

Interview with Top Management

Seiyu is striving to maintain its position as one of the leading members of the retail industry by shifting towards an aggressive sales system focused on building attractive new stores and developing private brand products.



Chairman Noriyuki Watanabe President Masao Kiuchi

Could you explain how Seiyu was able to increase sales and income on a consolidated basis despite the challenging business climate?

The operating environment in the retail industry grew increasingly severe during fiscal 2000. Unit prices for apparel and other products continued to decline, the number of new store openings surged prior to the implementation of the Large-Scale Retail Stores Location Law, and competition among different industries intensified.

In response to these worsening operating conditions, Seiyu has placed top priority on customer satisfaction. In addition, while concentrating on structural cost reductions, Seiyu has introduced various measures aimed at strengthening its core retailing operations. These measures include building new stores to achieve new growth potential, strengthening product appeal to increase store earnings potential, revitalizing existing stores and expanding sales opportunities.

As a result, fiscal 2000 saw an increase in both customers and points of purchase. Compared with the previous fiscal year, consolidated revenue increased 5.0 percent to ¥1,071,173 million, operating income rose 37.1 percent to ¥15,692 million and ordinary income jumped 58 percent to ¥8,059 million. As a result, Seiyu posted net income of ¥317 million, compared with a net loss of ¥13,032 million in the previous fiscal year.

Although we were unable to achieve a full-scale recovery due to stagnant consumer spending and the deflationary economy, we made clear progress in strengthening sales during fiscal 2000 and formulated a new medium-term plan to begin in fiscal 2001.

In fiscal 2000, Seiyu opened 34 new stores, primarily in the Tokyo metropolitan area, where we hold a commanding market share. Expanding our highly profitable supermarket business is a central part of Seiyu's store strategy, and 29 of these new stores were supermarkets, including those which had been opened as part of neighborhood shopping centers (NSC). At the same time, we closed five unprofitable stores.

Seiyu is also looking to bolster the earnings potential of its existing stores by expanding self-service food areas, introducing more DAIK home-improvement stores and increasing sales space at Mujirushi Ryohin. A total of 21 stores throughout Japan were remodeled last year. Of these, several existing Seibu

Please summarize Seiyu's progress during fiscal 2000 in opening new stores and remodeling existing stores.

Could you please elaborate on Seiyu's efforts to strengthen product appeal?

How was Seiyu able to expand sales opportunities while achieving structural cost reductions?

department stores were converted to new LIVIN department stores, which emphasize the enrichment of customers' daily lives.

Capital investment required for the construction of new stores and the renovation of existing stores totaled ¥43,400 million. This was financed by a third-party allocation of shares to Sumitomo Corporation in April 2000 and the securitization of store assets. Also in April 2000, Sumitomo Corporation and Seiyu formed a business alliance so that both companies can use each other's management resources to expand their respective businesses and enhance their competitive edge.

As one of its key measures to strengthen product appeal, Seiyu is focusing on the development of private brands. One example is Seiyu Fine Select, a line of foods and daily necessities launched in cooperation with Daymon Associates, Inc., a major U.S. planning and development firm. This line has won strong support from customers, and included 517 items as of the end of fiscal 2000.

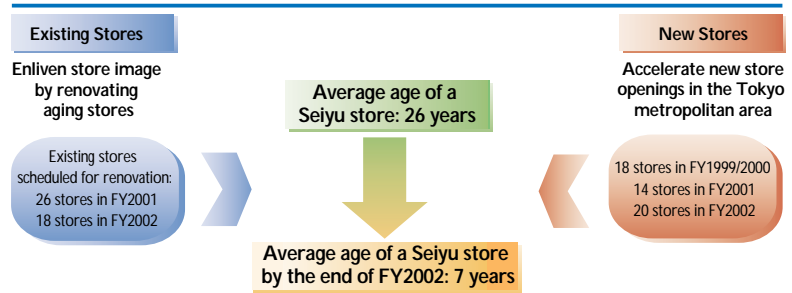
Seiyu has also moved to develop its private brand clothing lines by opening specialty shops for WEST WIN and Clothing apparel. As a result, sales of private brands as a percentage of total apparel sales increased by 60 percent over the previous year. We are also working to expand sales of private-brand household goods such as Kankyo Yusen, while at the same time introducing more DAIK stores.

Seiyu is taking an aggressive approach towards expanding sales opportunities and developing new sales channels. As people's lifestyles become increasingly diverse, many customers have voiced the need for extended store operating hours. In response to this, approximately 70 percent of our stores have extended their operating hours to 10:00 or 11:00 p.m. In addition, we have reduced the number of store holidays to provide more shopping opportunities.

Another important measure was the May 2000 launch of Seiyu Net Super (<http://www.the-seiyu.com>), an online supermarket that offers same-day delivery. This convenient delivery service has been favorably received, particularly by working women and mothers with young children. Orders can be placed via personal computer or i-mode-compatible mobile phones, and we are steadily expanding product selection, the delivery area and promotional activities.

In addition to expanding sales opportunities and developing new sales channels, Seiyu is also committed to reducing costs. While increasing productivity by scheduling employee shifts to match busy times at stores, other structural cost improvements such as the relocation and streamlining of the head office have resulted in a substantial decrease in sales management costs compared to the previous fiscal year.

Development of the Supermarket Business



What organizational changes were made in fiscal 2000?

During fiscal 2000, Seiyu focused on organizational restructuring and strengthening top management. We also established a system to improve sales and marketing capabilities in order to enhance the Company's core retail business. In a move to further increase operating efficiency by developing region-specific marketing strategies, the Company transferred the sales divisions of eight stores in the Kyushu region to Kyusyu Seiyu Co., Ltd. in September 2000 and eleven stores in the Hokkaido region to Hokkaido Seiyu Co., Ltd. in March 2001. This development is expected to increase our competitiveness and earnings potential in the Kyushu and Hokkaido regions.

What are the specific challenges that the Company faces in the coming year?

Three important management tasks are cited in our current medium-term plan. The first is to strengthen sales and competitiveness. In order to maximize sales capabilities at supermarkets, Seiyu took over the sale of perishable foods from Seiyu Foods Co., Ltd. on March 1, 2001. This is certain to further increase our competitiveness and earnings potential, thus solidifying Seiyu's core retail business. We are also continuing to promote and develop private brands, notably Seiyu Fine Select, with the goal of having the brand account for 12 percent of total food sales by 2002. Seiyu is also focusing on the growing market for pre-prepared foods, such as side dishes, bread, and daily foods.

In addition, Seiyu plans to further expand sales opportunities by building new stores and remodeling existing ones. The Company will open 14 new stores during fiscal 2001, and aims to build over 100 new stores in the Tokyo metropolitan area by fiscal 2004. In addition to supermarkets and LIVIN department stores, we also operate two types of large shopping complexes: Seiyu Rakuichi, structured around supermarkets which are tailored to the specific market and location, and The Mall, structured around large-scale stores. Moreover, the Company is committed to developing original stores as a means to differentiate itself from competitors in the 21st century. During 2001-2002, we will focus on developing competitive supermarkets through a scrap-and-build renovation program.

The second task is to rebuild consumer confidence and enhance the Company's image. In order to achieve this goal, Seiyu is aggressively promoting its strong points and management strategy. Through these efforts, the Company is confident of maintaining its position as the number-one retailer in the region.

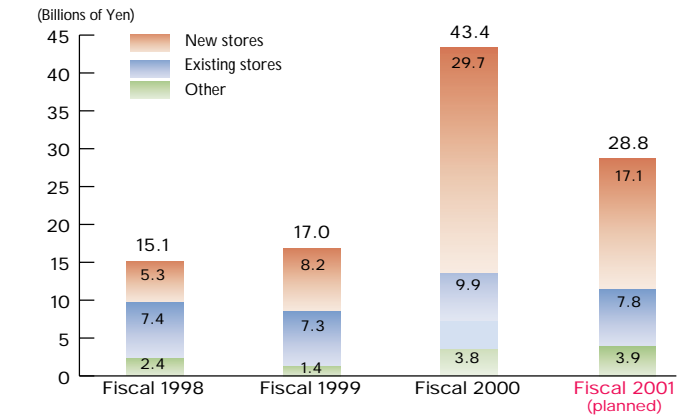
The third task is to take advantage of information technology (IT) to bring about management reforms – specifically, to substantially increase the efficiency of our operations, speed up decision-making, and solidify our approach to e-commerce. In addition to the Seiyu Net Super online shopping service, which was launched in 2000, we plan to use resources such as the Seiyu Group operating base in order to develop a profitable Internet business.

What actions has Seiyu taken to establish a platform for future growth?

We are determined to make fiscal 2001 a year of exciting new growth for Seiyu. We have prepared for this by undertaking organizational restructuring and strengthening top management, while establishing a system to improve sales and marketing capabilities. We believe these measures will enhance the Company's core retail business.

Specifically, we have added promotion and store planning capabilities to enhance the departmental organization of our core retail business. In addition, we established a Sales Planning Department and a Merchandising Division in order to

Capital Investment



strengthen our marketing capabilities and product development strategy, as well as a Business Support Center (BSC) to centralize the Company's administrative affairs. Finally, we set up a Corporate Planning Department – a strategic, future-oriented division responsible for formulating management plans and overseeing consolidated operations.

How has Seiyu worked to reinforce its environmental activities?

Seiyu has an extremely progressive attitude towards environmental issues. In 1997, we became the first retailer in the world to obtain multisite ISO 14001 certification for environmental management systems, and we were also the first retailer to disclose the results of environmental accounting. In addition, we have continually worked to expand our environmental activities reports for Japanese and foreign investors, while developing environmentally friendly products.

In view of the importance of clearly outlining our strategy towards environmental issues, we have formulated *Green Vision 2005*, a mid-term environmental management plan covering the years 2001 to 2005. We intend to continue strengthening specific efforts towards environmental issues in all of our corporate activities.

What is Seiyu's strategy to restore its position as one of the leading companies in the retail industry?

Amid rising uncertainty over the future of the Japanese economy, we expect that consumer spending will remain low and competition will intensify further, making the business climate increasingly challenging. Despite these conditions, Seiyu is determined to steadily strengthen its core retail business under a new power structure, and regain its status as a top-class retailer with strong sales and earnings potential.

N. Watanabe

Noriyuki Watanabe
Chairman

M. Kiuchi

Masao Kiuchi
President