Our Finance Policies Support Discontinuous Growth.

Capital cost-conscious management

We are pursuing finance policies centered on generating free cash flow (FCF) and improving ROE. Our goals are to 1) build a foundation that can permanently increase our corporate value by promoting FCF creation by each business with an emphasis on balance sheet (B/S) and achieving positive FCF, and 2) create a management structure that can continuously achieve ROE of 8% while maintaining a balance between business profitability and growth potential. In fiscal 2019, our ROE was 5.4% (down 1.4% from the previous fiscal year).

As of the end of February 2020, we have calculated the cost of shareholders' equity (the expected yield of shareholders and investors), which is a hurdle rate corresponding to ROE, to be around 6%, and we expect it to remain in the range of 6% to 7% in the mid- to long-term. In other words, a new Medium-term Business Plan will be launched in fiscal 2021 but there is no change in our belief that ROE of 8% is the minimum level that must be achieved in order to meet the expectations of our shareholders.

The weighted-average cost of equity (WACC) was slightly below 4% as of the end of February 2020, and is expected to be around 5% in the med- to long-term. We also identify WACC of each business and set hurdle rates when considering investment plans to promote capital cost-conscious management.

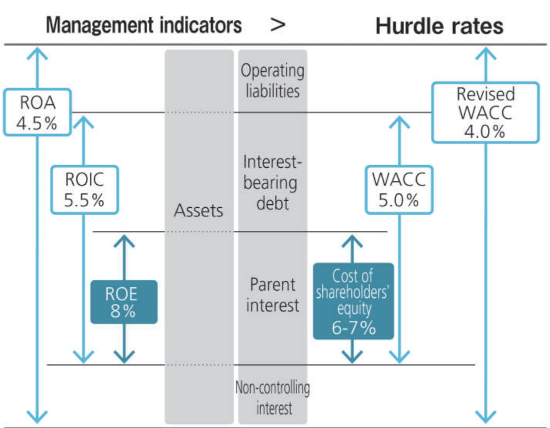
Under the new Medium-term Business Plan, which is currently being formulated, we will set ROIC as one of the key performance indicators that we should aim to achieve, and will work to enhance management control. ROIC is an indicator that incorporates financial strength based on ROE, which we have emphasized, and we believe that it is consistent with our course of action. In the process of expanding the real estate business and finance business in the future, the degree of dependency on borrowing will increase further, and ROIC calculated in the form of invested capital, including borrowings, will become more significant. We believe that we can smoothly move forward, partly because Parco have already promoted management with ROIC as a priority indicator.

► ROE and ROIC

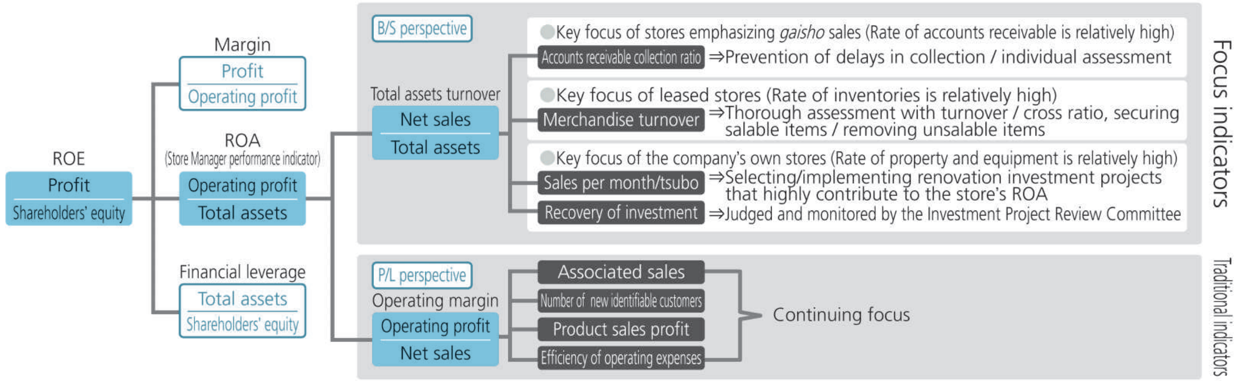
ROE Return on shareholders' equity > Cost of shareholders' equity

ROIC Return on invested capital > WACC Cost of liability Cost of shareholders' equity

► Correlation between management indicators and hurdle rates



► Enhancing management by adopting store level B/S



Department store management based on separate B/S for each store

For each operating company, the KPI is to improve ROA, which is computed by multiplying operating margin by total assets turnover. In fiscal 2017, our core department store business introduced management based on separate B/S for each store, as the efficiency of assets was not sufficient in spite of the fact that business activities were conducted while using large assets such as stores. As a result, not only sales and profits (P/L perspective) but also B/S perspective of pursuing appropriate returns from assets has been added to store level management.

Specifically, by prioritizing each store in consideration of its asset profitability and ability to recover investment, the Group is implementing restraints on investment plans aimed only at maintaining and expanding sales, as well as drastic measures for low-profit divisions.

Investment Project Review Committee and Revitalization Plan Review Committee

The Investment Project Review Committee and the Revitalization Plan Review Committee provide financial support for management decisions on investments, business revitalization and withdrawal.

The Investment Project Review Committee, which is chaired by the Senior Executive General Manager of the Financial Strategy Unit and vice-chaired by the Senior General Manager of the Management Planning Division, verifies the appropriateness of the investment projects to determine whether they meet the investment criteria and discusses business risks. To offer more objective opinions, we have put in place a system in which outside organizations can participate.

The Revitalization Plan Review Committee is chaired by the Senior General Manager of the Budget and Management Support Division and vice-chaired by the Senior General Manager of the Management Planning Division. The committee verifies business operations and examines the appropriateness of countermeasures by managing in three phases: I) normal, II) caution needed, and III) revitalization and withdrawal to be considered.

Each committee provides information, to facilitate swift management decisions at the Group Management Meetings and the Board of Directors meetings.

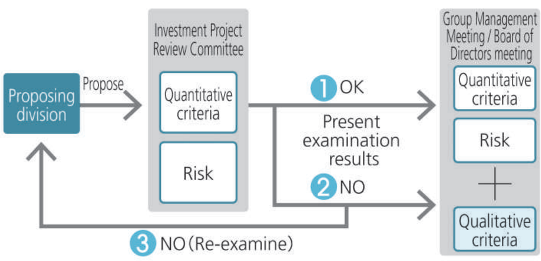
Fund procurement

The Company's basic fund procurement policy is to 1) procure the funds required for business activities from funds provided by operating activities and 2) procure funds for strategic investments through the issuance of bonds and borrowings from financial institutions in consideration of financial soundness and stability.

In light of the serious impact on the retail industry caused by COVID-19, we are working to reduce capital investment in fiscal 2020 to about half of the initial plan. In order to secure financial stability and liquidity on hand, which are our top priorities, we increased commitment lines early, and we do not believe that this will have a significant impact on our financing and fund procurement. Going forward, we will continue to strive to recover our business performance while securing sufficient cash on hand in a timely and appropriate manner.

With Parco becoming a wholly owned subsidiary, we have begun operating a new CMS (cash management system) including Parco from the perspective of improving efficiency through the centralized management of the Group funds.

► Flow chart of investment project examination by the Investment Project Review Committee



► Classification into phases by the Revitalization Plan Review Committee