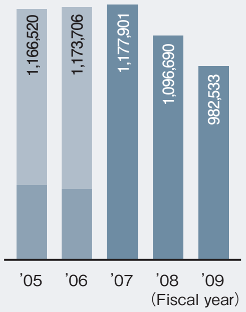
Financial Information

Analysis of Financial Condition and Operating Results

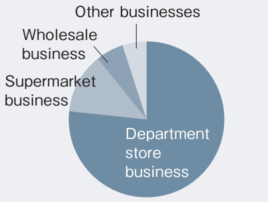
Sales

(Millions of yen)



Sales by Business Segment

(Composition of sales not including intersegment sales)

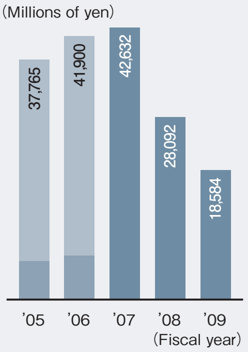


<Including intersegment sales>
(Millions of yen)

Department store business	760,919
Supermarket business	123,258
Wholesale business	63,249
Other businesses	81,044

Operating Income

(Millions of yen)



Daimaru
Matsuzakaya Holdings
JFR

*1 The figures of Matsuzakaya Holdings for fiscal 2005 are the consolidated figures of Matsuzakaya Group before its transition to a holding company.
*2 Sales of Daimaru for and before fiscal 2006 include other operating revenue.
*3 For fiscal 2007, full-year consolidated figures are used for Matsuzakaya Group.

Business overview

During the consolidated fiscal year under review (fiscal 2009), the Japanese economy showed signs of a corporate earnings recovery, but amid progressing deflation and a lack of improvement in employment and incomes, consumer spending was stagnant. Due to these and other factors, conditions remained challenging.

Department store sales fell sharply below the previous year's levels and there were successive store closures as a result of intensifying competition extending beyond category or type of business, coupled with further belt-tightening and a drastic shift in consumer values. Due to these and other developments, the situation remained extremely severe for the industry as a whole.

Under such circumstances, we recognized that the Group would not be able to survive this period of radical change by adhering to a conventional department store business model. Accordingly, we embarked on structural reforms centered on a "new department store model" aimed at business revitalization. As a first step, we launched the creation of new shops within the North Building of the Daimaru Shinsaibashi store, which we acquired last autumn.

Additionally, while we endeavor to strengthen our future business foundation with plans to increase the floor space of existing stores, including the Daimaru Umeda and Tokyo stores, and to redevelop the Ginza 6-chome district, we shuttered the Matsuzakaya Okazaki store in January. And, in accordance with plans to redevelop the area in front of JR Nagoya Station, we decided to close the Matsuzakaya Nagoya Station store.

In order to speed these kinds of structural reforms, strengthen our business foundation, and realize expedited decision-making and greater management efficiency, we decided to accelerate plans to integrate the department store operations of Daimaru and Matsuzakaya to March of this year, and we inaugurated a new Group structure under the name of Daimaru Matsuzakaya Department Stores Co. Ltd.

Moreover, with the aim of further enhancing cost efficiency, we undertook intensive efforts to further review our cost structure, beginning with the in-house completion of previously outsourced tasks, and to strengthen Group-wide cost controls. And in our efforts to improve human productivity, we made progress in slimming down our workforce to focus on a select cadre of employees. Thus the entire company committed itself to structural reforms involving both the organization and personnel.

Sales

In addition to the measures mentioned above, we dedicated our utmost efforts to limiting sales declines to the minimum. However, sales for our flagship department store business were sluggish, while sales for the supermarket, wholesale, and other businesses fell short of the previous year's result. Total consolidated sales declined by 10.4% from the previous year to ¥982,533 million.

Selling, general and administrative expenses

Selling, general and administrative expenses amounted to ¥221,627 million, down 8.1% from the previous year. Work-related expenses, which had increased temporarily due to system integration implemented the previous year, declined. And, in addition to lowering personnel costs by reforming work methods and leaving retirement vacancies unfilled, we made progress on reducing advertising and other costs.

Operating income

Amid a decrease of ¥29,071 million in gross profit, we made significant cuts in selling, general and administrative expenses. In spite of this, the impact exerted by sluggish sales for the department store business was significant, and operating income fell by 33.8% from the previous year to ¥18,584 million.

Other income and expenses

Other expenses (income) resulted in a net loss of ¥4,762 million compared to a loss of ¥19,634 million the previous year. This was mainly due to an impairment loss of ¥3,505 million recorded for stores including the Daimaru Urawa Parco store,

¥1,822 million in real estate acquisition-related costs for the North Building of the Daimaru Shinsaibashi store, and a loss on business restructuring of ¥1,251 million resulting from the closure of the Matsuzakaya Okazaki store.

Net income

As a result of the foregoing, income before income taxes and minority interests increased by 63.4% from the previous year to ¥13,822 million, and net income increased by 13.9% from the previous year to ¥8,167 million.

Segment overview

● Department store business

In order to overcome a "weakness in market response capabilities" and the "high cost/low profit structure" of conventional department stores, this segment wholly committed its energies to the establishment of a "new department store model" aimed at shifting to a new category of department store business. In order to respond nimbly to market changes, we developed the "ufufu girls" fashion floor targeting young women on the 1st and 2nd basement levels of the Daimaru Shinsaibashi store's North Building that opened in November. In addition, we introduced various specialty shops under the banner of "Arasa (Around 30)" for women in or near their 30's, shops designed around the themes of beauty and healing to tie into the notion of "koto consumption" (consumption based on intangible qualities) that is of increasing interest to consumers, as well as a golf school and other businesses. At the time of the North Building's opening, we rolled out a promotion leveraging new communication tools such as blogs and free magazines and newspapers. Meanwhile, on the management front, we built a low-cost structure consisting of a radically small staff to handle the management of sales floors. Going forward, we will further validate and perfect the approach to shop creation used at the North Building and spread the fruits of those efforts to each of our stores. Elsewhere, we undertook a re-examination of existing policies at all of our stores, which led to the introduction of new brands and products to meet the trends toward casual and low-cost consumption, as well as an accelerated schedule and expanded scope for bargain sales. In addition, we staged timely sales promotion activities with a high degree of newsworthiness and customer attractiveness. These included a grand drawing with a total of ¥100 million in prizes and a "Present Campaign" in which people could easily participate using their mobile phones at our "Thanks Festival" held during Silver Week in autumn, and a year-end gift item clearance sale.

In spite of the measures outlined above, purchase amount per person fell as consumers held back on purchases of big-ticket and fashion items, and sales at existing stores remained locked in an uphill battle. Thus, contributions from the opening of the Daimaru Shinsaibashi North Building and a closing sale at the Matsuzakaya Okazaki store notwithstanding, sales in the segment declined by 9.0% to ¥760,919 million, while operating income fell by 39.9% to ¥12,995 million, despite efforts to streamline selling, general and administrative expenses.

● Supermarket business

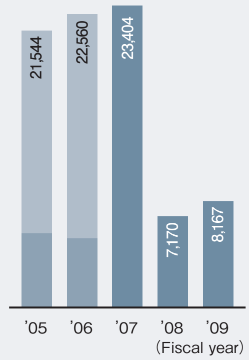
Aiming to be a food products supermarket that enjoys the support of local customers, Peacock Stores promoted the development of private brand products encompassing food safety and security and affordability, and also strove to assemble a product lineup that accommodates consumers' budget-conscious mindset, by developing and expanding new projects such as its "everyday value" campaign.

The Nikke Colton Plaza store (Ichikawa City, Chiba Prefecture) opened for business in May, while the Hakuraku Rokkakubashi store (Yokohama, Kanagawa Prefecture) opened in November. But amid severe sales conditions, and owing to the impact of store closures and the intensification of inter-regional competition, sales declined by 5.7% to ¥123,258 million.

However, we reviewed our store operations with a view to all-out, low-cost management, worked to improve human productivity by centralizing the headquarters' functions, and sharply reduced selling, general and administrative expenses. As a result, operating income increased by 29.3% to

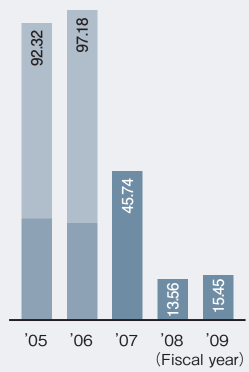
Net Income

(Millions of yen)



Net Income per Share

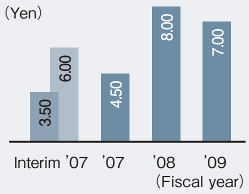
(Yen)



Cash Dividends per Share

(Unconsolidated)

(Yen)



Daimaru
Matsuzakaya Holdings
JFR

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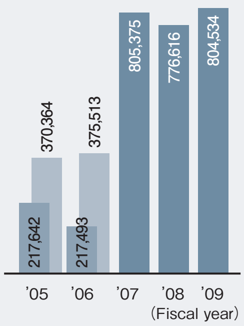
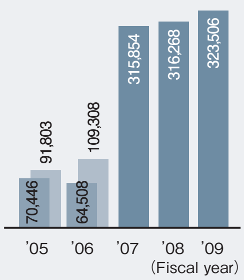
Total Assets

(Millions of yen)



Net Assets

(Millions of yen)



- Daimaru
- Matsuzakaya Holdings
- JFR

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¥1,429 million.

● Wholesale business

Daimaru Kogyo, Ltd. endeavored to develop new merchandise and open new sales routes and markets as every department, including chemical products, metal and resin products and other industrial materials, struggled due to a deteriorated market environment. However, sales fell by 27.4% to ¥63,249 million, and in spite of efforts toward a further across-the-board streamlining of expenses, operating income decreased by 28.0% to ¥2,573 million.

● Other businesses

The design and construction company recorded a steep decline in income, and sales in this segment fell by 11.6% to ¥81,044 million. However, reductions by each business in selling, general and administrative expenses acted as a support for their results, while an increase in the number of cardholders contributed substantially to the performance of the credit business. Operating income rose by 9.6% to ¥2,803 million.

Financial condition

As a result of working to effectively utilize assets owned by the Group to improve the efficiency of assets and funds, and also unifying management of the Group's funds to improve financial strength, total assets came to ¥804,534 million. Total liabilities were ¥481,028 million, and total net assets amounted to ¥323,506 million.

On the basis of these results, return on assets (ROA) was 2.4%, and the shareholders' equity ratio was 39.1%.

Cash flows

The Group is striving to generate stable operating cash flows and secure a wide range of financing methods to ensure appropriate funds for business activities, maintain liquidity and achieve a sound financial condition. We raise working capital, business investment funds and investment and loan funds needed to maintain the Group's future growth, primarily through cash reserves and cash flows from operating activities, as well as through borrowing and by issuing bonds.

We generated a cash inflow of ¥22,996 million from operating activities, an increase of ¥310 million compared with the previous consolidated fiscal year. The primary factors were income before income taxes and minority interests of ¥13,822 million, depreciation of ¥13,295 million, while income taxes paid totaled ¥5,721 million.

We recorded a cash outflow of ¥40,879 million on investing activities, an increase of ¥29,203 million over the previous consolidated fiscal year. This was due to an outflow of ¥55,748 million on the acquisition of fixed assets including the Daimaru Shinsaibashi store's North Building, and a cash inflow of ¥8,327 million from the sale of marketable securities.

Cash inflow from financing activities amounted to ¥29,212 million, an increase of ¥42,722 million over the previous consolidated fiscal year, as a result of ¥47,450 million in new borrowing, and an outflow of ¥14,000 million in bond redemptions.

As a result, cash and cash equivalents at the end of the consolidated fiscal year under review stood at ¥43,515 million, an increase of ¥11,208 million compared with the previous period. The balance of interest-bearing debt came to ¥31,260 million, an increase of ¥125,937 million compared with the previous period.

Basic policy on profit distribution and dividends

JFR's basic policy is to distribute profits appropriately with a dividend payout ratio of 30%, taking into consideration profit levels, future capital investment and cash flow trends, and also while working to maintain and improve a sound financial standing. We will consider stock buybacks when appropriate, with the aim of improving capital efficiency and flexibly implementing capital policies.

We intend to use retained earnings towards improving our corporate value, by strengthening our marketing capabilities through investment in store remodeling and business expansion, and enhancing our financial strength.

For the period under review, JFR has decided to pay an annual dividend of ¥7.

For the next period, we expect to pay an interim dividend of ¥3.50 and a term-end dividend of ¥3.50, for an annual dividend of ¥7.

Business risk factors

Business risk factors for the Group that could have a material impact on investment decisions are discussed below.

The forward-looking statements herein are based on the Group's expectations as of February 28, 2010. Because they could be affected by domestic and overseas economic conditions, the Group's business risk factors are not limited to those discussed here.

❶ Business environment

Economic conditions, including business, consumption and financial trends, and competition with other retailers of the same and different types have a material impact on the Group's main department store and supermarket business segments. These business environment factors could adversely affect the performance and financial position of the Group.

❷ Laws and regulations and legal revisions

The Group is subject to laws and regulations relating to the new opening of large-scale retail stores, antitrust, consumer protection, tax systems, the environment and recycling. In addition, an increase in the consumption tax rate resulting from any future amendments to the tax system could reduce consumer spending. Thus the laws and regulations and legal revisions described here may lead to a restriction of business activities, an increase in costs and a decline in sales, which could adversely affect the performance and financial position of the Group.

❸ Changes in natural environment and accidents

Natural disasters, including earthquakes, floods and typhoons, and unexpected accidents could damage stores and facilities, which may lead to a loss of sales opportunities and affect operations. Abnormal weather conditions including cold summers and warm winters could also lead to a decrease in sales of the Group's main products including clothing and foodstuffs. Thus changes in the natural environment and accidents could adversely affect the performance and financial position of the Group.

❹ Information management

The Group has an internal system in place to strictly manage and protect personal and confidential information held by the Group. However, leaks of such information due to unexpected accidents and incidents could damage the reputation of the Group and adversely affect the Group's performance and financial position.

❺ Overseas operations

The Group is engaged in business activities abroad, primarily in the wholesale business segment. Unpredictable economic and currency fluctuations, political and social confusion arising from terrorism, wars and civil wars, and legislative and taxation changes impacting these overseas operations could adversely affect the performance and financial position of the Group.

❻ Significant lawsuits

During the consolidated fiscal year under review, there were no lawsuits that had a material impact on the Group. However, should a significant lawsuit arise and judgment be made against the Group in the future, the performance and financial position of the Group could be adversely affected.

CONSOLIDATED BALANCE SHEETS

J. Front Retailing Co., Ltd. and Consolidated Subsidiaries

February 28, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2010**	2009	**2010**
Current assets:			
Cash on hand and in banks (Note 4)	**¥44,103**	¥32,858	**$493,157**
Marketable securities (Notes 4 and 5)	**776**	1,093	**8,677**
Notes and accounts receivable:	**59,598**	62,137	**666,421**
Less: allowance for doubtful accounts	**(673)**	(743)	**(7,525)**
Inventories (Notes 3(a) and 6)	**35,186**	42,939	**393,447**
Deferred tax assets (Note 14)	**13,295**	10,993	**148,664**
Other current assets	**26,456**	27,554	**295,829**
Total current assets	**178,744**	176,833	**1,998,703**
Property and equipment			
Land (Note 7)	**358,177**	334,271	**4,005,110**
Buildings and structures (Notes 7, 11 and 12)	**352,718**	342,240	**3,944,068**
Other	**12,573**	12,879	**140,590**
Construction in progress	**2,870**	2,362	**32,092**
Total	**726,338**	691,753	**8,121,861**
Accumulated depreciation	**(226,768)**	(224,579)	**(2,535,704)**
Net property and equipment	**499,571**	467,173	**5,586,168**
Investments and other assets:			
Investment securities (Notes 5 and 7)	**24,588**	30,330	**274,941**
Investments in unconsolidated subsidiaries and affiliates	**3,817**	3,701	**42,681**
Long-term loans	**992**	1,089	**11,092**
Leasehold and other deposits	**51,420**	50,048	**574,975**
Deferred tax assets (Note 14)	**11,215**	12,263	**125,405**
Other	**34,185**	35,176	**382,254**
Total investment and other assets	**126,218**	132,608	**1,411,361**
Total assets	**¥804,534**	¥776,616	**$8,996,243**

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2010	2009	Thousands of U.S. dollars (Note 1) 2010
Current liabilities:			
Notes and accounts payable	**¥76,955**	¥79,685	**$860,505**
Short-term bank loans (Note 7)	**46,324**	42,556	**517,992**
Current portion of bonds (Note 7)	**5,000**	14,000	**55,910**
Income taxes payable (Note 14)	**2,972**	3,563	**33,233**
Advances received	**27,610**	29,232	**308,733**
Gift certificates	**33,311**	35,275	**372,481**
Allowance for employees' bonuses	**6,979**	7,735	**78,039**
Allowance for directors' and corporate auditors' bonuses	**221**	185	**2,471**
Provision for sales promotion	**350**	354	**3,914**
Provision for loss on collection of gift certificates	**8,413**	7,317	**94,074**
Provision for loss on business liquidation (Note 12)	**1,641**	2,679	**18,350**
Other current liabilities	**53,328**	51,644	**596,310**
Total current liabilities	**263,109**	274,228	**2,942,066**
Long-term liabilities:			
Bonds (Note 7)	—	5,000	—
Long-term loans payable (Note 7)	**74,612**	33,121	**834,306**
Deferred tax liabilities (Note 14)	**98,331**	98,072	**1,099,530**
Deferred tax liabilities on revaluation	**1,492**	1,492	**16,683**
Provision for retirement benefits (Note 8)	**32,002**	34,422	**357,844**
Provision for directors' and corporate auditors' retirement allowances	**58**	51	**649**
Negative goodwill	**5,761**	8,086	**64,419**
Other	**5,660**	5,871	**63,290**
Total long-term liabilities	**217,918**	186,118	**2,436,744**
Total liabilities	**481,028**	460,347	**5,378,821**
Net assets (Note 9):			
Shareholders' equity:			
Common stock:			
Authorized: 2,000,000,000 shares			
Issued: 536,238,328 shares in 2010 and 2009	**30,000**	30,000	**335,458**
Capital surplus	**209,636**	209,657	**2,344,135**
Retained earnings	**81,585**	75,310	**912,278**
Less: Treasury stock, at cost, 7,582,002 shares in 2010 7,507,521 shares in 2009	**(5,991)**	(5,980)	**(66,991)**
Total shareholders' equity	**315,231**	308,987	**3,524,891**
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	**(676)**	(1,161)	**(7,559)**
Deferred gains (losses) on hedges	**(60)**	35	**(671)**
Total valuation and translation adjustments	**(736)**	(1,125)	**(8,230)**
Stock acquisition rights	**124**	130	**1,387**
Minority interests	**8,887**	8,276	**99,374**
Total net assets	**323,506**	316,268	**3,617,421**
Total liabilities and net assets	**¥804,534**	¥776,616	**$8,996,243**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

J. Front Retailing Co., Ltd. and Consolidated Subsidiaries

Years ended February 28, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Sales:			
Net sales	**¥977,880**	¥1,092,448	**$10,934,586**
Real estate lease income	**4,652**	4,242	**52,018**
	982,533	1,096,690	**10,986,615**
Operating expenses:			
Cost of sales	**740,429**	825,628	**8,279,425**
Cost of real estate lease	**1,892**	1,779	**21,156**
	742,321	827,407	**8,300,581**
Gross profit	**240,211**	269,282	**2,686,023**
Selling, general and administrative expenses	**221,627**	241,189	**2,478,218**
Operating income	**18,584**	28,092	**207,805**
Other income (expenses):			
Interest and dividend income	**756**	910	**8,454**
Interest expenses	**(1,679)**	(1,616)	**(18,774)**
Net gain (loss) on sales or disposal of fixed assets	**1,756**	(1,748)	**19,635**
Gain on sales of investment securities	**970**	1,352	**10,846**
Loss on revaluation of investment securities	**(1,800)**	(9,833)	**(20,127)**
Loss on impairment (Note 11)	**(3,505)**	(2,824)	**(39,193)**
Gain on restructuring liabilities	**3,371**	3,317	**37,694**
Amortization of negative goodwill	**2,326**	2,336	**26,009**
Provision for loss on collection of gift certificates	**(3,615)**	(3,731)	**(40,423)**
Loss on business restructuring (Note 12)	**(1,251)**	(5,761)	**(13,989)**
Reversal of provision for loss on business liquidation	**938**	—	**10,489**
Loss on valuation of inventories	**(665)**	—	**(7,436)**
Expenses related to acquisition of real estates	**(1,822)**	—	**(20,373)**
Other, net	**(541)**	(2,033)	**(6,049)**
	(4,762)	(19,634)	**(53,248)**
Income before income taxes and minority interests	**13,822**	8,459	**154,557**
Income taxes: (Note 14)			
Income taxes-current	**4,807**	5,812	**53,752**
Income taxes for prior periods	**1,598**	—	**17,869**
Income taxes-deferred	**(1,411)**	(5,275)	**(15,778)**
	4,993	537	**55,831**
Minority interests in earnings of consolidated subsidiaries	**661**	751	**7,391**
Net income	**¥8,167**	¥7,170	**$91,323**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

J. Front Retailing Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2010 and 2009

		Millions of yen				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance, February 29, 2008	536,238,328	¥30,000	¥209,787	¥72,938	¥(5,973)	¥306,753
Cash dividends paid				(4,760)		(4,760)
Net income				7,170		7,170
Purchase of treasury stock					(364)	(364)
Disposal of treasury stock			(63)		180	116
Disposal of treasury stock due to stock exchange			(67)		176	109
Decrease in affiliates accounted for by the equity method				(38)		(38)
Net changes of items other than shareholders' equity during the year						
Balance, February 28, 2009	536,238,328	30,000	209,657	75,310	(5,980)	308,987
Cash dividends paid				**(1,851)**		**(1,851)**
Net income				**8,167**		**8,167**
Purchase of treasury stock					**(52)**	**(52)**
Disposal of treasury stock			**(20)**		**42**	**21**
Decrease resulting from exclusion of subsidiaries from consolidation				**(41)**		**(41)**
Net changes of items other than shareholders' equity during the year						
Balance, February 28, 2010	**536,238,328**	**¥30,000**	**¥209,636**	**¥81,585**	**¥(5,991)**	**¥315,231**

	Millions of yen					
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Total valuation and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance, February 29, 2008	¥1,098	¥(29)	¥1,069	¥136	¥7,895	¥315,854
Cash dividends paid						(4,760)
Net income						7,170
Purchase of treasury stock						(364)
Disposal of treasury stock						116
Disposal of treasury stock due to stock exchange						109
Decrease in affiliates accounted for by the equity method						(38)
Net changes of items other than shareholders' equity during the year	(2,260)	65	(2,195)	(5)	381	(1,819)
Balance, February 28, 2009	(1,161)	35	(1,125)	130	8,276	316,268
Cash dividends paid						**(1,851)**
Net income						**8,167**
Purchase of treasury stock						**(52)**
Disposal of treasury stock						**21**
Decrease resulting from exclusion of subsidiaries from consolidation						**(41)**
Net changes of items other than shareholders' equity during the year	**484**	**(95)**	**388**	**(5)**	**611**	**994**
Balance, February 28, 2010	**¥(676)**	**¥(60)**	**¥(736)**	**¥124**	**¥8,887**	**¥323,506**

See notes to consolidated financial statements.

		Thousands of U.S. dollars (Note 1)				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance, February 28, 2009	536,238,328	$335	$2,344	$842	$(67)	$3,455
Cash dividends paid				**(21)**		**(21)**
Net income				**91**		**91**
Purchase of treasury stock					**(1)**	**(1)**
Disposal of treasury stock			**(0)**		**0**	**0**
Decrease resulting from exclusion of subsidiaries from consolidation				**(0)**		**(0)**
Net changes of items other than shareholders' equity during the year						
Balance, February 28, 2010	**536,238,328**	**$335**	**$2,344**	**$912**	**$(67)**	**$3,525**

	Thousands of U.S. dollars (Note 1)					
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on hedges	Total valuation and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance, February 28, 2009	$(13)	$0	$(13)	$1	$93	**$3,536**
Cash dividends paid						**(21)**
Net income						**91**
Purchase of treasury stock						**(1)**
Disposal of treasury stock						**0**
Decrease resulting from exclusion of subsidiaries from consolidation						**(0)**
Net changes of items other than shareholders' equity during the year	**5**	**(1)**	**4**	**(0)**	**7**	**11**
Balance, February 28, 2010	**$(8)**	**$(1)**	**$(8)**	**$1**	**$99**	**$3,617**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

J. Front Retailing Co., Ltd. and Consolidated Subsidiaries

Years ended February 28, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥13,822**	¥8,459	**$154,557**
Depreciation	**13,295**	13,257	**148,664**
Loss on impairment	**3,769**	4,554	**42,145**
Amortization of negative goodwill	**(2,326)**	(2,336)	**(26,009)**
Increase in allowance for doubtful accounts	**409**	476	**4,573**
Increase (decrease) in allowance for bonuses	**(705)**	1,439	**(7,883)**
Decrease in provision for employees' retirement benefits	**(2,275)**	(1,603)	**(25,439)**
Decrease in provision for sales promotion	**(3)**	(1,645)	**(34)**
Increase in provision for loss on collection of gift certificates	**1,096**	1,342	**12,255**
Increase (decrease) in provision for business liquidation	**(1,038)**	2,679	**(11,607)**
Interest and dividend income	**(756)**	(910)	**(8,454)**
Interest expenses	**1,679**	1,616	**18,774**
Equity in earnings of affiliated companies	**(200)**	(122)	**(2,236)**
(Gain) loss on sales or disposal of property and equipment	**(1,939)**	1,665	**(21,682)**
Gain on sales of investment securities, net	**(970)**	(1,352)	**(10,846)**
Write-down of investment securities	**1,800**	9,833	**20,127**
Decrease in notes and accounts receivable	**2,310**	12,115	**25,830**
Decrease in inventories	**7,703**	2,214	**86,134**
Decrease in notes and accounts payable	**(2,622)**	(10,264)	**(29,319)**
(Increase) decrease in other receivables	**1,884**	(1,112)	**21,067**
Increase in prepaid expenses	**(1,741)**	(1,989)	**(19,468)**
Other	**(3,612)**	(1,953)	**(40,389)**
Subtotal	**29,581**	36,362	**330,773**
Interest and dividend income received	**711**	899	**7,950**
Interest expenses paid	**(1,574)**	(1,641)	**(17,600)**
Income taxes paid	**(5,721)**	(12,934)	**(63,972)**
Net cash provided by operating activities	**22,996**	22,686	**257,140**
Cash flows from investing activities:			
Purchase of securities	**(2,149)**	(1,903)	**(24,030)**
Proceeds from sales of securities	**8,327**	4,618	**93,112**
Purchase of property and equipment	**(55,748)**	(12,765)	**(623,370)**
Proceeds from sales of property and equipment	**7,971**	526	**89,131**
Increase in long-term loans	**(36)**	(29)	**(403)**
Proceeds from collection of long-term loans	**375**	148	**4,193**
Net (increase) decrease in short-term loans	**(87)**	111	**(973)**
Other	**468**	(2,383)	**5,233**
Net cash used in investing activities	**(40,879)**	(11,676)	**(457,106)**
Cash flows from financing activities:			
Net increase in short-term bank loans	**2,184**	16,699	**24,421**
Proceeds from long-term bank loans	**47,450**	1,500	**530,583**
Payments of long-term bank loans	**(4,374)**	(26,563)	**(48,910)**
Redemption of bonds	**(14,000)**	—	**(156,547)**
Purchase of treasury stock	**(50)**	(357)	**(559)**
Cash dividends paid	**(1,858)**	(4,763)	**(20,776)**
Cash dividends paid to minority shareholders	**(83)**	(111)	**(928)**
Other	**(54)**	87	**(604)**
Net cash provided by (used in) financing activities	**29,212**	(13,510)	**326,647**
Effect of exchange rate changes	**(121)**	(136)	**(1,353)**
Net increase (decrease) in cash and cash equivalents	**11,208**	(2,636)	**125,327**
Cash and cash equivalents at beginning of year	**32,307**	34,944	**361,255**
Cash and cash equivalents at end of year (Note 4)	**¥43,515**	¥32,307	**$486,582**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J. Front Retailing Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2010 and 2009

1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

On September 3, 2007, J. Front Retailing Co., Ltd. was established as a joint holding company through the management integration which was agreed between The Daimaru, Inc. and Matsuzakaya Holdings Co., Ltd.

The accompanying consolidated financial statements of J. Front Retailing Co., Ltd. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company, prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

All figures in the consolidated financial statements and notes are stated in millions of Japanese yen by discarding fractional amounts of less than ¥1 million as permitted by the Financial Instruments and Exchange Law. As a result, the totals shown in the consolidated financial statements and notes in yen do not necessarily agree with the sum of the individual amounts.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at February 28, 2010, which was ¥89.43 to U.S. $1. Such translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 23 (27 in 2009) significant subsidiaries (hereafter the "Companies").

Investments in 5 significant affiliated companies are accounted for by the equity method after the elimination of unrealized intercompany profits. Investments in the remaining unconsolidated subsidiaries and affiliated companies are not accounted for by the equity method because of the immaterial effect on the consolidated financial statements. Such investments are, therefore, stated at cost, adjusted for any substantial and non-recoverable impairment in value, and income from those unconsolidated subsidiaries and affiliated companies is recognized only when the Companies receive dividends therefrom.

In accordance with the accounting standards for consolidation, the Company's subsidiaries include companies over which substantial control is exerted through either majority ownership of voting stock and/or by other means. Also, the Company's affiliated companies include companies over which the Company has the ability to exercise significant influence.

All significant intercompany transactions and unrealized profits among the Group have been eliminated in consolidation.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The differences between the cost and underlying net equity of investments in consolidated subsidiaries (goodwill or negative goodwill) are amortized on a straight-line basis over 5 years with the exception of minor differences, which are charged or credited to income in the period of acquisition.

All the Company's unconsolidated subsidiaries are of a limited scale in terms of total assets, net sales, profit, retained earnings and other indicators, and taken together they do not have a significant impact on the consolidated financial statements.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date, and translation gains and losses are charged to income.

(c) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and cash equivalents include cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of acquisition.

(d) Securities

No trading securities and held-to-maturity securities are held by the Companies. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for by the equity method are stated at moving-average cost. Available-for-sale securities with fair market value are stated at fair market value. Net unrealized gains or losses on these securities are reported, net of applicable income taxes, as a separate component of net assets in the balance sheets. Realized gains and losses on sale of such securities are computed using the moving-average cost method. Available-for-sale securities with no available fair market value are stated at moving average cost.

(e) Derivatives and hedging transactions

Derivative financial instruments are stated at fair value and changes in the fair value are charged to income unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

In cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, hedged items are stated using the forward foreign exchange contract rates.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Companies use forward foreign currency contracts and interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange and increases in the interest rate.

The related hedged items are trade receivables, trade payables, loans payables, and interest on foreign currency bonds.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided principally for amounts sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to specific items and possible losses on collection calculated by applying a percentage based on collection experience to the remaining items.

(g) Inventories

Previously, inventories were stated at cost determined principally by the retail inventory method. Effective from the year ended February 28, 2010, inventories are stated at the lower of cost or market determined principally by the retail inventory method (lower than book value due to decline in profitability).

(h) Property and equipment (except for leased assets)

Property and equipment are stated at cost. Depreciation of buildings and structures is computed mainly by the straight-line method and other properties are depreciated using the declining-balance method over the estimated useful lives of the assets as prescribed by the Corporate Tax Law. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred. The range of useful lives is principally 3 to 50 years for buildings and structures and 2 to 20 years for other properties.

(i) Impairment of fixed assets

The Companies review their fixed assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(j) Software (except for leased assets)

Software purchased or internally developed for internal use is amortized using the straight-line method over its estimated useful life (five years).

(k) Provision for Sales Promotion

Provision for sales promotion is provided for the estimated future costs on the issuance of point card certificates based on the historical experience rate of usage.

(l) Allowance for employees' bonuses

An allowance for employees' bonuses is provided for the estimated amounts which are attributable to the fiscal year.

(m) Allowance for directors' and corporate auditors' bonuses

An allowance for directors' and corporate auditors' bonuses is provided for the estimated amounts which are attributable to the fiscal year.

(n) Provision for loss on collection of gift certificates

Provision for loss on collection of gift certificates is provided for estimated future loss to be incurred when gift certificates were collected after derecognition of the related liability based on the historical experience.

(o) Provision for loss on business liquidation

Provision for loss on business liquidation is provided for estimated loss on liquidation of affiliated companies and closing stores.

(p) Provision for retirement benefits

Provision for retirement benefits is provided based on the projected benefit obligations and plan assets at the balance sheet date.

The unrecognized prior service cost obligations are recognized as expenses and recorded in equal amounts mainly 10 – 12 years from their recognition, which are less than the average remaining service years of the employees. Actuarial gains or losses incurred during the year are amortized by using the straight-line method over a certain period of time (mainly 10 – 12 years), which are less than the average remaining service years of the employees, commencing from the following fiscal year after they are incurred.

(q) Allowance for directors' and corporate auditors' retirement benefits

An allowance for directors' and corporate auditors' retirement benefits is provided by certain consolidated subsidiaries based on the internal rules for the estimated amount which would be payable if all officers were to retire at the balance sheet date.

The payments are subject to an approval of the shareholders' meeting.

(r) Leases

Effective from the year ended February 28, 2010, finance leases transactions other than those which are deemed to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease, with no residual value. Finance leases transactions other than those which are deemed to transfer ownership of the leased property to the lessee commenced on or before February 28, 2009 are accounted for in manner similar to ordinary operating lease transactions with disclosure of certain "as if capitalized" information in the note to the consolidated financial statements.

(s) Income taxes

Income taxes consist of national and local income taxes.

The Companies recognize the tax effects of temporary differences between the financial statement's carrying amounts and the tax basis of assets and liabilities. The provision for income taxes is computed based on the income before income taxes and minority interests included in the statements of income of each of the Companies. The assets and liabilities approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(t) Per share information

Net income per share is based on the weighted average number of shares of common stock outstanding during each year and diluted net income per share reflects the potential dilution that could occur if it were converted into common stock.

Cash dividends per share represent interim dividends resolved by the Board of Directors in each year and year-end dividends resolved by the Board of Directors subsequent to the end of the fiscal year.

(u) Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation. These changes had no impact on previously reported results of operations.

3 CHANGES IN ACCOUNTING POLICIES AND ADOPTION OF NEW ACCOUNTING STANDARDS

(a) Accounting Standard for Measurement of Inventories

Effective from the year ended February 28, 2010, the Companies have adopted ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", issued by the ASBJ on July 5, 2006, and inventories are stated at the lower of cost or market determined principally by the retail inventory method (lower than book value due to decline in profitability).

The effect of this change was to decrease operating income and income before income taxes and minority interests for the year ended February 28, 2010 by ¥158 million ($1,767 thousand) and ¥823 million ($9,203 thousand), respectively, compared with the previous method.

(b) Accounting Standard for Lease Transactions

Effective from the year ended February 28, 2010, the Companies adopted "Accounting Standard for Lease Transactions"(ASBJ Statement No. 13, March 30, 2007, revised from standard originally issued by the Business Accounting Deliberation Council on June 17, 1993) and "Guidance on Accounting Standard for Lease Transactions"(ASBJ Guidance No. 16, March 30, 2007, originally issued by the Japanese Institute of Certified Public Accountants on January 18, 1994). Accordingly, from the year ended February 28, 2010, such leases are accounted for in manner similar to ordinary sale or purchase transactions.

There were no effects on operating income and income before income taxes and minority interests.

Also, there were no effects on operating income in the segment information.

4 CASH AND CASH EQUIVALANTS

Cash and cash equivalents in the statements of cash flows at February 28, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash on hand and in banks	**¥44,103**	¥32,858	**$493,157**
Time deposits with maturities exceeding three months	**(605)**	(568)	**(6,765)**
Short-term investments	**17**	16	**190**
Cash and cash equivalents	**¥43,515**	¥32,307	**$486,582**

5 SECURITIES

Marketable securities classified as available-for-sale securities at February 28, 2010 and 2009 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	February 28, 2010					
	Acquisition cost	**Carrying value**	**Unrealized gains (losses)**	**Acquisition cost**	**Carrying value**	**Unrealized gains (losses)**
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥5,177**	**¥7,504**	**¥2,327**	**$57,889**	**$83,909**	**$26,020**
Debt securities	**3,094**	**3,136**	**42**	**34,597**	**35,067**	**470**
Subtotal	**8,272**	**10,641**	**2,369**	**92,497**	**118,987**	**26,490**
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	**14,275**	**10,848**	**(3,427)**	**159,622**	**121,302**	**(38,320)**
Debt securities	**659**	**644**	**(15)**	**7,369**	**7,201**	**(168)**
Subtotal	**14,935**	**11,492**	**(3,442)**	**167,002**	**128,503**	**(38,488)**
Total	**¥23,207**	**¥22,134**	**¥(1,073)**	**$259,499**	**$247,501**	**$(11,998)**

	Millions of yen		
	February 28, 2009		
	Acquisition cost	Carrying value	Unrealized gains (losses)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥2,417	¥4,420	¥2,002
Debt securities	872	878	6
Subtotal	3,290	5,299	2,009
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	21,093	17,127	(3,966)
Debt securities	1,812	1,715	(96)
Subtotal	22,905	18,842	(4,063)
Total	¥26,195	¥24,142	¥(2,053)

The Companies review available-for-sale securities with fair value for impairment when the fair value declined more than 30% from the acquisition cost. When the cost is not considered to be recoverable, impairment loss would be recognized. Impairment losses recognized for available-for-sale securities whose fair value is available for the years ended February 28, 2010 and 2009 amounted to ¥1,800 million ($20,127 thousand) and ¥9,833 million, respectively.

Available-for-sale securities whose fair value is not available at February 28, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Unlisted equity securities	**¥3,195**	¥3,172	**$35,726**
Other	**35**	4,108	**391**
Total	**¥3,230**	¥7,281	**$36,118**

Proceeds from sales of available-for-sale securities and gross realized gains and losses on these sales for the year ended February 28, 2010 was ¥8,327 million ($93,112 thousand), ¥970 million ($10,846 thousand), and ¥96 million ($1,073 thousand), respectively.

The carrying values of debt securities and other securities by contractual maturities for securities classified as available-for-sale at February 28, 2010 were as follows:

	Millions of yen			
	2010			
	Due in 1 year or less	**Due after 1 year through 5 years**	**Due after 5 years through 10 years**	**Due after 10 years**
Debt securities:				
Government and municipal bonds	**¥100**	**¥—**	—	—
Other	**659**	**3,021**	—	—
Other securities:				
Investment trust	**17**	—	—	—
Total	**¥776**	**¥3,021**	—	—

	Thousands of U.S. dollars			
	2010			
	Due in 1 year or less	**Due after 1 year through 5 years**	**Due after 5 years through 10 years**	**Due after 10 years**
Debt securities:				
Government and municipal bonds	**$1,118**	**$—**	—	—
Other	**7,369**	**33,781**	—	—
Other securities:				
Investment trust	**190**	—	—	—
Total	**$8,677**	**$33,781**	—	—

6 INVENTORIES

Inventories as of February 28, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Merchandise and products	**¥34,364**	¥42,006	**$384,256**
Work in process	**398**	409	**4,450**
Raw materials and supplies	**423**	523	**4,730**
Total	**¥35,186**	¥42,939	**$393,447**

7 SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at February 28, 2010 and 2009 consisted of notes to banks and bank overdrafts. The annual weighted average interest rate applicable to the short-term bank loans was 0.66%. Long-term debt at February 28, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Unsecured 0.76% straight bonds due 2009	**¥—**	¥6,000	**$—**
Unsecured 0.74% straight bonds due 2009	—	3,000	—
Unsecured 1.01% straight bonds due 2009	—	3,000	—
Unsecured 1.10% straight bonds due 2009	—	2,000	—
Unsecured 0.88% straight bonds due 2011	**3,000**	3,000	**33,546**
Unsecured 0.86% straight bonds due 2011	**2,000**	2,000	**22,364**
Loans from banks and others due serially to 2021	**80,569**	37,494	**900,917**
Total	**85,569**	56,494	**956,827**
Less: Current portion of long-term debt	**10,957**	18,373	**122,520**
	¥74,612	¥38,121	**$834,306**

Annual maturities of long-term debt including bonds due subsequent to February 28, 2010 were as follows:

Years ending February 28	Millions of yen	Thousands of U.S. dollars
2011	**¥10,957**	**$122,520**
2012	**11,633**	**130,079**
2013	**42,390**	**474,002**
2014	**15,286**	**170,927**
2015 and thereafter	**5,303**	**59,298**
Total	**¥85,569**	**$956,827**

The carrying amounts of assets pledged as collateral for short-term loans of ¥2,689 million ($30,068 thousand) and the long-term loans of ¥9,974 million ($111,529 thousand) at February 28, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	**¥12,719**	**$142,223**
Buildings and structures	**14,323**	**160,159**
Investment securities	**453**	**5,065**
Total	**¥27,496**	**$307,458**

As is customary in Japan, the Companies maintain substantial deposit balances with banks with which they have borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

8 PROVISION FOR RETIREMENT BENEFITS

The Companies have defined benefit pension plans, i.e., corporate pension fund plans, tax qualified pension plans, lump-sum retirement plans and defined contribution pension plans. In certain cases, additional severance payments may be granted to the eligible employees. Such payments are not included in retirement benefit obligations actuarially computed in accordance with the accounting standard for retirement benefits. Certain consolidated subsidiaries have established retirement benefit trusts.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at February 28, 2010 and 2009 for the Companies' retirement benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Retirement benefit obligation	**¥83,381**	¥84,230	**$932,361**
Plan assets at fair value	**(37,161)**	(35,720)	**(415,532)**
Retirement benefit trusts	**(9,039)**	(8,095)	**(101,073)**
Unfunded retirement benefit obligation	**37,180**	40,414	**415,744**
Unrecognized prior service cost	**2,191**	3,428	**24,500**
Unrecognized actuarial differences	**(18,087)**	(19,589)	**(202,248)**
	21,284	24,253	**237,996**
Prepaid pension cost	**10,717**	10,168	**119,837**
Provision for retirement benefits	**¥32,002**	¥34,422	**$357,844**

The components of net retirement benefit costs for the years ended February 28, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Service cost	**¥2,768**	¥2,961	**$30,952**
Interest cost	**1,671**	1,798	**18,685**
Expected return on plan assets	**(952)**	(1,206)	**(10,645)**
Amortization of prior service cost	**(292)**	(552)	**(3,265)**
Recognized actuarial differences	**1,653**	294	**18,484**
Net retirement benefit cost	**4,848**	3,295	**54,210**
Contribution to defined contribution plan	**248**	283	**2,773**
Total	**¥5,097**	¥3,579	**$56,994**

Assumptions used in the calculation of the above information are as follows:

	2010	2009
Interperiod allocation method of estimated retirement benefits	**Straight-line**	Straight-line
Discount rate	**2.0%**	2.0%
Expected return on plan assets	**1.0%-2.0%**	1.0%-2.0%
Amortization of unrecognized prior service costs	**Mainly 10-12 years**	Mainly 10-12 years
Amortization of unrecognized actuarial differences	**10-12 years**	10-12 years

9 NET ASSETS

Japanese companies are subject to the Corporate Law of Japan (the "Corporate Law"). The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of services of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount of equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of net assets.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of net assets or deducted directly from stock acquisition rights.

At the Board of Directors' meeting held on April 13, 2010, distribution of cash dividends amounting to ¥3,701 million ($41,384 thousand) was resolved. This distribution has not been accrued in the consolidated financial statements as of February 28, 2010 and is recognized in the period in which they were resolved.

10 STOCK OPTIONS

The stock options outstanding as of February 28, 2010 were as follows:

Stock option	Persons granted	Number of options granted	Date of grant	Exercise period
1st	12 directors 4 corporate auditors 6 employees	140,000 common shares	May 23, 2002	Sep. 3, 2007 to May 23, 2012
2nd	7 directors 4 corporate auditors 16 corporate officers 1 employee	161,000 common shares	May 22, 2003	Sep. 3, 2007 to May 22, 2013
3rd	7 directors 4 corporate auditors 14 corporate officers 1 employee	308,000 common shares	May 27, 2004	Sep. 3, 2007 to May 27, 2014
4th	7 directors 4 corporate auditors 12 corporate officers 1 employee	336,000 common shares	May 26, 2005	Sep. 3, 2007 to May 26, 2015
5th	8 directors 5 corporate auditors	63,000 common shares	May 25, 2006	Sep. 3, 2007 to Jul. 14, 2026
6th	135 employees	300,000 common shares	May 25, 2006	Jul. 15, 2008 to Jul. 14, 2012

The stock option activity is as follows:

	1st	2nd	3rd	4th	5th	6th
Vested:						
February 29, 2008-outstanding	140,000	161,000	308,000	336,000	63,000	300,000
Exercised		42,000			7,000	
Forfeited						
February 28, 2009-outstanding	140,000	119,000	308,000	336,000	56,000	300,000
Exercised		14,000			7,000	
Forfeited						
February 28, 2010-outstanding	140,000	105,000	308,000	336,000	49,000	300,000

Price information is as follows:

	Yen					
Year ended February 28, 2010	1st	2nd	3rd	4th	5th	6th
Exercise price	¥404	¥317	¥699	¥691	¥1	¥794
Average stock price at time of exercise	—	412	—	—	377	—
Fair value at date of grant	*	*	*	*	833	279

	U.S. dollar					
Year ended February 28, 2010	1st	2nd	3rd	4th	5th	6th
Exercise price	$4.52	$3.54	$7.82	$7.73	$0.01	$8.88
Average stock price at time of exercise	—	4.61	—	—	4.22	—
Fair value at date of grant	*	*	*	*	9.31	3.12

*Fair value at date of grant is not disclosed since these options were granted before the enforcement of the Corporate Law.

11 LOSS ON IMPAIRMENT

The Companies recognized impairment losses on fixed assets including buildings and other assets in stores for the years ended February 28, 2010 and 2009 as follows:

The Companies identify groups of assets principally on a store basis which is the smallest identifiable group of assets generating cash inflows.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Buildings and other	**¥2,640**	¥2,824	**$29,520**
Land	**864**	—	**$9,661**
Total	**¥3,505**	¥2,824	**$39,193**

The carrying values of these assets were reduced to the recoverable amounts. The recoverable amounts of buildings and other were measured based on the value of use and written-down to nil since no future cash inflows are expected. The recoverable amounts of land and some buildings were measured according to the estimated net sale value, which are based on the appraisal value by quotation from a real-estate appraiser.

12 LOSS ON BUSINESS LIQUIDATION

After the management integration, the Companies have been proceeding business liquidation in order to improve management efficiency throughout the organization. Pursuant to the management's strategic plan, the Companies have recognized loss on business liquidation for the years ended February 28, 2010 and 2009 as follows:

	Millions of yen		
	2010		
	Matsuzakaya Okazaki store	**Matsuzakaya Nagoya Station store**	**Total**
Provision for loss on business liquidation	**¥345**	**¥301**	**¥646**
Impairment loss on buildings and other properties	**15**	**248**	**263**
Asset restoration costs and other	**340**	—	**340**
Total	**¥701**	**¥550**	**¥1,251**

	Thousands of U.S. dollars		
	2010		
	Matsuzakaya Okazaki store	**Matsuzakaya Nagoya Station store**	**Total**
Provision for loss on business liquidation	**$3,858**	**$3,366**	**$7,224**
Impairment loss on buildings and other properties	**168**	**2,773**	**2,941**
Asset restoration costs and other	**3,802**	—	**3,802**
Total	**$7,839**	**$6,150**	**$13,989**

	Millions of yen			
	2009			
	Yokohama Matsuzakaya	Imabari Daimaru	J. Front Retailing	Total
Provision for loss on business liquidation	¥2,680	¥1,239	¥104	¥4,023
Impairment loss on buildings and other properties	397	1,331	—	1,728
Other	9	—	—	9
Total	¥3,087	¥2,570	¥104	¥5,761

13 LEASES

a. Finance leases

The companies lease machinery and equipment and other assets.

Information regarding finance leases transactions other than those which are deemed to transfer ownership of the leased property to the lessee commenced on or before February 28, 2009 is as follows:

(As a lessee)

Pro forma information of leased assets such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense and other information of finance leases "as if capitalized" basis for the years ended February 28, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Property and equipment (Machinery, furniture and fixtures)			
Acquisition cost	**¥13,159**	¥14,631	**$147,143**
Accumulated depreciation	**7,477**	6,588	**83,607**
Accumulated impairment loss	**547**	364	**6,117**
Net leased assets	**¥5,135**	¥7,677	**$57,419**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥2,104**	¥2,568	**$23,527**
Due after one year	**3,390**	5,393	**37,907**
Total	**¥5,494**	¥7,961	**$61,434**
Impairment loss on leased assets	**¥359**	¥283	**$4,014**

Total lease payments and other information:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Total lease payments	**¥2,532**	¥2,711	**$28,313**
Reversal of allowance for impairment loss on leased assets	**145**	117	**1,621**
Depreciation expense	**2,387**	2,594	**26,691**
Impairment loss	**220**	240	**2,460**

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, is computed by the straight-line method over the lease periods.

(As a lessor)

Pro forma information of leased assets such as acquisition cost, accumulated depreciation, receivables under finance leases, depreciation expense and other information of finance leases for the years ended February 28, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Property and equipment (Machinery, furniture and fixtures)			
Acquisition cost	**¥1,172**	¥1,284	**$13,105**
Accumulated depreciation	**813**	761	**9,091**
Net leased assets	**¥358**	¥522	**$4,003**

Commitment received under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥119**	¥161	**$1,331**
Due after one year	**239**	361	**2,672**
Total	**¥358**	¥522	**$4,003**

Lease income and depreciation expense:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Lease income	**¥156**	¥186	**$1,744**
Depreciation expense	**156**	186	**1,744**

b. Operating leases

Future minimum lease payments under non-cancelable leases subsequent to February 28, 2010 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
As a lessee:		
Within one year	**¥3,485**	**$38,969**
After one year	**22,301**	**249,368**
Total	**¥25,786**	**$288,337**
As a lessor:		
Within one year	**¥515**	**$5,759**
After one year	**920**	**10,287**
Total	**¥1,435**	**$16,046**

14 INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which in the aggregate, resulted in normal effective statutory tax rates of approximately 40.6% for the years ended February 28, 2010 and 2009. The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of February 28, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Provision for retirement benefits	**¥8,611**	¥9,769	**$96,288**
Securities under retirement benefit trusts	**4,843**	4,780	**54,154**
Loss on evaluation recognized upon merger of consolidated subsidiaries	**4,516**	4,516	**50,498**
Allowance for bonuses	**2,878**	3,165	**32,182**
Points payable	**2,809**	—	**31,410**
Tax loss carryforwards	**2,272**	2,980	**25,405**
Provision for loss on collection of gift certificates	**3,380**	2,979	**37,795**
Loss on impairment	**3,717**	2,849	**41,563**
Provision for loss on business liquidation	**666**	1,087	**7,447**
Allowance for doubtful accounts	**1,193**	1,026	**13,340**
Unrealized gains on fixed assets	**598**	804	**6,687**
Payables related to an amendment to the retirement benefit plan	**415**	783	**4,641**
Inventories	**228**	480	**2,549**
Accrued enterprise tax	**406**	380	**4,540**
Provision for sales promotion	**173**	143	**1,934**
Other	**5,044**	5,564	**56,402**
Gross deferred tax assets	**41,755**	41,312	**466,901**
Less: Valuation allowance	**(10,797)**	(10,297)	**(120,731)**
Total deferred tax assets	**¥30,958**	¥31,015	**$346,170**
Deferred tax liabilities:			
Adjustments of book values by fair value method	**¥(94,970)**	¥(96,014)	**$(1,061,948)**
Deferred gains	**(7,344)**	(6,585)	**(82,120)**
Returned shares of retirement benefit trusts	**(2,464)**	(3,179)	**(27,552)**
Others	—	(52)	—
Total deferred tax liabilities	**(104,778)**	(105,831)	**(1,171,620)**
Net of deferred tax assets	**¥(73,820)**	¥(74,816)	**$(825,450)**

These deferred tax assets and liabilities were recorded under the following captions of the accompanying consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current assets	**¥13,295**	¥10,993	**$148,664**
Investments and other assets	**11,215**	12,263	**125,405**
Long-term liabilities	**(98,331)**	(98,072)	**(1,099,530)**

15 DERIVATIVE TRANSACTIONS

There was no derivative transaction that is required to disclose its fair value as of February 28, 2010 and 2009, since all derivatives are accounted for under hedge accounting.

16 CONTINGENT LIABILITIES

The Companies had the following contingent liabilities at February 28, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Guarantees on employees' home mortgage loans	**¥68**	¥82	**$760**
Guarantees on bank loans and lease arrangements for SDS Planning Co.,Ltd.(a subsidiary of The Shimonoseki Daimaru, Inc.)	**20**	24	**224**
Total	**¥89**	¥106	**$995**

17 PER SHARE INFORMATION

The financial data for the computation of basic net income per share for the years ended February 28, 2010 and 2009 was as follows:

	Millions of yen	Thousands of shares	Yen	Dollar
	Net income	**Weighted average shares**	**EPS**	
For the year ended February 28, 2010:				
Basic EPS				
Net income available to common shareholders	**¥8,167**	**528,689**	**¥15.45**	**$0.17**
For the year ended February 28, 2009:				
Basic EPS				
Net income available to common shareholders	¥7,170	528,667	¥13.56	

Net assets per share at February 28, 2010 and 2009 were calculated as follows:

	Millions of yen	Thousands of shares	Yen	Dollar
	Net assets	**Common shares at end of fiscal year**	**Net assets per share**	
For the year ended February 28, 2010:				
Total net assets	**¥323,506**			
Amounts not attributable to common shares:	**9,012**			
—Stock subscription rights	**(124)**			
—Minority interests	**(8,887)**			
Net assets attributable to common shares	**¥314,494**		**¥594.89**	**$6.65**
Outstanding number of common shares issued		**528,656**		
For the year ended February 28, 2009:				
Total net assets	¥316,268			
Amounts not attributable to common shares:	8,407			
—Stock subscription rights	(130)			
—Minority interests	(8,276)			
Net assets attributable to common shares	¥307,861		¥582.27	
Outstanding number of common shares issued		528,730		

18 SEGMENT INFORMATION

(a) Business segment information

The Companies operate in the four business segments consisting of "Department store," "Supermarket," "Wholesale" and "Other." "Other" segment includes various business including mail order, real estate leasing, interior construction contract and manufacturing and sales of furniture, credit business, etc.

Business segment information for the years ended February 28, 2010 and 2009 was as follows:

	Millions of yen					
Year ended February 28, 2010	**Department store**	**Supermarket**	**Wholesale**	**Other**	**Elimination or corporate**	**Consolidated**
I. Sales and operating income						
Sales						
1) Sales to outside customers	**¥758,069**	**¥118,626**	**¥56,510**	**¥49,326**	**¥—**	**¥982,533**
2) Intersegment sales	**2,850**	**4,631**	**6,738**	**31,717**	**(45,938)**	**—**
Total	**760,919**	**123,258**	**63,249**	**81,044**	**(45,938)**	**982,533**
Operating expenses	**747,924**	**121,829**	**60,675**	**78,241**	**(44,721)**	**963,949**
Operating income	**¥12,995**	**¥1,429**	**¥2,573**	**¥2,803**	**¥(1,216)**	**¥18,584**
II. Assets, depreciation, impairment loss and capital expenditure						
Assets	**¥691,741**	**¥43,546**	**¥25,342**	**¥135,266**	**¥(91,361)**	**¥804,534**
Depreciation	**12,223**	**889**	**122**	**301**	**(241)**	**13,295**
Loss on impairment	**2,020**	**633**	**—**	**1,135**	**(19)**	**3,769**
Capital expenditure	**53,121**	**514**	**166**	**828**	**(153)**	**54,476**

	Millions of yen					
Year ended February 28, 2009	Department store	Supermarket	Wholesale	Other	Elimination or corporate	Consolidated
I. Sales and operating income						
Sales						
1) Sales to outside customers	¥834,097	¥125,833	¥79,554	¥57,204	¥—	¥1,096,690
2) Intersegment sales	2,091	4,826	7,584	34,483	(48,987)	—
Total	836,189	130,660	87,139	91,688	(48,987)	1,096,690
Operating expenses	814,572	129,555	83,567	89,129	(48,226)	1,068,597
Operating income	¥21,616	¥1,105	¥3,572	¥2,558	¥(760)	¥28,092
II. Assets, depreciation, impairment loss and capital expenditure						
Assets	¥679,624	¥44,033	¥28,707	¥140,828	¥(116,578)	¥776,616
Depreciation	12,225	916	102	273	(260)	13,257
Loss on impairment	3,413	964	—	190	(14)	4,554
Capital expenditure	10,140	1,314	37	1,532	(208)	12,817

Year ended February 28, 2010	Thousands of U.S. dollars					
	Department store	**Supermarket**	**Wholesale**	**Other**	**Elimination or corporate**	**Consolidated**
I. Sales and operating income						
Sales						
1) Sales to outside customers	**$8,476,674**	**$1,326,468**	**$631,891**	**$551,560**	**$—**	**$10,986,615**
2) Intersegment sales	**31,869**	**51,784**	**75,344**	**354,657**	**(513,676)**	**—**
Total	**8,508,543**	**1,378,262**	**707,246**	**906,228**	**(513,676)**	**10,986,615**
Operating expenses	**8,363,234**	**1,362,283**	**678,464**	**874,885**	**(500,067)**	**10,778,810**
Operating income	**$145,309**	**$15,979**	**$28,771**	**$31,343**	**$(13,597)**	**$207,805**
II. Assets, depreciation, impairment loss and capital expenditure						
Assets	**$7,734,999**	**$486,928**	**$283,372**	**$1,512,535**	**$(1,021,592)**	**$8,996,243**
Depreciation	**136,677**	**9,941**	**1,364**	**3,366**	**(2,695)**	**148,664**
Loss on impairment	**22,587**	**7,078**	**—**	**12,691**	**(212)**	**42,145**
Capital expenditure	**593,995**	**5,748**	**1,856**	**9,259**	**(1,711)**	**609,147**

Notes: As discussed in the note 3 (a), the Companies have adopted ASBJ Statement No. 9, "Accounting Standards for Measurement of Inventories", issued by the ASBJ on July 5, 2006, and inventories are stated at the lower of cost or market determined principally by the retail inventory method (lower than book value due to decline in profitability) effective from the year ended February 28, 2010. The effect of this change was to increase operating income of "Department store" by ¥38 million ($425 thousand) and decrease operating income of "Supermarket" and "Other" by ¥193 million ($2,158 thousand) and ¥2 million ($22 thousand), respectively, compared with the previous method.

(b) Geographic segment information

Geographic segment information is not disclosed, due to sales and total assets of overseas subsidiaries not being material compared to consolidated sales and consolidated total assets, respectively.

(c) Information for overseas sales

Information for overseas sales is not disclosed, due to overseas sales not being material compared to consolidated sales.

19 RELATED PARTIES

There were no significant transactions and balances with related parties as of and for the years ended February 28, 2010 and 2009.

20 BUSINESS COMBINATION

Based on the agreement entered into on October 14, 2008, Restaurant Peacock Co., Ltd. and Shoei Food Co., Ltd., both wholly owned subsidiaries of the Company, merged on March 1, 2009. Overview of the merger is as follows:

(1) Names of combined parties and description of the business

Absorbing company:

Company name	Restaurant Peacock Co., Ltd.
Description of the business	Restaurant business

Absorbed company:

Company name	Shoei Foods Co., Ltd.
Description of the business	Restaurant and food manufacturing business

(2) Legal form of the business combination

The merger was a merger by absorption with Restaurant Peacock Co., Ltd. as a surviving company, and Shoei Food Co., Ltd. went into liquidation on March 1, 2009.

(3) Name of the company following the business combination

J. Front Foods Co., Ltd.

(4) Overview of the transactions including purposes

Execution of the Group's medium- and long-term plan "Frontier 21" is contributed by improvement of the basis for the growth of the Group, effective use of resources by business restructuring and altering the old framework and idea to "challenge to renovation" and "enhance the quality of management" based on "autonomous management" and "total optimization" among affiliated companies.

There was no issuance of new shares or increase in share capital.

(5) Overview of accounting procedures implemented

This merger has been accounted for as a transaction under common control according to "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".

21 SUBSEQUENT EVENT

(1) Names of combined parties and description of the business:

Absorbing company:

Company name	Matsuzakaya Co., Ltd.
Description of the business	Department store business

Absorbed company:

Company name	The Daimaru, Inc.
Description of the business	Department store business

(2) Date of the business combination

March 1, 2010

(3) Legal form of the business combination

The merger was a merger by absorption with Matsuzakaya Co., Ltd. as a surviving company, and The Daimaru, Inc. went into liquidation on March 1, 2010.

(4) Name of company following the business combination

Daimaru Matsuzakaya Department Stores Co. Ltd.

(5) Overview of the transactions including purposes

The Company promotes to reorganize the structures and functions among the Company, Daimaru and Matsuzakaya and integrate into a simple business operating structure, to speed up the decision-making and further improve management efficiency and productivity in the department store business, including centralizing and downsizing of organization, personnel, facilities and others.

As the both companies were wholly owned subsidiaries of the Company, merger ratio was not determined and there was no issuance of new shares or increase in share capital.

On the effective date of the merger, the surviving company increased in share capital by reclassifying a portion of its capital surplus to share capital. As a result, share capital of the surviving company increased to ¥10,000 million ($111,819 thousand).

(6) Overview of accounting procedures implemented

This merger has been accounted for as a transaction under common control according to "Accounting Standard for Business Combinations" and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures".