

Our Priority Performance Indicators Are Operating Profit and ROE. Next Mid-Term Plan Aims for Operating Profit of ¥50 Billion.



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Would you explain about the Group's business performance for fiscal 2012?



During fiscal 2012, the Group posted consolidated sales of ¥1,092.7 billion, which recovered to above ¥1 trillion. We recorded a robust sales growth of 16.1% compared to the year-earlier period because all segments excluding supermarket business achieved a year-on-year sales increase and Parco Business was added in the second half. Consolidated operating profit increased by 42.9% from the previous year to ¥30.8 billion, which is the third consecutive year-on-year growth. We could achieve an operating profit of ¥30 billion one year earlier than planned, which was planned for fiscal 2013 in the mid-term plan. Consolidated ordinary profit was ¥32.2 billion, up 40.4%, also marking the third straight year of growth. Net profit decreased by 35.2% to ¥12.1 billion mainly due to the specific factor that income taxes - deferred had significantly decreased following changes in the income tax rate in the previous fiscal year.

Last spring, Daimaru Matsuzakaya Department Stores completed the first phase of two-year big renovation of Matsuzakaya Nagoya store covering young fashion, luxury brands, cosmetics and accessories departments, while Daimaru Kobe store fully renovated its first basement food floor for the first time in 15 years. Daimaru Tokyo store increased its floor space by 1.4 times to 46,000 square meters and celebrated its grand opening on October 5. Other stores also implemented various measures including the replacement of brands and the review of product mix so as to meet changes in customers' values and lifestyles and the strengthening of *gaisho*, or out-of-store sales.

As a result of these efforts, Daimaru Matsuzakaya Department Stores increased sales by 2.6%, marking the second straight year of growth following fiscal 2011. In terms of costs, in spite of additional facility and other costs of ¥1.4 billion incurred from the floor expansion of Daimaru Tokyo store, SG&A expenses decreased by ¥0.8 billion from the previous year thanks to all possible cost-cutting measures taken, including the integration of back-office sections in the Kansai area and other organizational and human resource restructuring to reduce labor costs, the return of leased premises and the reduction of rents. This resulted in an operating profit of ¥15.4 billion, up 35.8% from a year earlier.

We have decided to pay a year-end dividend of ¥4.5 per share as originally planned. Combined with the interim dividend, the dividend totals ¥9 per share for the full year, up ¥1 from the previous year.

With regard to Peacock Stores, which suffered weak performance, we reached a conclusion that it would be advisable to revitalize the business under another company that has more know-how about supermarkets and is more responsive to prices. And JFR transferred all shares in the company to Aeon Co., Ltd. as of April 1. Accordingly, Peacock Stores will be excluded from the consolidation of the Group in the first quarter of fiscal 2013.

Q You made Parco your consolidated subsidiary and what is the status of your efforts to create synergy?

A We made Parco our consolidated subsidiary by acquiring a 65% stake in the company by last August. In an effort to create synergy between Parco and other companies of the Group, the top managements of Daimaru Matsuzakaya Department Stores, which is expected to achieve the highest effect, and Parco meet regularly and the two companies started to exchange human resources to use each other's know-how.

In some areas including sales promotion such as a sales campaign named "Ultra Thanks Festival," which was jointly held by Daimaru, Matsuzakaya and Parco for the first time in March 2013, and the provision of Daimaru Matsuzakaya Department Stores' cost-cutting know-how to Parco, these actions have already begun and started to produce results. Currently, as the first step, the two companies are trying to share information on actual operations, operation systems and others. The future initiatives of Daimaru Matsuzakaya Department Stores and Parco to create synergy based on the shared information include: (1) collaboration in the invitation of major overseas brands, the introduction of popular Japanese shops and the development of

new brands; (2) further reduction of department store operation costs by adopting Parco's business operation model; (3) use of Parco's know-how in tenancy agreement to make contracts with new tenants; and (4) the operation of Daimaru Matsuzakaya Department Stores' original business in Parco's premises. In addition, we are discussing collaboration among affiliated businesses including the offering of Daimaru Kogyo's packaging materials to Neuve A and an alliance between J. Front Design & Construction and Parco Space Systems.



Shibuya Parco

Q Daimaru Tokyo store made its grand opening and what is the progress of the establishment of "new department store business model"?

A In an effort to overcome the structural problems of traditional department store business model including weak market responsiveness and high-cost structure, we strive to expand target customer base, widen the range of products and prices in particular, and increase management efficiency to meet major market changes including the customer shift to more casual lifestyles and more frugal and price-sensitive behavior, while maintaining and strengthening department store's traditionally strong middle to high-end product offerings.



Using its prime location at Tokyo station, the gateway to Japan, and its size of 46,000 square meters, Daimaru Tokyo store, which increased its floor space and made its grand opening last October, aimed to become a department store with an assortment of “current” Tokyo to attract various customers ranging from residents nearby and along the railway lines and businesspersons to business travelers and tourists.

As a result, traffic to the store increased by 41.5% in the second half of fiscal 2012, and now, even six months after its grand opening, the store has around 100,000 shoppers on weekdays and around 150,000 on weekends and holidays. As originally intended, it attracts a wide range of customers. Sales of already strong food products are further increasing due to floor expansion and newly introduced luxury brands and big specialty shops such as ICI Ishii Sports are also enjoying brisk sales. Sales for the second half of fiscal 2012 increased by 33.7% year on year, exceeding our goal.

Sales in pre-existing parts were better than expected. Low-margin expanded parts attracted shoppers, while high-margin pre-existing parts increased sales. And profit margin for the whole store was higher than forecast. As a result, profits also far exceeded our goal.

For the first half of 2013, sales are expected to rebound because floor space was approximately 10% smaller in and after May 2012 due to expansion work. In addition, a pedestrian deck connected to the Yaesu entrance of Tokyo station will be completed in the second half of 2013 and it will allow easier access from Tokyo station and neighborhood areas. Thus we believe Tokyo store will greatly contribute to profit growth for the current fiscal year.



Daimaru Tokyo store after its grand opening with increased floor space



At flagship stores other than Tokyo store, you are steadily advancing efforts to strengthen them based on area marketing.



Matsuzakaya Nagoya store, the largest flagship store of ours, is working on the full renovation of the first and second basement food floors of the main building, which is the second and final phase of its two-year big renovation. Ahead of their grand opening slated for June, these floors already started to open partially and gradually from March and are doing well in sales.

This renovation aimed at building Nagoya’s number-one food zone called “Gochiso Paradise” by introducing many leading Japan’s first and Nagoya’s first shops and creating a specialty zone named “Table Plus,” which proposes highly sophisticated Western eating styles and enjoy popularity at Kobe store. In terms of facilities, we eliminated differences in level in the center, which had blocked the view, and overhauled traffic flow on the floors to ensure better visibility and easier shopping.

Daimaru Kobe store, which fully renovated its food floor for the first time in 15 years last year, increased food sales by 14.3%. On top of that, women’s clothing and women’s accessories also sold better, up 4.3% and 3.7%, respectively, because the food floor attracted more traffic and created a virtuous cycle that boosted sales on the upper floors, which were not renovated. Also at Nagoya store, we expect that the makeover of the food floors will result in a positive growth cycle that will further increase sales on the upper floors, which were refurbished last year.



Matsuzakaya Nagoya store



Hankyu Umeda flagship store made its grand opening with more floor space last November and competition has increasingly intensified in the Umeda area, Osaka.



With regard to fiercer competition in the Keihanshin area resulting from the expansion of Hankyu Umeda flagship store, we have taken measures in a planned and phased manner since several years ago and

could minimize its impact. Though our internal estimate of its impact on the total sales in the Kansai area for fiscal 2012 was a decrease of ¥1.5 to 2 billion, the actual sales decline seems to stay at around ¥1.4 billion.

We see almost no impact on Shinsaibashi and Kyoto stores. Rather Kobe store greatly increased sales by 5.4% during the second half of the year due to the full renovation of food floor in the first half. Sales of Umeda store were slightly affected, but almost no impact is found on their traffic. Therefore, we believe the store will be able to turn sales upward again in the second half of the current year by replacing brands and strengthening sales promotions.



Daimaru Umeda store

Q Thanks to the effect of Abenomics, we are said to be beginning to see bright signs in consumption at hand.

A Following the rapid recovery of the stock market since the end of last year, it is reported that consumption seems to be picking up due to the asset effect. We have also seen a surge in sales of high-end goods including luxury brands, jewelry, precious metals and timepieces since the beginning of this year.

In addition to our overwhelming strength in the wealthy class in the Kansai and Chubu areas, we improved high-end product offerings by increasing and newly introducing luxury brands at expanded Umeda and Tokyo stores, while widening the product lineup. Therefore, we believe increasing demand for high-end goods serves as a tail wind for us. During the current fiscal year, we moved Hermès shop of Kobe store from the second floor of the building near the store to the first

floor of the same building and reopened the shop with 1.5 times larger floor space, which is the largest in the region, on April 27. In addition, we will enhance *gaisho* activities by greatly increasing new accounts and strengthening and improving events, while securing enough products to meet the increasing demand for high-end goods. On the strength of this tail wind, we would like to boost sales.

As for the volume zone, however, clothes, of which sales strongly depend on the temperature and weather, have not moved so well. As we recognize that consumers are still price-sensitive and hold their purse strings tightly, we are not quite optimistic. Close attention should be paid to the movements of the customers who belong to this zone when income and employment environment are actually remarkably improved.

Q In the meantime, the consumption tax is planned to be raised in spring 2014.

A We think the consumption tax hike will have a huge impact on consumption. As a matter of course, we will take every possible measure to prevent sales from declining. Meanwhile, it is important to further enhance our business strength and quality. We will promote the review and reduction of operating costs and organizational and human resource restructuring across the Group.

Last September, with the aim of increasing sales capabilities and building a more productive store operation system, sales outsourcing business was spun off from the Group's staffing company Dimples' Co., Ltd. to establish Daimaru Matsuzakaya Sales Associates Co. Ltd. As a result of transferring the sales operations of Daimaru Matsuzakaya Department Stores to the new company, the number of employees of Daimaru Matsuzakaya Department Stores including regular employees and contract ones decreased to 3,500 persons at the end of February 2013 from 5,300 persons at the end of February 2012.

During the current fiscal year, we will strengthen the store sales capabilities of Daimaru Matsuzakaya Department Stores and increase human productivity by improving sales expertise through Daimaru Matsuzakaya Sales Associates. At the same time, we will continue to restructure our organization and human resources to achieve a headcount of 2,800 employees by the year-end.

The total number of employees of the Group was just over 14,800 persons at the end of February 2013 because Parco (approximately 1,900 employees) became a consolidated subsidiary. At the end of February 2014, however, the Group will have less than 11,500 employees in total partly due to the removal of Peacock Stores (almost 3,100 employees) from the Group.

Q What is the progress of your business in overseas markets?

A While the domestic consumption market is shrinking every year due to the aging population combined with the falling birthrate and fewer productive workers, China and the ASEAN countries are growing and promising markets for the department store business and affiliated businesses of the Group. Taking account of the local situation and business characteristics, we would like to actively develop businesses in these regions.

Last August, JFR and StylingLife Holdings Inc. ("SLH") established JFR Plaza Inc., of which 90% is owned by JFR and 10% by SLH, in Taiwan to open Japan's most popular general merchandise shops "Plaza" in major cities in Asia. The first shop named "Plaza Tokyo" opened in a department store in Taipei on March 29, 2013. The first shop has gained great popularity among local people and enjoys very strong sales. We will focus new shop openings in department stores and shopping malls in the Taipei area. During the first year, we are planning to open some four shops. Once putting the business in Taipei on track, we will expand the business into other cities in Taiwan including Taichung and Kaohsiung, and then, other Asian countries.

Last May, we formed a business alliance with a local company named Shanghai Xin Nan Dong Project Management Co., Ltd. to open and operate a full-line upscale department store. It is one of Shanghai's largest department stores with the retail space of 60,000 to 70,000 square meters and we are planning to open the store around early 2015. We support and cooperate to create one of the most upscale department stores in China by adopting Japanese know-how of creating and operating department stores. At the same time, we would like to accumulate the know-how of opening and operating department stores in China so that we can use it for our future business in China.

Site planned for the new store



Q With regard to the Ginza redevelopment project, you were authorized to establish a redevelopment partnership and thus the project seems to be going well.

A The Ginza 6-chome district redevelopment project as our domestic growth driver is progressing well and we were authorized to establish a redevelopment partnership by the Tokyo Metropolitan Government last December. Following that, we created the Ginza New Store Planning Office in March 2013 and are having concrete discussions on the building of commercial complex toward its opening in 2017. The current Matsuzakaya Ginza store will be closed at the end of June 2013, and after that, we will start the development construction at last.

We are planning to develop the combined two blocks of Ginza 6-chome including the current Matsuzakaya Ginza store and build a commercial and office complex with 13 floors above ground and six below and the total floor space of 147,600 square meters. At present, the commercial floor space is planned to be 40,000 square meters.

The details of commercial space to be operated by us are now under consideration. We would like to develop a new commercial facility as a leading information provider different from conventional department stores and worthy of "world-famous Ginza."

We are also making a plan to rebuild the south wing of Matsuzakaya Ueno store into a high-rise commercial and office complex and considering opening Parco in its commercial space. At present, it is aimed to open in 2017, like Ginza store.

Schedule until completion of construction and opening of Ginza redevelopment (TBD)





TOP INTERVIEW

Q I heard that the Group is expected to renew its highest profit for fiscal 2013 since JFR was established and that its mid-term three-year management plan, which will start in 2014, will target an operating profit of ¥50 billion.

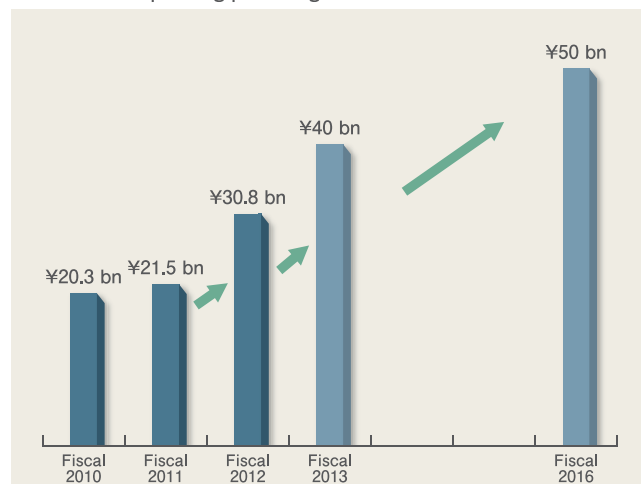
A We have explained that the Group developed a mid-term three-year plan, which started in fiscal 2011, and aims to achieve an operating profit of ¥30 billion.

For the current fiscal 2013, which marks the final year of the mid-term plan, since we did not expect to make Parco a consolidated subsidiary and transfer Peacock Stores when we made the plan, we forecast a consolidated operating profit of ¥40 billion, up ¥9.1 billion or 29.6% year on year, by factoring in these factors.

Consolidated sales are projected to increase by 5.2% from a year earlier to ¥1,150 billion and we expect consolidated ordinary profit to grow by 14.9% from the previous year to ¥37 billion because negative goodwill arising from merger, which had been recorded until the first half of fiscal 2012, was amortized and there will be no equity profit of Parco, which was an equity method affiliate in the first half of fiscal 2012. Consolidated net profit is forecast to be ¥29 billion, up 138.0% year on year, by factoring in extraordinary profit arising from transfer of shares in Peacock Stores. Operating profit and net profit will be the highest level since JFR was established in 2007.

We will develop the next mid-term plan during the current fiscal year and would like to aim to achieve a consolidated operating profit of ¥50 billion in the final year of the plan.

Consolidated operating profit targets



※Figures for fiscal 2010, 2011 and 2012 are actual amounts, and figures for fiscal 2013 and beyond are targets.

Q What do you think about the improvement of capital efficiency and return to shareholders?

A We see operating profit and ROE as the most important performance indicators. The Group achieved an increase in consolidated operating profit for three years in a row until the previous fiscal year, and this year, we have reached the point where we can aim for the highest profit since JFR was established. As profit is increasing, ROE is also improving and we expect ROE to be 8.2% for the current fiscal year. However, this figure is inflated by some specific factors including gain on sales of shares in Peacock Stores. We are fully aware that our ROE has not reached a satisfactory level yet, if these specific factors are excluded. As the next step after achieving an operating profit of ¥50 billion, we would like to stably achieve ROE of 8% as soon as possible.

We think our low ROE is mainly attributable to our low profit level. Toward the expansion of ROE, we will strive to reproduce return on an enlarged scale. To this end, we will further drive the innovation of department store business model and continue to actively work on overseas business, redevelopment projects, new store openings, M&A and replacement of businesses.

In the meantime, our shareholders' equity as denominator exceeded ¥340 billion, which is at a very high level in terms of financial stability. However, we need to keep it low to improve ROE, and for this purpose, we would like to actively return profits to shareholders. For the current year, we are planning to pay a dividend of ¥10 per share, increasing for the third consecutive year. We will continue to increase dividends, keeping a close eye on profit levels.