“Governance Reform Is Exactly Management Reform. Its Tangible Results Will Enhance Corporate Value.”

YAMAMOTO Ryoichi

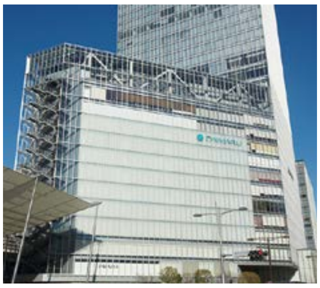
President and Representative Director

Q **Would you explain about an overview of business results for fiscal year 2015?**

A Consolidated net sales of J. Front Retailing (the “Company) were ¥1,163.5 billion, up 1.2% year on year. Consolidated operating income, consolidated ordinary income and consolidated net income were ¥48 billion, up 13.9% year on year, ¥47.9 billion, up 18.4% year on year, and ¥26.3 billion, up 31.8% year on year, respectively. As a result, operating income increased for the sixth consecutive year, achieving a record high since the Company was established and a 6.9% ROE, which we define as an important management index.

With regard to the year-end dividend, we have decided to pay ¥14 per share, ¥1 higher than planned. The annual dividend together with the interim dividend of ¥13 is ¥27 per share, up ¥2 from the previous year on a post-share consolidation basis, marking the fifth consecutive year of increase.

By segment, in the Department Store Business, net sales increased by 0.4% from the previous year due to favorable sales of mainly luxury brands and big-ticket items driven by the active consumption of affluent customers and foreign tourists to Japan mainly in urban stores and operating income rose by 24.1% thanks to stricter cost control.



Daimaru Tokyo store

Nagoya Zero Gate

In the Parco Business, net sales and operating income grew by 2.5% and 2.7%, respectively, compared to the previous year, supported by the continued strong performance of Fukuoka Parco, which increased floor space last year, the full operation of Nagoya Zero Gate and the new opening of Nagoya Midi. For your information, Parco Co., Ltd. reported another record high in operating income.

The Wholesale Business decreased net sales by 2.6%, but its operating income increased by 23.2%. The Credit Business increased net sales by 0.7% but decreased operating income by 21.1% due to increased costs of card replacement and write-off of doubtful accounts. The Other Businesses increased net sales by 7.6% and operating income by 16.1%, driven by the construction and interior design business.

Q **The Department Store Business achieved 20%-plus income growth and serves as a driver. What are the main causes of such strong performance?**

A Daimaru Matsuzakaya Department Stores focused on renovating the sales floors of flagship stores including the Nagoya and Sapporo stores to build a new department store model, better meeting inbound tourists' demand and acquiring new customers from the new rich class.

As a result of these efforts, net sales steadily increased by 1.9% year on year mainly in urban stores in the first to third quarters, but in the fourth quarter alone, net sales decreased by 1.8% due to approximately 40% reduced sales floor area of the Shinsaibashi store for the reconstruction work of its main building since January as well as a record warm winter and a rapid deterioration in business sentiment and full year net sales edged up by 0.9% from the previous year.

By store, sales of four flagship stores including the Shinsaibashi, Umeda, Tokyo and Sapporo stores exceeded the previous year's level. The Nagoya store slightly reduced sales by 0.6%, partly affected by the expansion of lease area since the end of October.

Duty-free sales of Daimaru Matsuzakaya Department Stores, which serve as an indicator of inbound tourist demand, increased 2.2-fold from the previous year to ¥33.8 billion and its share of total sales increased to 5.0%. In the second half when the effect of the expansion of duty-free coverage came to an end, average sales per customer decreased by 13.2% from the same period last year, but the number of customers jumped by 62.6%, which drove sales.

Gross margin was down 0.18 points in the first half, but in the second half, it rose by 0.09 points, pushed up by various improvement measures mainly for promotion methods and increased rental revenue.

Daimaru Sapporo store

Matsuzakaya Nagoya store

In terms of costs, SGA decreased by ¥4.9 billion from the previous year due to reduction of advertising expenses through a review and streamlining of loyal point program and reduction of labor costs through decreased retirement benefit expenses and human resource restructuring.

As a result, Daimaru Matsuzakaya Department Stores surged operating income by 30.0% to ¥26.1 billion.

Q **After the start of the year, share markets plunged and the economic environment has greatly changed. What is your outlook for fiscal year 2016?**

A Our awareness of the business environment is that uncertainty about the global economy has been heightened since the second half of last year and that fears of slowdown of the domestic economy are also increasing. The growth of real wages remains sluggish. Increasingly budget-minded consumer spending combined with a plunge in share prices at the start of the year have sharply deteriorated consumer confidence.

Thus the consumption environment allows no optimism. It is expected that the "polarization of income" and the "polarization of consumption" or the "polarization of a single person's consumption," which have become clearer after the consumption tax hike two years ago, will continue to increase and that the gap between urban and rural/suburban areas will become increasingly remarkable. In the meantime, it goes without saying that personal financial assets worth approximately ¥1,700 trillion in Japan can be a great opportunity if we take proper action.

According to the Family Income and Expenditures Survey of the Ministry of Internal Affairs and Communications, the ratio of "clothing" to the "annual average of monthly consumer spending per household" decreased from 7.3% in 1991 to 4.1% in 2014. Behind this trend, we assume that there are great changes in ways of self-expression and values particularly among young people as well as increasing globalization and casualization of fashion. In department stores, however, sales areas for clothing, particularly women's clothing, have been enlarged since around the bubble economy. And the current sales floor configuration does not respond to changes in customers sufficiently.

Under these circumstances, we believe that minor differences will become greater and gaps among companies will widen if we can capture growing markets properly and respond to struggling markets appropriately and carefully.