Analysis of Financial Condition and Operating Results

Operating overview

In the fiscal year under review, the Japanese economy rose and fell. For various reasons, including stagnant exports and production and a decline in capital investments and domestic demand due to the impact of the slowdown in overseas economies, natural disasters, and other developments, the Japanese economy's recovery trend leveled off, and uncertainty regarding various aspects of the Japanese economy, such as corporate production, capital investments, and spending, rapidly increased near the end of the fiscal year. Although the employment and income environments were firm, personal spending was not only lackluster due to continued weak spending as a result of the consumption tax hike but also further deteriorated toward the end of the fiscal year as both inbound and domestic spending fell because of the novel coronavirus (COVID-19).

Amid this environment, the J. Front Retailing Group (hereinafter the "Group") worked to implement the following five strategies to generate growth and reinforce its foundation as part of its efforts in the third year of the "FY2017–FY2021 Medium-term Business Plan" to realize the Group Vision and transform its business portfolio.

In regard to the "Multi Service Retailer strategy," we not only worked to expand our existing business fields by concluding a licensing agreement with VISA and MasterCard in July for our Credit and Finance Business and moving forward with creating an environment to conduct the Group's acquiring (merchant contract) business but also updated our existing cards by overhauling various card features, such as the point program (a new point program is expected to be introduced in the fall of 2020) and ancillary services. As for efforts to expand new business fields, we moved forward with efforts to gain an understanding of the clothing rental business and an examination of entering that market as the value of "sharing, not owning, items and services" spreads and we respond to those risks.

Turning to the "Urban Dominant Strategy," following Ginza Six and Ueno Frontier Tower, we completed two massive area redevelopment projects—the main building of the Daimaru Shinsaibashi store in September and Shibuya PARCO in November. In addition, we worked to develop the surrounding areas of core stores, such as opening two Bino stores, commercial facilities based on the concept of beauty and health, in Kyoto and the Ueno area. We also worked to improve the appeal of cities through various efforts, including promotions and area

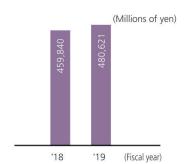
revitalization events jointly held by department stores and Parco in the Ueno, Nagoya, and Kobe areas and collaborating with local universities to support the next generation and develop local areas

As for the "ICT (Internet, Communication, and Technology) Strategy which looks toward the IoT era," we made integrated use of customer data as a shared Group asset and worked to build an integrated database, a foundation for promoting the Lifetime Service Hub scheme, the goal of which is to maximize the lifetime value of customers (*). At the same time, we strove to build a cloud environment that makes it possible to manage security at the various Group companies and quickly and flexibly respond to the introduction of digital technology called for in the business strategy. (* By providing products and services according to the life stage of each and every customer, we strengthen lifetime relationships with customers and maximize the customer value.)

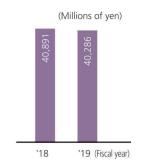
Turning to "innovating existing businesses," for the Department Store Business, we not only introduced into the main building of the Daimaru Shinsaibashi store a new department store business model that balances growth and profitability through novel floor compositions for department stores but also moved forward with developing new sales areas that match changes in the market at various stores. We also steadily promoted structural reforms at rural and suburban stores, such as Shimonoseki Daimaru and the Daimaru Ashiya store. Parco celebrated its fiftieth anniversary, and we opened the new Shibuya PARCO, a next-generation commercial facility that embodies the new appeal of the Parco brand, and this included expanding experience-based content, re-proposing fashion, and creating futuristic sales areas that make use of ICT. In addition, we made steady progress in developing various types of stores, including opening Kinshicho PARCO, SAN-A Urasoe West Coast PARCO CITY, and Kawasaki ZERO

As for "ESG initiatives," we moved forward with company-wide efforts to resolve five materiality issues, such as "contribution to a low-carbon society." At the main building of the Daimaru Shinsaibashi store, our flagship store for promoting ESG, we switched to renewable energy sources for the whole interior, and at Daimaru Matsuzakaya Department Stores, we held our first explanatory meeting for suppliers regarding the "JFR Principles of Action for Suppliers," which were established in 2019, in order to promote cooperation in ESG activities. Because of these efforts, there has been an increase in ESG related certifications and evaluations by independent parties, including a climate change survey. (ESG: environment, society, and governance)

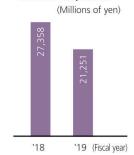
▶ Revenue



Operating profit



Profit attributable to owners of parent



As for reforming personnel affairs, with the goal of becoming a human resources development company that aims to generate sustainable growth, we moved forward with reforms to the personnel system that draws out creation and challenges and promoted efforts to recruit specialized human resources and to push back the retirement age at the various group companies to 65 from the perspective of making use of seniors in order to establish human resources management centered on "human resource capabilities" that creates new value.

As for the Group's fiscal strategy, we not only worked to improve asset efficiency by promoting B/S-oriented management and administration to build a management system that boasts high capital efficiency but also steadily adopted new lease accounting standards that are based on the International Financial Reporting Standards (IFRS). Furthermore, we held the first business strategy briefing to expand opportunities for dialogue with investors.

As for the Group's administrative systems innovation, we strove to strengthen information security and increase business efficiency by not only promoting the automation of operations, primarily in the Group back-office operations, through the greater use of robotic process automation (RPA) but also introducing business tools to raise productivity.

Revenue / Operating profit

Spending continued to be weak as a result of the consumption tax hike, and Japan faced natural disasters, a warm winter, and the spread of COVID-19. However, revenue was ¥480,621 million, up 4.5% year on year, for various reasons, including sale of reserve floor space in the Shibuya redevelopment project.

Operating profit was ¥40,286 million, down 1.5% year on year.

Profit before tax / profit attributable to owners of parent

Profit before tax was ¥37,161 million, down 11.8% year on year.

Profit attributable to owners of parent was ¥21,251 million, down 22.3% year on year.

Analysis of financial position

Total assets as of February 29, 2020 was ¥1,240,308 million, up ¥210,735 million compared with February 28, 2019. This was mainly attributable to an increase in right-of-use assets due to the application of IFRS 16 "Leases." Total liabilities was ¥840,627 million, an increase of ¥279,540 million. Interest-bearing debt was ¥478,773 million, up ¥304,395 million. This was mainly attributable to an increase in lease liabilities due to the application of IFRS 16 "Leases."

Total equity was ¥399,681 million, a decrease of ¥68,804 million compared with February 28, 2019. This was mainly attributable to a decrease in capital surplus and non-controlling interests due to an additional acquisition of shares of Parco.

Cash flow

The Group aims to secure adequate funds for our business activities, maintain liquidity, and maintain a sound financial position, and to achieve stable operating cash flows.

We strive to generate cash flow and secure a wide range of financing methods. In addition to cash on hand and cash provided by operating activities, the Group also issues bonds and borrows money from financial institutions to fund the working capital, capital expenditures and investments required to maintain the Group's growth.

Cash flow positions in the current fiscal year and the factors for these were as follows.

Net cash provided by operating activities was ¥73,358 million. In comparison with the previous fiscal year, cash provided increased by ¥38,488 million, largely reflecting an adjustment of depreciation and amortization expense due to an increase in the right-of-use asset and a decrease in inventories.

Net cash used in investing activities was ¥49,559 million. In comparison with the previous fiscal year, cash used increased by ¥22,723 million, largely reflecting an increase in purchase of investment securities.

Net cash used in financing activities was ¥14,829 million. In comparison with the previous fiscal year, cash used decreased by ¥6,445 million, largely reflecting issuance of bonds and other financing activities, despite payment for an additional acquisition of shares of Parco and recording of repayments of lease liabilities.

We will continue to implement appropriate profit distribution and capital investment considering profit levels, cash flow trends and other such factors.

Basic policy on profit distribution and dividends

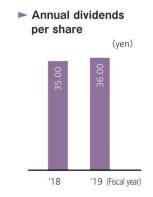
The Company's basic policy is to return profits appropriately in accordance with a targeted consolidated dividend payout ratio of 30% or more while striving to provide a stable dividend, with the aim of maintaining and enhancing the Company's sound financial standing while keeping profit levels, future capital investment, free cash flow trends and other such factors in consideration.

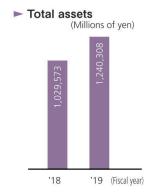
With respect to internal reserves, the Company intends to enhance corporate value by using them for such purposes as investing in store refurbishments and business expansions to strengthen sales, as well as strengthening the Company's financial standing.

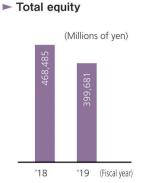
The Company has decided to pay an annual dividend of ¥36 per share in the current fiscal year, comprising an interim dividend of ¥18 per share and a year-end dividend of ¥18 per share.

Given unprecedented challenging operating environment, business outlook and financial position due to the impact of the spread of COVID-19, the forecast for the interim dividend is ¥9 per share, a decrease of ¥9 from the previous fiscal year, from the standpoint of ensuring stable operations, and the forecast for the year-end dividend is ¥18 per share, the same as in the previous fiscal year, from the standpoint of providing stable dividends to shareholders. Accordingly, the forecast for annual dividends is ¥27 per share (¥36 for the previous fiscal year).









Consolidated Statement of Financial Position

J. Front Retailing Co., Ltd. and its consolidated subsidiaries

As of March 1, 2018, February 28, 2019 and February 29, 2020

		Millions of yen	
	2018	2019	2020
Assets			
Current assets			
Cash and cash equivalents	38,883	25,659	34,633
Trade and other receivables	125,649	132,943	144,244
Other financial assets	4,067	7,324	5,095
Inventories	33,755	38,349	19,169
Other current assets	6,076	7,004	5,281
Assets held for sale	6,732	=	(-
Total current assets	215,164	211,281	208,424
Non-current assets			
Property, plant and equipment	458,877	471,238	473,167
Right-of-use assets	-	_	179,632
Goodwill	523	523	523
Investment property	195,608	197,162	219,354
Intangible assets	3,588	4,489	5,662
Investments accounted for using equity method	16,425	17,616	37,439
Other financial assets	100,016	96,225	91,379
Deferred tax assets	7,286	8,280	9,988
Other non-current assets	24,857	22,754	14,734
Total non-current assets	807,183	818,291	1,031,883
Total assets	1,022,348	1,029,573	1,240,308
iabilities and equity Liabilities			
Current liabilities			
Bonds and borrowings	46,230	31,320	108,400
Trade and other payables	141,343	138,938	144,020
Lease liabilities	_	_	29,493
Other financial liabilities	30,811	32,252	30,199
Income taxes payable	9,202	8,174	4,349
Provisions	202	1,851	999
Other current liabilities	64,561	62,490	56,427
Total current liabilities	292,351	275,028	373,889
Non-current liabilities			
Bonds and borrowings	137,972	143,058	149,876
Lease liabilities	_	_	191,003
Other financial liabilities	34,240	38,486	41,087
Retirement benefit liabilities	29,909	29,003	20,175
Provisions	4,595	5,176	4,909
Deferred tax liabilities	61,161	60,455	58,829
Other non-current liabilities	11,231	9,880	855
Total non-current liabilities	279,109	286,059	466,737
Total liabilities	571,460	561,087	840,627
Equity	21.271	24.074	
Share capital	31,974	31,974	31,974
Capital surplus	211,864	212,210	189,340
Treasury shares	(15,244)	(15,090)	(14,974)
Other components of equity	15,772	14,745	11,641
Retained earnings	151,151	168,861	169,206
Total equity attributable to owners of parent	395,519	412,700	387,188
Non-controlling interests	55,368	55,784	12,493
Total lightities and aguity	450,887	468,485	399,681
Total liabilities and equity	1,022,348	1,029,573	1,240,3

Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

J. Front Retailing Co., Ltd. and its consolidated subsidiaries

Consolidated financial years ended February 28, 2019 and February 29, 2020

	Millions of yen	
Consolidated Statement of Profit or Loss	2019	2020
Revenue	459,840	480,621
Cost of sales	(247,443)	(273,667)
Gross profit	212,396	206,953
Selling, general and administrative expenses	(166,882)	(161,590)
Other operating income	3,237	8,663
Other operating expenses	(7,860)	(13,740)
Operating profit	40,891	40,286
Finance income	1,104	1,091
Finance costs	(1,170)	(5,862)
Share of profit (loss) of investments accounted for using equity method	1,301	1,644
Profit before tax	42,126	37,161
Income tax expense	(12,950)	(13,767)
Profit	29,176	23,393
- 8 - 11		
Profit attributable to: Owners of parent	27.250	24 254
Non-controlling interests	27,358 1,817	21,251 2,141
Profit	29,176	23,393
	25,170	
Earnings per share		
Basic earnings per share (Yen) Diluted earnings per share (Yen)	104.55	81.19
Dilated earnings per strate (1. ett)	104.52	81.17
Consolidated Statement of Comprehensive Income	2019	2020
Profit	29,176	23,393
Other comprehensive income Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(471)	(2,318)
Remeasurements of investments benefit plans	(1,220)	256
Share of other comprehensive income of investments accounted for using equity method	33	(37)
Total items that will not be reclassified to profit or loss	(1,657)	(2,099)
Items that may be reclassified to profit or loss		
Cash flow hedges	58	0
Exchange differences on translation of foreign operations	(71)	24
Share of other comprehensive income of investments accounted for using equity method	2	1
Total items that may be reclassified to profit or loss	(10)	26
Other comprehensive income, net of tax	(1,668)	(2,073)
Comprehensive income	27,507	21,320
Comprehensive income attributable to:		
Owners of parent	25,631	19,259
Non-controlling interests	1,875	2,060
Comprehensive income	27,507	21,320

Consolidated Statement of Changes in Equity

J. Front Retailing Co., Ltd. and its consolidated subsidiaries

Consolidated financial years ended February 28, 2019 and February 29, 2020

Millions of yen

	Equity attributable to owners of parent						
					Other components of equity		
	Share capital	Capital surplus	Treasury shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income	
Balance at March 1, 2018	31,974	211,864	(15,244)	(43)	(15)	15,831	
Profit	_	_	-	(==)	_	(===)	
Other comprehensive income			·	(70)	60	(530)	
Total comprehensive income Purchase of treasury shares	_	_	(8)	(70)	60	(530)	
Disposal of treasury shares	_	(0)	(6)	_	_	_	
Dividends	_	(0)	_	_		_	
Changes in ownership interest in subsidiaries	_	1	_	_	_	_	
Share-based remuneration transactions	_	343	162	_	_	-	
Transfer from other components of equity to retained earnings	_	-	-	_	_	(466)	
Other	_	_	7 <u>—</u>	29	(49)	-	
Total transactions with owners		345	154	29	(49)	(466)	
Balance at February 28, 2019	31,974	212,210	(15,090)	(83)	(5)	14,834	
Effect of accounting changes			n			_	
Restated balance	31,974	212,210	(15,090)	(83)	(5)	14,834	
Profit	_	_	_	-	_	(2.227)	
Other comprehensive income				24 24	1	(2,237)	
Total comprehensive income Purchase of treasury shares	_	_	(7)	24		(2,237)	
Disposal of treasury shares	_	(0)	(/)	_	_	_	
Dividends	_	(0)	_	_	_	_	
Changes in ownership interest in subsidiaries	_	(23,106)	_	(6)	(0)	84	
Share-based remuneration transactions	_	236	122	-	-	_	
Transfer from other components of equity to retained earnings	_		_	_	_	(970)	
Other		-	-	_	_		
Total transactions with owners		(22,870)	115	(6)	(0)	(885)	
Balance at February 29, 2020	31,974	189,340	(14,974)	(65)	(3)	11,710	

Balance at March 1, 2018 Profit
Other comprehensive income
Total comprehensive income Purchase of treasury shares
Disposal of treasury shares
Dividends Changes in ownership interest in subsidiaries
Share-based remuneration transactions
Transfer from other components of equity to retained earnings Other
Total transactions with owners
Balance at February 28, 2019 Effect of accounting changes
Restated balance
Profit
Other comprehensive income Total comprehensive income
Purchase of treasury shares
Disposal of treasury shares Dividends
Changes in ownership interest in subsidiaries
Share-based remuneration transactions Transfer from other components of equity to retained earnings
Other
Total transactions with owners

Balance at February 29, 2020

Equity at	tributable [.]	to owners o	f parent		
Other components of equity				Non- controlling	Total
Remeasure- ments of defined benefit plans	Total	Retained earnings	Total	interests	lotal
=	15,772	151,639 27,358	396,006 27,358	55,368 1,817	451,374 29,176
(1,186)	(1,727)		(1,727)	58	(1,668)
(1,186)	(1,727)	27,358	25,631	1,875	27,507
_	_	_	(8)	_	(8)
_	_	_	0		0
_	-	(9,417)	(9,417)	(942)	(10,359)
=	-	-	1	(516)	(515)
_	_	()	505	_	505
1,186	719	(719)		_	
	(19)		(19)		(19)
1,186	699	(10,136)	(8,937)	(1,459)	(10,396)
	14,745	168,861	412,700	55,784	468,485
		(12,675)	(12,675)	(1,914)	(14,590)
_	14,745	156,185	400,025	53,869	453,895
		21,251	21,251	2,141	23,393
219	(1,992)		(1,992)	(80)	(2,073)
219	(1,992)	21,251	19,259	2,060	21,320
_	_	_	(7)	_	(7)
_	_	(0.110)	0	(072)	0
-		(9,419)	(9,419)	(972)	(10,392)
_	77	_	(23,028)	(42,465)	(65,494)
(240)	(4.400)	4 400	359	_	359
(219)	(1,189)	1,189	_	_	_
(240)	(4.444)	(0.220)	(22,005)	(42.427)	(75.524)
(219)	(1,111)	(8,230)	(32,096)	(43,437)	(75,534)
_	11,641	169,206	387,188	12,493	399,681

Consolidated Statement of Cash Flows

J. Front Retailing Co., Ltd. and its consolidated subsidiaries

Consolidated financial years ended February 28, 2019 and February 29, 2020

	Millions of yen	
	2019	2020
Cash flows from operating activities		
Profit before tax	42,126	37,161
Depreciation and amortization	19,907	50,953
Impairment losses	2,514	2,496
Finance income	(1,104)	(1,091)
Finance costs	1,170	5,862
Share of loss (profit) of investments accounted for using equity method	(1,301)	(1,644)
Loss (gain) on sale of fixed assets	(23)	(2,832)
Loss on disposal of fixed assets	1,641	3,576
Decrease (increase) in inventories	(4,594)	20,173
Decrease (increase) in trade and other receivables	(7,500)	(6,899)
Increase (decrease) in trade and other payables	(2,087)	(4,071)
Increase (decrease) in retirement benefit liability	(905)	(8,828)
Decrease (increase) in retirement benefit asset	1,334	776
Other	(462)	364
Subtotal	50,714	95,995
Interest received	98	111
Dividends received	330	275
Interest paid	(1,063)	(5,894)
Income taxes paid	(17,662)	(19,783)
Income taxes refund	2,453	2,654
Net cash provided by (used in) operating activities	34,870	73,358
Cash flows from investing activities		
Purchase of property, plant and equipment	(28,954)	(33,073)
Proceeds from sale of property, plant and equipment	9	930
Purchase of investment property	(4,250)	(2,759)
Proceeds from sale of marketable property	32	3,257
Purchase of investment securities	(1,040)	(19,574)
Proceeds from sale of marketable securities	8,826	4,558
Other	(1,459)	(2,898)
Net cash provided by (used in) investing activities	(26,836)	(49,559)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(9,849)	53,480
Net increase (decrease) in commercial papers	(1,000)	4,000
Proceeds from long-term borrowings	20,350	10,300
Repayments of long-term borrowings	(19,360)	(13,800)
Proceeds from issuance of bonds	_	29,864
Repayments of lease liabilities		(29,241)
Purchase of treasury shares	(9)	(10)
Dividends paid	(9,389)	(9,396)
Dividends paid to non-controlling interests	(942)	(972)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(J. 1.2)	(59,042)
Other	(1,073)	(10)
Net cash provided by (used in) financing activities	(21,274)	(14,829)
Net increase (decrease) in cash and cash equivalents	(13,240)	8,970
Cash and cash equivalents at beginning of period	38,883	25,659
Effect of exchange rate changes on cash and cash equivalents	16	25,033
Cash and cash equivalents at end of period	25,659	34,633