

We Will Challenge New Growth Areas While Developing as “Multi-Retailer.”



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J. Front Retailing (“JFR”) Group (“the Group”) welcomed Parco Co., Ltd. as its new member last year and entered a new stage toward the achievement of the Group vision of establishing the status of leading retail company in Japan both in quality and quantity. The current fiscal 2013 marks the final year of our three-year plan, which started in fiscal 2011, and we will address the following important tasks to achieve the highest operating profit of ¥40 billion since JFR was established in 2007 and the Group’s mid-term growth.

The first is to innovate our department store business model so that it can adapt to changing times.

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, develop specialty zones, 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.

Specifically, while each store tries to clarify and thoroughly implement its store strategy, we are working on introducing categories that department stores lacked, strengthening department store’s strong luxury brands, and developing and introducing specialty zones to differentiate our stores from competitors. At Daimaru Tokyo store, which increased its floor space and made its grand opening last October, and Matsuzakaya Nagoya and Daimaru Kobe stores, both of which were largely renovated, the results of their efforts are obviously shown in sales and customer traffic. These stores attract more and a wider range of customers.

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. The store sales operations of Daimaru Matsuzakaya Department Stores were transferred to the new company. Daimaru Matsuzakaya Sales Associates as a specialized sales outsourcing company will improve its expertise and strengthen the store sales capabilities of Daimaru Matsuzakaya Department Stores to further increase human productivity.

The second is to create synergy through collaboration with Parco.

In an effort to create synergy between Parco, which became a consolidated subsidiary of the Group, 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 and cost reduction, 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 by Daimaru Matsuzakaya Department Stores to make contracts with new tenants; and (4) the operation of Daimaru Matsuzakaya Department Stores' original business in Parco's premises.

The third is to strengthen overseas business.

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. First, we will open some shops in department stores and shopping malls solely in Taipei. 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.

In Shanghai, which is one of China's largest markets, 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. We are preparing 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.

Through these efforts, we will strive to grow as a multi-retailer, which operates multiple businesses with department store business at their core, in an effort to increase operating profit and ROE, both of which are the most important performance indicators. JFR will develop the next mid-term plan by the end of the current fiscal year. We would like to achieve a consolidated operating profit of ¥50 billion in the final year of the plan. As the step after that, we will aim at the early and stable achievement of ROE of 8%.

We will continue to create and offer to customers new values in quick response to market changes. By accumulating the results of these efforts, we would like to improve corporate value and shareholder value and continuously return profits.

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