Consolidated Statement of Income

J. FRONT RETAILING Co., Ltd. and Consolidated Subsidiaries

Year ended February 28, 2017

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales (Notes 13 and 27):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net sales of goods</td>
<td>¥1,094,964</td>
<td>$9,711,432</td>
</tr>
<tr>
<td>Rent income of real estate (Note 7)</td>
<td>13,547</td>
<td>120,150</td>
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<tr>
<td></td>
<td>1,108,512</td>
<td>9,831,592</td>
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<tr>
<td><strong>Cost of sales (Note 22):</strong></td>
<td></td>
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<tr>
<td>Cost of goods sold</td>
<td>866,009</td>
<td>7,680,789</td>
</tr>
<tr>
<td>Cost of real estate rent (Note 7)</td>
<td>7,718</td>
<td>68,452</td>
</tr>
<tr>
<td></td>
<td>873,727</td>
<td>7,749,241</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling, general and administrative expenses (Note 18)</td>
<td>234,785</td>
<td>2,082,350</td>
</tr>
<tr>
<td>Operating income (Note 27)</td>
<td>190,205</td>
<td>1,866,962</td>
</tr>
<tr>
<td></td>
<td>44,580</td>
<td>395,388</td>
</tr>
<tr>
<td><strong>Other income (expenses):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>349</td>
<td>3,095</td>
</tr>
<tr>
<td>Dividend income</td>
<td>395</td>
<td>3,503</td>
</tr>
<tr>
<td>Gain on derecognition of unutilized gift certificates</td>
<td>2,806</td>
<td>24,886</td>
</tr>
<tr>
<td>Compensation income</td>
<td>975</td>
<td>8,647</td>
</tr>
<tr>
<td>Equity in earnings of unconsolidated subsidiaries and affiliates</td>
<td>308</td>
<td>2,731</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>(1,181)</td>
<td>(10,474)</td>
</tr>
<tr>
<td>Provision for loss on utilization of gift certificates</td>
<td>(2,971)</td>
<td>(26,350)</td>
</tr>
<tr>
<td>Gain on sales of fixed assets</td>
<td>1,998</td>
<td>17,720</td>
</tr>
<tr>
<td>Gain on sales of investment securities (Note 10)</td>
<td>1,283</td>
<td>11,379</td>
</tr>
<tr>
<td>Gain on sales of shares of an affiliate</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets (Note 7)</td>
<td>(2,031)</td>
<td>(18,013)</td>
</tr>
<tr>
<td>Loss on impairment of fixed assets (Notes 7, 19 and 27)</td>
<td>(748)</td>
<td>(6,634)</td>
</tr>
<tr>
<td>Loss on store reconstruction (Notes 20 and 27)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Loss on business liquidation (Notes 7, 21 and 27)</td>
<td>(4,106)</td>
<td>(36,416)</td>
</tr>
<tr>
<td>Other, net</td>
<td>(1,107)</td>
<td>(9,818)</td>
</tr>
<tr>
<td><strong>Income before income taxes</strong></td>
<td>40,550</td>
<td>359,645</td>
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<tr>
<td><strong>Income taxes (Note 25)</strong></td>
<td></td>
<td></td>
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<tr>
<td>Current</td>
<td>13,577</td>
<td>120,416</td>
</tr>
<tr>
<td>Deferred</td>
<td>(3,413)</td>
<td>(30,270)</td>
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<tr>
<td></td>
<td>10,164</td>
<td>90,146</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>30,386</td>
<td>269,498</td>
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<tr>
<td><strong>Net income attributable to:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Non-controlling interests</td>
<td>3,435</td>
<td>30,465</td>
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<tr>
<td>Owners of the parent</td>
<td>¥26,950</td>
<td>$239,024</td>
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See accompanying notes to the consolidated financial statements.