareholders' equity | | | | | | Valuation and translation adjustments | Subscription rights to shares | Total net assets |
|---|---|---|---|---|---|---|---|---|---|
| | Capital stock | Capital surplus | | Retained earnings | Treasury shares | Total share-holders' equity | Valuation difference on available-for-sale securities | | |
| | | Legal capital surplus | Other capital surplus | Other retained earnings | | | | | |
| | | | | Retained earnings brought forward | | | | | |
| Balance as of March 1, 2015 | 30,000 | 7,500 | 239,602 | 37,085 | (5,532) | 308,655 | 9 | 15 | 308,681 |
| Changes of items during the fiscal year | | | | | | | | | |
| Dividends of surplus | | | | (6,832) | | (6,832) | | | (6,832) |
| Net income | | | | 6,872 | | 6,872 | | | 6,872 |
| Purchase of treasury shares | | | | | (5,023) | (5,023) | | | (5,023) |
| Disposal of treasury shares | | | (1) | | 34 | 33 | | | 33 |
| Net changes of items other than shareholders' equity | | | | | | | 7 | (1) | 5 |
| Total changes of items during the fiscal year | – | – | (1) | 40 | (4,989) | (4,949) | 7 | (1) | (4,943) |
| Balance as of February 29, 2016 | 30,000 | 7,500 | 239,600 | 37,126 | (10,521) | 303,705 | 17 | 14 | 303,737 |

(Note) Amounts have been rounded down to the nearest one million yen.

**THE AUDIT REPORT OF INDEPENDENT AUDITORS**
**CONCERNING THE CONSOLIDATED FINANCIAL STATEMENTS (COPY)**

## Report of Independent Auditors

April 5, 2016

The Board of Directors
J. Front Retailing Co., Ltd.

Ernst & Young ShinNihon LLC
Hiroyuki Koichi (seal)
Certified Public Accountant
Designated and Engagement Partner

Hiroki Suzuki (seal)
Certified Public Accountant
Designated and Engagement Partner

Takao Oshitani (seal)
Certified Public Accountant
Designated and Engagement Partner

Pursuant to Paragraph 4, Article 444 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity and the notes to the consolidated financial statements of J. Front Retailing Co., Ltd. (the "Company") applicable to the 9th fiscal year from March 1, 2015 through February 29, 2016.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the J. Front Retailing Group, which consisted of the Company and consolidated subsidiaries, applicable to the 9th fiscal year from March 1, 2015 through February 29, 2016 in conformity with accounting principles generally accepted in Japan.

*Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

**THE AUDIT REPORT OF INDEPENDENT AUDITORS**
**CONCERNING THE NON-CONSOLIDATED FINANCIAL STATEMENTS (COPY)**

## Report of Independent Auditors

April 5, 2016

The Board of Directors
J. Front Retailing Co., Ltd.

Ernst & Young ShinNihon LLC
Hiroyuki Koichi (seal)
Certified Public Accountant
Designated and Engagement Partner

Hiroki Suzuki (seal)
Certified Public Accountant
Designated and Engagement Partner

Takao Oshitani (seal)
Certified Public Accountant
Designated and Engagement Partner

Pursuant to Item 1, Paragraph 2, Article 436 of the Companies Act, we have audited the accompanying financial statements, which comprise the balance sheet, the statement of income, the statement of changes in equity, the notes to the financial statements and the related supplementary schedules of J. Front Retailing Co., Ltd. (the "Company") applicable to the 9th fiscal year from March 1, 2015 through February 29, 2016.

*Management's Responsibility for the Financial Statements and the Related Supplementary Schedules*

Management is responsible for the preparation and fair presentation of the financial statements and the related supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements and the related supplementary schedules that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on the financial statements and the related supplementary schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the related supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the related supplementary schedules. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements and the related supplementary schedules, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements and the related supplementary schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the related supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements and the related supplementary schedules referred to above present fairly, in all material respects, the financial position and results of operations of J. Front Retailing Co., Ltd. applicable to the 9th fiscal year from March 1, 2015 through February 29, 2016 in conformity with accounting principles generally accepted in Japan.

*Conflicts of Interest*

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

**THE AUDIT REPORT OF AUDIT & SUPERVISORY BOARD MEMBERS**

## Audit Report

The Audit & Supervisory Board hereby reports as follows regarding the performance of duties by Directors of J. Front Retailing Co., Ltd. (the "Company") during the 9th fiscal year from March 1, 2015 to February 29, 2016, based on audit reports prepared by each Audit & Supervisory Board Member and subsequent deliberations of the Audit & Supervisory Board.

1. Method of the audits by the individual Audit & Supervisory Board Members and the Audit & Supervisory Board; content of audits

(1) In addition to receiving reports on the progress in and results of audits by the individual Audit & Supervisory Board Members, based on the Audit & Supervisory Board's policies for this fiscal year and division of duties and the like, the Audit & Supervisory Board also received reports on business performance from Directors and the Accounting Auditor, and requested explanations from them as necessary.

(2) In accordance with the auditing standards, set forth by the Audit & Supervisory Board, policies for this fiscal year and division of duties and the like, each of Audit & Supervisory Board Members worked to communicate with Directors, the Internal Audit Department, and other employees in collecting information and establishing an appropriate audit environment, and performed the audit in accordance with the following procedures.

(i) Audit & Supervisory Board Members participated in meetings of the Board of Directors and other key meetings, received reports from Directors, Executive Officers, employees and others regarding the performance of their duties, and when necessary, requested explanations of those reports. Audit & Supervisory Board Members also reviewed key decision documents, and conducted surveys of the operations and assets of the head office and of other principal places of business. Further, regarding subsidiaries, Audit & Supervisory Board Members worked to communicate with Directors, Audit & Supervisory Board Members, and other parties at those subsidiaries, and when necessary conduct hearings with them regarding their business.

(ii) Audit & Supervisory Board Members regularly received reports from Directors, Executive Officers, employees and others, requested explanations as necessary, and expressed opinions on the status of establishment and operation of matters necessary to ensure compliance by Directors with laws and regulations, and the Articles of Incorporation, and those needed to ensure the fair performance of operations of the Company as a stock corporation and the corporate group consisting of its subsidiaries as described in the Business Report, namely decisions by the Board of Directors regarding the establishment of systems as set forth in Items 1 and 3, Article 100 of the Ordinance for Enforcement of the Companies Act (the internal control system).

(iii) Additional consideration was given to the basic policy and activities set forth in Items 3 (a) and 3 (b), Article 118 of the Ordinance for Enforcement of the Companies Act, as noted in the Business Report, based on the status of deliberations at the meeting of the Board of Directors and other key meetings.

(iv) While monitoring and reviewing the audit of the Accounting Auditor to ensure they maintained an independent position and conducted their audits fairly, Audit & Supervisory Board Members received reports from them regarding the performance of their duties, and when necessary, asked for further explanation regarding those reports. Audit & Supervisory Board Members also received notice from the Accounting Auditor in accordance with "the system for ensuring appropriate execution of their duties" (as enumerated in each Item of Article 131 of the Company Accounting Regulation Ordinance) in compliance with the "Quality Control Standards Relating to Auditing" (adopted by the Business Accounting Deliberations Council in October 28, 2005), and, where necessary, Audit & Supervisory Board Members requested further explanation regarding that notice.

Based on the above methods, Audit & Supervisory Board Members proceeded to review the Business Report with the supplementary schedules, the non-consolidated financial statements (consist of the non-consolidated balance sheet, the non-consolidated statement of income, the non-consolidated statement of

changes in equity, and the notes to the non-consolidated financial statements) with the supplementary schedules, and the consolidated financial statements (consist of the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity, and the notes to the consolidated financial statements) for the current fiscal year.

2. Audit Results

(1) Results of Audit of Business Report, etc.

(i) The Audit & Supervisory Board confirms that the Business Report and the supplementary schedules conformed to the applicable laws and regulations, and the Articles of Incorporation, and that they accurately present the situation of the Company.

(ii) With respect to the performance of duties by Directors, the Audit & Supervisory Board found no improper acts or important violation of applicable laws and regulations or the Articles of Incorporation.

(iii) The Audit & Supervisory Board confirms that decisions by the Board of Directors and the operational status regarding the Company's internal control systems are fair and adequate, and found no areas that require mention regarding the description of the internal control systems in the Business Report and the performance of duties by Directors.

(iv) The Audit & Supervisory Board found no items that need to be pointed out regarding the basic policy regarding those who control the determination of the Company's financial and operational policies, noted in the Business Report. The Audit & Supervisory Board confirms that activities set forth in Item 3 (b), Article 118 of the Ordinance for Enforcement of the Companies Act, as noted in the Business Report, are in line with this basic policy, are not harmful to the common interest of the Company's shareholders, and are not intended to maintain the positions of Directors or Audit & Supervisory Board Members of the Company.

(2) Results of Audit of Non-consolidated Financial Statements and Supplementary Schedules

The Audit & Supervisory Board confirms that the methods used and results achieved by the Accounting Auditor, Ernst & Young ShinNihon LLC, are fair and adequate.

(3) Results of Audit of Consolidated Financial Statements

The Audit & Supervisory Board confirms that the methods used and results achieved by the Accounting Auditor, Ernst & Young ShinNihon LLC, are fair and adequate.

April 6, 2016

Audit & Supervisory Board
J. Front Retailing Co., Ltd.

OCHI Bunshiro (seal)
Full-time Audit & Supervisory Board Member

KATO Yoichi (seal)
Full-time Audit & Supervisory Board Member

TSURUTA Rokurou (seal)
Outside Audit & Supervisory Board Member

ISHII Yasuo (seal)
Outside Audit & Supervisory Board Member

NISHIKAWA Koichiro (seal)
Outside Audit & Supervisory Board Member

# Reference Materials for Shareholders Meeting

**Proposals and Reference Information**

**Proposal 1: Election of Nine (9) Directors**

The terms of office of all nine (9) Directors will expire at the conclusion of this Annual Shareholders Meeting. Accordingly, the Company proposes to elect nine (9) Directors. The candidates for the Directors are as follows.

(Reference 1)

The Company's policy for nominating and appointing Directors is as follows.

(Internal Directors)

We appoint individuals who possess qualities that make them capable of carrying out proper oversight of business execution, based on a grasp of risks and challenges from a Group perspective that is not limited to their own realm of responsibility. Accordingly, such individuals must be able to fulfill the duty of care of a prudent manager and the duty of loyalty required by the Companies Act of Japan; they must have an abundance of experience in the JFR Group's respective operations that is needed to deliberate on important matters of JFR Group management and make business decision; and they must have a profound understanding of the JFR Group's operating environment (including its strengths and challenges).

(Outside Directors)

We appoint individuals who are expected to furnish advice and perform the oversight function on the Board of Directors by drawing on points of view and perspectives that vary from those of our Internal Directors. Accordingly, such individuals must be able to fulfill the duty of care of a prudent manager and the duty of loyalty required by the Companies Act of Japan; they must offer a sense of pragmatism along with a high-level overview and sweeping perspective of business based on abundant experience as corporate managers; and they must have careers outside the retail industry or have a global managerial background.

For the position of Outside Director, we nominate those who meet our "Criteria for Determining Independence of Outside Directors and Outside Audit & Supervisory Board Members" separately provided, to thereby avoid the prospect of any conflicts of interest arising with the Company's shareholders.

(Reference 2)

The Company's criteria for determining independence of Outside Directors and Outside Audit & Supervisory Board Members are as follows.

In appointing the Company's Outside Directors and Outside Audit & Supervisory Board Members, we select individuals who maintain a high degree of independence and consequently are not susceptible to conflicts of interest involving the Company's shareholders. An individual does not meet the criteria for independence if one or more of the items listed below apply to that individual.

(i) Person who executes business in the JFR Group

(ii) Major shareholder of the Company (including person who executes business thereof; the same applies with items (iii) to (vi), below)

(iii) Major business partner of the JFR Group

(iv) Person affiliated with a law office, audit firm, consultancy or other entity that receives payment other than executive compensation of more than a certain amount from the JFR Group

(v) Recipient of donations of more than a certain amount contributed by the JFR Group

(vi) Related party in cases where the party is engaged in an arrangement involving a reciprocal officer appointment with the JFR Group

(vii) Person with respect to whom any of items (i) to (vi) has applied at any point over the last five years

(viii) Spouse or relative within the second degree of consanguinity of a person with respect to whom any of the items (i) to (vii) applies

With respect to the above, "person who executes business" refers to an Executive Director, a Corporate Officer, an Executive Officer, and other employees; "major shareholder" refers to a shareholder who holds voting rights accounting for no less than 10% to the Company's voting rights; "major business partner" refers to a business partner whose transactions with the JFR Group account for 2% or more of the Company's annual consolidated net sales or the business partner's annual net sales for any of the fiscal years over the last five years; "a certain amount" refers to an annual amount of 10 million yen in any of the fiscal years over the last five years.

| No. | Name<br>(Date of birth) | Career summary, positions and areas of responsibility in the Company, and important concurrent positions outside the Company | |
|---|---|---|---|
| 1 | YAMAMOTO Ryoichi<br>(March 27, 1951)<br><br>Number of the Company's shares owned (shares):<br>**61,600**<br>Special interests between the Company and the Candidate:<br>**None**<br>Number of attendance at the Board of Directors meetings for the 9th fiscal year:<br>**16/16**<br>Tenure as Director (at the conclusion of this Meeting):<br>**approx. 8 years and 9 months** | April 1973<br>May 2003<br><br>March 2005<br><br>January 2007<br><br>September 2007<br><br><br><br><br><br>March 2008<br><br>March 2010<br>September 2012<br><br>April 2013 | Joined The Daimaru, Inc.<br>President and COO and General Manager of Department Store Operations, Group Headquarters<br>General Manager of Metropolitan Area New Business Development Division, Group Headquarters<br>Executive General Manager of Planning Office for New Umeda Store of Department Store Operations Headquarters, Group Headquarters<br>Director of J. Front Retailing Co., Ltd.<br>In charge of Sales Reform and Out-of-Store Sales Reform Promotion<br>Executive General Manager of Department Store Operations Headquarters and Planning Office for New Umeda Store, Head Office of The Daimaru, Inc.<br>Director of Matsuzakaya Co., Ltd.<br>Executive General Manager of Sales Headquarters, Head Office of The Daimaru, Inc.<br>President of Daimaru Matsuzakaya Department Stores Co. Ltd.<br>President of Daimaru Matsuzakaya Department Stores Co. Ltd. and President of Daimaru Matsuzakaya Sales Associates Co. Ltd.<br>President of J. Front Retailing Co., Ltd. (present) |

■Reasons for nomination as candidate for Director

YAMAMOTO Ryoichi possesses broad-based insight and an elevated perspective gained through his abundant experience spanning overall management of retail operations. Since being appointed as President of the Company in 2013, he has been precisely and efficiently managing business of the Group overall. In addition to his outstanding and abilities and qualities with respect to pointing the Company in the right direction taking the external environment in which the Group operates into account, he also causes transformation and reform to take hold across the entire organization and exerts strong leadership that generates results. As such, the Company has judged that he is a competent professional who is capable of helping ensure the sustained growth of its corporate value by executing business acting as a Director, and has accordingly appointed him as a candidate to continue serving as Director.

| No. | Name<br>(Date of birth) | Career summary, positions and areas of responsibility in the Company,<br>and important concurrent positions outside the Company | |
|---|---|---|---|
| 2 | YOSHIMOTO<br>Tatsuya<br>(April 13, 1956)<br><br>Number of the Company's shares owned (shares):<br>**24,000**<br>Special interests between the Company and the Candidate:<br>**None**<br>Number of attendance at the Board of Directors meetings for the 9th fiscal year:<br>**16/16**<br>Tenure as Director (at the conclusion of this Meeting):<br>**approx. 3 years** | April 1979<br>March 2000<br><br>January 2008<br>May 2008<br>January 2010<br><br><br>March 2010<br><br>May 2012<br>April 2013<br><br><br>May 2013 | Joined The Daimaru, Inc.<br>Senior Manager of Preparatory Office for Opening Sapporo Store of Planning Office for Sapporo Store, Head Office<br>General Manager of Tokyo Store<br>Corporate Officer, General Manager of Tokyo Store<br>Corporate Officer, General Manager of Sales Planning Promotion Division and Marketing Planning Promotion Division of Department Stores Coordination Division of J. Front Retailing Co., Ltd.<br>Corporate Officer of Daimaru Matsuzakaya Department Stores Co. Ltd. Senior General Manager of Management Planning Division<br>Director and Corporate Officer<br>President of Daimaru Matsuzakaya Department Stores Co. Ltd. (present) and<br>President of Daimaru Matsuzakaya Sales Associates Co. Ltd. (present)<br>Director of J. Front Retailing Co., Ltd. (present) |

■Reasons for nomination as candidate for Director

YOSHIMOTO Tatsuya serves as President of Daimaru Matsuzakaya Department Stores Co. Ltd., and has abundant experience and insight related to the Department Store Business overall, particularly encompassing areas such as business management, planning and store operations. He has been involved in planning and executing high-quality department store business strategy taking the roles and expectations of the Department Store Business with respect to the Group's strategy into account, and is a hands-on leader capable of engaging in swift and resoundingly effective implementation of initiatives based on a solid results-oriented approach. As such, the Company has judged that he is a competent professional who is capable of helping ensure the sustained growth of its corporate value in acting as a manager of a major business subsidiary, and has accordingly appointed him as a candidate to continue serving as Director.

| No. | Name<br>(Date of birth) | Career summary, positions and areas of responsibility in the Company,<br>and important concurrent positions outside the Company | |
|---|---|---|---|
| 3 | MAKIYAMA Kozo<br>(August 28, 1958)<br><br>Number of the Company's shares owned (shares):<br>**7,800**<br>Special interests between the Company and the Candidate:<br>**None**<br>Number of attendance at the Board of Directors meetings for the 9th fiscal year:<br>**16/16**<br>Tenure as Director (at the conclusion of this Meeting):<br>**approx. 3 years** | April 1981<br>March 2004<br><br>March 2007<br><br>March 2008<br><br><br>May 2008<br>March 2009<br>March 2010<br>March 2011<br>May 2011<br>May 2013 | Joined Parco Co., Ltd.<br>Executive Officer, Executive General Manager of Store Operation Division<br>Managing Executive Officer, Executive General Manager of Store Management Division<br>Senior Executive Officer, Senior Executive General Manager of Store Operation Headquarters and Executive General Manager of Store Management Division<br>Director and Senior Executive Officer<br>Supervisor of Store Operation Division<br>In charge of Store Management<br>In charge of Business Management<br>Director and President and Representative Executive Officer (present)<br>Director of J. Front Retailing Co., Ltd. (present) |

■Reasons for nomination as candidate for Director

MAKIYAMA Kozo serves as Representative Executive Officer of PARCO Co., Ltd., and has abundant experience and insight related to the business management and store operations of PARCO. Drawing on a sufficient understanding of PARCO business roles and expectations with respect to Group's strategy, he promotes the management vision leveraging attributes of the PARCO Business, and is capable of engaging in resoundingly effective implementation of initiatives based on his ability to act as a unifying force within the organization. As such, the Company has judged that he is a competent professional who is capable of helping ensure the sustained growth of its corporate value in acting as a manager of a major business subsidiary, and has accordingly appointed him as a candidate to continue serving as Director.

| No. | Name<br>(Date of birth) | Career summary, positions and areas of responsibility in the Company,<br>and important concurrent positions outside the Company | |
|---|---|---|---|
| 4 | KOBAYASHI<br>Yasuyuki<br>(March 30, 1951)<br><br>Number of the Company's shares owned (shares):<br>**34,200**<br><br>Special interests between the Company and the Candidate:<br>**None**<br><br>Number of attendance at the Board of Directors meetings for the 9th fiscal year:<br>**16/16**<br><br>Tenure as Director (at the conclusion of this Meeting):<br>**approx. 3 years** | April 1973<br>February 2003<br>May 2003<br>January 2004<br>September 2007<br>January 2008<br><br><br><br>March 2010<br><br><br><br>May 2010<br>May 2012<br>April 2013<br><br>May 2013<br>May 2015 | Joined The Daimaru, Inc.<br>Associate Director, General Manager of Sapporo Store<br>Corporate Officer, General Manager of Sapporo Store<br>General Manager of Tokyo Store<br>Corporate Officer of J. Front Retailing Co., Ltd.<br>Director and Corporate Officer of The Daimaru, Inc.<br>Deputy Executive General Manager of Department Store Operations Headquarters and Executive General Manager of Merchandising Management Unit, Head Office<br>Director and Corporate Officer, Senior Executive General Manager of Sales and Marketing Headquarters and Senior General Manager of Merchandising Strategy Promotion Unit of Daimaru Matsuzakaya Department Stores Co. Ltd.<br>Director and Corporate Executive Officer<br>External Director of Parco Co., Ltd. (present)<br>Managing Executive Officer of J. Front Retailing Co., Ltd.,<br>Senior Executive General Manager of Affiliated Business Unit (present)<br>Director (present), Managing Executive Officer<br>Senior Managing Executive Officer (present) |

■Reasons for nomination as candidate for Director

KOBAYASHI Yasuyuki has extensive experience and insight related to Group business overall. This has involved serving in a Department Store Business company up to this point as a project leader with respect to the Daimaru Sapporo store opening, and furthermore demonstrating his ability as a facilitator in promoting merchandising strategy. Moreover, since April 2013 he has served as Senior Executive General Manager of the Affiliated Business Unit of the Company, and has been in charge of the Wholesale Business, Credit Business and other business areas besides the Department Store Business. He is capable of taking on planning and promotion of business strategies from the perspective of overall management taking the roles and expectations of individual businesses with respect to the Group's strategy into account. As such, the Company has judged that he is a competent professional who is capable of helping ensure the sustained growth of its corporate value by executing business acting as a Director, and has accordingly appointed him as a candidate to continue serving as Director.

| No. | Name<br>(Date of birth) | Career summary, positions and areas of responsibility in the Company,<br>and important concurrent positions outside the Company | |
|---|---|---|---|
| 5 | FUJINO Haruyoshi<br>(March 10, 1961)<br><br>Number of the Company's shares owned (shares):<br>**7,800**<br>Special interests between the Company and the Candidate:<br>**None**<br>Number of attendance at the Board of Directors meetings for the 9th fiscal year:<br>**16/16**<br>Tenure as Director (at the conclusion of this Meeting):<br>**approx. 2 years** | April 1983<br>April 2004<br><br>September 2008<br><br>January 2010<br><br>May 2010<br><br><br><br>January 2014<br><br><br>May 2014<br><br><br><br>May 2014<br>June 2014 | Joined The Daimaru, Inc.<br>General Manager of Preparatory Office for New Tokyo Store, Group Headquarters<br>General Manager of Marketing Planning Promotion Division, Department Stores Coordination Division of J. Front Retailing Co., Ltd.<br>Executive Store Manager of Tokyo Store and General Manager of Planning Office for Phase II Expansion of New Tokyo Store of The Daimaru, Inc.<br>Corporate Officer, Executive Store Manager of Tokyo Store and Senior General Manager of Planning Office for Phase II Expansion of New Daimaru Tokyo Store, Head Office of Daimaru Matsuzakaya Department Stores Co. Ltd.<br>Corporate Officer of J. Front Retailing Co., Ltd.<br>In charge of Group Business Structural Reforms of Management Strategy Unit<br>Director (present)<br>Managing Executive Officer (present)<br>Senior Executive General Manager of Management Strategy Unit (present)<br>External Director of Parco Co., Ltd. (present)<br>Outside Director of Hakuseisha Co., Ltd. (present) |

■Reasons for nomination as candidate for Director

FUJINO Haruyoshi has extensive experience and insight related to overall business of the Group. This has involved serving in a Department Store Business company up to this point, thereby engaging in planning and promotion for new business development, and furthermore handling store management acting as Executive Store Manager of the Tokyo Store. Moreover, since May 2014 he has served as Senior Executive General Manager of the Management Strategy Unit, and has been in charge of augmenting operations through overseas expansion and M&A initiatives, as well as drawing up and promoting Group strategy. He has outstanding insight and is highly creative in terms of his ability to formulate business plans and comprehensively manage operations taking the roles and expectations of individual businesses with respect to the Group's strategy into account. As such, the Company has judged that he is a competent professional who is capable of helping ensure the sustained growth of its corporate value by executing business acting as a Director, and has accordingly appointed him as a candidate to continue serving as Director.

| No. | Name<br>(Date of birth) | Career summary, positions and areas of responsibility in the Company,<br>and important concurrent positions outside the Company | |
|---|---|---|---|
| 6 | DOI Zenichi<br>(September 15, 1953)<br><br>Number of the Company's shares owned (shares):<br>**31,000**<br>Special interests between the Company and the Candidate:<br>**None**<br>Number of attendance at the Board of Directors meetings for the 9th fiscal year:<br>**12/12**<br>Tenure as Director (at the conclusion of this Meeting):<br>**approx. 1 year** | March 1976<br>May 2002<br><br>May 2006<br>May 2008<br><br><br>January 2009<br><br>March 2010<br><br><br>March 2012<br><br>May 2012<br>January 2015<br><br>May 2015 | Joined Matsuzakaya Co., Ltd.<br>Executive General Manager of Corporate Planning Unit of Nagoya Business Division<br>Executive Officer, Executive General Manager of Sales Planning Unit<br>Managing Executive Officer, Executive General Manager of General Planning Unit and Executive General Manager of Sales Reform Promotion Unit and Executive General Manager of Sales Planning Unit<br>Director and Executive Officer, Executive General Manager of Sales Management Unit<br>Director and Corporate Officer and Senior General Manager of Sales Planning Unit of Sales and Marketing Headquarters of Daimaru Matsuzakaya Department Stores Co. Ltd.<br>Senior General Manager of Out-of-Store Sales Management Division of Sales and Marketing Headquarters<br>Director and Managing Executive Officer<br>Senior Executive General Manager of Administration Headquarters and in charge of Compliance and Risk Management<br>Director (present)<br>Managing Executive Officer (present)<br>Senior Executive General Manager of Administration Unit (present)<br>In charge of Compliance and Risk Management (present) |

■Reasons for nomination as candidate for Director

DOI Zenichi has extensive experience and insight in the respective areas of business to which he has been assigned. This has involved serving on the management team of Daimaru Matsuzakaya Department Stores Co. Ltd. up to this point, where he has demonstrated his ability in core Department Store Business operations that include sales promotion, customer strategy, and out-of-store strategy. Moreover, since being appointed as Director of the Company in May 2015, he has mainly been in charge of compliance and risk management, acting as Senior Executive General Manager of the Administration Unit. He has outstanding capabilities for causing initiatives to take hold in the organization, based on his insight related to the retail industry overall and his ability to take Group strategy into account in establishing compliance and risk management policies and frameworks essential for ensuring sound and appropriate management of the Group and also building internal control systems in that regard. As such, the Company has judged that he is a competent professional who is capable of helping ensure the sustained growth of its corporate value by executing business acting as a Director, and has accordingly appointed him as a candidate to continue serving as Director.

| No. | Name<br>(Date of birth) | Career summary, positions and areas of responsibility in the Company,<br>and important concurrent positions outside the Company | |
|---|---|---|---|
| 7 | New Candidate<br>WAKABAYASHI Hayato<br>(August 31, 1961)<br><br>Number of the Company's shares owned (shares):<br>**200**<br>Special interests between the Company and the Candidate:<br>**None** | April 1985 | Joined Matsushita Electric Industrial Co., Ltd. (present Panasonic Corporation) |
| | | April 1998 | President of Panasonic Financial Center Malaysia Co., Ltd. |
| | | April 2007 | Director and Chief Executive Officer of Matsushita Electric (China) Finance Limited |
| | | February 2009 | Finance Planning Team Leader (Manager), Headquarters Finance & IR Group of Panasonic Corporation |
| | | July 2013 | General Manager, Finance & IR Group, Corporate Strategy Division and Finance Planning Team Leader (Director) of Panasonic Corporation |
| | | April 2015 | Retired from Panasonic Corporation |
| | | May 2015 | Joined J. Front Retailing Co., Ltd.<br>In charge of Finance Policy, Administration Unit |
| | | September 2015 | Executive Officer (present)<br>In charge of Financial Strategy and Policy, Administration Unit |
| | | March 2016 | Senior Executive General Manager of Financial Strategy Unit and in charge of Finance Policy (present) |

■Reasons for nomination as candidate for Director

WAKABAYASHI Hayato has pursued a career mainly in the financial realm of Panasonic Corporation and its group companies, and as such has adequate insight and sufficient experience related to financial policy with respect to enhancing financial standing, improving levels of cash management and other such initiatives. As such, he was invited into the Group in May 2015. He is apt to play a key role in establishing and promoting a financial strategy encompassing the entire Group going forward, and has the commensurate abilities with respect to what the Company requires of a management professional in terms of his strategic and transformation-minded leadership, results-oriented approach and other such attributes. As such, the Company has judged that he is a competent professional who is capable of helping ensure the sustained growth of its corporate value by executing business acting as a Director, and has accordingly appointed him as a candidate to serve as a new Director.

| No. | Name (Date of birth) | Career summary, positions and areas of responsibility in the Company, and important concurrent positions outside the Company | |
|---|---|---|---|
| 8 | Outside Director<br>Independent<br><br>TACHIBANA FUKUSHIMA Sakie<br>(September 10, 1949)<br><br>Number of the Company's shares owned (shares):<br>**3,200**<br>Special interests between the Company and the Candidate:<br>**None**<br>Number of attendance at the Board of Directors meetings for the 9th fiscal year:<br>**16/16**<br>Tenure as Director (at the conclusion of this Meeting):<br>**approx. 4 years** | June 1980 | Joined Braxton International |
| | | September 1987 | Joined Bain & Company, Inc. |
| | | August 1991 | Principal Consultant of Japan Branch Office of Korn/Ferry International |
| | | June 1993 | Partner |
| | | May 1995 | Member of the Board of Korn/Ferry International (Global Headquarters) |
| | | September 2000 | Regional Managing Director of Korn/Ferry International-Japan<br>Member of the Board of Korn/Ferry International (Global Headquarters) |
| | | May 2001 | President and Representative Director of Korn/Ferry International-Japan<br>Member of the Board of Korn/Ferry International (Global Headquarters) |
| | | September 2007 | President and Representative Director of Korn/Ferry International-Japan |
| | | May 2009 | Chairman and Representative Director |
| | | March 2010 | Outside Director of Bridgestone Corporation (present) |
| | | July 2010 | President and Representative Director of G&S Global Advisors Inc. (present) |
| | | August 2010 | Asia Pacific Senior Advisor of Korn/Ferry International |
| | | June 2011 | Outside Director of Ajinomoto Co., Inc. (present) |
| | | May 2012 | Outside Director of J. Front Retailing Co., Ltd. (present) |
| | | June 2013 | Outside Director of Mitsubishi Corporation (present) |

■Reasons for nomination as candidate for Outside Director and special notes regarding the candidate

-TACHIBANA FUKUSHIMA Sakie has in-depth understanding regarding globally-minded human resources and abundant knowledge and experience as an international corporate manager. Based on that, she has contributed to ensuring more effective meetings of the Board of Directors since being appointed as Outside Director of the Company in 2012, by adequately providing advice and oversight with respect to the direction of overall management and other such matters, from the independent and objective viewpoint of a member of a management team that engages in business execution. In light of her track record, the Company has judged that in acting as an Outside Director she is likely to contribute greatly to management of the Company from the perspective of enhancing corporate governance. As such, she has been appointed as a candidate to continue serving as Outside Director.

-TACHIBANA FUKUSHIMA Sakie is an independent officer who has been given the obligation by the Tokyo Stock Exchange and the Nagoya Stock Exchange to protect ordinary shareholders.

-The Company has entered into an agreement with TACHIBANA FUKUSHIMA Sakie to limit the liability of damages stipulated in Paragraph 1, Article 423 of the Companies Act pursuant to Paragraph 1, Article 427 of the said Act.

| No. | Name (Date of birth) | Career summary, positions and areas of responsibility in the Company, and important concurrent positions outside the Company | |
|---|---|---|---|
| 9 | Outside Director<br>Independent<br>OTA Yoshikatsu<br>(December 28, 1941)<br><br>Number of the Company's shares owned (shares):<br>**3,700**<br>Special interests between the Company and the Candidate:<br>**None**<br>Number of attendance at the Board of Directors meetings for the 9th fiscal year:<br>**12/12**<br>Tenure as Director (at the conclusion of this Meeting):<br>**approx. 1 year** | April 1964<br>June 1991<br><br>July 1994<br><br><br>June 1995<br>June 1999<br>April 2001<br>August 2003<br><br>October 2003<br>April 2006<br>April 2009<br>June 2012<br>April 2013<br><br>April 2014<br>June 2014<br>May 2015 | Joined Minolta Camera Co., Ltd.<br>Director, General Manager of Copying Machine Business Division and General Manager of Copying Machine Sales Division<br>Director, Executive General Manager of Information Device Business Management Unit and Executive General Manager of Information Device Sales Unit of Minolta Co., Ltd.<br>Managing Director<br>President and Representative Director<br>President and Executive Officer, Representative Director<br>Director and Vice President, Representative Executive Officer of Konica Minolta Holdings, Inc.<br>President and CEO of Konica Minolta Technologies, Inc.<br>Director, President and CEO of Konica Minolta Holdings, Inc.<br>Director, Chairman of the Board of Directors<br>Outside Director of YAMAHA CORPORATION (present)<br>Director, Chairman of the Board of Directors of KONICA MINOLTA, INC.<br>Director<br>Special Advisor (present)<br>Outside Director of J. Front Retailing Co., Ltd. (present) |

■Reasons for nomination as candidate for Outside Director and special notes regarding the candidate

-OTA Yoshikatsu has extensive experience and abundant insight acting as a manager of a company that, like this Company, is a holding company. In that capacity, he promoted the corporate merger between Minolta Co., Ltd. and Konica Corporation, and has served as a chairman of the board of directors of a company with committees (currently a company with nominating and other committees). Accordingly, since being appointed as Outside Director of the Company in May 2015, he has contributed to ensuring more effective meetings of the Board of Directors by adequately providing advice and oversight with respect to promoting Group management and other such matters, from the independent and objective viewpoint of a member of a management team that engages in business execution. In light of his track record, the Company has judged that in acting as an Outside Director he is likely to contribute greatly to management of the Company from the perspective of enhancing corporate governance. As such, he has been appointed as a candidate to continue serving as Outside Director.

-OTA Yoshikatsu is an independent officer who has been given the obligation by the Tokyo Stock Exchange and the Nagoya Stock Exchange to protect ordinary shareholders.

-The Company has entered into an agreement with OTA Yoshikatsu to limit the liability of damages stipulated in Paragraph 1, Article 423 of the Companies Act pursuant to Paragraph 1, Article 427 of the said Act.

**Proposal 2: Payment of Bonuses to Directors and Audit & Supervisory Board Members for Fiscal Year 2015**

After comprehensively considering the operating results of the current fiscal year and other various circumstances, the Company plans to pay bonuses to Directors and Audit & Supervisory Board Members of a total amount of 89,000,000 yen or less (of which 6,700,000 yen or less for Outside Directors, and 10,000,000 yen or less for Audit & Supervisory Board Members) to the nine (9) Directors (including two (2) Outside Directors) and five (5) Audit & Supervisory Board Members in office at the end of the current fiscal year. With respect to the specific amounts to be paid to each Director and Audit & Supervisory Board Member, the amounts will be decided by resolution of the Board of Directors in the case of Directors and by deliberation of the Audit & Supervisory Board in the case of Audit & Supervisory Board Members.

Please kindly give us your understanding and approval.

(Reference 3)

"Policy on Determining Remuneration for Directors, Audit & Supervisory Board Members"

The remuneration of the Company's Directors, Audit & Supervisory Board Members for the current fiscal year (fiscal 2015) consists of monthly compensation and executive bonuses which is tied to results and success in accordance with each year's business performance.

With respect to fiscal 2016 remuneration of the Company's Directors and Audit & Supervisory Board Members, the Company plans to make the following changes applicable to amounts paid for June 2016 and thereafter.

[Remuneration of Internal Directors]

- The Company has increased the proportion of executive bonus (performance-based remuneration) in terms of total remuneration, with monthly compensation at 60% and executive bonuses at 40% (standard ranking), in order to provide incentives both for accomplishing objectives set under management strategies and business plans, and for achieving targets with respect to corporate performance.

[Remuneration of Outside Directors and Audit & Supervisory Board Members (both outside and internal)]

- The Company will discontinue executive bonuses and provide monthly compensation only.
  In conjunction with that, with the aim of ensuring that the Group achieves sustainable growth and increases corporate value over the medium to long term, the Company aims to introduce remuneration for Outside Directors linked to their medium- to long-term performance (stock-based remuneration, etc.) beginning in fiscal 2017, and will forge ahead in reviewing such options.

End of Document

# Internet Disclosure Items
# for Notice of Convocation of the 9th Annual Shareholders Meeting

Notes to Consolidated Financial Statements
Notes to Non-consolidated Financial Statements
(From March 1, 2015 to February 29, 2016)

J. FRONT RETAILING Co., Ltd.

As for Notes to Consolidated Financial Statements and Notes to Non-consolidated Financial Statements, the Company provides those to shareholders by means of disclosure through the Internet (on the Company's website: http://www.j-front-retailing.com/) in accordance with the laws and regulations and the Company's Articles of Incorporation.

# Notes to Consolidated Financial Statements

**Notes on important matters forming the basis of preparation of consolidated financial statements, etc.**

1. Matters concerning the scope of consolidation

(1) Consolidated subsidiaries — 29 companies (Daimaru Matsuzakaya Department Stores Co. Ltd., The Hakata Daimaru, Inc., PARCO Co., Ltd., Daimaru Kogyo, Ltd., JFR Card Co., Ltd., and others)

(2) Non-consolidated subsidiaries — 7 companies (Hakata Daimaru Tomonokai Co., Ltd., Shimonoseki Daimaru Tomonokai Co., Ltd., and others)

These non-consolidated subsidiaries are excluded from the scope of consolidation as their total assets, net sales, net income or loss (amount corresponding to the Company's equity in such subsidiaries), and retained earnings (amount corresponding to the Company's equity in such subsidiaries) do not have significant impact on the consolidated financial statements.

2. Matters concerning the application of the equity method

(1) Non-consolidated subsidiaries and associates accounted for by the equity method

Non-consolidated subsidiaries — 1 company (JAPAN RETAIL ADVISORS Co., Ltd.)

On November 11, 2015, the liquidation of Straits Parco Retail Management Pte Ltd was completed.

Associates — 7 companies (StylingLife Holdings Inc., Senshukai Co., Ltd., and others)

On April 22, 2015, and May 7, 2015, the Company acquired shares of Senshukai Co., Ltd., making Senshukai an equity method associate of the Company.

On August 3, 2015, Apparel-Web, Inc. was converted into an equity method associate of PARCO Co., Ltd.

In addition, Hakuseisha Co., Ltd. was removed from the scope of equity method associates effective from the current fiscal year, upon the Company's sale of all of its shares on December 17, 2015.

(2) Non-consolidated subsidiaries and associates not accounted for by the equity method

Non-consolidated subsidiaries — 6 companies (Hakata Daimaru Tomonokai Co., Ltd., Shimonoseki Daimaru Tomonokai Co., Ltd., JET Cleaning Co., Ltd., and others)

The liquidation of Yokohama Matsuzakaya Tomonokai Co., Ltd. was completed on January 27, 2016.

In addition, JET Cleaning Co., Ltd. became a wholly-owned subsidiary of Forest Co., Ltd. on January 4, 2016, and its company name has been changed from White Express Co., Ltd.

Associates — 2 companies (Gokou Ltd., Macros, Inc.)

These non-consolidated subsidiaries and associates not accounted for by the equity method are excluded from the scope of application of the equity method as they have a minimal effect on net income or loss and retained earnings and they are not material as a whole.

(3) With regard to equity method companies whose balance sheet dates are different from the consolidated balance sheet date, the Company uses the financial statements of the relevant companies as of their fiscal year ends.

3. Matters concerning the fiscal year of consolidated subsidiaries

Of the Company's consolidated subsidiaries, JFR PLAZA Inc., Parco (Singapore) Pte Ltd, Daimaru Kogyo International Trading (Shanghai) Co., Ltd., Daimaru Kogyo (Thailand) Co., Ltd. and Taiwan Daimaru Kogyo, Ltd. have a balance sheet date of December 31. In preparing the consolidated financial statements, the financial statements as of said balance sheet date are used. The Company made the

adjustments necessary for consolidation purposes if major transactions were executed between the balance sheet date and the consolidated balance sheet date.

The balance sheet dates of the other consolidated subsidiaries are the same as the consolidated balance sheet date.

4. Matters concerning accounting standards

(1) Basis and method of valuation of significant assets

(i) Securities

Other securities

Securities with available fair market values

Stated at fair value based on the market prices at the end of the current fiscal year

(Valuation differences are included in net assets; cost of securities sold is determined by the moving-average method)

Securities without available fair market values

Stated at cost using the moving-average method

The Company records investments in limited liability investment partnerships or similar partnerships (deemed as "securities" under the provisions set forth in Paragraph 2, Article 2 of the Financial Instruments and Exchange Act) using the amount corresponding to the Company's equity in such partnerships based on the latest financial reports accessible depending on the reporting dates stipulated in the partnership agreement.

(ii) Derivatives — Stated at fair value

(iii) Inventories — Mainly stated using the identified cost method (the book value is written down based on the decreased profitability)

(2) Depreciation method of significant depreciable assets

(i) Property, plant and equipment (excluding leased assets)

Buildings and structures are mainly depreciated using the straight-line method, while other property, plant and equipment are depreciated using the declining-balance method.

(ii) Intangible assets (excluding leased assets)

Straight-line method — Internal use software is amortized using the straight-line method over the internally expected useful life (5 years).

(iii) Leased assets

Leased assets in finance leases that do not transfer ownership

Straight-line method with zero residual value assuming the lease periods as useful lives

Finance leases that do not transfer ownership and that commenced on or before February 28, 2009 are continued to be accounted for using a method that is applicable to ordinary rental transactions.

(3) Accounting method for significant deferred assets

Bond issuance cost

Amortized using the straight-line method over the period until redemption

(4) Accounting policy for significant provisions

(i) Allowance for doubtful accounts

To prepare for losses from bad debt, an estimated uncollectible amount is provided either by making an estimation using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

(ii) Provision for bonuses

To prepare for the payment of bonuses to employees, the amount expected to be paid is provided.

(iii) Provision for directors' bonuses

To prepare for the payment of bonuses to corporate officers, the amount expected to be paid is provided.

(iv) Provision for sales returns

To prepare for losses from sales returns expected to occur on or after the end of the current fiscal year, the amount corresponding to the allowable limit of deductible expenses pursuant to the provisions of tax law is provided.

(v) Provision for books unsold

To prepare for losses from the occurrence of unsold inventory with respect to books for which a certain amount of time has passed since publication, the amount corresponding to the allowable limit of deductible expenses pursuant to the provisions of tax law is provided.

(vi) Provision for sales promotion expenses

To cover the unused amount of points issued under the points system for sales promotion purposes, the amount expected to be used in the future based on the rate of usage in the past is provided.

(vii) Reserve for gift certificates

To prepare for losses incurred in cases of gift certificates used after their derecognition from liabilities, the amount expected to be used in the future based on usage in the past is provided.

(viii) Provision for loss on business liquidation

To prepare for losses from business liquidations or store closures at subsidiaries and associates, the necessary amount is provided.

(ix) Provision for directors' retirement benefits

At certain consolidated subsidiaries, to prepare for the payment of retirement benefits to corporate officers, the amount to be paid at the end of the current fiscal year, based on an internal rule, is provided.

(x) Provision for loss on stores rebuilding

To prepare for losses incurred from stores rebuilding, the necessary amount is provided.

(5) Criteria for converting significant assets or liabilities denominated in foreign currencies into Japanese currency

Monetary claims and liabilities denominated in foreign currencies are converted into Japanese yen using the spot exchange rate on the consolidated balance sheet date, and any differences generated by this conversion are included in gains or losses. Monetary claims and liabilities denominated in foreign currencies to which *Furiate-shori* (accounting method in which the difference of amount using the current and forward rate is allocated by period length for the calculation at the accounting period) for forward exchange contracts is applied are converted into the Japanese yen amounts of the said forward exchange contracts.

(6) Accounting method for retirement benefits

(i) Method for attributing expected retirement benefits to accounting periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to accounting periods up to the end of the current fiscal year using the benefit formula basis.

(ii) Method for recognizing actuarial gains and losses and prior service costs

Prior service costs are amortized by the straight-line method over a certain number of years (principally 10 to 12 years) within the average remaining service period of employees at the time of occurrence, starting in the fiscal year in which the prior service costs accrue.

Actuarial gains and losses are amortized by the straight-line method over a certain number of years (principally 10 to 12 years) within the average remaining service period of employees at the

time of occurrence, starting in the respective fiscal years following each occurrence.

(iii) Accounting treatment for unrecognized actuarial gains and losses and unrecognized prior service costs

Unrecognized actuarial gains and losses and unrecognized prior service costs are posted to remeasurements of defined benefit plans under accumulated other comprehensive income in the net assets section after adjusting for tax effects.

(7) Significant hedge accounting method

(i) Hedge accounting method

Hedging activities are accounted for under the deferral hedge method. *Furiate-shori* is applied to monetary claims and liabilities denominated in foreign currencies with forward exchange contracts and exceptional treatment is applied to interest rate swaps that satisfy the requirements for exceptional treatment.

(ii) Hedging instruments and hedged items

| | |
|---|---|
| Hedging instruments | Forward exchange contracts, interest rate swaps |
| Hedged items | Operating receivables and payables denominated in foreign currencies, forecast transactions in foreign currencies, loans payable and interest expenses on loans payable |

(iii) Hedging policy

Based on the Group's risk management policy, hedging is undertaken to hedge foreign exchange fluctuation risk and interest rate fluctuation risk.

(iv) Method for assessing the hedge effectiveness

At the end of each fiscal year, hedge effectiveness with respect to the hedged items and hedging instruments is assessed for each hedging transaction. This annual assessment excludes any transaction where important terms and conditions such as principal, interest rate, and duration are identical between the assets or liabilities of hedged items and hedging instruments.

(8) Method and period for amortization of goodwill

Amortization of goodwill is carried out by the straight-line method during the five-year period from occurrence. For items for which the amount is immaterial, one-time amortization of the full amount is carried out in the fiscal year in which they occur.

(9) Accounting treatment for consumption taxes

Consumption tax and local consumption tax are accounted for under the tax exclusion method.

5. Changes in accounting policies

Change in the valuation method for inventories

Up until now, the valuation method for merchandise in Daimaru Matsuzakaya Department Stores Co. Ltd. and other principal subsidiaries of the Company has been lower of cost or market, using the cost percentage method (the book value is written down based on the decreased profitability). However, a system that monitors individual costs is now in full operation. As this system enables more precise cost control, the valuation method for inventories has changed to the identified cost method (the book value is written down based on the decreased profitability) effective from the current fiscal year.

This change in accounting policy has been applied retrospectively, and the balance of retained earnings as of the beginning of the current fiscal year has decreased by ¥204 million reflecting the cumulative amount of the effect from the retrospective application to net assets as of the beginning of the current fiscal year.

Adoption of accounting standard for retirement benefits

Regarding the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015), effective from the current fiscal year, the Company has adopted the provisions

specified in the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits, reviewed its calculation method for retirement benefit obligations and current service costs, and changed its method of attributing expected benefits to periods from the straight-line basis to the benefit formula basis. In addition, the Company has changed the method for determining the discount rate from one that uses a discount rate based on a period approximate to the average remaining service periods of employees, to one that uses a single weighted average discount rate reflecting the estimated timing and amount of retirement benefits.

Adoption of the Accounting Standard for Retirement Benefits and Guidance on Accounting Standard for Retirement Benefits is in line with the transitional measures provided in Paragraph 37 of the Accounting Standard for Retirement Benefits and the effect of the change in the determination of retirement benefit obligations and current service costs has been added to or deducted from retained earnings as of the beginning of the current fiscal year.

As a result, as of the beginning of the current fiscal year, net defined benefit liability increased by ¥2,065 million and net defined benefit asset, retained earnings and minority interests decreased by ¥2,640 million, ¥3,065 million and ¥114 million, respectively. The effect of this change on operating income, ordinary income and income before income taxes and minority interests for the current fiscal year is immaterial.

6. Additional information

Note on change in rates of income taxes subsequent to balance sheet date

On March 31, 2016, the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act on Partial Revision of the Local Tax Act, etc." (Act No. 13 of 2016) were promulgated, resulting in changes in the rates of income taxes for fiscal years beginning on or after April 1, 2016.

In accordance with these revisions, for temporary differences expected to be reversed in the fiscal year beginning on or after March 1, 2017, the effective statutory tax rate used to measure deferred tax assets and liabilities will be changed from 32.3% to 30.9%. In addition, for temporary differences expected to be reversed in fiscal years beginning on or after March 1, 2019, the effective statutory tax rate used to measure deferred tax assets and liabilities will be changed to 30.6%.

As a result of these changes, if remeasured based on the temporary differences as of February 29, 2016, deferred tax assets in current assets and non-current assets will decrease by ¥169 million and ¥173 million, respectively, deferred tax liabilities in non-current liabilities will decrease by ¥4,762 million, deferred tax liabilities for land revaluation will decrease by ¥61 million, and remeasurements of defined benefit plans (credit) will decrease by ¥223 million while valuation difference on available-for-sale securities (credit), minority interests (credit) and income taxes - deferred (credit) will increase by ¥53 million, ¥316 million and ¥4,345 million, respectively.

**Notes on consolidated balance sheet**

1. Accumulated depreciation of property, plant and equipment

¥291,437 million

2. Assets pledged as collateral and secured liabilities

(1) Assets pledged as collateral

| | |
|---|---|
| Buildings and structures | ¥10,779 million |
| Land | ¥10,798 million |
| Investment securities | ¥265 million |
| Other | ¥51 million |
| Total | ¥21,894 million |

(2) Secured liabilities

| | |
|---|---|
| Short-term loans payable | ¥1,000 million |
| Long-term loans payable | ¥1,625 million |
| Other | ¥524 million |
| Total | ¥3,149 million |

3. Guarantee obligations

| | |
|---|---|
| Guarantee of financing for employee housing and others | ¥12 million |
| Guarantee of lease agreement of JET Cleaning Co., Ltd. (subsidiary of Forest Co., Ltd.) | ¥81 million |
| Total | ¥94 million |

**Notes on consolidated statement of changes in equity**

1. Class and total number of shares issued as of the end of the current fiscal year

   Common shares 268,119,164 shares

2. Matters concerning dividends

(1) Dividends paid

| Resolution | Class of shares | Total amount of dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Board of Directors meeting held on April 9, 2015 | Common shares | 3,432 | 13.00 | February 28, 2015 | May 8, 2015 |
| Board of Directors meeting held on October 6, 2015 | Common shares | 3,400 | 13.00 | August 31, 2015 | November 10, 2015 |

(2) Dividends with the record date falling within the current fiscal year and with the effective date falling within the following fiscal year

| Resolution | Class of shares | Source of dividends | Total amount of dividends (Millions of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Board of Directors meeting held on April 7, 2016 | Common shares | Retained earnings | 3,661 | 14.00 | February 29, 2016 | May 6, 2016 |

3. Class and number of shares to be delivered upon exercise of subscription rights to shares outstanding at the end of the current fiscal year (excluding those for which the exercise period has not started)

   Common shares 8,500 shares

**Notes on financial instruments**

1. Matters concerning conditions of financial instruments

(1) Policy for handling financial instruments

The Group limits its management of funds to highly stable deposits, bonds and the like. For the procurement of funds, the Group's policy is to use bank loans, issuances of commercial papers, issuances of bonds, securitized receivables and the like. The Group uses derivatives solely to avoid foreign exchange fluctuation risks on monetary claims and liabilities denominated in foreign currencies and interest rate fluctuation risks on loans payable and bonds, and does not enter into derivative transactions for speculative purposes.

(2) Details of financial instruments, their risks and risk management structure

Notes and accounts receivable - trade, which are operating receivables, are exposed to customer credit risk.

Lease and guarantee deposits are primarily those related to store rents and are exposed to lessor credit risk. To handle this risk, all Group companies carry out due date management and balance management by customer or lessor and seek early identification and mitigation of collectibility concerns.

For shares and the like, which are investment securities, although such securities are exposed to market price fluctuation risk, the Group mainly holds shares of companies with which it has business relationships, and not only periodically monitors their market prices but also continuously reviews its shareholding positions.

The majority of the Group's notes and accounts payable - trade and income taxes payable, which are operating debts, are those with payment dates within one year. Although some of these are denominated in foreign currencies and are exposed to foreign exchange fluctuation risk, the Group enters into forward exchange contracts for some of the settlement amounts to avoid this risk.

Short-term loans payable, commercial papers, securitized receivables and the like are mainly to procure funds for operational transactions, while bonds and long-term loans payable are mainly to procure funds for capital investment. Although loans payable with floating interest rates are exposed to interest rate fluctuation risk, for some of the long-term loans payable, derivative transactions (interest rate swaps) for each individual contract are used as hedging instruments to avoid fluctuation risk on interest to be paid and to fix the interest to be paid. As a method for assessing hedge effectiveness, the Group periodically verifies hedging effects for each individual contract. For contracts that satisfy the requirements for exceptional treatment of interest rate swaps, assessment of effectiveness is omitted in accordance with that judgment.

Execution and management of derivative transactions are carried out in accordance with internal rules that stipulate contract limits, and the use of derivatives is limited to contracts with financial institutions that have high ratings in order to reduce credit risk.

In addition, although operating debts, loans payable and the like are exposed to liquidity risk, the Group manages this risk with methods such as preparing monthly cash flow management plans at all companies, and secures sufficient liquidity on hand through commitment line contracts and overdraft contracts with its main financing banks.

2. Matters concerning fair values of financial instruments

Consolidated balance sheet amounts, fair values as of February 29, 2016, and their differences are as follows.

The amounts shown in the following table do not include financial instruments whose fair values are deemed extremely difficult to determine. (see Note 2)

(Millions of yen)

| | Consolidated balance sheet amount (*1) | Fair value (*1) | Difference |
|---|---|---|---|
| (1) Cash and deposits | 32,439 | 32,439 | – |
| (2) Notes and accounts receivable - trade | 68,049 | 68,049 | – |
| (3) Securities and investment securities | | | |
| (i) Other securities | 16,951 | 16,951 | – |
| (ii) Shares of associates | 11,980 | 8,128 | (3,851) |
| (4) Lease and guarantee deposits | 36,679 | 36,304 | (374) |
| (5) Notes and accounts payable - trade | [90,768] | [90,768] | – |
| (6) Short-term loans payable | [8,439] | [8,439] | – |
| (7) Commercial papers | [30,798] | [30,798] | – |
| (8) Income taxes payable | [8,322] | [8,322] | – |
| (9) Bonds payable | [27,000] | [27,260] | 260 |
| (10) Long-term loans payable | [114,685] | [115,951] | 1,266 |
| (11) Derivatives (*2) | [83] | [83] | – |

(*1) The items recorded in liabilities on the consolidated balance sheet are shown in square brackets.
(*2) Assets and liabilities arising from derivative transactions are presented on a net basis. Net liability is indicated in square brackets.

(Note 1) Method for measuring fair values of financial instruments and matters concerning securities and derivative transactions

(1) Cash and deposits, and (2) Notes and accounts receivable - trade

The book value is used as the fair value of these assets, given that the fair value is almost the same as the book value, as they are mostly settled in a short time. Time deposits over one year are included in (1) Cash and deposits.

(3) Securities and investment securities

To measure fair values of these assets, prices at the exchange are used for stocks and prices at the exchange as well as prices presented by the counterparty financial institutions or the like are used for bonds.

(4) Lease and guarantee deposits

The fair values of lease and guarantee deposits are measured based on the present values obtained by discounting the future cash flows by the rate for which credit risk is taken into account. Current portion of lease and guarantee deposits is included.

(5) Notes and accounts payable - trade, (6) Short-term loans payable, (7) Commercial papers, and (8) Income taxes payable

The book value is used as the fair value of these liabilities, given that the fair value is almost the same as the book value, as they are settled in a short time.

(9) Bonds payable

The fair values of bonds payable are measured based on the market prices. Current portion of bonds payable is included.

(10) Long-term loans payable

The book value is used as the fair value of those loans payable with floating interest rate, given that the fair value is almost the same as the book value, as their interest rates are reviewed on a short-term interval to reflect market interest rates. In addition, as some of them qualify for exceptional treatment for an interest rate swap, their fair value is measured by discounting the total of principal and interest accounted for together with the said interest rate swap at the reasonably estimable rate applied when a similar loan is made.

The fair values of loans payable with fixed interest rate are measured by discounting the total of principal and interest at the rate assumed when a new similar loan is made. Current portion of long-term loans payable is included.

(11) Derivatives

The fair values are measured based on prices presented by the counterparty financial institutions or the like.

Items to which exceptional treatment for interest rate swaps or *Furiate-shori* for forward exchange contracts is applied are accounted for together with the hedged long-term loans payable and trade accounts receivable and payable. Consequently, the fair values are included in the fair values of the said long-term loans payable and trade accounts receivable and payable. (Please refer to (10) above).

(Note 2) Financial instruments whose fair values are deemed extremely difficult to determine

Unlisted stocks (whose consolidated balance sheet amount is ¥19,286 million) are excluded from "(3) Securities

and investment securities" because they do not have market prices and it is deemed extremely difficult to determine the fair values.

Part of lease and guarantee deposits (whose consolidated balance sheet amount is ¥26,303 million) and long-term guarantee deposited (whose consolidated balance sheet amount is ¥31,820 million) are not subject to fair value measurement because they do not have market prices and it is deemed extremely difficult to estimate future cash flows, etc.

**Notes on investment and rental property**

1. Matters concerning status of investment and rental property

   Some of the Company's subsidiaries own rental buildings (including land) in Tokyo and other regions.

2. Matters concerning fair values of investment and rental property

(Millions of yen)

| Consolidated balance sheet amount | Fair value at the end of the current fiscal year |
|---|---|
| 119,556 | 116,951 |

(Note 1) The consolidated balance sheet amount is the acquisition cost less accumulated depreciation.

(Note 2) For major properties, fair value at the end of the current fiscal year is an amount based on the real estate appraisal standards of an external real estate appraiser, etc. For other properties, fair value is an amount estimated by employing the land price index with necessary adjustments applied at the Company.

(Note 3) The Ginza 6-chome District 10 Urban Redevelopment Project, etc. (whose consolidated balance sheet amount is ¥129,754 million) involve developments of large-scale commercial facilities and are still at the development stage at present. For these reasons, their fair values are extremely difficult to determine and are not included in the above table.

**Notes on per share information**

1. Net assets per share: ¥1,467.05
2. Basic earnings per share: ¥100.42

**Notes on significant subsequent events**

No items to report.

# Notes to Non-consolidated Financial Statements

**Notes on matters concerning important accounting policies**

1. Basis and method of valuation of assets

(1) Basis and method of valuation of securities

| | |
|---|---|
| Shares of subsidiaries and associates | Stated at cost using the moving-average method |
| Other securities | |
| Securities with available fair market values | Stated at fair value based on the market prices at the fiscal year-end<br>(Valuation differences are included in net assets; cost of securities sold is determined by the moving-average method) |
| Securities without available fair market values | Stated at cost using the moving-average method |

(2) Basis and method of valuation of derivatives

| | |
|---|---|
| Derivatives | Stated at fair value |

(3) Basis and method of valuation of inventories

| | |
|---|---|
| Supplies | Stated at cost using the FIFO method (the book value is written down based on the decreased profitability) |

2. Depreciation method of non-current assets

| | |
|---|---|
| Property, plant and equipment (excluding leased assets) | |
| Buildings and structures | Straight-line method |
| Other property, plant and equipment | Declining-balance method |
| Intangible assets (excluding leased assets) | Straight-line method<br>Internal use software is amortized using the straight-line method over the internally expected useful life (5 years). |
| Leased assets | |
| Leased assets in finance leases that do not transfer ownership | Straight-line method with zero residual value assuming the lease periods as useful lives |

3. Accounting method for deferred assets

| | |
|---|---|
| Bond issuance cost | Amortized using the straight-line method over the period until redemption |

4. Accounting policy for provisions

| | |
|---|---|
| Provision for bonuses | To prepare for the payment of bonuses to employees, the amount expected to be paid is provided. |
| Provision for directors' bonuses | To prepare for the payment of bonuses to corporate officers, the amount expected to be paid is provided. |

5. Hedge accounting method

| | |
|---|---|
| Hedge accounting method | Exceptional treatment is applied to interest rate swaps that satisfy the requirements for exceptional treatment. |
| Hedging instruments and hedged items | |
| Hedging instruments | Interest rate swaps |
| Hedged items | Loans payable and interest expenses on loans payable |
| Hedging policy | Based on the risk management policy, hedging is undertaken to hedge interest rate fluctuation risk. |
| Method for assessing the hedge effectiveness | At the end of each fiscal year, hedge effectiveness with respect to the hedged items and hedging instruments is assessed for each hedging transaction. This annual assessment excludes any transaction where important terms and conditions such as principal, interest rate, and duration are identical between the assets or liabilities of hedged items and hedging instruments. |

6. Accounting treatment for consumption taxes

Consumption tax and local consumption tax are accounted for under the tax exclusion method.

Of consumption tax on assets that are not qualified for tax deductions, deferred consumption taxes stipulated under tax law are recorded in long-term prepaid expenses and amortized on a straight-line basis during a five-year period.

**Notes on non-consolidated balance sheet**

1. Accumulated depreciation of property, plant and equipment

¥90 million

2. Balance of guarantee obligations

Daimaru Matsuzakaya Department Stores Co. Ltd.
Guarantee for trip charge collected from customers based on request from business partner
¥0 million

**Notes on non-consolidated statement of income**

Transaction with subsidiaries and associates

| | |
|---|---|
| Operating revenue | ¥12,213 million |
| General and administrative expenses | ¥144 million |
| Non-operating transactions | ¥1,273 million |

**Notes on non-consolidated statement of changes in equity**

1. Class and total number of shares issued as of the end of the current fiscal year
   Common shares 268,119,164 shares
2. Class and number of treasury shares as of the end of the current fiscal year
   Common shares 6,575,238 shares

**Notes on tax effect accounting**

1. Deferred tax assets by major category of cause

| | |
|---|---|
| Deferred tax assets | |
| Provision for bonuses | ¥55 million |
| Accrued insurance expenses | ¥7 million |
| Accrued enterprise tax | ¥16 million |
| Loss carried forward | ¥23 million |
| Loss on valuation of shares of subsidiaries and associates | ¥634 million |
| Loss on support to subsidiaries and associates | ¥96 million |
| Other | ¥28 million |
| Sub total deferred tax assets | ¥863 million |
| Valuation allowance | ¥(730) million |
| Total deferred tax assets | ¥132 million |
| Deferred tax liabilities | |
| Valuation difference on available-for-sale securities | ¥8 million |
| Net deferred tax assets | ¥123 million |

Net deferred tax assets are included in the following items in the non-consolidated balance sheet.

| | |
|---|---|
| Current assets — Deferred tax assets | ¥129 million |
| Non-current liabilities — Deferred tax liabilities | ¥5 million |

2. Note on change in rates of income taxes subsequent to balance sheet date

On March 31, 2016, the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act on Partial Revision of the Local Tax Act, etc." (Act No. 13 of 2016) were promulgated, resulting in changes in the rates of income taxes for fiscal years beginning on or after April 1, 2016.

In accordance with these revisions, for temporary differences expected to be reversed in the fiscal year beginning on or after March 1, 2017, the effective statutory tax rate used to measure deferred tax assets and liabilities will be changed from 32.3% to 30.9%. In addition, for temporary differences expected to be reversed in fiscal years beginning on or after March 1, 2019, the effective statutory tax rate used to measure deferred tax assets and liabilities will be changed to 30.6%.

The impact of this change is immaterial.

**Notes on transactions with related parties**

Subsidiaries and associates, etc.

(Millions of yen)

| Type | Company name | Ownership ratio of voting rights | Relationship | Nature of transactions | Transaction amount (Note 5) | Account item | Balance at the end of the fiscal year |
|---|---|---|---|---|---|---|---|
| Subsidiary | Daimaru Matsuzakaya Department Stores Co. Ltd. | Holding Directly 100% | Interlocking of officers Business advisory | Receipt of consulting fee income (Note 1) | 2,409 | — | — |
| | | | | Lending of funds | 15,000 | Short-term loans receivable | 18,640 |
| | | | | Collection of funds | 18,640 | Long-term loans receivable | 50,640 |
| | | | | Receipt of interests (Note 2) | 652 | — | — |
| Subsidiary | JFR Office Support Co., Ltd. | Holding Directly 100% | Interlocking of officers Business advisory | Lending and collection of funds (Note 3) | 8,642 | Short-term loans receivable | 9,309 |
| | | | | Receipt of interests (Note 2) | 37 | — | — |
| Subsidiary | JFR Online Co. Ltd. | Holding Directly 100% | Interlocking of officers Business advisory | Support for subsidiaries and associates (Note 4) | 300 | — | — |

Transaction conditions and policy for deciding transaction conditions

(Note 1) Consulting fee income is determined by contract terms.

(Note 2) Interest rates on loans are determined reasonably with reference to market interest rates.

(Note 3) As transactions for lending and collection of funds are carried out repetitively, the amount shown in the transaction amount column is the average balance during the period.

(Note 4) Amounts deemed by the Company to be necessary as management support for subsidiaries and that the Company has decided to provide are recorded.

(Note 5) Transaction amounts do not include consumption taxes.

**Notes on per share information**

1. Net assets per share: ¥1,161.27
2. Basic earnings per share: ¥26.22