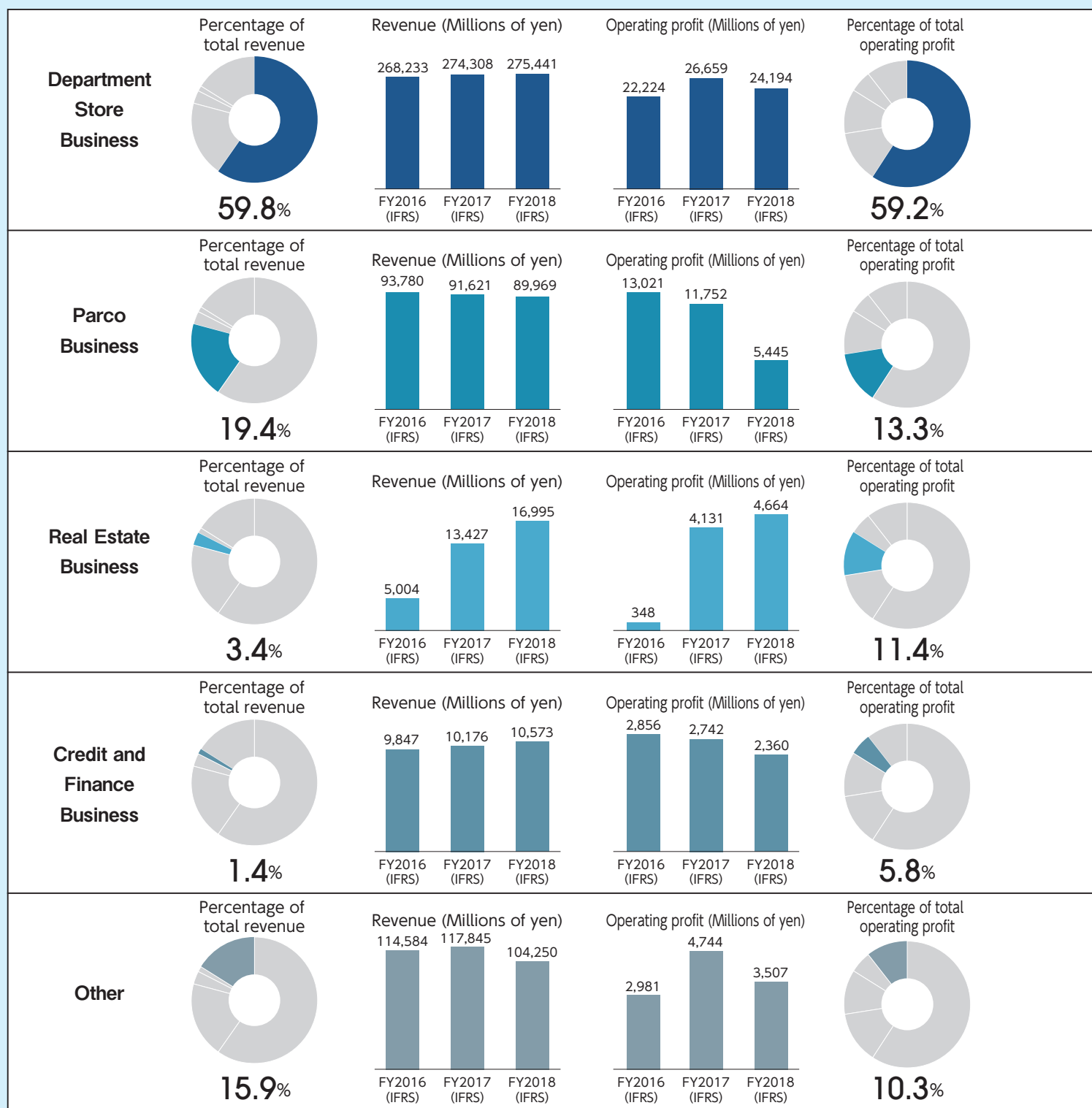


## Business Overview (FY2018) At a Glance



### Reference New lease accounting standards (IFRS 16)

● The Group recognized right-of-use assets and lease liabilities at the date of initial application of IFRS 16 for leases that it previously classified as operating leases under IAS 17. The lease liabilities are measured at the present value of outstanding lease payments discounted using the lessee's incremental borrowing rate at the date of initial application. The right-of-use assets are measured retrospectively as if IFRS 16 had been applied since the commencement date of the lease contract.

● As a result, in the consolidated statement of financial position on the initial application date, assets and liabilities increased by ¥210.6 billion and ¥225.2 billion, respectively, and equity decreased by ¥14.5 billion. In the consolidated statement of profit or loss for fiscal year 2019, operating profit increased by approximately ¥4.6 billion compared to former standards (before application of IFRS 16), but its impact on profit is expected to be immaterial. Compared to former standards, cash flows from operating activities are expected to increase by approximately ¥28 billion and cash flows from financing activities are expected to decrease by the same amount in fiscal year 2019.

- The percentage of total revenue represents the ratio of revenue to external customers after eliminating intersegment transactions.
- Revenue and operating profit include intersegment transactions.
- Calculation of percentage of total operating profit of "Other" segment includes adjustments.

### FY2018 results

While spending by inbound tourists and the affluent continued strong, sales of volume zone items were sluggish as a whole. Stores had to reduce operating hours or temporarily close due to natural disasters such as record heavy rain mainly in western Japan in July, huge typhoons in August and September, and the great earthquake in the Hokkaido area. The "warm winter" trend from December to January caused heavy damage to sales of winter clothing. As a result, revenue slightly increased by 0.4% year on year but "business profit" decreased by 4.3% due to an increase in cost associated with information systems, etc. and operating profit decreased by 9.2% partly in reaction to gain on sales of real estate recorded in the previous year (¥1.4 billion).

"Parco\_ya," which opened as the anchor tenant of "Ueno Frontier Tower" in November two years ago, performed well. There were additional sales from newly opened Zero Gate complexes in Harajuku, Sannomiya, etc. However, clothing sales were sluggish as a whole. There were also sluggish sales of regional stores and a reactionary decline in sales of the entertainment business. As a result, total revenue of the Parco Business decreased by 1.8% year on year and "business profit" decreased by 15.2%. In addition, taking into account changes in competitive environment, we decided to close Kumamoto Parco and Utsunomiya Parco and recorded loss on liquidation of business. Accordingly, operating profit significantly decreased by 53.7%.

Thanks to continued strong performance of "Ginza Six" (opened in April 2017) in the 2nd year after opening and full operation of "Ueno Frontier Tower" (opened in November in the same year) as well as transfer of many of shops around the Daimaru Kobe store to the Real Estate Business, revenue and "business profit" significantly increased by 26.6% and 79.5% year on year, respectively. Operating profit marked a double-digit growth of 12.9% in spite of a decline in reaction to gain on sales of real estate recorded in the previous year (¥1.6 billion).

Revenue increased by 3.9% year on year partly due to an increase in external merchant fees. However, "business profit" and operating profit decreased by 16.6% and 13.9%, respectively, due to multiple cost increase factors such as an increase in personnel expenses to employ specialized human resources and strengthen the organization for future growth (+¥160 million), card renewal cost incurred every five years (+¥140 million) and a change in brand fee rate (+100 million).

J. Front Design & Construction improved profitability and increased profit in spite of a decline in sales in reaction to the large-scale project carried out in the previous year. However, revenue, "business profit" and operating profit decreased by 11.5%, 19.7% and 26.1% year on year, respectively, partly due to poor performance of Daimaru Kogyo and business transfer of a consolidated subsidiary Forest at the end of August of the previous fiscal year.

### FY2019 forecast

Revenue is forecast to increase by 0.5% year on year because spending by Japanese affluent people and inbound tourists is expected to remain strong and the effect of renovation of urban stores including the measures against weak volume zone items and additional sales from closeout in the north wing of the Shinsaibashi store before opening of the main building are expected while consumption tax is scheduled to rise in October. In terms of profit, initial cost and depreciation associated with opening of the new main building of the Shinsaibashi store and an increase in operational cost due to companywide upgrading of POS systems are expected but they will be offset by an increase in gross profit as well as reduction of rent expenses and streamlining of personnel expenses. Accordingly, "business profit" is expected to increase by 13.3%. Meanwhile, operating profit is expected to increase by 7.5% factoring in loss on retirement of fixed assets arising from renovation of the north wing of the Shinsaibashi store.

We expect revenue and "business profit" to increase by 29.2% and 20.4% year on year, respectively, due to opening of new Shibuya Parco and "Kinshicho Parco" and additional sales from renovation and anniversary projects of major stores. In addition, compensation income from the redevelopment of Shibuya will increase and there will be an increase in reaction to loss on liquidation of business recorded in the previous fiscal year after we decided to close Kumamoto Parco and Utsunomiya Parco. Accordingly, operating profit is expected to increase by 133.2%.

Revenue is expected to increase partly due to the effect of transfer of shops around the Daimaru Kobe store. On the other hand, as the north wing of the Daimaru Shinsaibashi store will be transferred as the "asset of the Real Estate Business" after opening of the new main building of the same store, fixed asset tax and depreciation on the north wing will be recorded in the Real Estate Business segment. As a result, "business profit" is expected to decrease by 13.1% year on year. Operating profit is expected to decrease by 22.8% because construction cost associated with the renovation of the north wing, etc. will be added to other operating expenses.

Revenue is expected to increase by 10.7% year on year due to an increase in merchant fees and interest income from installment sales. However, "business profit" and operating profit are expected to decrease by 15.3% each because cost associated with issue of new cards and an increase in cost to recruit human resources for growth are expected.

Revenue, "business profit" and operating profit are expected to increase by 14.1%, 35.1% and 37.7% year on year, respectively, factoring in large-scale orders, such as for the interior construction of the new main building of the Daimaru Shinsaibashi store, which are certainly expected to be received by J. Front Design & Construction, and performance improvement of Daimaru Kogyo, which is working on strengthening the order taking and delivery system.