Annual Review 2010

J. FRONT RETAILING NOW

Year ended February 28, 2010

J. FRONT RETAILING NOW

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Financial Highlights

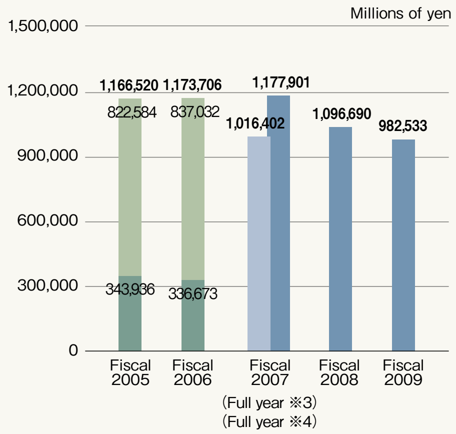
J. Front Retailing Co., Ltd. and Consolidated Subsidiaries

Years ended February 28, 2010, February 28, 2009 and February 29, 2008 or at February 28, 2010, February 28, 2009 and February 29, 2008

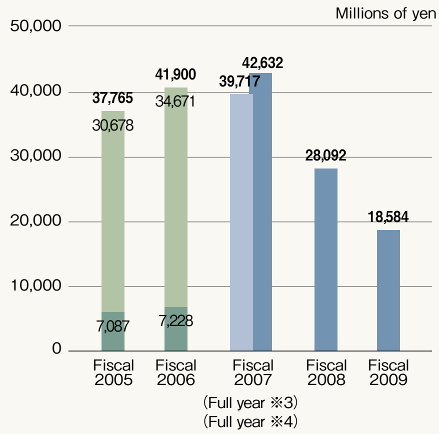
	Millions of yen (Except where otherwise indicated)				Thousands of U.S. dollars (Except where otherwise indicated)
	Fiscal 2009	Fiscal 2008	Fiscal 2007 (Annual real terms)	Fiscal 2007	Fiscal 2009
Business results					
Sales	**¥982,533**	¥1,096,690	¥1,177,901	¥1,016,402	**$10,986,615**
Gross profit	**240,211**	269,282	291,115	251,301	**2,686,023**
Operating income	**18,584**	28,092	42,632	39,717	**207,805**
Ordinary income	**19,966**	28,289	43,151	39,812	**223,258**
Net income	**8,167**	7,170	23,404	20,538	**91,323**
Selling, general and administrative (SG & A) expenses	**221,627**	241,189	248,482	211,583	**2,478,218**
Financial condition					
Total assets	**804,534**	776,616	-	805,375	**8,996,243**
Equity	**314,494**	307,861	-	307,823	**3,516,650**
Net assets	**323,506**	316,268	-	315,854	**3,617,421**
Interest-bearing debt	**125,937**	94,677	-	103,042	**1,408,219**
Condition of cash flows					
Net cash provided by operating activities	**22,996**	22,686	30,912	27,796	**257,140**
Net cash provided by investing activities	**(40,879)**	(11,676)	4,210	5,792	**(457,106)**
Net cash used in financing activities	**29,212**	(13,510)	(41,015)	(39,309)	**326,647**
Per share information (unit: ¥/$)					
Net income	**¥15.45**	¥13.56	-	¥45.74	**$0.17**
Net assets	**¥594.89**	¥582.27	-	¥581.97	**$6.65**
Cash dividends (Unconsolidated)	**¥7.0**	¥8.0	-	¥4.5(Note)	**$0.08**
Financial indicators (unit: %)					
Gross margin	**24.45%**	24.55%	24.71%	24.72%	-
Ratio of SG & A expenses to sales	**22.6%**	22.0%	21.1%	20.8%	-
Operating margin	**1.9%**	2.6%	3.6%	3.9%	-
Return on assets (ROA)	**2.4%**	3.6%	5.3%	4.9%	-
Return on equity (ROE)	**2.6%**	2.3%	7.6%	6.7%	-
Return on investment (ROI)	**4.7%**	7.0%	10.5%	9.7%	-
Equity ratio	**39.1%**	39.6%	38.2%	38.2%	-

*1 U.S. dollar figures are for reference only. They are translated from yen, at the rate of ¥89.43=U.S.$1 as of February 28, 2010 and rounded to the nearest U.S.$1,000.
*2 The amounts for fiscal 2007 (annual real terms) are the consolidated figures of the business results of Daimaru Group and Matsuzakaya Group for the year from March 1, 2007 to February 28, 2008.
*3 Net income per share for fiscal 2007 is based on the average number of shares outstanding calculated by deeming that the Company was established on March 1, 2007. The figures in annual real terms were calculated in the same way.
*4 Net income, operating income and ordinary income are used to calculate ROE, ROA and ROI respectively.
*5 Year-end equity, total assets and capital invested are used to calculate ROE, ROA and ROI for fiscal 2007.
Note: Daimaru and Matsuzakaya Holdings paid interim dividends of ¥6 and ¥3.50 per share respectively.

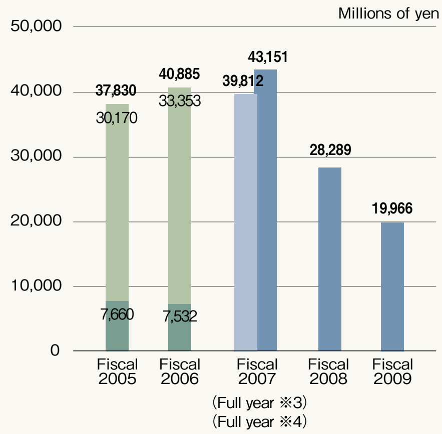
Sales



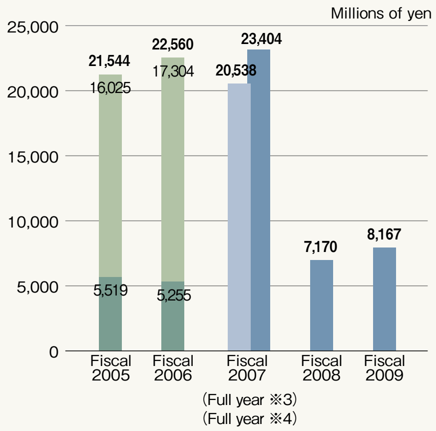
Operating Income



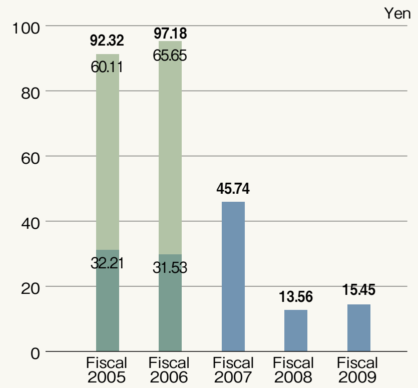
Ordinary Income



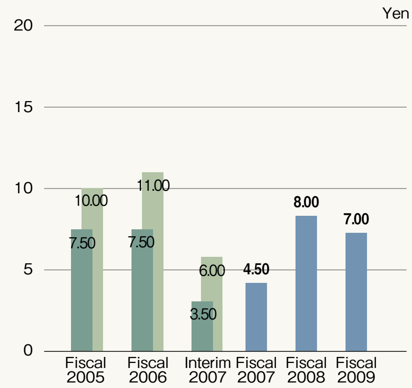
Net Income



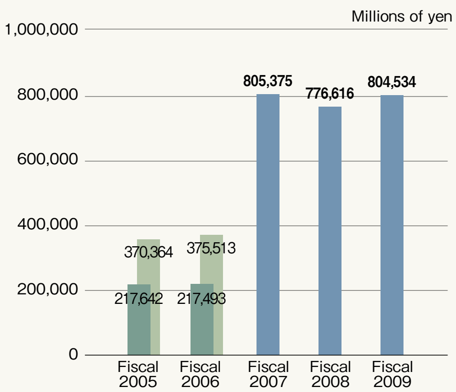
Net Income per Share



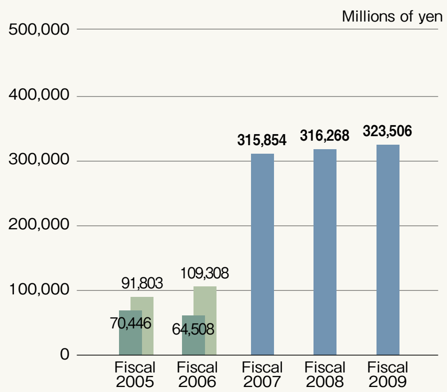
Cash Dividends per Share (Unconsolidated)



Total Assets



Net Assets



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 According to the accounting standard for business combinations, Daimaru Group and Matsuzakaya Group consolidated the financial results for the full year and the second half respectively.
※4 Concerning the performance of Matsuzakaya Group, the consolidated figures for the full year are stated for information purposes.

Toward the Renewal of Core Department Store Business, J. Front Retailing Will Work on Management Reforms at the Level of Changing Business Formats.

OKUDA Tsutomu
Chairman and CEO

The poor performance of department stores is attributable to a rapid decline in their competitive edge over other retail channels including specialty shops, fashion-oriented commercial buildings and online retailers, which resulted from the inability of the current department stores to respond to the changing times and the loss of customer patronage, as well as recession and worsening deflation.

In this context, J. Front Retailing (JFR) tackles drastic reforms at the level of changing business formats, instead of just modifying or improving the existing department store operations, in order to renew its core department store business into a highly competitive and profitable new industry.

We aim to build a "new department store model (=department store renewal program to create attractive and profitable stores that entice customers to visit)." Toward its realization we will work on the following three important tasks.

The first task is "to improve market response capabilities," and "adaptation to market changes" and "expansion of target market" will constitute its pillars.

With a "wide range of product composition and lineup premised on high quality and good taste" as its basic merchandising policy, JFR will widely review target customers, merchandise mix, pricing structure, and the tastes and minds of goods on its store shelves according to the characteristics and actual competition of the areas in which its department stores are located to find the best balance and strengthen its competitive edge.

Concerning the brands and merchandise offered at their locations, department stores have selected mainly from among their existing suppliers and placed too much weight on high prices, women's clothing, the middle-aged, authenticity and dress-up. JFR will drastically review these practices so as to adapt to changing market needs and be well suited to the recent major consumer trends toward more casual attire and greater price consciousness.

In terms of prices, we will expand into more reasonable price range instead of focusing on high quality and high-priced goods as in the past by increasing the assortment of valuable items in the low to middle price range “of department stores” while maintaining the high sensitivity of department stores to widen the range of target customers.

We should differentiate ourselves from the peer group and other retail channels and build “specialty” floors and zones that customers feel at first glance “are their shopping places” to create attractive stores that entice customers to visit. For this purpose, JFR will aggressively develop “specialty zones” that create “special added value” and will work on branding them, by selecting and offering brands, shops, products and services based on clear concept tailored to the values and lifestyles of target customers.

As a result of building a specialty zone “Ufufu Girls” targeting young and around 30-year-old women in the north wing of Daimaru Shinsaibashi store, which opened in November 2009, and Daimaru Kyoto store, which was remodeled in April 2010, we feel it has a great effect, enjoying high popularity among young women to whom department stores could not cater enough.

The second task is a customer loyalty strategy, which provides promotional support to our new department store model.

A customer loyalty strategy for identifiable customers holding our company-branded cards whose profiles and buying histories we can keep track of serves as a very effective measure to retain customers who visit specialty zones, which are the important strategic retail space of our new department store model, and make them repeaters as well as ensure steady sales.

Many new customers who had seldom shopped in department stores visit specialty zones that have clear concept. It is important to increase the number of loyal customers by accumulating efforts to have customers become our cardholders or email members and feel they are “their shopping places” through close communication with their “favorite” specialty zones.

To this end, JFR will be fully committed to finding and increasing its cardholders and email members in keeping with the development of specialty zones to be opened in its department stores in the future.

The third task is a “structural switch to highly efficient operation.”

Under the new department store model, retail floor operation is divided into two types including “shop operation” and “independent operation” and we are working on establishing an operation system, planning staff distribution and training personnel to suit their respective characteristics.

These two types differ greatly in role and responsibility sharing with suppliers in a business process, personnel arrangement, profit structure and method of staff training. The sophistication of each operational know-how as well as the effective combination of these two types in line with store or floor concept will greatly improve human productivity in the operation of department stores and enable the creation and operation of stores with high management efficiency. JFR will also clarify what professional persons are needed to operate each of the “shop operation” type and the “independent operation” type and focus on developing and using such people.

In addition to the efforts mentioned above, by increasing the profitability of existing businesses other than department store operations while increasing expansion into growth areas, we will change business structure from management too lopsidedly inclined toward department store business to raise profits and grow in a balanced manner throughout the Group.

In March 2010, Daimaru and Matsuzakaya merged a year ahead of schedule and completed preparations for the organization and business operation systems to establish the new department store model. For fiscal 2010, business environment facing department stores is expected to remain severe. However, we will unite our efforts to build the new department store model and expand its performance under thorough customer-first creed toward the realization of the enhancement of corporate value and sustainable growth.

June 2010

"We Aim to Reform Management at the 'Level of Changing Business Formats' Rather Than Just Modifying or Improving Existing Operations."

OKUDA Tsutomu, Chairman and CEO

Q Would you outline operating results for fiscal 2009?

A When reporting the consolidated third quarter results of J. Front Retailing (JFR) Group in January 2010, sales and other figures were closely reviewed amid severe consumption environment and uncertainty about the future. After that, however, department store sales exceeded forecast significantly, and at the same time, we controlled costs thoroughly. As a result, operating income, ordinary income and net income exceeded forecast by ¥3.88 billion (26.4%), ¥4.46 billion (28.8%) and ¥1.66 billion (25.6%) respectively. Though that resulted in a revenue decline of 10.4% over the previous year, the ranges of decrease in operating income (33.8%) and ordinary income (29.4%) reduced compared to the previous fiscal year and net income increased for the first time in two fiscal years (13.9%).

The decrease in operating income is mainly attributable to stagnant department store business. In order to put JFR Group on the path of real profit growth, it is essential to "renew" its core department store business into a new format that has strong competitive edge and high profitability. This is why we accelerate management reforms at the "level of changing business formats," instead of just modifying or improving existing department store operations, toward the creation of innovative framework that ensures sustainable growth of sales and profits and the achievement of results.

Q What is behind your thought that you should "reform management at the level of changing business formats" ?

A Over the past 10 years, we have tackled department store management reforms including store-based sales reform. They are mainly changes of internal structure and have achieved remarkable results in streamlining of business operations and cost reduction. However, they have not increased the appeal of floors and stores to the level that customers can recognize clearly and I have to say that they do not sufficiently meet market changes.

With severe changes in consumer spending and keen competition across industrial sectors continuing, department stores have become alike and narrowed the range of target customers and markets by selecting brands and merchandise mainly from among their existing suppliers with too much weight on the heightening of prices, women's clothing, the middle-aged, high-income persons, authentic and dress-up.

Above all, we lag behind the recent major consumer trends toward more casual attire and greater price consciousness and have failed to catch up with the speed of market changes.

Since consumption and competition environments facing department stores are expected to grow increasingly severe, it will be difficult to survive, let alone grow, by using a traditional department store model with weak market response capabilities, high-cost structure and low-efficiency operation.

Q Is it based on such background that you merged Daimaru and Matsuzakaya a year earlier than originally scheduled and formed Daimaru Matsuzakaya Department Stores Co. Ltd. in March 2010?

A We will restructure the organizations and functions of three companies including JFR, Daimaru and Matsuzakaya to build a simple framework of business operation. The business planning and merchandising divisions of department stores, which had been centralized and integrated in JFR since the management integration in September 2007, were transferred to Daimaru Matsuzakaya Department Stores. Daimaru Matsuzakaya Department Stores will become a self-contained organization that has all the functions of department store operation. It will expedite decision-making and speed up business planning. In addition, we will centralize and streamline organization, personnel and facilities to enhance productivity and management efficiency. Thus we will accelerate business structure reforms centered on the new department store model by clarifying the respective roles and functions of JFR and Daimaru Matsuzakaya Department Stores and operating in close cooperation between the two companies.

Process from management integration to integration of department store business into one company

Sep 2007	Merged Daimaru and Matsuzakaya Holdings. Formed J. Front Retailing Co., Ltd.
Mar 2008	Standardized house card systems. Integrated planning divisions including marketing and PB product planning.
Sep	Integrated information systems. Standardized *gaisho* (out-of-store sales) card systems. Standardized personnel systems.
Mar 2009	Integrated merchandising strategy functions of women's accessories and children's wear department.
Sep	Integrated merchandising strategy functions of women's wear, men's wear and accessories and foodstuff departments.
Mar 2010	Formed Daimaru Matsuzakaya Department Stores Co. Ltd. (Completed reorganization into one company per sector.) J. Front Retailing became a pure holding company.

Q What is different about the new department store model JFR aims to build than a traditional one?

A What makes our new department store model different greatly from a traditional one is to shift focus from a traditional "merchandising-focused retailer type" to a "marketing-centered commercial facility producer type."

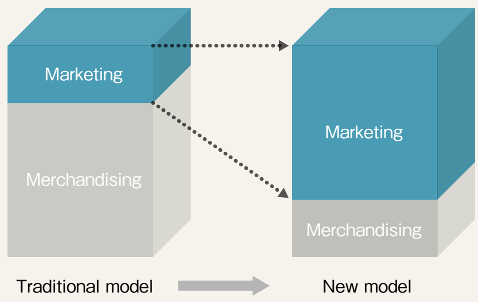
As you know, the retail space of department stores in Japan consists of a "*shoka shiire* (purchase of goods as they are sold) type" that does not have goods and sales risk, which makes up 80% to 90% of the total, and a "*kaitori/jishuhanbai* (purchase of all goods/independent selling) type" that takes such risk, which represents 20% to 10%.

In *shoka shiire* type sections, in order to meet changing customer and market needs, it is required to manage sales and space, change space composition, newly introduce, and implement scrap-and-build measures in units of brands or shops. In *kaitori/jishuhanbai* type sections, department stores need to plan and manage the selection, buying, selling and inventory in units of items and SKUs at their own risk.

These two types vary widely in role and responsibility sharing with suppliers in a business process, personnel arrangement, profit structure and method of staff training.

Especially, for the purpose of responding to customer and market changes in a timely and efficient manner, large-scale department stores with total floor area of more than 50,000 square meters should create and operate stores that attract customers and are highly efficient in terms of management by operating *kaitori/jishuhanbai* and *shoka shiire* type sections as "merchandising-focused retailer" and "marketing-centered commercial facility producer" respectively and combining them effectively in line with store or floor concept.

Shifting focus to marketing-centered commercial facility producer type



Q Would you explain in short the "new department store model"?

A Our new department store model is a "department store renewal program to create attractive and profitable stores that entice customers to visit."

One of the important tasks of the new department store model is "to improve market response capabilities" and "adaptation to market changes" and "expansion of target market" will constitute its pillars.

Based on these, each store will widely review too partial customer base, merchandise mix, pricing structure, and the tastes and minds of goods on its shelves according to the characteristics and actual competition of the area in which it is located to find the best balance and strengthen its competitive edge.

Historically, department stores, specifically in Japan, have developed and prospered always through "mass selling with high-class image" based on "mass" customers. Since most of their floors use low-margin "*shoka shiire*" type of purchase and they operate in huge premises whose real estate costs are high, it is essential to make "great sales" supported by a wide customer base, that is, "the masses" in terms of management unlike U.S. department stores.

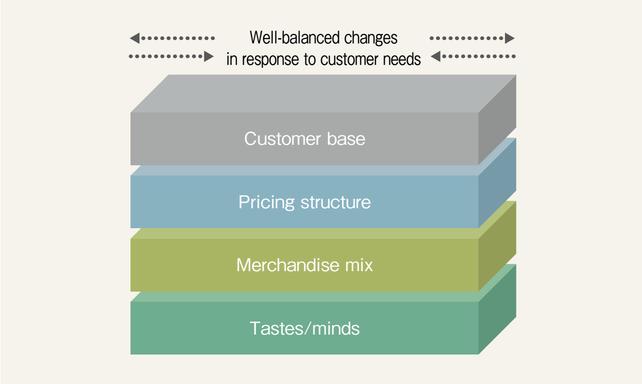
Our basic merchandising policy is a "wide range of product composition and lineup premised on high quality and good taste."

Our main urban large-scale stores with more than 50,000 square meters of floor space can offer a wide variety of merchandise, prices, directions and tastes, which is greatly instrumental in differentiating themselves from other downtown retail channels and sharpening their competitive edge.

To take pricing as an example, we should change the weight applied to each price range in a balanced manner to meet changing customer needs based on the wide breadth from the low price range "of department stores" to the high price range.

One of the current strong customer needs is to increase the assortment of valuable items in the low to middle price range "of department stores" and it is urgent to meet such needs. When circumstances change and the needs for high quality/high-priced goods grow, however, we will offer more brands and items in the high price range quickly to respond to these changes. Such ability to accommodate changes is a strength of "*shoka shiire* taking no inventory risk."

Daimaru and Matsuzakaya merged in March 2010 to form



Daimaru Matsuzakaya Department Stores and almost completed preparations for the organization and business operation systems to establish the new department store model.

This reform seems to take a lot of trial and error and time because it has no precedent and will be implemented on a large scale that will drastically change department store operation systems. However, we will carry it out by putting speed first.

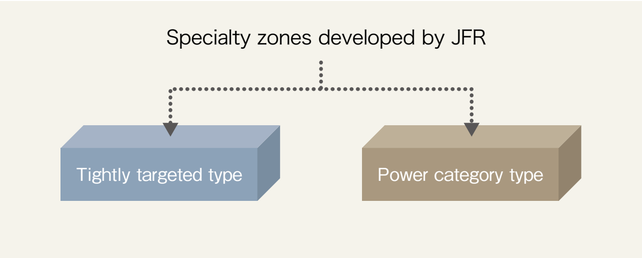
Q What are the key elements to create stores that "entice customers to visit"?

A In order to create attractive stores that entice customers to visit, we need to differentiate ourselves from the peer group and other retail channels and build "specialty" floors and zones that customers feel at first glance "are their shopping places."

By selecting and offering brands, shops and products based on concept and theme tailored to the values and lifestyles of each target customer segment, we will accelerate our efforts to aggressively develop "specialty zones" that create "special added value" and brand them.

Among various types of specialty zones, JFR will develop mainly two types for the time being.

One is a "tightly targeted type" that seeks specialty in



lifestyles. "Ufufu Girls" and "Golf World" in the north wing of Shinsaibashi store are included in this type. The other is a "power category type" that narrows down items and its appeal is an overwhelming ability to assort items. A good example is Nordstrom's women's shoes floors.

The competitiveness and favorable image of stores are generated by placing many zones that have such specialty and strategically branding them.

Q How do you develop these "specialty zones" in your department stores?

A In November 2009, we opened the north wing of Shinsaibashi store. Particularly we feel that the success of "Ufufu Girls" on its young fashion floors, which is positioned as the specialty zone of our new department store model and targeted at the anticipated young and around 30-year-old women, has a great effect.

Its success seems attributable to clarified target, stylish café and a variety of events as well as fashionable clothing and accessories that are popular among young women, and new tools for communication with customers including a blog site operated by dedicated bloggers, email and free information paper, which department stores did not use in the past.

"Ufufu Girls" has risen in both awareness and popularity among young women and its branding is getting successful in such a short period.

The opening of the north wing generates synergy effects such as increase in the number of customers visiting the existing main building and more young women shopping in cosmetics, sweets and prepared food departments as well.


"Ufufu Girls" in the north wing of Daimaru Shinsaibashi store

With reference to the purchases by identifiable customers in the whole Shinsaibashi store for the period from November 2009, when the north wing opened, to the last day of February 2010, the actual figures by young persons (aged 18 to 24) doubled to 118% from a year earlier and the ones by around 30-year-old persons (aged 25 to 34) increased by 27%. The same figures by persons aged around 40, around 50 and around 60 also grew by 16%, 19% and 10% respectively.

In Kyoto store, which completed its first phase of refurbishment on April 22, 2010, specialty zones including Kyoto store version of "Ufufu Girls" taking account of its geographical characteristics, women's shoes and accessories and food sections were opened and have gained popularity among customers.

We will accelerate our efforts to open retail space and zones well suited to our new department store model in Umeda store, which will increase its floor space next spring, and other stores including Kobe and Nagoya stores.


"Ufufu Girls" on the 1st and 2nd floors of Daimaru Kyoto store

Q It is important how you will retain new customers who shop in specialty zones and feel that "they are their shopping places."

A A customer loyalty strategy for identifiable customers holding our company-branded cards provides a very effective tool to retain customers who visit specialty zones, which are the important strategic retail space of our new department store model, and make them repeaters as well as ensure steady sales.

For fiscal 2009, Daimaru and Matsuzakaya posted year-on-year sales declines of 6.6% and 10.1% respectively on an unconsolidated basis. Concerning sales to identifiable customers including mostly cardholders and bridal circle members, however, they did well with Daimaru showing a drop of 4.3% and Matsuzakaya reporting a growth of 1.1%.

The percentages of sales to identifiable customers to total sales to individual customers of Daimaru and Matsuzakaya were 71%, up 1.6 percentage points from the previous year, and 59.3%, as many as six percentage points higher than the previous year, respectively.

Particularly the percentage of Matsuzakaya's M Card sales to total sales to individual customers was only 3.5% partly because it has been issued just recently, though the sales amount expanded by six times from the previous year to ¥7.4 billion. Thus it leaves much room for growth compared to Daimaru's D Card sales of ¥86 billion and its percentage to total sales to individual customers of 21.2%.

Since specialty zones have a higher number and percentage of customers who feel that they are "their favorite shopping places" compared to other floors due to their clear concept and large scale, they have conditions to easily acquire and retain new cardholders.

As "Ufufu Girls" floors of Shinsaibashi store have more and more new customers who cannot be identified, at the end of February 2010, we began to issue "Ufufu Girls Card" and encourage shoppers to register their email addresses. As a result, we accepted 6,800 applications for the card and 5,400 for email registration by the end of May.

We will be fully committed to finding and increasing our cardholders and email members in keeping with the development of specialty zones to be opened in our stores in an effort to identify and retain new customers.

Q What is the progress on your operational reform, which is considered as another important task of department stores together with the improvement of market response capabilities?

A Another important task of our new department store model is a switch to "low cost operation structure." With the new model, retail floor operation is divided into two types including "shop operation" and "independent operation" and we are working on establishing an operation system, planning staff distribution and training personnel to suit their respective characteristics.

Especially, the new model enables the operation of department stores with a small number of employees. This March, it became possible to operate the 40,000-square-meter north wing of Shinsaibashi store with 75 employees and about 50 outsourced workers including cashiers and telephone operators owing to the overwhelmingly large number of shop operation type sections and support in back-office functions from the existing staff of the main building and the south wing.

With the sophistication and establishment of our new department store model as well as the merger of department store chains into one company, the number of personnel required to operate department stores will drastically decrease.

As of March 2010, JFR and Daimaru Matsuzakaya Department Stores have about 7,500 employees in total including regular and contract ones. At the end of February 2011, the number of these personnel will be reduced to 6,000 persons through attrition, including retirement, and transfer to JFR Group and other companies.

We will focus on developing and using human resources required by the new model on the basic premise that we will protect jobs.

Dividing retail floor operation into "shop operation" and "independent operation"

	Shop operation	Independent operation
Sales share	80%	20%
JFR's major roles in retail floor operation	Management of sales and retail floors, changes of floor composition, introduction and scrapping and building in units of brands and shops	Plan and management of merchandising at item/SKU level

Q Macro indicators show a sign of improvement and what is the financial outlook for fiscal 2010?

A For fiscal 2010, JFR aims to achieve consolidated operating income of ¥19 billion, which is the first increase in three fiscal years. As for segment operating income, we expect ¥13 billion for department store business, ¥1.4 billion for supermarket business, ¥2.5 billion for wholesale business and ¥3.3 billion for other businesses, all of which are projected to increase above the previous year's level.

While big-ticket items including jewelry, timepieces and art works begin to move in department stores, shoppers are still severely price-conscious. Polarization in consumption may continue for a while. With these in mind, we need to develop merchandising and sales policies carefully.

We will invest ¥26.5 billion mainly in the realization of our new department store model including Kyoto store's first phase of remodeling and Umeda store that will increase its floor space by 1.6 times in 2011.

Rendering of Daimaru Umeda store after increasing its floor space in spring 2011

Q What do you think about profit distribution to shareholders?

A Our basic policy is to divide up profits appropriately with a dividend payout ratio of 30% in consideration of its profit level, future capital investment and cash flow trends while maintaining and improving sound financial position. We also consider stock buyback from time to time to improve capital efficiency and implement capital policies in a flexible manner.

For fiscal 2009, in light of the increase in net income achieved for the first time in two fiscal years and other income items that exceeded the announced figures, we have revised our dividend upward from ¥6 in the original forecast to ¥7. This represents a consolidated dividend payout ratio of 45.3%.

For fiscal 2010, in view of our future performance and capital investment, we will pay an annual dividend of ¥7 per share comprising an interim dividend of ¥3.50 at the end of the second quarter and a term-end dividend of ¥3.50. The dividend payout ratio is expected to be 40.2%.

Realization of New Department Store Model

The north wing of Daimaru Shinsaibashi store

Started "Department Store Renewal" Program

Building of specialty zones

J. Front Retailing is working on developing a new department store model to realize stronger market response capabilities and a structural switch to low-cost operation.

The new department store model is described in short as a "department store renewal program to create attractive and profitable stores that entice customers to visit." One of its core components is the establishment of "specialty zones." It is important to develop such zones that customers feel at first glance are "their shopping places" on the basis of a store strategy based on a regional market research and considering the values and lifestyles of target customers and the regional competitive environment.

Among various types of specialty zones, JFR will develop mainly two types, including a "tightly targeted type" that seeks specialty in lifestyles and a "power category type" that narrows down items, for the time being. By placing many zones having such specialty in stores, we will generate their competitiveness and favorable image.

A typical example of specialty zone is "Ufufu Girls," which opened in the north wing of Daimaru Shinsaibashi store in November 2009. Its target is narrowed down to young and around 30-year-old women. We placed stylish café and adopted new communication tools including a blog site and free information paper, as well as assorted fashion items and accessories of the brands that department stores had not dealt in before. Its new space and values and floor name created toward a clear target have rapidly pervaded and we succeeded in branding "Ufufu Girls." Daimaru Kyoto store, which completed its first phase of refurbishment on April 22, 2010, already uses the achievements of "Ufufu Girls" and operates other specialty zones including women's shoes and women's accessories zones. JFR will gradually expand these efforts to other stores.

Ufufu Girls, Daimaru Kyoto store

Out-of-the-box store planning

Amid the building of the new department store model, the approach adopted in Matsuzakaya Ginza store is attracting attention in terms of out-of-the-box store planning. With the redevelopment project of Ginza 6-chome district a few years away, the store is trying to expand its customer base and improve its response capabilities to customer needs as much as possible, based on a market research. Specifically, Forever 21 (the second shop in Japan with about 3,070-square-meter space) opened on the first to fifth floors on April 29. As it is expected to draw a wide range of new customers, the store is increasing the products for young people of which assortment was poor, reviewing price ranges and encouraging them to shop on other floors.


Matsuzakaya Ginza store

Structural switch to low-cost operation

Dividing its retail floor operation into two types including "shop operation" and "independent operation," JFR is working on establishing an operation system, planning staff distribution and training personnel to suit their respective characteristics.

In "independent operation type sections," the planning and management of merchandising are centralized in the headquarters, while stores are dedicated solely to sales and services. It mainly covers independently selected items offered in non-partitioned open space, including mostly men's and women's accessories, and private brands. Owing to its importance in growth strategy toward the future, JFR is working on enhancing the development of this type from a long-term perspective.

In "shop operation type sections," suppliers lead merchandising, mainly including product selection, and selling, while our employees in charge of sales floors concentrate on the management of sales figures and other floor operations, sales and service training, promotional activities and the replacement and introduction of brands and shops. In order to improve sales and customer services, they will increase counseling including floor managers' support for shop managers. Whereas the headquarters staff will support stores in strengthening their competitiveness by widely collecting and analyzing market information, providing information to stores, finding new brands and shops and negotiating business terms with suppliers.

These "changes in retail floor operation" will enable business operation with a small number of employees and the switch to low-cost operation resulted from productivity growth will make great progress. These efforts will lead to a reduction in the total number of employees of J. Front Retailing and Daimaru Matsuzakaya Department Stores from 7,500 persons (in March 2010) to 6,000 (at the end of February 2011).

Bigger and Newer Stores

Rendering of Daimaru Umeda store after increasing its floor space (spring 2011)

Multiple Big Projects —
Enhancing Regional Competitiveness of Stores by Expanding Their Bases for Growth

Daimaru Shinsaibashi store

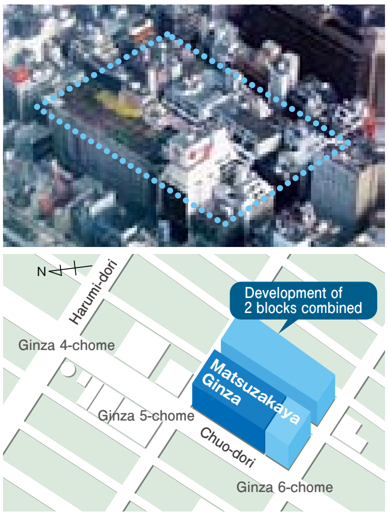
J. Front Retailing is increasing the size of and innovatively renewing department stores in large cities to enhance their appeal and further strengthen their business infrastructure.

In November 2009, Daimaru Shinsaibashi store opened the north wing (40,000 square meters) as a launching pad for the new department store model and was reborn as a large-scale store with the total floor space of 78,000 square meters combined with the existing main building and south wing. The store increased its lineup of brands to include the ones that department stores had not carried before, while creating lifestyle-themed sections and the sections with a stronger focus on service consumption as well as product consumption in an effort to expand target customers and the width of product assortment. Above all, specialty floors "Ufufu Girls" enjoy popularity. They were developed targeting women in their 20s and 30s constituting a large percentage of visitors to this area whom the store had failed to attract so that they can feel that "these are their shopping places." Combined operation with the main building and the south wing enabled the north wing to be operated by 75 employees (as of April 2010) and thus we realized lower-cost operation.

Daimaru Umeda store will increase its floor space by 1.6 times to 64,000 square meters in spring 2011. As part of ongoing development project of Osaka station, West Japan Railway Company and Osaka Terminal Building Co., Ltd. will implement that to improve the south gateway of Osaka station, the biggest terminal in western Japan. Osaka Umeda area will increase its potential as a shopping area through the redevelopment project including the district around Osaka station and we believe that the store will be able to substantially improve store competitiveness by increasing its floor space. It was a specialty department store focusing on fashion. However, by increasing its range of food and household products while keeping its sensitivity and atmosphere, we will create a "fashionable and contemporary comprehensive department store" making lifestyle proposals in a comprehensive manner. And then we will add "high sensitivity" of urban stores and "dailiness" to provide convenience to working women and businessmen. The investment amount will be ¥30 billion.

Daimaru Tokyo store completed the first phase of relocation and expansion and opened as a new store under the store concept of "TOKYO/ADULT/LIFESTYLE Department Store" in November 2007. In the first phase,

Rendering of Daimaru Tokyo store after increasing its floor space (summer 2012)



Planned redevelopment site of Matsuzakaya Ginza store

while further improving and enhancing already strong food departments, the store expanded the cosmetics floor into Tokyo's largest scale and the restaurant floor into two floors with a restaurant open until 24:00 and gains popularity with women and men working around Tokyo station. In summer 2012, it will complete the second phase of construction and fully open with the floor space increased by 1.4 times to 46,000 square meters. Positioned as part of the "Tokyo Station City" plan, which sees Tokyo station including Yaesu, Nihonbashi and Marunouchi exits and JR station yard as a big city, it is meant to be an innovative store that is worthy of the gateway to the metropolis. The total amount of investment in the first and second phases is planned to be ¥18 billion.

In the meantime, Matsuzakaya Ginza store is working on a large-scale project to develop the combined two blocks of Ginza 6-chome district where it is located. The total redevelopment area is about 9,000 square meters, of which about 65% is owned by Matsuzakaya. By bringing together the department store operation know-how of J. Front Retailing Group, we aim to create high-grade, innovative and highly fashionable commercial facilities that are worthy of the world-class commercial location Ginza.

Shop Development around Department Stores

From “Dots” to “Areas” —
Area Revitalization to Increase Appeal Synergistically

From “dots” to “areas” — J. Front Retailing operates highly sensitive shops around its department stores to revitalize the whole area, as well as making the stores themselves attractive.

Daimaru Kobe store initiated these efforts in 1988. At that time, Motomachi, where Daimaru Kobe store is located, was relatively losing vitality because the center of transportation and business of Kobe area was shifted to Sannomiya. It was urgent to create the appeal of the store to attract people. The development began with Daimaru's own buildings, but they were not enough to revitalize the area. Therefore, Daimaru actively invited brand shops to open their branches in other buildings in the Former Foreign Settlement of Kobe to draw more customers throughout the area. Now we operate 68 various unique brands and shops (as of June 2010) using the familiar but new appearance of historical modern western-style architecture including “Former Foreign Settlement Bldg. 38” and “Shosen Mitsui Building (Le Style),” which bring new life to the history of the city.

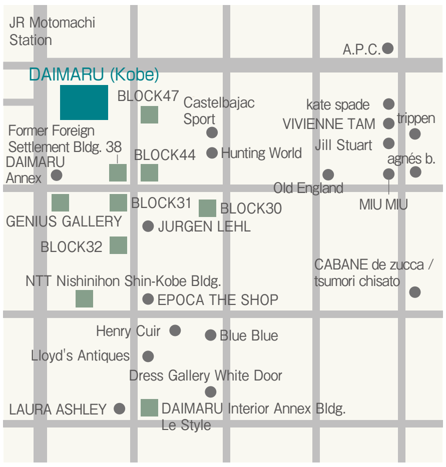
Such know-how is also applied to other stores.

Daimaru Shinsaibashi store has been working with Shinsaibashi Shopping Arcade to create the prosperity of the area. However, amid changes in the environment surrounding the stores nearby and generational changes of their landlords beginning around 2003, some old stores have chosen to withdraw from the business. With a sense of crisis that the shopping area will damage the fashionable image of Shinsaibashi rather than losing vigor if the situation is left as it is, Daimaru Shinsaibashi store launched the development of shops around itself by adopting the method of Kobe store. Bold shop design and environment are possible in a stand-alone shop, whereas they are subject to certain restraints within a department store. And it attracted high-profile shops one after another and now operates 25 brands and shops (as of June 2010).

For the purpose of revitalizing Shijo Karasuma area as much as Shijo Kawaramachi, a high commercial accumulation district, Daimaru Kyoto store has also developed shops around itself starting with Louis Vuitton Store, which opened as the first shop in 2004, and now operates 12 brands and shops (as of June 2010) to enhance the appeal of the whole area.

In line with the move to develop the area around itself, Matsuzakaya Ueno store invited a large-scale sports shop to open (in March 2010) on the first floor of the multilevel parking facility completed in 2009 to attract new customers with a wider offering.

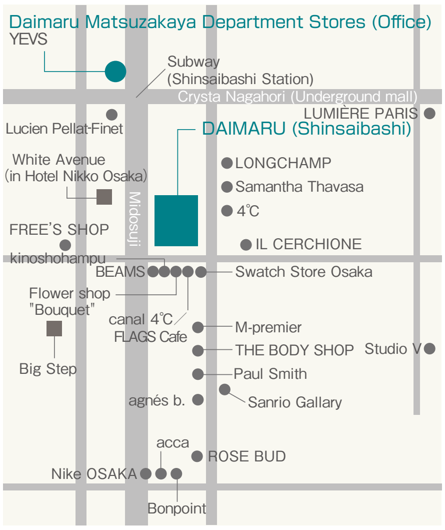
【Stores operated by Daimaru Kobe store】



Buildings occupied by several brand shops

GENIUS GALLERY

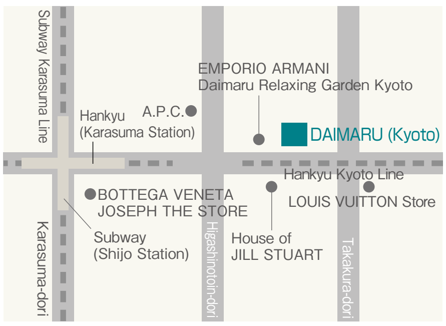
【Stores operated by Daimaru Shinsaibashi store】



Nike

FREE'S SHOP

【Stores operated by Daimaru Kyoto store】



EMPORIO ARMANI

LOUIS VUITTON Store

Customer Loyalty Strategy

Knowing More about Customers —
Expansion of Customer Base and Improvement of CRM Activities

Sales support through scientific approach

Scientific support of "relations with customers" — A customer loyalty strategy for about four million identifiable customers holding our company-branded cards provides a very effective tool to retain customers who visit specialty zones, which are the important strategic retail space of our new department store model, and make them repeaters as well as ensure steady sales. The customer information system of J. Front Retailing (J-CIS) consolidates information on customers holding our company-branded cards in units of household, individual and account and enables us to totally analyze and know individual buying status. This system is linked with MD information system, and based on information obtained through sales activities, we promote the strengthening of relations between customers and salespersons as well as are quickly aware of and analyze the characteristics and changes of customers and reflect them in store planning. For fiscal 2009, Daimaru and Matsuzakaya posted year-on-year sales declines of 6.6% and 10.1% respectively on an unconsolidated basis. Concerning sales to identifiable customers including mostly cardholders, however, they did well with Daimaru showing a drop of 4.3% and Matsuzakaya reporting a growth of 1.1% over the previous year, which means that we have achieved certain results by promoting CRM activities. While the percentage of sales to identifiable customers to total sales to individuals of Daimaru was 71%, up 1.6 percentage points from the previous year, the same of Matsuzakaya was 59.3%, as many as six percentage points higher than the previous year. The company leaves much room for growth compared to the percentage of Daimaru and will continue to reinforce its efforts to attract new cardholders.

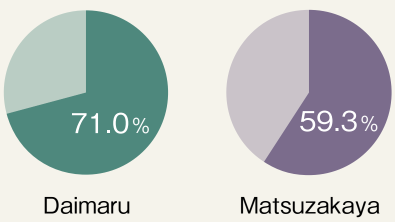
Increase of the use of mobile tools

Mobile phone users have reached 75 million throughout Japan and mobile phones have grown into a main tool to gather information regardless of age. J. Front Retailing is expanding its mobile membership "MY Mail Members," which has increased to about 200 thousand members. We deliver to the mobile phones of MY Mail Members information including members-only additional point offerings and schedules of various events to encourage them to visit our stores. In addition, Daimaru and Matsuzakaya department stores implement a new innovative service "MMS MAIL." MY Mail Members receive valuable store information on their mobile phones within five minutes after they visit the stores and insert their cards in welcome-point-giving machines (MMS: Multimedia Station). This service is a promotional tool that stimulates customers' buying motivation, increases the frequency of their visit, promotes buying on several floors and ensures an increase in sales per customer because we can provide information suiting the tastes of customers visiting our stores in a speedy and timely manner based on card customer information of MY Mail Members (age, gender, buying history and so on). In fiscal 2010, we began to seek applications for "Moba-Mate Members" whose membership non-cardholders can receive by registering only their email addresses and deliver them weekly email magazines containing bargain information of Daimaru and Matsuzakaya stores to encourage them to hold our cards.

Collaboration with specialty zones

The "specialty zones," which we are developing under our new department store model, have the conditions to obtain customer loyalty more easily than other retail sections due to their clear concept and large scale. The "Ufufu Girls" floors of the north wing of Daimaru Shinsaibashi store issued "Ufufu Girls Card" in March 2010. The card is growing into an effective tool to attract and retain their target customers who are young women in their 20s and aged around 30 by delivering information on members-only events and others. JFR will enhance such efforts in line with the development of specialty zones to expand its customer base.

Ratio of sales to identifiable customers to total sales to individuals
(Actual figures for fiscal 2009)



Purposes of acquiring email members

Objectives	Measures
Expansion of mobile membership	①Acquiring MY Mail Members··· Acquiring email addresses of identifiable customers ②Acquiring Moba-Mate Members··· Sign-up with only email addresses
Multilayered use of email delivery	①Shift from PC emails to mobile emails ②Delivery of weekly email magazines ③Delivery of CRM mails through J-CIS ④Delivery of MMS mails when customers visit stores
Enhancement of MMS mails	①Information on additional point offerings ②Timely bargain information at the time of visit to stores ③Delivery of information suiting customers' tastes based on card customer information

▶ Increasing the number of customers and sales per customer

Independent Operation/ Original Merchandise and Services

SOFUOL

SOFUOL stands for Sophisticated Full-length Office Lady. Targeting working women mainly in their 20s and 30s, the brand offers likable and sophisticated styling to cater to their business, commuting and weekend fashion needs.

Available at: Shinsaibashi, Umeda, Tokyo, Kyoto, Kobe, Sapporo, Suma, Nagoya and Ueno stores and Hakata Daimaru, Shimonoseki Daimaru and Kochi Daimaru

Responding Quickly to Changing Customer Needs and Seeking Originality

The role of independently operated retail sections of which sales account for about 20% of total department store sales is differentiation and characterization through the quick change of product selections and displays in response to market needs changing day by day and the offering of merchandise that is not included in the assortment of shops.

Such non-partitioned open space is scalable to customer needs, and there, we can change merchandise mix and sell goods across shop boundaries. Making the best use of these strong points, we will respond to changes flexibly and differentiate ourselves overwhelmingly from competing department stores by using our unique merchandise offerings and sales and service capabilities as a weapon.

In these sections, "central operation" is implemented. The planning and management of merchandising are centralized in the headquarters, while stores are dedicated solely to sales and services.

Independently edited sections

Buyers plan merchandise mix and offering based on market changes, while Daimaru Matsuzakaya Department Stores controls the assortment based on store information to offer the right item in the right quantity at the right time and right price (offer what customers want in the quantity they want and at the price they want when they want it). We will respond quickly to market changes at item and SKU level and complement the missing products, which is impossible for shop operation type sections alone.

A typical example is a women's shoes department. During fiscal 2009, we introduced "highly sensitive and low-priced" merchandise fast to respond to changes in customers' values on prices and the missing entry markets. As a result, the sales share of low-priced pumps reached 15% and we could attract many new customers in their 20s and 30s. We need to meet ever-changing market needs and review the balance of low price range every period. It is the strength of these sections to be able to do this.

In addition, "Season Message" offering women's wear and accessories to women in their 50s, "Parts on Parts" offering women's wear and accessories mainly including denim items to young adults, women's accessories departments offering seasonal items including hats and scarves and men's accessories departments are also positioned as independently edited sections.

Private brand (PB)

Concerning private brands (PB), we are involved in the whole SCM (supply chain management) process from the stage of product planning. Basically, they are priced at 20% off the prices of national brands (NB). Lately, however, we expand our focus to a low price range of 50% off national brand prices to satisfy customers who are becoming more price-conscious.

After management integration, men's wear "Trojan" and women's wear "Sofuol," both of which had been Daimaru's private brands, were introduced to Matsuzakaya Nagoya and Ueno stores to expand the PB offering of JFR Group. We will leverage our PBs in terms of: (1) characterization and differentiation from other companies, (2) the increase of profitability, and (3) human resource development. We will review logistics, information systems, sales promotion, sales floor environment, sales activities and inventory control as well as product development in a comprehensive manner and accelerate our efforts to restructure the supply chain.

Collaboration

Daimaru Matsuzakaya Department Stores and World Co., Ltd., an apparel company achieving good results in SPA brand strategy, established a new business model and collaborate to offer a women's wear brand "Esche." Forming a virtual joint business unit as business partners, instead of the traditional supplier-buyer relationships, Daimaru Matsuzakaya Department Stores and World share information and clarify the distribution of profits to collaborate using the core competence of each company, that is, Daimaru Matsuzakaya Department Stores' ability to operate stores and World's ability to develop and supply merchandise, instead of the conventional way of developing PB apparel products through OEM. In the business process from product planning to selling out, the two companies are working together to ensure PDCA (plan-do-check-action) cycle and respond quickly and accurately to customer needs and wants. Targeting plugged-in and trend-conscious youthful women in their 40s, we offer good quality, elegant and reasonable "outing and work clothes" following moderately trends.

TROJAN

Daimaru created this brand as pioneering men's ready-made garments in Japan in 1959. Sensible businessmen continue to favor it as "battle dress adapting to the times" for its refined urbane image. Putting comfort first, the brand offers safe and reliable absolute quality with excellent materials and tailoring at acceptable prices.

Available at: Shinsaibashi, Umeda, Tokyo, Kyoto, Kobe, Sapporo, Suma, Nagoya and Ueno stores and Hakata Daimaru, Kochi Daimaru, Shimonoseki Daimaru and Tottori Daimaru

esche

This is a total coordinate brand for youthful trend-conscious women in their 40s featuring high quality, refinement and reasonable prices. It offers simple and basic elegance-oriented street clothes following moderately trends.

Esche is available at: Shinsaibashi, Umeda, Tokyo, Kyoto, Kobe, Sapporo, Suma, Nagoya, Ueno and Shizuoka stores and Hakata Daimaru, Kochi Daimaru, Shimonoseki Daimaru and Tottori Daimaru

Esche L is available at: Umeda, Tokyo, Kyoto and Sapporo stores


お客さまの声を、美しいカタチに。
CUSTOMER'S VIEW
CUSTOMER'S VIEW

Customer's View Project—Forming the Voices of Customers into Beautiful Shapes

As part of the efforts to implement the "customer-first principle," J. Front Retailing carries on a company-wide "Customer's View project" to enhance services, store environment and the selection of products by attending to the voices of customers reaching into the tens of thousands every year.

In addition to the existing "Hospitality Memo" and "Opinion Box" placed in stores to actively collect various views and needs from customers, we began to conduct "online and mobile phone questionnaires" targeting identifiable customers to enrich the Customer's View project by analyzing their demands by age and their opinions by store and improving services and product lineup based on these analyses.

Reinforcing systems to listen to the voices of customers

The "Hospitality Memo" is a system to listen with a lot of attention to the voices of customers in stores. Salespersons having contact with customers write in the Memo the requests and opinions given by customers during conversations with them and submit it. A considerable number of requests and opinions are collected every day. We make assumptions (who wants what) from information collected through the Hospitality Memo and the Opinion Box and verify them through online questionnaires as needed. The quantitative results of analyses obtained from online questionnaires are reflected in new services, product lineup and floor planning.

The system to listen to the voices of customers has a cycle: determining a target→listening to the voices of customers→making plans based on the voices→verifying assumptions through questionnaires→carrying them out in stores→getting feedback on them including after-sales service.

Services

Basically, Customer's View services are high quality ones fitting with the regional strategy of each store

Multiple fitting room on the 4th floor of Daimaru Kobe store

Since various lighting conditions are simulated, a customer can see how different the clothing colors look throughout the body.

Handrails and other equipments are installed.

and offered to major customers and strategic target while being differentiated and advantageous in the area. The "multiple fitting room with light simulation" on the women's wear floor of Daimaru Kobe store was born out of customers' desires to see how they would look outdoors in the garments they try on. It simulates various lighting conditions including in a building and a park so that a customer can see how different the clothing colors look throughout the body. And it has enough space for wheelchair users and mothers with daughters.

Recently, as many as 13 shoe fitters serve the women's shoes department of Daimaru Kyoto store, which completed its refurbishment on April 22. The department is trying to solve customers' troubles on shoes through enhanced and highly-professional services and achieve No. 1 customer satisfaction among the women's shoes departments of the area.

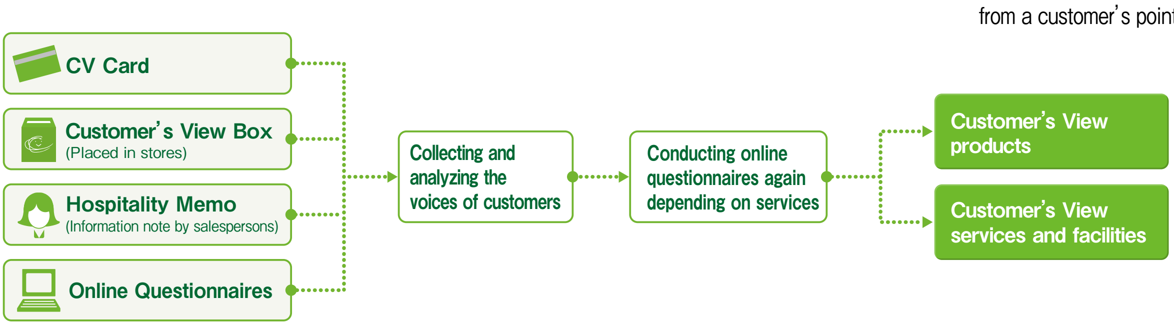
Product lineup

The products developed based on the voices of customers and gaining popularity include "washable cashmere," "pattern order boots" and "stain-resistant neckties." They were developed as our original merchandise by inferring potential demands from the customers' voices we had received before.

We will continue to analyze the voices of customers, make assumptions and develop products by entering into the lives of target customers.

Under our unique Customer's View project, new products and services are born from the voices of customers and then they are improved and evolved.

We will continue to develop floors and services from a customer's point of view.



Matsuzakaya Museum, Matsuzakaya Nagoya store

Creating Spiritually Enriching Space

Museum

J. Front Retailing has museums and multipurpose halls in its major department stores and holds topical exhibitions and various events to provide easier access to the excellent works of popular artists in Japan and abroad. We offer spiritually affluent lifestyles to visitors and make a cultural contribution to local communities through paintings and a wide variety of other fascinating works of art including photos, designs and picture book illustrations.


"Triptych of Flowers and Rising Sun" Edo era by Sakai Hoitsu from the Gitter Collection, New Orleans

■ Major cultural events held during fiscal 2009

Kataoka Tamako Memorial Exhibition (Matsuzakaya Museum)
Juan Miro: Parade of Obsessions (Daimaru Tokyo and Kobe)
Moomin (Daimaru Shinsaibashi, Tokyo and Sapporo)
M. C. Escher: Invitation to the Labyrinth (Matsuzakaya Museum)
Léonard Fujita (Matsuzakaya Museum and Daimaru Kobe)
Nakahara Junichi (Daimaru Kobe)
The History and Various Treasures of Higashi Honganji (Matsuzakaya Museum)
Nodame Cantabile World (Daimaru Kobe)

■ Schedule for fiscal 2010

Layout of Studio Ghibli (Matsuzakaya Museum)
Go Go Miffy: 55 Years with Miffy
(Daimaru Sapporo and Kobe and Matsuzakaya Museum)
Akatsuka Fujio Memorial Exhibition
(Matsuzakaya Hall of Matsuzakaya Nagoya)
Ten Years After, Migishi Setsuko (Matsuzakaya Museum)
Iwago Mistuaki Photo Exhibition: Cats (Matsuzakaya Nagoya)
Great Insect Exhibition (Matsuzakaya Hall of Matsuzakaya Nagoya)
Jimmy Onishi Exhibition Celebrating the Release of His Art Book: Pieces of Dreams
(Daimaru Shinsaibashi)
Return of Japanese Edo Paintings
Gitter Collection, New Orleans (Matsuzakaya Museum)
Munakata Shiko (Daimaru Kyoto)
Art Nouveau Poster Art (Matsuzakaya Museum)
Domoto Insho Exhibition Celebrating the 120th Anniversary of His Birth
(Matsuzakaya Museum)

Kimono collection

Matsuzakaya opened Kimono Museum in Kyoto in 1931 to help create its original kimono. Since then, it has collected dyed textile products from Japan and other countries across the world for 80 years. It has about 10,000 items mainly including *kosode* (small-sleeved kimono) of the Edo era such as Keicho *kosode* allegedly worn by Yodo-dono, a concubine of Toyotomi Hideyoshi, which is comparable to an important cultural property.

In August 2010, Matsuzakaya will move this collection to Nagoya store to manage and store it in Matsuzakaya Archive and will show some kimono to the public in the permanent exhibition space of Matsuzakaya Museum on the 7th floor of the south wing from time to time to create opportunities to expose many people to the essence of Japanese dyed textile works of art.

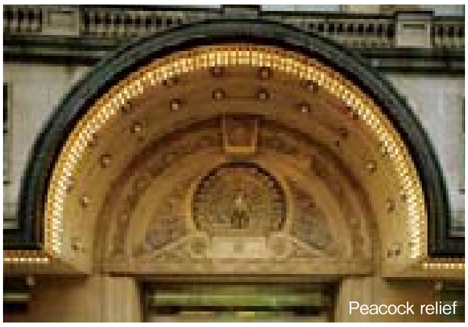

Keicho *kosode* allegedly worn by Yodo-dono

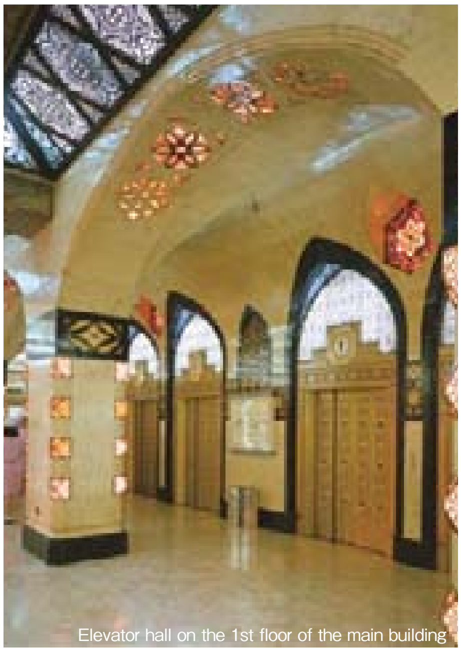
Architectural beauty of W. M. Vories

It was in 1914 that Daimaru kimono fabric store, which was founded in 1717, opened a Western style store with display windows in the present location of Shinsaibashi store. A few years later, in October 1918, a unique Gothic style four-story timber-frame and brick department store was born, which was rare even in Osaka. It was the first building that W. M. Vories (1880-1964) designed for Daimaru. Regrettably, however, it was burned down only one year and four months later. The current building of Shinsaibashi store was constructed in four phases according to a plan. In the first phase of construction, the southern half facing the arcade street of Shinsaibashisuji was completed in 1922, and in the second phase, the northern part facing the same street was completed in 1925. And then the third and fourth phases of additional construction of the part facing Midosuji street were completed in 1932 and the following 1933 respectively. This is how a Neo-Gothic style department store with seven stories above ground came into existence.

The middle layer of the building is covered with grave scratched tiles. It is between the granite exterior wall of the first floor and the outer wall of the top floor elaborately designed with terra cotta. Once you step into the store through the entrance with a relief of a peacock, which is a symbol of Daimaru, you will find gorgeous details one after another, including fresco paintings on the ceiling and a stained glass clock on the upper wall of the central elevator hall. All of them, including geometric patterns, abstract flowers and trees and snow and mineral crystals, from the world of Art Deco unified in one tone.

Department stores should have different characteristics from region to region. Here is one of the approaches of Shinsaibashi store to offer customers special time and space as well as products and services.


Peacock relief

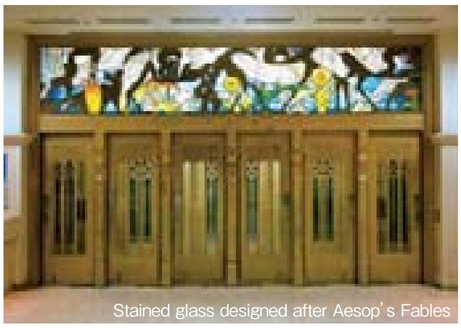

Elevator hall on the 1st floor of the main building


Mezzanine of the main building


Relief ceiling


Fresco ceiling


Ceiling of light and colors


Stained glass designed after Aesop's Fables


Stained glass clock


Daimaru Shinsaibashi store

Human Resource Development

Developing Independent Professionals Who Can Adapt to Changes

With the belief that people grow by getting their jobs done and continuing these efforts to build their career, J. Front Retailing (JFR) develops human resources based on the following four pillars.

1. Feedback to enhance self-awareness

JFR has in place systems to provide feedback to each employee including multifaceted observation of behavior traits from the viewpoints of colleagues and milestone interviews to exchange views between the company and individual employees at their milestone ages. In addition, JFR gives 30-, 40- and 50-year-old employees "career development training" to help them become aware of their own careers and make a career building plan.

2. Establishment of learning systems

JFR improves the menu of Career Support College (in-house self-development school) based on the concept of career independence that we should develop our careers on our own, while clarifying the knowledge and skills required for each position and providing trainings to help employees fulfill their roles. The attendance histories of employees are registered in the personnel information system and respected as an indication of their intentions and motivations.

3. Development through jobs and roles

JFR enhances assessment tools to know the abilities and aptitudes of individual employees. Respecting their will and motivation, JFR assigns them to the best positions to demonstrate their abilities. To this end, JFR improves various assessment tools after defining career concept and job requirements and develops people by putting the right person in the right place. JFR also improves the systems to fulfill the intentions of employees, including the online self-application system.

4. Human resource development through organization management

JFR systematically provides the management knowledge required by the Group to enhance the functions of OJT (On-the-Job Training) and steadily carries out RPDC activities in office organization to "give subordinates roles and tasks and follow up their progress and evaluate and feedback their results."

Three-year training program for new employees

JFR positions the first three years after new employees join the company as a period to make them socially acceptable. OJT in stores, group training and feedback are combined to build a foundation of members of society. Their progress of acquiring knowledge and aptitude are shared between companies and individual employees through regular interviews to train them well.

Major activities during fiscal 2009

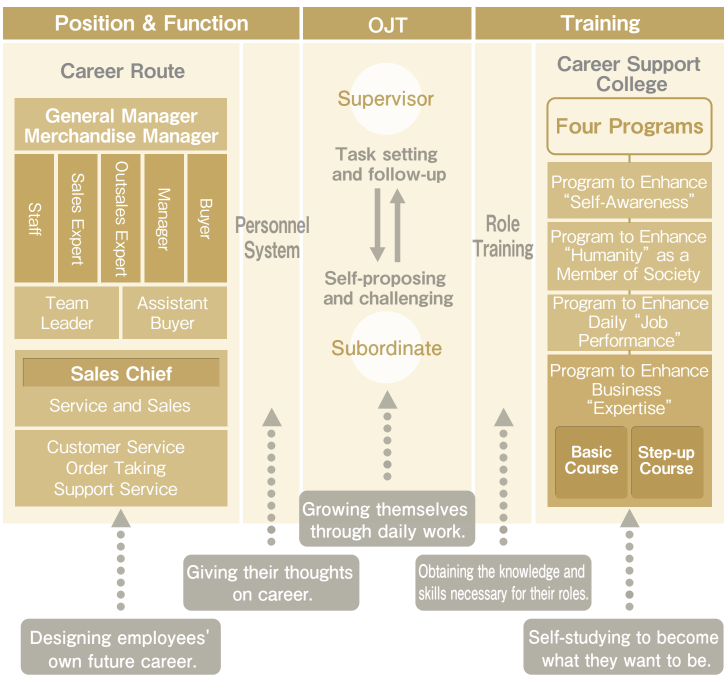
We tackled the "development and enhancement of leaders having both strong leadership and change response capabilities," the "development and enhancement of shop operation managers having both shop counseling capabilities and market response capabilities required for the new department store model and the "improvement of the marketing orientation of all employees."

- Division manager training (joint training of Daimaru and Matsuzakaya), JES*1, JMS*2 and JBS*3 were conducted to develop and enhance leaders having both strong leadership and change response capabilities.
- Shop operation and independent operation training was conducted to develop and enhance shop operation managers having both shop counseling capabilities and market response capabilities required for the new department store model.
- Marketing courses were provided to all employees in addition to the above-mentioned division manager training and shop operation and independent operation training to improve the marketing orientation of all employees.
- JFR improved the curriculum of Career Support College based on the concept of career independence that we should develop our career on our own and about 4,000 persons in annual total from JFR Group attended in-house and outside seminars or took correspondence courses.

JFR will develop human resources who promote "management reforms" represented by the new department store model and increase organizational power that is fundamental to promoting the reforms.

＊1…JFR Executive School (executive training school)
＊2…JFR Management School (division manager training school)
＊3…JFR Basic Management School (manager and buyer training school)

Independent Career Building System



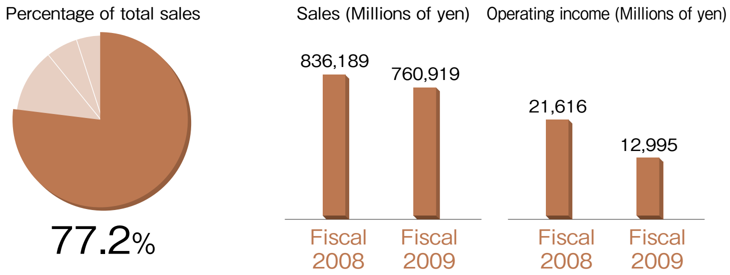
Segment Overview

At a Glance

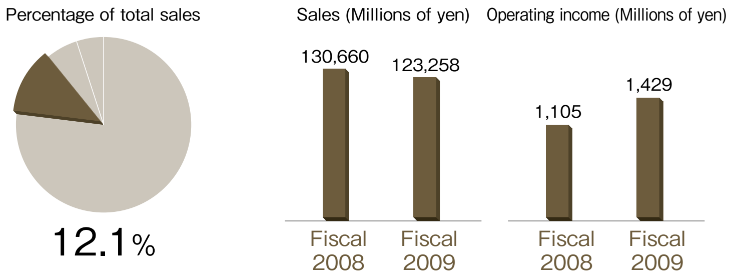
Sales and operating income

- The percentage of total sales represents the ratio of sales to external customers after eliminating intersegment transactions.
- Sales and operating income include intersegment transactions.

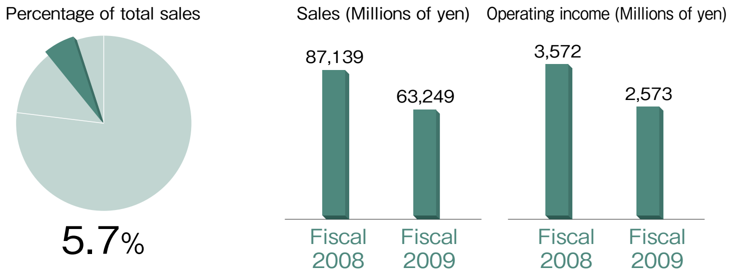
Department store business



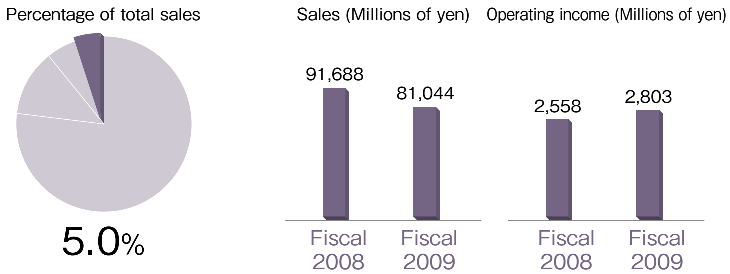
Supermarket business



Wholesale business



Other businesses



Department store business

Overview for fiscal 2009

During fiscal 2009, this segment implemented a variety of measures to minimize sales decline including the active introduction of new brands that department stores had not dealt in before and the expansion of in-store bargain sales and topical events in an effort to respond to the changing values of customers such as tighter purse strings, greater price consciousness and increasing preference for casual attire and expand target customers. It also made company-wide efforts to further reduce costs.

Some Daimaru stores show a positive sign: Shinsaibashi store is beginning to produce results by opening the north wing in November 2009 to establish a new department store model and attracting new young and around 30-year-old customers, Sapporo store has increased income for six consecutive years since its opening in 2003, and Tokyo store posted a sales increase for the single month of February. Affected by worsening floor environment and surrounding environment due to remodeling, however, major stores in the Kansai area including Umeda and Kyoto stores decreased sales. As a result, Daimaru decreased gross profit by ¥10.3 billion (down 8.8%) from the previous year. In reference to costs, though facility and other costs related to the north wing of Shinsaibashi store increased by ¥1.5 billion, selling, general and administrative expenses decreased by ¥5 billion (down 4.7%) from the previous year owing to the efforts to reduce all costs including labor costs and advertising expenses by reviewing retail floor operation. Since gross profit decreased significantly due to sales decline, however, operating income amounted to ¥5.1 billion (down 51.0% from the previous year).

In the meantime, Matsuzakaya tackled management reforms seriously with a view to merging Daimaru into one company, including the standardization of organizations and business operation systems with Daimaru in the second half of 2009. As a result, selling, general and administrative expenses were reduced by ¥5.1 billion (down 8.9%) compared to the previous year due to more efficient management and lower costs. Greatly affected by sluggish sales of its flagship Nagoya store and Corporate Sales Division, however, gross profit decreased by ¥7.4 billion (down 11.5% from the previous year) and operating income amounted to ¥3.5 billion (down 38.7% from the previous year) .

Thus both Daimaru and Matsuzakaya had a difficult time and affiliated department stores including Hakata Daimaru saw revenue and profit fall. Affected by these facts and Yokohama Matsuzakaya and Imabari Daimaru, which closed during the previous fiscal year (Yokohama Matsuzakaya closed on October 26, 2008 and Imabari Daimaru on December 31, 2008.), the whole department store business recorded sales of ¥760.9 billion (down 9.0% from the previous year) and operating income of ¥12.9 billion (down 39.9% from the previous year).

Outlook for fiscal 2010

Daimaru Matsuzakaya Department Stores, which was formed by merging Daimaru and Matsuzakaya on March 1, 2010, expects the full contribution of sales of Shinsaibashi store's north wing, which opened in November 2009, for eight months from March to October and the effect of Kyoto store's first phase of refurbishment mainly of women's wear and women's accessories floors on April 22. Whereas the floor space of Umeda store will reduce by half at the peak of floor closure due to its refurbishment work to substantially increase its floor space in spring 2011 and it will greatly affect sales of Umeda store. Taking into consideration these factors and the negative impact of Okazaki store, which closed in January, and Nagoya Station store, which will close at the end of August 2010, the company projects a slight revenue decline of 0.6%.

In the meantime, since selling, general and administrative expenses will be reduced by only ¥2.9 billion due to the additional expenses of the north wing of Shinsaibashi store for eight months and the additional costs of ¥7.3 billion mostly including facility expenses to be incurred from the refurbishment of Umeda and Kyoto stores and others while labor and other costs will be cut by ¥10.2 billion from the previous year through the reforms of personnel structure and cost structure, which are fundamental to building a new department store model. Accordingly, the company expects operating income of ¥9 billion (up 4.2% from the previous year).

For fiscal 2010, the revenue of department store business including affiliated department stores is projected to decrease by 1.1%, while operating income is expected to remain almost unchanged at ¥13 billion.


Daimaru Shinsaibashi store

Supermarket business

Overview for fiscal 2009

This segment operates 90 stores (as of May 2010) mainly in Tokyo, Kansai and Chubu areas, and with the aim of gaining the patronage of local customers as a food supermarket chain, ensures food security and safety, promotes the development of private brand products, expands new campaigns such as “value prices every day” and improves its product lineup to meet customers’ expectations.

During fiscal 2009, Nikke Colton Plaza store (Ichikawa, Chiba) and Hakuraku Rokkakubashi store (Yokohama, Kanagawa) were newly opened in May and November respectively. Some stores including Granpark Tamachi store (Minato-ku, Tokyo) and Jiyugaoka store (Meguro-ku, Tokyo), which were extensively remodeled, enjoyed good sales. But the whole segment posted sales of ¥123.2 billion (down 5.7% from the previous year) due to store closures and intensifying competition among areas amid a severe consumption environment.

However, reviewing store operations from the standpoint of thoroughly low-cost operation, enhancing human productivity through the centralization of the headquarters functions and greatly reducing selling, general and administrative expenses resulted in operating income of ¥1.4 billion (up 29.3% from the previous year).

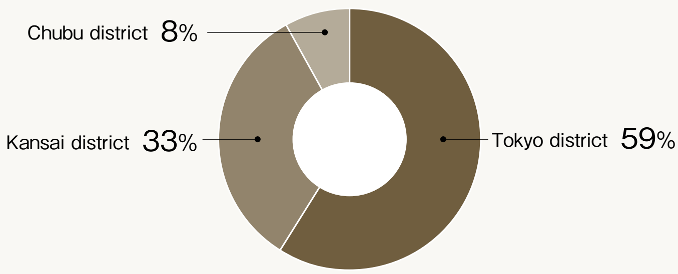
Nikke Colton Plaza store

Private brand “Peacock Choice”

Outlook for fiscal 2010

For fiscal 2010, this segment forecasts a revenue decline due to the new opening of only Nakano store, the closure of unprofitable stores and a harsh competitive climate. Whereas operating income is projected to be ¥1.4 billion (up 0.8% from the previous year) through cost structure reform including the streamlining of operation and thorough cost control.

Sales by district (Fiscal 2009)



■ Store locations (As of May 2010)

Tokyo district (53 stores)

■ Daimaru Peacock
Aoyama
Sodegaura
Takanawa Gyoranzaka
Mejiro
Jiyugaoka
Asagaya
Shimokitazawa
Fujisawa
Misato
Ebisu
Tama
Kunitachi Sakuradori
Yokohamabashi
Kugayama
Takadanobaba
Azabu Juban
Iogi
Kyodo
Shinurayasu
Toritsukasei
Sakurashinmachi
Takanodai
Higashikoganei
Kamiikedai
Bunkyo Green Court
Mita Isarago
Tamagawa Josui
Ishikawadai
Hanakoganei
Kunitachi Bentendori
Fujisawa Treage Shirahata
Sangenchaya no Mori
Tomare Nihonbashi Hamacho
Daikanyama Peacock
Higashi Ikebukuro
Shibaura Island
Daimaru Tokyo Store
Kanda Tsumakoisaka

■ Matsuzakaya Store
Takenotsuka
Ebisu Minami
Takashimadaira
Tokiwadaira
Toyoshiki
Ojima
Katakuracho
Hongodai
Isogo

■ Exe Peacock
Granduo Kamata

■ Peacock Store
Hakuraku Rokkakubashi
Granpark Tamachi
Kami Ikebukuro
Yokodai
Nikke Colton Plaza

※Closed due to rebuilding
Daimaru Peacock Nakano
(Reopen in winter 2010)

Kansai district (29 stores)

■ Daimaru Peacock
Senri Daimaru Plaza
Tsukumodai
Kitasenri
Meimai
Nakamiya
Takakuradai
Matsugaoka
Karibadai
Tsukahara
Hoshida
Senri Minamimachi Plaza
Ashiya Nangu
Koshien
Kotoen
Yamada
Mukonoso
Senriyama
Mino Sakuragaoka
Konan
Ashiya Kawanishi
Kitayamato Mayumi
Takarazuka Nakayama
Mino Gein
Nishi Umeda
Shin Kobe
Shinsenri Nishimachi
Dojima Crosswalk

■ Peacock Store
Korigaoka
Senboku Harumidai

Chubu district (8 stores)

■ Matsuzakaya Store
Motoyama
Tsukimigaoka
Fujigaoka
Hishino
Hongo
Hirabari
Miyoshi
Chiyoda

Wholesale business

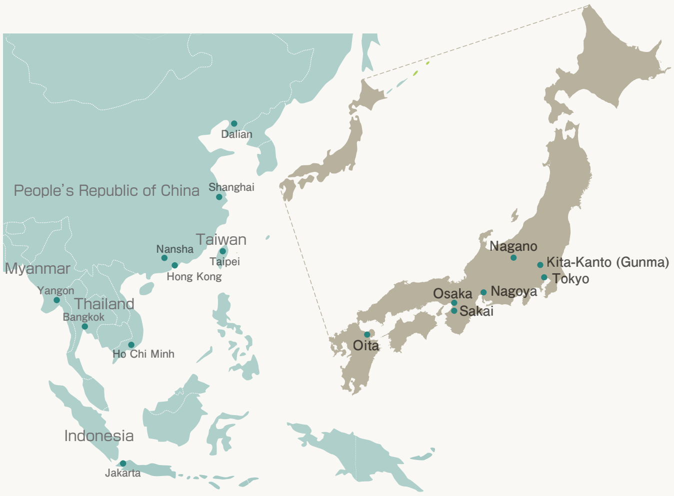
Overview for fiscal 2009

A wholesale company Daimaru Kogyo, Ltd. deals in electronic parts, food products, packaging materials, chemical products, metal and resin products, housing and building materials, textile products and fishing rods. The company has 16 business places in Japan and abroad and provides solutions to customers mainly in the triangular market including Japan, China and ASEAN countries through various services ranging from the procurement of industrial materials and retail merchandise to after-sales care.

For fiscal 2009, though the company developed new merchandise and sales channels to meet changing market needs amid the poor performance of the overall segment including industrial materials such as chemical products and metal and resin products due to worsening business environment, sales amounted to ¥63.2 billion (down 27.4% from the previous year). In spite of the efforts to further rationalize all costs, operating income stood at ¥2.5 billion (down 28.0% from the previous year).

Outlook for fiscal 2010

For fiscal 2010, the company projects operating income of ¥2.5 billion (up 0.3% from the previous year) by strengthening its business through the contribution to the retail solutions of JFR Group, the diversification and the increase of the added value of business in China and the expansion of business in ASEAN countries as well as reorganizing and strengthening each business unit that develops new merchandise and businesses to reduce decline in income while thoroughly controlling costs by cutting labor costs through the improvement of labor composition.



Other businesses

Overview for fiscal 2009

Other businesses mainly include a design and construction business and a credit business.

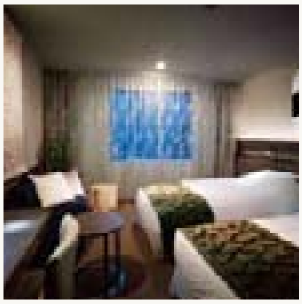
For fiscal 2009, J. Front Design & Construction Co., Ltd., which operates a design and construction business, drastically decreased income due to the reduction of capital investment attributable to corporate performance worsened by recession and a decrease in building construction starts owing to sluggish personal consumption. As a result, sales in this segment amounted to ¥81 billion (down 11.6% from the previous year).

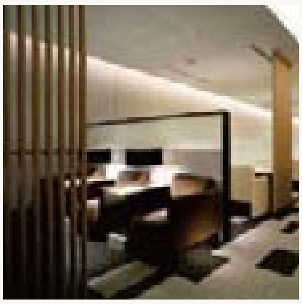
JFR Card Co., Ltd., which operates a credit business, greatly increased profits because the company increased its membership to 1,150,000 accounts and finished incurring temporary expenses from issuing new card in the previous year. Eight companies in total increased profits and operating income in this segment amounted to ¥2.8 billion (up 9.6% from the previous year).

Outlook for fiscal 2010

For fiscal 2010, J. Front Design & Construction expects to substantially increase income and profits due to large refurbishment orders from Daimaru Kyoto and Umeda department stores of JFR Group. JFR Card also projects revenue and profit growth through the issue of department store chain's first character card "Sakura Panda Card" as well as the revitalization of its existing cards to expand and improve business infrastructure. With these efforts, operating income in this segment as a whole is forecast to be ¥3.3 billion (up 18.8% from the previous year).


Sheraton Grande Tokyo Bay Hotel (chapel)


Hotel Granvia Osaka


ANA Lounge, Shin-Chitose Airport


ANA Lounge, Fukuoka Airport

Corporate Governance

Group Philosophy

We at J. Front Retailing Group aim at:
(1) Providing high quality products and services that meet the changes of the times and satisfying customers beyond their expectations; and
(2) Developing the Group by making a broad contribution to society as an honest and reliable company.

Group Vision

We will establish a status as a leading Japanese retail company both in terms of quality and quantity with the department store business as our core.

Basic Concepts

As the core of the unified governance of the Group, J. Front Retailing positions the strengthening of corporate governance as one of the most important business challenges to ensure the transparency, soundness and compliance of the management of the whole Group and thoroughly fulfill its accountability to its stakeholders (including customers, shareholders, employees, suppliers and communities).

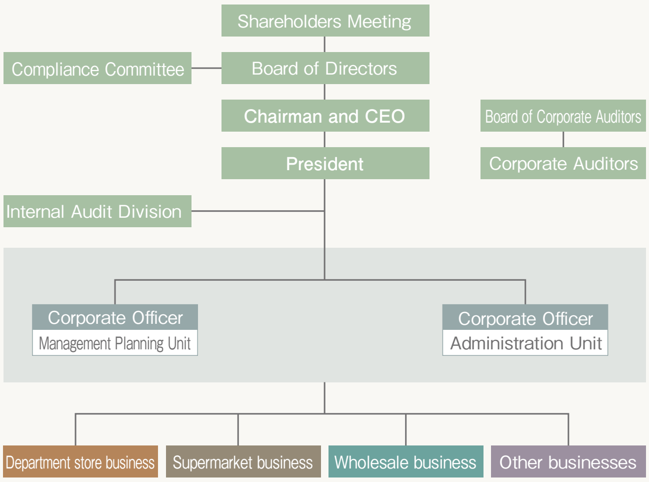
To this end, we have two units (Management Planning Unit and Administration Unit) in the company organization to clarify roles, responsibilities and authorities, thereby improving supervisory function and the internal control systems of the whole Group. In addition, a corporate officer system is in place to separate between decision-making and execution of the management, which enables more speedy decision-making and implementation.

The term for Directors and Corporate Officers is one year and they are remunerated based on their individual annual performance to clarify their responsibilities for the enhancement of management and business results.

Corporate Bodies and Internal Control Systems

J. Front Retailing has the Board of Corporate Auditors. Its corporate bodies include Shareholders Meeting, the Board of Directors, the Board of Corporate Auditors and independent auditors as stipulated in the Corporate Law. In addition, the Company adopts a corporate officer system as a body to perform operations. It also has a Compliance Committee, which is chaired by CEO and consists of a corporate lawyer and Directors and Corporate Auditors named by the chairman, as an advisory body to the Board of Directors and adopts a whistle-blowing system to solve compliance issues.

Corporate governance organization and internal control system



Meetings of the Board of Directors and Outside Directors

The Board of Directors as a management decision-making body consists of seven Directors (including two outside directors) and generally meets once a month under the chairmanship of Chairman and CEO and with the attendance of Corporate Auditors to discuss and resolve the matters required by laws or prescribed by the articles of incorporation as well as the matters stipulated in the rules and regulations of the Board of Directors.

During fiscal 2009, the Board of Directors had 17 meetings to discuss and resolve the merger among consolidated subsidiaries and the change of trade name, the closure of Matsuzakaya Okazaki store and the closure of Matsuzakaya Nagoya Station store, as well as approve budgets and settlements.

J. Front Retailing has invited Takayama Tsuyoshi and Takeuchi Isao as highly independent outside directors who can judge independently from the top management and appropriately determine the decisions and supervisory actions made by the Board of Directors. They are both in an objective position independent from the management team performing operations. We expect Takayama as an executive of a business entity and Takeuchi as an executive of a financial institution and a business entity to reflect their rich experience, achievements and insights in the management of J. Front Retailing.

Audit Function

In order to support the soundness of its management structure, J. Front Retailing has five Corporate Auditors (including three outside auditors) to determine its audit policy and approach, while having a system that enables their views concerning important audit matters to be reflected in the Board of Directors. The Company also has Internal Audit Division reporting directly to President to verify the appropriateness and effectiveness of the business process of daily routine and financial operations of J. Front Retailing and J. Front Retailing Group according to the annual audit plan. Important matters are duly reported to the Board of Directors and the Board of Corporate Auditors.

Internal Control Systems

J. Front Retailing develops systems in line with the "Basic Policy to Build Internal Control Systems." In 2009, marking the first year in which an internal control reporting system is adopted, the Company established the "Rules and Regulations for Internal Control over Financial Reporting" to clarify roles and authorities concerning their improvement and operation. Accordingly, internal control administration function and independent assessment function were transferred to General Affairs Division of Administration Unit and Internal Audit Division respectively.

Risk Management

With President and Executive General Managers of two units as responsible supervisors, each division assesses and manages risks in a manner suiting the division and reports the management status of important risks to the Board of Directors on a regular basis.

In respect to particularly significant business risk factors thus identified, we ask Corporate Auditors to attend the Group's strategy meeting and discuss and determine a policy to deal with them and concerned division implements it to prevent such risks from arising. In case of emergencies including great earthquakes, fires and accidents, the "Emergency Headquarters" headed by President are responsible for managing a crisis.

Practice of Compliance under Company Regulations and Operation Manuals

J. Front Retailing develops company regulations and various operation manuals to ensure the implementation of the Group philosophy on the job, while setting its own strict standards on quality control and the protection and management of personal information to thoroughly carry out daily compliance activities.

Preparation of Compliance Manual

J. Front Retailing prepared a compliance manual to demonstrate its structure, principles of action and code of conduct to implement compliance management.

The manual provides that the basic framework of the compliance system is a binary structure consisting of "all companies' and divisions' voluntary compliance with laws and corporate ethics in conducting business" and "training, supervision and strict audit by compliance divisions, operational audit divisions and others." It also sets compliance principles of action and code of conduct consisting of four perspectives to be followed by all officers and employees of J. Front Retailing Group.

The Group ensures thorough compliance activities on a daily basis by posting "compliance self-check lists" in each company, which enable employees to check their own everyday behavior.

■ "Food" Quality Control

Sanitary supervisors are placed in the food departments of all locations of Daimaru Matsuzakaya Department Stores and affiliated department stores to ensure the high level of quality expected of department stores. For customers' security and safety, they periodically inspect the conditions of quality control in cooperation with Consumer Product End-Use Research Institute based on the "Food Sanitation Law," "Quality Control Regulations" and rules for running.

■ Protection of Personal Information

In order to ensure the protection of personal information, J. Front Retailing Group established the "basic principles" and the "code of conduct" and continuously provides employee training and checks the management status in all companies of the Group. JFR Information Center Co., Ltd. and JFR Card Co., Ltd., which handle all the customer information data of Daimaru Matsuzakaya Department Stores, acquired the "Privacy Mark" certification to protect the personal information of customers.

■ Customer Consultation Service

Major stores of Daimaru and Matsuzakaya have "Consultation Corners for Consumers" and consultants certified as advisory specialists for consumers' affairs offer consultation for customers. Customer complaints about products are sent online to Consumer Product End-Use Research Institute for scientific quality inspection. Consultants inform customers of the results. These test results are also provided to stores and manufacturers to prevent recurrence and improve quality.

Monitoring of Implementation

Persons in charge in each business place provide on-site guidance and inspection to check the steady implementation of compliance policies and rules. In case an accident should happen, it will be reported immediately to the Compliance Committee and remedial actions will be taken under the leadership of the Committee.

Commitment to Be an Environment- and People-Friendly Department Store

J. Front Retailing is working with customers and suppliers to conserve the global environment toward the building of a "sustainable society" for the 21st century. Daimaru Matsuzakaya Department Stores, which runs the core department store business, operates an ISO 14001-based environmental management system to continuously reduce the effects on the environment.

Environmental Policy of JFR Group

Recognizing our roles and responsibilities to hand down the irreplaceable global environment to the next generation, we at J. Front Retailing Group proactively promote "environment-friendly corporate management" toward the "realization of a sustainable society" with customers, suppliers and community members.

1. Recognizing the environmental impacts and their causes, we will establish structures and systems to promote environmental conservation activities through the business activities of the Group companies and actively work on reducing environmental load.
   1. **Effective use of resources and energy**
   2. **Reduction of CO_2 emissions**
   3. **Waste reduction and recycling**
   4. **Provision of environment-friendly products, services and information**
   5. **Promotion of environmental conservation activities with customers, suppliers and community members**
2. We will comply with the requirements of environmental laws, regulations and agreements.
3. We will raise awareness of environmental conservation through training and educational activities to strengthen the foundations on which each worker in the Group will tackle environmental tasks voluntarily.
4. We will make this environmental policy known to all workers of the Group companies and make the policy available to the public.

Energy Use Reduction

By carefully controlling lighting and air conditioning as well as participating in various activities including "cutting down on air conditioning in stores during summer" and the "Light Down Campaign" promoted by the Japan Department Stores Association, all employees are making energy saving efforts to reduce CO_2 emissions and prevent global warming.

On the occasion of replacing equipment or opening new stores, energy-efficient appliances are introduced.

Reduction and Recycling of Waste

We implement thorough waste separation to decrease final waste and promote recycling.

Food waste is recycled as fertilizer by the "garbage disposers" installed in stores. We also outsource the recycling of fish trimmings and food oil waste as fertilizer, feed, biofuel and soap according to the output situation of each store.

Reduction of Packaging Materials

We develop company-wide packaging standards and provide training based on a smart wrapping manual so that all workers can pack in an unwasted and appropriate manner. Our stores promote simple packaging and "one-bag campaign" to put all stuff in one bag with the cooperation of customers. We also develop and sell "eco bags" with a focus on design and added value to offer a department store-like shopping style.


Original eco bags

Original eco bags "with carbon offsets" are sold in all 22 stores of Daimaru and Matsuzakaya. A carbon offset fee of ¥50 per bag is added and we expect to reduce CO_2 emissions of about 14 kg per bag.

■¥500 including tax/Two colors including black and beige/ 100% PET bottle recycled polyester

Offering Environment-Friendly Lifestyles

We provide ideas for smart "eco"-friendly living as a priority item of the environmental activities in department stores. We offer "environment-friendly products and services" based on our own selection criteria, while actively suggesting "eco-friendly products" to outside corporate customers and accepting orders from them and organizing environmental events.

We also hold "collection campaigns" to collect unneeded clothing and shoes. Daimaru Tokyo and Matsuzakaya Nagoya stores recycle collected items into fuel in processing plants to help prevent global warming.

Creating Comfortable and Customer-Friendly Stores

Daimaru and Matsuzakaya stores regularly carry out emergency drills for all workers and introduced the Earthquake Early Warning system* that issues real-time alerts over the in-store PA system just as an earthquake starts.

AED (automatic external defibrillator) units are installed in all stores and about 1,400 employees from all stores have completed training in normal lifesaving so that we can provide an initial response in case of emergencies. (Some stores that occupy as tenants share AED units with building owner companies.)

*This system is installed in all stores managed directly by Daimaru Matsuzakaya Department Stores and Hakata Daimaru Tenjin store (except some stores that occupy as tenants).

Commitment to Community and Society

■Regional Revitalization

Daimaru and Matsuzakaya as community-based department stores actively participate in creating pleasant and beautiful towns that attract people in cooperation with local people and governments and make environmental efforts that customers and local people can take part in.

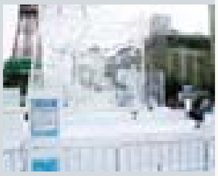
Major participation in community events

Daimaru

Sapporo: Sapporo Snow Festival and YOSAKOI Soran Festival
Kobe: Kobe Luminarie and Motomachi East Jazz Picnic
Hakata Daimaru Tenjin: Hakata Gion Yamakasa Festival
Shimonoseki Daimaru: Shimonoseki Kaikyo Festival

Matsuzakaya

Nagoya: Nagoya Festival, Sakae Minami Music Festival, Ikeda Park Summer Festival and Domannaka Festival
Ueno: Grand Festival of Gojo Tenjin Shrine
Shizuoka: Lovely Town Shizuoka (Seasonal events)
Takatsuki: Takatsuki Jazz Street



Sapporo Snow Festival

Nagoya Festival

●Rooftop Greening

Daimaru Kyoto and Kobe stores have open spaces covered with natural grass on the rooftop. They serve as urban oases where visitors can relax, as well as reduce the heat-island effect.

Matsuzakaya Nagoya store will complete rooftop greening in about 800-square-meter space in September as the 100th anniversary celebration of Matsuzakaya. The store will also provide various information on flowers and greens including gardening schools and events.

Daimaru Kobe store also has a vegetable garden. During fiscal 2009, 20 children selected from among applicants harvested radishes and strawberries and made fruit tarts with the strawberries they picked. We hope it provides children with opportunities to learn the pleasure of growing crops and the significance of eating through the experiences of "planting, harvesting and eating themselves."

Rooftop green space, Matsuzakaya Nagoya store (image)

Rooftop vegetable garden, Daimaru Kobe store

●Cleaning Activities and Clean Campaign

We are working with community groups to rid the streets of illegally parked bicycles and remove graffiti, while cleaning the streets around the stores on a regular basis.

●Environmental Study and Sales Experience

Daimaru and Matsuzakaya stores accept local elementary and junior high school students during spring consecutive holidays and summer vacation and help their integrated learning by showing their environmental activities and providing opportunities to try out jobs in department stores.

This spring children selected from among many applicants experienced attendant jobs in elevators, behind the information counters and on the in-store PA systems in Matsuzakaya Nagoya and Ueno stores.

Job experience of elementary school students (Matsuzakaya Nagoya store)

■Social Action Programs

Daimaru and Matsuzakaya continue the efforts to widely contribute to the communities using the department store's capabilities to draw customers and transmit information.

Our stores organize charity bazaars, run fund-raising campaigns and participate in events in order to preserve the global environment, support the regions suffering from severe hunger and poverty and enlighten people for safe and healthy living.

●Disaster Fund-Raising Campaigns

When major disasters occur, we run fund-raising campaigns in stores and offices and donate relief money to the Japanese Red Cross Society to send relief supplies to disaster areas.

● "Collect PET Bottle Caps to Provide Vaccines to the World's Children" Campaign

Daimaru and Matsuzakaya place collection boxes in their stores and employee facilities to collect PET bottle caps.

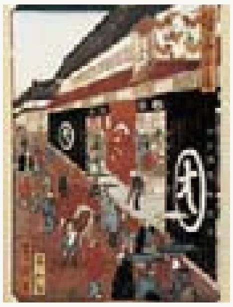
The collected caps are sent to recycling companies through the NPO "Re Lifestyle" and we donate the full amount paid for them to the NPO "Japan Committee Vaccines for the World's Children (JCV)" to provide vaccines to children around the world.

We launched this campaign in all stores in November 2009. Receiving a great deal of cooperation from customers, a total of about 3,700,000 caps were collected up to May 2010.

Sakura Panda Collection Box (Daimaru Shinsaibashi store)

History of Daimaru

Founder Shimomura Hikoemon Shokei



Osaka store opened in 1726

Edo store in Odenma-cho
by Utagawa Hiroshige

Daimaru's famous umbrella
borrowing in *ukiyoe* print

Show windows of Osaka store that
first appeared in Osaka in 1914

Osaka store whose first phase of
construction was completed in 1922

1717
- Shimomura Hikoemon Shokei opened a kimono fabric store "Daimonjiya" in Fushimi, Kyoto. (Foundation of Daimaru)

1726
- Osaka store "Matsuya" opened in Shinsaibashisuji, Osaka and began cash sales at fixed prices (present location of Shinsaibashi store).

1728
- Nagoya store opened at Honmachi 4-chome, Nagoya and used the name "Daimaruya" for the first time.

1736
- Announced the store creed of "Service Before Profit" to all stores.
- Daimaru flagship store "Daimonjiya" opened in Funaya-cho, Higashinotoin, Kyoto.

1743
- Edo (Tokyo) store opened at Odenma-cho 3-chome, Nihonbashi, Edo.

1837
- The Oshio Rebellion broke out. Daimaru escaped burning at the hands of mobs due to its reputation as a philanthropic merchant.

1907
- Established "Kabushiki Goshi Kaisha (joint-stock limited partnership) Daimaru Gofukuten (kimono fabric store)" with a capital of ¥500,000.

1910
- Closed Edo and Nagoya stores.

1912
- Kyoto store opened at the present location.

1913
- Kobe branch opened in Motomachi, Kobe.

1920
- Established "Kabushiki Kaisha (stock company) Daimaru Gofukuten" with a capital of ¥12 million.

1922
- Established the first weekly holiday (Monday) system in the department store industry.

1927
- Kobe store moved to the present location.
- Established the first "Dyeing Laboratory & Hygienic Laboratory" (present Consumer End-Use Research Institute) in the department store industry in Osaka store (present Shinsaibashi store).

1928
- Changed the company name to "Kabushiki Kaisha Daimaru."

1947
- Kochi Daimaru opened.

1948
- Established Daimaru Kogyo, Ltd.

1950
- Shimonoseki Daimaru opened.

1953
- Hakata Daimaru opened.

1954
- Tokyo store opened at the Yaesu exit of Tokyo station.

1959
- Launched the original men's brand "Trojan."

1960
- Established Peacock Industries Co., Ltd. (present Daimaru Peacock).

1983
- Adopted a corporate identity system (CIS) and created a new logo.
- Umeda store opened in Osaka Terminal Building "Acty Osaka."

1987
- Kobe store opened its first nearby directly-operated store (present Former Foreign Settlement Bldg. 38).

1995
- Kobe store was hit by the Great Hanshin Earthquake.

1997
- Kobe store was restored and grand opened.
- The annex to Fukuoka Tenjin store of Hakata Daimaru grand opened with increased floor space.

1999
- Out-of-store sales reform started.
- Store-based sales reform started.
- The "Customer's View" project started.

2000
- Personnel system reform started.
- Back-office functions reform started.

2002
- Established Daimaru's environmental philosophy.
- Introduced a new merchandise information system.

2003
- Hakata Daimaru and Nagasaki Daimaru merged.
- Sapporo store opened.
- Launched a new customer information system.

2005
- The 2nd store-based sales reform started.

2006
- New personnel system reform started.
- Newly formed Planning Office for New Umeda Store.

2007
- LaLaport Yokohama store opened.

September 3, 2007 The Daimaru, Inc. and Matsuzakaya Holdings Co., Ltd.

- Urawa Parco store opened.
- Tokyo store moved to a new building and opened in the first phase.

2009
- The north wing of Shinsaibashi store opened.

2010
March 1, 2010 Merged The Daimaru, Inc. and Matsuzakaya Co., Ltd.

1611 ■ Ito Genzaemon Sukemichi, a son of Ito Ranmaru Sukehiro who served Oda Nobunaga, opened a kimono fabric and fancy goods wholesale store in Honmachi, Nagoya. (Foundation of Matsuzakaya)

1659 ■ Sukemichi's son Sukemoto opened a kimono fabric and fancy goods wholesale store in Chayamachi, Nagoya and called himself Ito Jirozaemon. (Since then the heads of the Ito family succeed to the name Jirozaemon.)

1736 ■ Ito Gofukuten changed its trade from a silk kimono fabric wholesaler to a silk and cotton kimono fabric retailer.

1740 ■ Ito Gofukuten became a kimono fabric purveyor to the Owari Tokugawa clan.

1745 ■ Kyoto Merchandising Branch opened in Muromachi Anekoji. (Newly built at the present location in Shinmachidori Rokkaku in 1749)

1768 ■ Acquired Matsuzakaya in Ueno Hirokoji and began business as "Ito Matsuzakaya."

1907 ■ Ueno store was rebuilt into a Western-style building to display goods for sale and reorganized into "Goshi Kaisha (limited partnership) Ito Gofukuten" (capital ¥250,000) to become financially independent. Employed saleswomen.

1910 ■ Established "Kabushiki Kaisha Ito Gofukuten" with a capital of ¥500,000. Reopened Nagoya store at Sakaemachi Kado, Nagoya as the first department store in the Nagoya region.

1911 ■ Formed Ito Gofukuten Boys Music Band. (Present Tokyo Philharmonic Orchestra)

1917 ■ Completed the new main building of Ueno store. (Burnt down in the Great Kanto Earthquake in 1923)

1918 ■ Adopted uniforms for the first time in the department store industry. (Striped cotton kimono with a muslin sash)

1924 ■ Ginza store opened at the present location. Allowed customers to enter all floors with their shoes on for the first time in the department store industry.

1925 ■ Changed the company name to "Kabushiki Kaisha Matsuzakaya."
■ Nagoya store moved to Minamiotsumachi (present location).

1929 ■ Rebuilt the new main building of Ueno store at the present location.
■ The first elevator girls in the department store industry debuted in Ueno store.

1930 ■ The basement of Ueno store was directly connected to Ueno Hirokoji station on subway Ginza line.

1932 ■ Shizuoka store opened.

1957 ■ Added a south wing to Ueno store.
■ Established Matsuzakaya Kimono Museum in Kyoto.

1966 ■ Held a huge sale on live animals on the roof of Ginza store.

1971 ■ Okazaki store opened.

1972 ■ Built an annex to Ginza store and opened an underground passage leading to Ginza subway station.
■ Added a north wing to Nagoya store.

1974 ■ Nagoya Station store opened.

1979 ■ Takatsuki store opened.

1991 ■ Issued Matsuzakaya My Card.
■ Nagoya store added a south wing to consist of three buildings.
■ Opened "Matsuzakaya Museum" in the south wing of Nagoya store.

1993 ■ Established a corporate philosophy.

1995 ■ Put up a website and opened an online shop.

1996 ■ Added a north wing to Shizuoka store.

1998 ■ Established an employee code of conduct and basic business transaction rules.

2000 ■ Developed the Matsuzakaya environment program and launched a new information system.

2001 ■ Toyota store opened.

2003 ■ Nagoya store added a new south wing to increase its floor space to the largest level in Japan (86,758 m²).

2004 ■ Introduced an executive officer system and established a management code for personal information protection.

2005 ■ Opened an official goods shop at the Exposition of Global Harmony.

2006 ■ Established a pure holding company "Matsuzakaya Holdings Co., Ltd."

established a joint holding company J. Front Retailing Co., Ltd. and integrated management.

2007 ■ Store-based sales reform started.

2008 ■ Out-of-store sales reform started.
■ Integrated information systems with Daimaru.

to form Daimaru Matsuzakaya Department Stores Co. Ltd.


Matsuzakaya by Utagawa Hiroshige


Nagoya store reopened in Sakaemachi in 1910


Women wearing the industry's first uniforms (kimono)


Poster of Ito Gofukuten


Ginza store, the first department store allowing customers to enter with their shoes on


Nagoya store moved to the present location in Minamiotsumachi (at that time)


Elevator girls of Ueno store

J. FRONT RETAILING Co., Ltd.

Corporate Profile

Company name	: J. FRONT RETAILING Co., Ltd.
Main store	: 10-1, Ginza 6-chome, Chuo-ku, Tokyo
Office	: 1-1, Yaesu 2-chome, Chuo-ku, Tokyo
Established	: September 3, 2007
Capital	: ¥30,000 million
Line of business	: Department store operation; retail; restaurants; wholesale; import and export; design, supervision and contracting of construction works; direct marketing; credit cards; merchandise inspection and consulting; labor dispatch service; and others
Number of employees (Consolidated)	: 8,393 (As of February 28, 2010)
URL	: http://www.j-front-retailing.com/

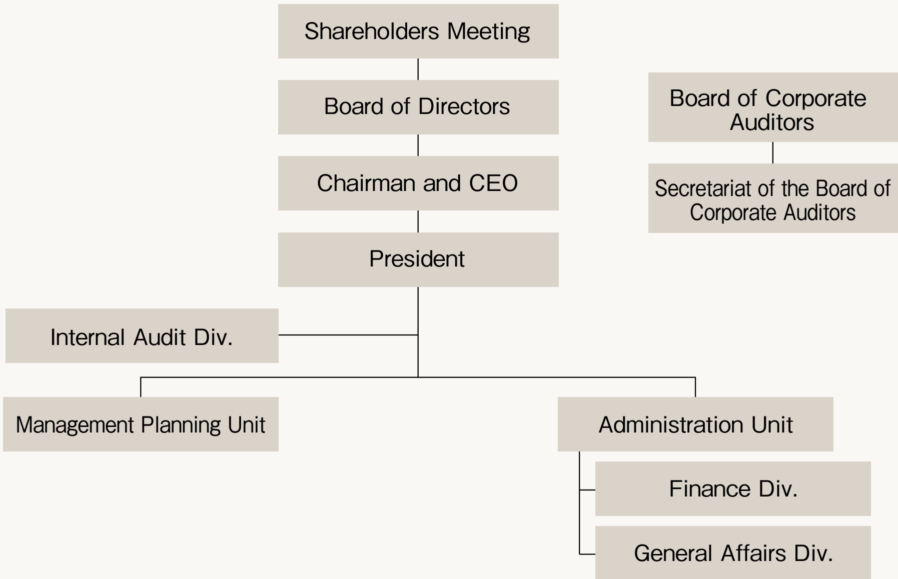
Management

Chairman and CEO	OKUDA Tsutomu	
President	SAMURA Shunichi	
Director	YAMAMOTO Ryoichi	President of Daimaru Matsuzakaya Department Stores Co. Ltd.
Director and Corporate Executive Officer	TSUKADA Hiroto	Executive General Manager of Management Planning Unit
Director and Corporate Officer	HAYASHI Toshiyasu	Executive General Manager of Administration Unit
Director	TAKAYAMA Tsuyoshi	
Director	TAKEUCHI Isao	
Corporate Auditor (Full-time)	KIDO Toshio	
Corporate Auditor (Full-time)	NAKAMURA Junji	
Corporate Auditor	FURUTA Takeshi	
Corporate Auditor	SHIMIZU Sadahiko	
Corporate Auditor	TSURUTA Rokurou	
Corporate Officer	SAITO Yoshihiro	General Manager of Management Planning, Management Planning Unit
Corporate Officer	SAKASHITA Masatoshi	General Manager of Group System Strategy, Management Planning Unit
Corporate Officer	MATSUDA Shinji	General Manager of Development Project, Management Planning Unit
Corporate Officer	SHIMIZU Mikio	General Manager of Affiliated Business, Management Planning Unit
Corporate Officer	ENOMOTO Tomohiko	General Manager of Direct Marketing, Management Planning Unit
Corporate Officer	HIRAYAMA Seiichiro	General Manager of Group Organization Personnel Policy, Management Planning Unit
Corporate Officer	DOI Kazuo	General Manager of Group Cost Policy, Administration Unit
Corporate Officer	OZAWA Masaru	Senior General Manager of Finance Division

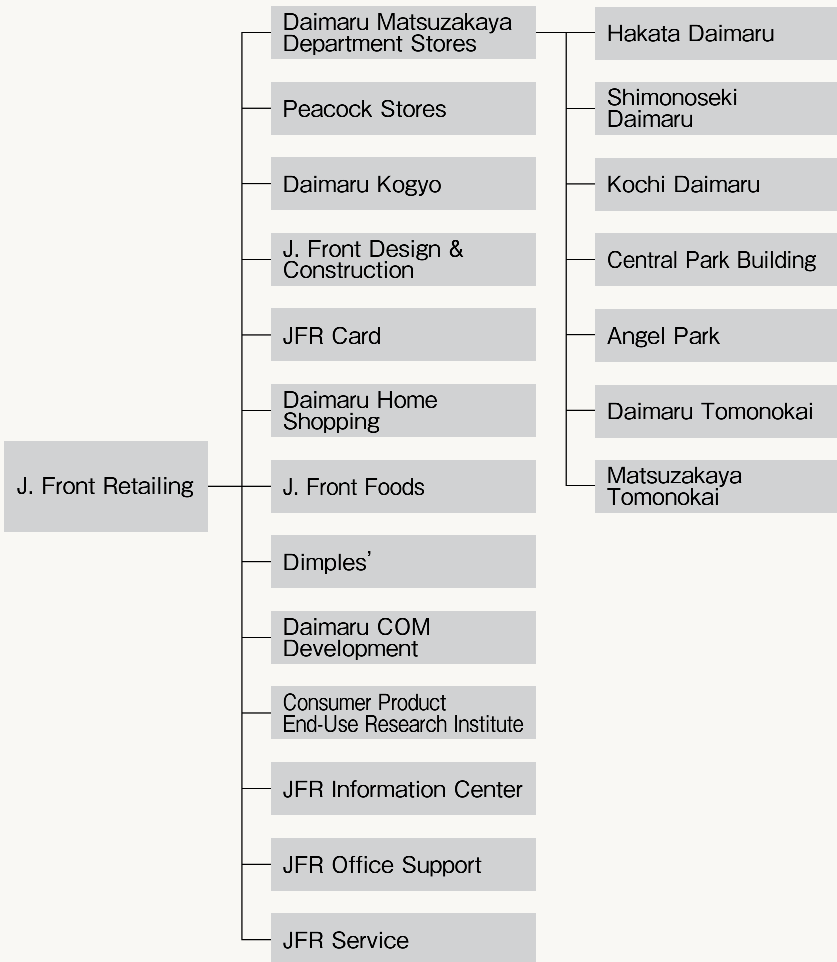
Notes: 1. Takayama Tsuyoshi and Takeuchi Isao are outside directors.
2. Furuta Takeshi, Shimizu Sadahiko and Tsuruta Rokurou are outside corporate auditors.

(As of May 31, 2010)

Organization Chart of J. Front Retailing Co., Ltd.



Organization Chart of J. Front Retailing Group



(As of May 31, 2010)

Daimaru Matsuzakaya Department Stores Co. Ltd.

Corporate Profile

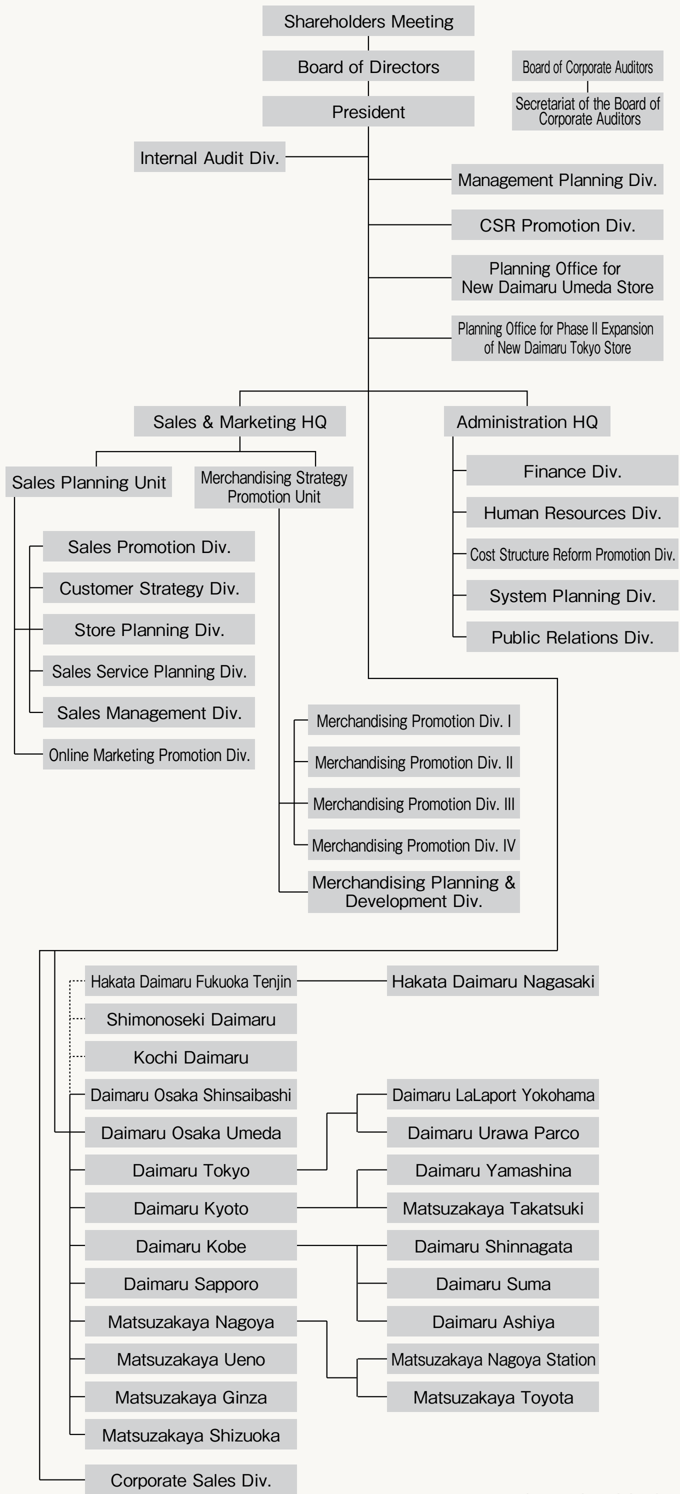
Company name	:Daimaru Matsuzakaya Department Stores Co. Ltd.
Head office	:18-11, Kiba 2-chome, Koto-ku, Tokyo
Changed company name	:March 1, 2010
Capital	:¥10,000 million
Line of business	:Department store operation
Major shareholder and shareholding ratio	:J. Front Retailing Co., Ltd. 100%
U R L	:http://www.daimaru-matsuzakaya.com/

Management

President	YAMAMOTO Ryoichi	
Director and Corporate Executive Officer	KOBAYASHI Yasuyuki	Executive General Manager of Sales & Marketing Headquarters and Senior General Manager of Merchandising Strategy Promotion Unit
Director and Corporate Officer	HONDA Yoji	Executive General Manager of Administration Headquarters
Director and Corporate Officer	DOI Zenichi	Senior General Manager of Sales Planning Unit
Corporate Auditor	KAWABE Haruo	
Corporate Auditor	FUJII Shinji	
Corporate Auditor	NOMURA Akio	
Corporate Auditor	NATSUME Kazuyoshi	
Corporate Executive Officer	HARADA Takaharu	President of The Hakata Daimaru, Inc.
Corporate Officer	YOSHIMOTO Tatsuya	Senior General Manager of Management Planning Division
Corporate Officer	IKEDA Hideyuki	General Merchandise Manager of Merchandising Promotion Division I
Corporate Officer	HIGUCHI Masaichi	General Merchandise Manager of Merchandising Promotion Division II
Corporate Officer	NAKAI Chihiro	General Merchandise Manager of Merchandising Promotion Division III
Corporate Officer	IDE Yoichiro	General Merchandise Manager of Merchandising Promotion Division IV
Corporate Officer	HIRAYAMA Seiichiro	General Manager of Human Resources Division
Corporate Officer	DOI Kazuo	General Manager of Cost Structure Reform Promotion Division
Corporate Officer	SAKASHITA Masatoshi	General Manager of System Planning Division
Corporate Officer	YAMAMOTO Masayoshi	Executive Store Manager of Daimaru Osaka Shinsaibashi
Corporate Officer	MURATA Soichi	Executive Store Manager of Daimaru Osaka Umeda and Senior General Manager of Planning Office for New Daimaru Umeda Store
Corporate Officer	FUJINO Haruyoshi	Executive Store Manager of Daimaru Tokyo and Senior General Manager of Planning Office for Phase II Expansion of New Daimaru Tokyo Store
Corporate Officer	UCHIDA Takashi	Executive Store Manager of Daimaru Kyoto
Corporate Officer	DOI Ryohei	Executive Store Manager of Daimaru Kobe
Corporate Officer	YUNOKI Kazuyo	Executive Store Manager of Daimaru Sapporo
Corporate Officer	KUMAKI Toshi	Executive Store Manager of Matsuzakaya Nagoya and General Manager of Matsuzakaya Nagoya Store Project Promotion Office
Corporate Officer	ISHINO Manabu	Executive Store Manager of Matsuzakaya Ueno
Corporate Officer	SUEMATSU Sumio	Division Manager of Corporate Sales

Note: Nomura Akio and Natsume Kazuyoshi are outside corporate auditors.

Organization Chart of
Daimaru Matsuzakaya Department Stores Co. Ltd.



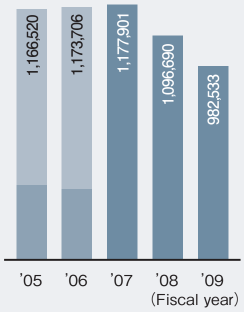
(As of May 31, 2010)

Financial Information

Analysis of Financial Condition and Operating Results

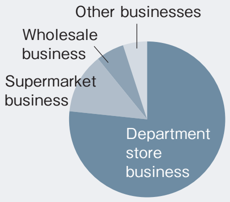
Sales

(Millions of yen)



Sales by Business Segment

⟨Composition of sales not including intersegment sales⟩

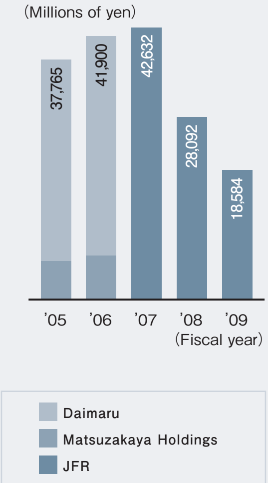


<Including intersegment sales>
(Millions of yen)

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

Operating Income

(Millions of yen)



*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.

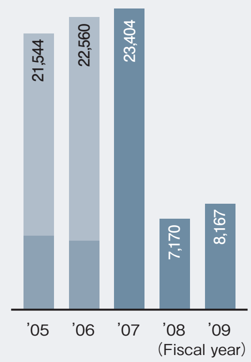
● Supermarket business

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.

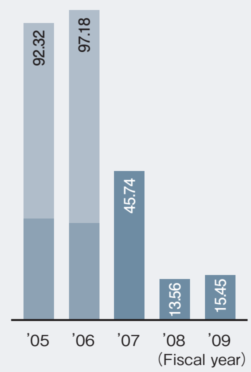
The Nikke Colton Plaza store (Ichikawa City, Chiba Prefecture) opened for business in May, while the Hakuraku Rokkakubashi store (Yokohama, Kanagawa Prefecture) opened in November. But amid severe sales conditions, and owing to the intensification of inter-regional competition, sales declined by 5.7%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

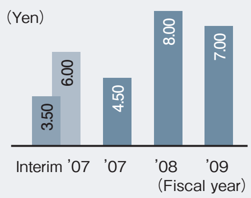
Net Income



Net Income per Share



Cash Dividends per Share



Daimaru
Matsuzakaya Holdings
JFR

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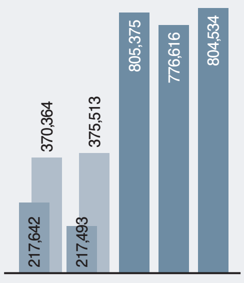
*2 Sales of Daimaru for and before fiscal 2006 include other operating revenue.
*3 For fiscal 2007, full-year consolidated figures are used for Matsuzakaya Group.

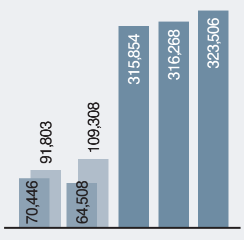
■ **Total Assets**

(Millions of yen)



■ **Net Assets**

(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.

¥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.

1 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.

2 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.

3 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.

4 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.

5 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.

6 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.

	Number of shares issued	Thousands of U.S. dollars (Note 1) 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	Department store	Supermarket	Wholesale	Other	Elimination or corporate	Consolidated
	Thousands of U.S. dollars					
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".

Group Companies

Department Store Business

Daimaru Matsuzakaya Department Stores Co. Ltd.

Location: 18-11, Kiba 2-chome, Koto-ku, Tokyo 135-0042
Capital: ¥10,000 million Investment ratio: 100% http://www.daimaru-matsuzakaya.com

Daimaru Osaka Shinsaibashi Store
Location: 7-1, Shinsaibashisuji 1-chome, Chuo-ku, Osaka 542-8501
Phone: +81-6-6271-1231
Opened (Present location): November 1726

Daimaru Osaka Umeda Store
Location: 1-1, Umeda 3-chome, Kita-ku, Osaka 530-8202
Phone: +81-6-6343-1231
Opened: April 1983

Daimaru Tokyo Store
Location: 9-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6701
Phone: +81-3-3212-8011
Opened: October 1954

Daimaru Kyoto Store
Location: 79, Shijo Takakura, Shimogyo-ku, Kyoto 600-8511
Phone: +81-75-211-8111
Opened (Present location): October 1912

Daimaru Kobe Store
Location: 40, Akashi-cho, Chuo-ku, Kobe, Hyogo 650-0037
Phone: +81-78-331-8121
Opened (Present location): April 1927

Daimaru Sapporo Store
Location: 7, Nishi 4-chome, Kita 5-jo, Chuo-ku, Sapporo, Hokkaido 060-0005
Phone: +81-11-828-1111
Opened: March 2003

Matsuzakaya Nagoya Store
Location: 16-1, Sakae 3-chome, Naka-ku, Nagoya, Aichi 460-8430
Phone: +81-52-251-1111
Opened: March 1910

Matsuzakaya Ueno Store
Location: 29-5, Ueno 3-chome, Taito-ku, Tokyo 110-8503
Phone: +81-3-3832-1111
Opened: April 1768

Matsuzakaya Shizuoka Store
Location: 10-2, Miyuki-cho, Aoi-ku, Shizuoka 420-8560
Phone: +81-54-254-1111
Opened: November 1932

Matsuzakaya Ginza Store
Location: 10-1, Ginza 6-chome, Chuo-ku, Tokyo 104-8166
Phone: +81-3-3572-1111
Opened: December 1924

Daimaru LaLaport Yokohama Store
Location: 1st Fl., LaLaport Yokohama, 4035-1, Ikebe-cho, Tsuzuki-ku, Yokohama, Kanagawa 224-0053
Phone: +81-45-287-5000
Opened: March 2007

Daimaru Urawa Parco Store
Location: 1st Basement Fl., Urawa Parco, 11-1, Higashitakasago-cho, Urawa-ku, Saitama 330-0055
Phone: +81-48-615-6000
Opened: October 2007

Daimaru Yamashina Store
Location: 91, Takehana Takenokaido-cho, Yamashina-ku, Kyoto 607-8080
Phone: +81-75-255-7365
Opened: October 1998

Daimaru Shinnagata Store
Location: 5-1, Wakamatsu-cho 5-chome, Nagata-ku, Kobe, Hyogo 653-0038
Phone: +81-78-643-2951
Opened: April 1977

Daimaru Suma Store
Location: 2-4, Nakaochiai 2-chome, Suma-ku, Kobe, Hyogo 654-0154
Phone: +81-78-791-3111
Opened: March 1980

Daimaru Ashiya Store
Location: 1-31, Funato-cho, Ashiya, Hyogo 659-0093
Phone: +81-797-34-2111
Opened: October 1980

Matsuzakaya Takatsuki Store
Location: 2-1, Konya-cho, Takatsuki, Osaka 569-8522
Phone: +81-72-682-1111
Opened: November 1979

Matsuzakaya Toyota Store
Location: 85-1, Nishimachi 6-chome, Toyota, Aichi 471-8560
Phone: +81-565-37-1111
Opened: October 2001

The Hakata Daimaru, Inc.

Location: 4-1, Tenjin 1-chome, Chuo-ku, Fukuoka 810-8717
Phone: +81-92-712-8181
Capital: ¥3,037 million Investment ratio: 69.9%
http://www.daimaru.co.jp/fukuoka/index.html

The Shimonoseki Daimaru, Inc.

Location: 4-10, Takezaki-cho 4-chome, Shimonoseki, Yamaguchi 750-8503
Phone: +81-83-232-1111
Capital: ¥480 million Investment ratio: 100%
http://daimaru.shimonoseki.ne.jp/index.html

Kochi Daimaru Co., Ltd.

Location: 6-1, Obiya-machi 1-chome, Kochi 780-8566
Phone: +81-88-822-5111
Capital: ¥300 million Investment ratio: 100%
http://www.kochi-daimaru.co.jp/

Tottori Daimaru Co., Ltd.

Location: 151, Imamachi 2-chome, Tottori 680-8601
Phone: +81-857-25-2111
Capital: ¥180 million Investment ratio: 14%
http://www.daimaru-tottori.co.jp/

Supermarket Business

Peacock Stores Ltd.

Location: Daimaru Core Bldg., 18-11, Kiba 2-chome, Koto-ku, Tokyo 135-8510
Phone: +81-3-3630-1511
Capital: ¥2,550 million Investment ratio: 100%
http://www.peacock.co.jp/

Wholesale Business

Daimaru Kogyo, Ltd. (Wholesale and import-export business)

Location: Yushutsu Seni Kaikan, 4-9, Bingo-machi 3-chome, Chuo-ku, Osaka 541-0051
Phone: +81-6-6205-1000
Capital: ¥1,800 million Investment ratio: 100%
http://www.daimarukogyo.co.jp/

Other Businesses

J. Front Design & Construction Co., Ltd.
(Design and construction contracting and manufacture and sale of furniture)

Location: 36-20, Higashinippori 4-chome, Arakawa-ku, Tokyo 116-0014
Phone: +81-3-5850-4700
Location: 5th & 6th Fls., Ueyama Bldg., 1-3, Minamisemba 2-chome, Chuo-ku, Osaka 542-0081
Phone: +81-6-4705-6200
Capital: ¥100 million Investment ratio: 100%
http://www.jfdc.co.jp/

The Daimaru Home Shopping, Inc. (Direct marketing)

Location: 4th Fl., Higashikobe Center Bldg., 6-26, Motoyama Minamimachi 8-chome, Higashinada-ku, Kobe, Hyogo 658-0015
Phone: +81-78-441-8800
Capital: ¥100 million Investment ratio: 100%
http://www.daimaru-lim.co.jp/

J. Front Foods Co., Ltd. (Restaurant)

Location: 2nd Fl., Daimaru Kitasumiyamachi Bldg. 7-3, Nishishinsaibashi 1-chome, Chuo-ku, Osaka 542-0086
Phone: +81-6-6281-1125
Capital: ¥100 million Investment ratio: 100%
http://www.j-frontfoods.co.jp/

Dimples' Co., Ltd. (Staffing service)

Location: 22nd Fl., Osaka Ekimae 4th Bldg. 11-4, Umeda 1-chome, Kita-ku, Osaka 530-0001
Phone: +81-6-6344-0312
Capital: ¥90 million Investment ratio: 100%
http://www.dimples.co.jp/

JFR Card Co., Ltd. (Credit service)

Location: 4-10, Minamisemba 4-chome, Chuo-ku, Osaka 542-8551
Phone: +81-6-6243-3140
Capital: ¥100 million Investment ratio: 100%
http://www.jfr-card.co.jp/

JFR Information Center Co., Ltd. (Information service)

Location: 3-24, Osaka 1-chome, Tennoji-ku, Osaka 543-0062
Phone: +81-6-6775-3700
Capital: ¥10 million Investment ratio: 100%

JFR Office Support Co., Ltd. (Business processing)

Location: Daimaru Kitasumiyamachi Bldg. 7-3, Nishishinsaibashi 1-chome, Chuo-ku, Osaka 542-0086
Phone: +81-6-6281-5040
Capital: ¥100 million Investment ratio: 100%

Consumer Product End-Use Research Institute Co., Ltd.
(Merchandise test and quality control)

Location: O's 605, ATC Bldg., 1-10, Nankokita 2-chome, Suminoe-ku, Osaka 559-0034
Phone: +81-6-6615-5285
Location: 5th Fl., Matsuzakaya Ryutsu Center, 36-20, Higashinippori 4-chome Arakawa-ku, Tokyo 135-8510
Phone: +81-3-5615-5390
Capital: ¥450 million Investment ratio: 100%
http://www.shoukaken.jp/

Daimaru COM Development Inc.
(Real estate leasing and tenant service)

Location: 2nd Fl., Daimaru Kitasumiyamachi Bldg. 7-3, Nishishinsaibashi 1-chome, Chuo-ku, Osaka 542-0086
Phone: +81-6-6245-8481
Capital: ¥50 million Investment ratio: 100%

JFR Service Co. Ltd. (Leasing and parking management)

Location: 2nd Fl., Toyocho Ryutsu Center Shinkan 26-7, Sakae 5-chome, Naka-ku, Nagoya, Aichi 460-0008
Phone: +81-52-261-7322
Capital: ¥100 million Investment ratio: 100%

JFR Consulting Co., Ltd. (Consulting services on cost reduction)

Location: Yanmar Tokyo Bldg., 1-1 Yaesu 2-chome, Chuo-ku, Tokyo 104-0028
Phone: +81-3-3241-1408
http://www.j-front-retailing.com/jfr_con/index.html

Angel Park Co., Ltd. (Parking)

Location: 16-10, Sakae 3-chome, Naka-ku, Nagoya, Aichi 460-0008
Phone: +81-52-261-5745
Capital: ¥400 million Investment ratio: 49.8%
http://www.angelpark.co.jp/

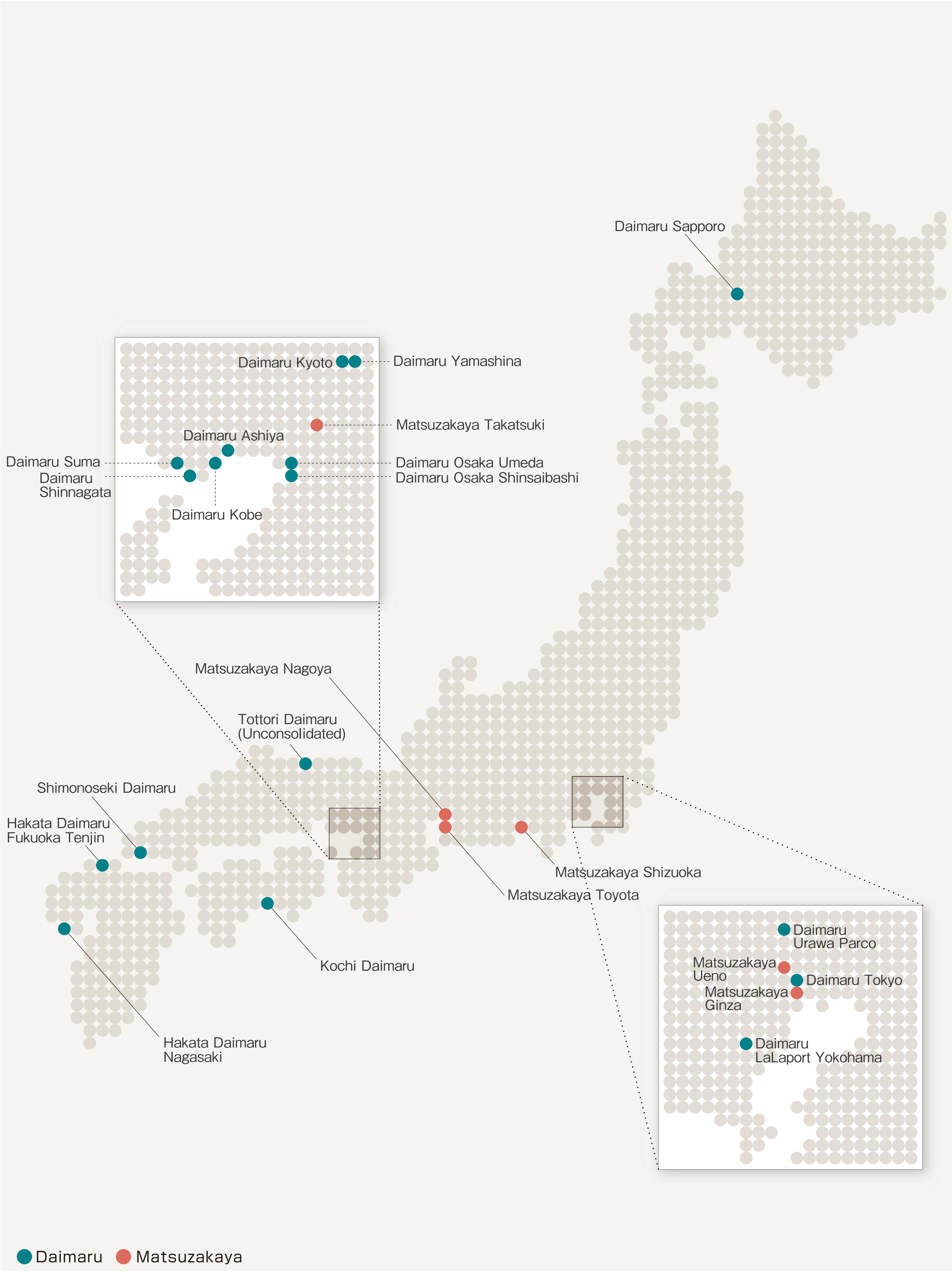
Central Park Building Co., Ltd. (Parking and real estate leasing)

Location: 15-6, Koseidori Nishi 3-chome, Okazaki, Aichi 444-0059
Phone: +81-564-23-1321
Capital: ¥100 million Investment ratio: 85.7%
http://www.celbi.jp/

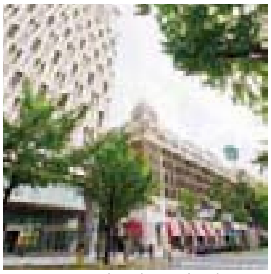
The Daimaru Matsuzakaya Tomonokai, Co., Ltd.
(Special prepayment-based transactions)

Location: 4-10, Minamisemba 4-chome, Chuo-ku, Osaka 542-0083
Phone: +81-6-6281-9013

Locations of Daimaru and Matsuzakaya Department Stores



Daimaru Department Stores


Daimaru Osaka Shinsaibashi
(Floor space: 77,490㎡)

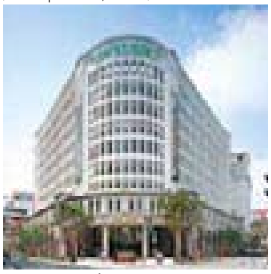

Daimaru Kyoto
(Floor space: 50,830㎡)


Daimaru LaLaport Yokohama
(Floor space: 3,840㎡)


Daimaru Suma
(Floor space: 13,076㎡)


Shimonoseki Daimaru
(Floor space: 23,912㎡)


Daimaru Osaka Umeda
(Floor space: 40,416㎡)


Daimaru Kobe
(Floor space: 50,656㎡)


Daimaru Urawa Parco
(Floor space:4,000㎡)


Daimaru Ashiya
(Floor space: 4,300㎡)


Kochi Daimaru
(Floor space: 16,068㎡)


Daimaru Yamashina
(Floor space: 9,260㎡)


Hakata Daimaru Fukuoka Tenjin
(Floor space: 44,192㎡)


Tottori Daimaru
(Floor space: 13,637㎡)


Daimaru Tokyo
(Floor space: 34,000㎡)


Daimaru Sapporo
(Floor space: 45,000㎡)


Daimaru Shinnagata
(Floor space: 9,091㎡)


Hakata Daimaru Nagasaki
(Floor space: 9,176㎡)

Matsuzakaya Department Stores


Matsuzakaya Nagoya (Floor space: 86,758㎡)


Matsuzakaya Shizuoka
(Floor space: 25,452㎡)


Matsuzakaya Toyota
(Floor space: 18,220㎡)


Matsuzakaya Ueno
(Floor space: 35,213㎡)


Matsuzakaya Ginza
(Floor space: 25,352㎡)


Matsuzakaya Takatsuki
(Floor space: 20,642㎡)

Overseas Offices

New York Representative Office
52 Vanderbilt Avenue, #904 New York, N.Y. 10017, U.S.A.
Phone : +1-212-681-8725

Paris Representative Office
267, Boulevard Pereire, 75017 Paris, France
Phone : +33-1-4574-2151

London Representative Office
20 Hanover Square, London W1S 1HZ, UK
Phone : +44-20-3178-4606

Milan Representative Office
Conservatorio 22 Business Center, Via Conservatorio 22, 20122 Milan, Italy
Phone : +39-02-77291

Shanghai Representative Office
Aviation Center Rm-309, 1600 Nanjing Rd(W), Shanghai 200040, China
Phone : +86-21-6248-1538

Share Information

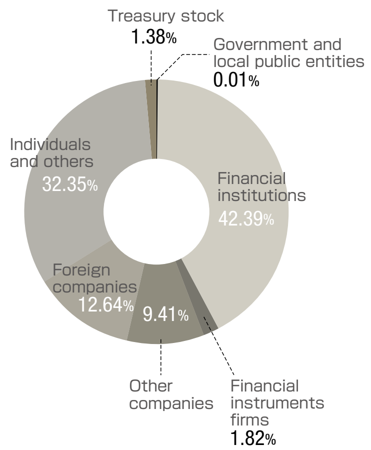
Status of Shares (As of February 28, 2010)

Number of shares authorized	:	2,000,000,000 shares
Number of shares issued	:	536,238,328 shares
Stock code	:	3086
Stock exchange listings	:	Tokyo, Osaka and Nagoya
Transfer agent	:	Mitsubishi UFJ Trust and Banking Corporation
Number of shareholders	:	72,436

	Major shareholders	Number of shares held (1,000 shares)	Shareholding ratio (%)
1	The Master Trust Bank of Japan, Ltd. (Trust Account)	35,070	6.54
2	Japan Trustee Services Bank, Ltd. (Trust Account)	33,188	6.18
3	Nippon Life Insurance Company	28,906	5.39
4	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	14,291	2.66
5	J. Front Retailing Kyoei Supplier Shareholding Association	13,756	2.56
6	The Dai-ichi Mutual Life Insurance Company	11,564	2.15
7	Tokio Marine & Nichido Fire Insurance Co., Ltd.	8,369	1.56
8	Employee Shareholding Association of J. Front Retailing	7,932	1.47
9	J. Front Retailing Co., Ltd.	7,397	1.37
10	Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account re-entrusted by The Sumitomo Trust and Banking Co., Ltd.)	6,409	1.19

Note: Shareholding ratio is the ratio of the number of shares held to the total number of shares issued.

Distribution by shareholder type	Number of shareholders (Persons)	Number of shares (1,000 shares)	Percentage (%)
Government and local public entities	1	27	0.01
Financial institutions	87	227,344	42.39
Financial instruments firms	45	9,733	1.82
Other companies	849	50,476	9.41
Foreign companies	359	67,770	12.64
Individuals and others	71,094	173,488	32.35
Treasury stock	1	7,397	1.38



J. FRONT RETAILING