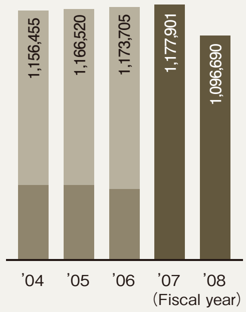
Financial Information

Analysis of Financial Condition and Operating Results

Sales

(Unit: ¥Million)



Sales by Business Segment

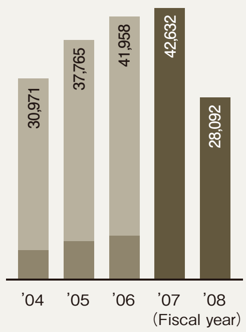
〈Composition of sales not including intersegment sales〉

<Including intersegment sales>
(Unit: ¥Million)

Department store business	836,189
Supermarket business	130,660
Wholesale business	87,139
Other businesses	91,688

Operating Income

(Unit: ¥Million)



- Daimaru
- Matsuzakaya Holdings
- JFR

*1 The figures of Matsuzakaya Holdings for and before fiscal 2005 are the consolidated figures of Matsuzakaya Group before its transition to 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 2008), the Japanese economy worsened rapidly. The global financial and economic crisis originating in the U.S. sharply decreased imports and also reduced business investment and consumer spending since last fall.

Department store sales fell far below the levels of the previous year because of intensifying competition across categories or types of businesses and changes in consumer buying behavior as well as loss of consumer confidence and tighter purse strings resulted from the weak economy.

With the aim of realizing the Group's vision of "establishing a status as a leading Japanese retail company both in terms of quality and quantity with the department store business as its core," J. Front Retailing (JFR) launched a mid- to long-term plan "Frontier 21" for three terms of nine years, while further reducing costs to respond to radical changes in business environment.

During the period under review, which marks the first year of "Frontier 21," we unified the policy-making functions of the department store business, including the marketing, product planning and sales planning, and the headquarters functions, including finance, personnel affairs and public relations, as well as integrating information systems that form the foundation of business operation, to improve and develop the basis for the growth of the Group.

As our efforts to reorganize and integrate the Group's businesses into one company per section, we integrated four supermarket companies, four design and construction companies and two staffing companies into one company each in September 2008 and two restaurant companies into one company in March 2009. To finalize such reorganization and integration, we have decided to integrate Daimaru and Matsuzakaya in March 2010 to speed up decision-making and further improve management efficiency in the department store business.

Toward future growth, we worked on the plans to increase the floor space of the existing stores including Daimaru Umeda and Tokyo stores and redevelop the Ginza 6-chome district. In light of future fiercer competition in Osaka area, we have decided to acquire the facilities of Sogo Shinsaibashi flagship store adjacent to Daimaru Shinsaibashi store to strengthen store competitiveness and revenue base for the future.

In the meantime, drastically reviewing the future profit structure and businesses of the whole Group, we closed Yokohama Matsuzakaya and Imabari Daimaru. In addition, as a result of reexamining our overall investment plan in consideration of abrupt changes in business environment, we gave up our plan to open a new store in Hamamatsu.

In order to thoroughly reduce costs, JFR took a big step as a control tower to review and narrow the cost plans of the whole Group, while minimizing all orders and purchases.

As our efforts to improve human productivity and corporate vitality, we are working on personnel structure reform through downsizing to a few select people and the optimal arrangement of personnel within the Group. In September 2008, Matsuzakaya adopted the personnel system based on job evaluation, which is the same as Daimaru's system.

Sales

In spite of the measures mentioned above, consolidated sales of the department store business for the period under review remained far below the level of the previous year due to an unprecedentedly severe consumption environment. Sales of supermarket, wholesale and other businesses also dropped compared with the previous year and this resulted in total consolidated sales of ¥196,690 million, a decrease of 6.9% over the previous year.

Selling, general and administrative expenses

Selling, general and administrative expenses were ¥241,189 million, down 2.9% from the previous year. While work-related expenses substantially increased due to the system integration between Daimaru and Matsuzakaya, we reduced personnel costs by reforming the ways of working and not filling the vacancies caused by retirement and reviewed and lowered advertising costs and supplies costs as well.

Operating income

With a decrease of ¥21,833 million in gross operating profit, we drastically cut selling, general and administrative expenses. However, operating income fell by 34.1% from the previous year to ¥28,092 million, seriously affected by sluggish sales of the department store business.

Other income and expenses

Other expenses (income) resulted in a net loss of ¥19,634 million, a decline of ¥16,784 million in income from the previous year. This is mainly because as an extraordinary loss, the Group recorded a loss on revaluation of investment securities of ¥9,833 million caused by plunging stock markets, a loss on business restructuring of ¥5,761 million resulting from the closure of Yokohama Matsuzakaya and Imabari Daimaru department stores and the impairment loss of ¥2,824 million posted by the supermarket and other businesses.

Net income

As a result, income before income taxes and minority interests decreased by 78.7% from the previous year to ¥8,459 million and net income amounted to ¥7,170 million, a decrease of 69.4% from the previous year.

(Note) Year-on-year figures above and below are comparison with the consolidated figures of Daimaru and Matsuzakaya groups in annual real terms for the period from March 1, 2007 to February 29, 2008.

Segment overview

● Department store business

This segment strived to improve the infrastructure to reinforce marketing capabilities and profitability through the "improvement of market response capabilities," the "enhancement of sales and service capabilities" and the "expansion of customer base."

To "improve market response capabilities," following the creation of Marketing Planning Promotion Division in March 2008, the sales policy sections of Daimaru and Matsuzakaya were unified into JFR in September 2008 to strengthen strategy and planning functions. Meanwhile, responsibilities and authorities in sales activities were transferred to stores to adapt to market characteristics, which differ from region to region, and quickly respond to changes. In March 2009, the merchandise sections related to women's accessories and children's wear of Daimaru and Matsuzakaya were unified into one section of JFR to make the product lineup more attractive and improve productivity through the increase of transaction size. Other merchandise sections will also be integrated successively.

Daimaru's original men's wear brand "Trojan" and women's wear brand "Sofuol" were introduced to Matsuzakaya Nagoya and Ueno stores to expand the offering of the private brands of JFR Group. In addition, we reviewed the price structure of all private fashion brands because the deterioration of consumption environment late the fiscal year under review made customers more sensitive to prices.

To "enhance sales and service capabilities," we have developed "service trainers" who are instructors to train sales professionals and assume a central role in improving sales capabilities. In order to identify issues to increase the levels of sales services, we conducted service surveys in all Daimaru and Matsuzakaya stores to quantify and assess objectively their sales service capabilities. Based on the results of these surveys, we will make improvements to further enhance customer satisfaction with sales services.

To "expand customer base," we standardized the card systems of Daimaru and Matsuzakaya by issuing "Matsuzakaya Card" in March 2008 and "Matsuzakaya M Card" for cash purchases in November 2008 to offer greater convenience to customers and attract new customers. At the same time, the integration of customer information systems enabled us to unify the management of information on more than four million customers across Japan from Sapporo to Hakata and accurately understand customer needs.

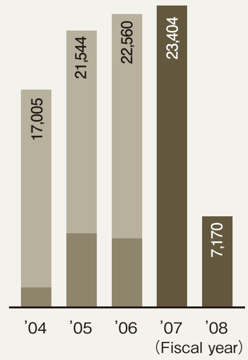
As our store-based sales reform to maximize customer satisfaction at the lowest cost, Matsuzakaya started to standardize and centralize operations in Nagoya, Ueno and Shizuoka stores in March 2008 and in all other stores in September 2008 so that salespersons can devote all their energy to sales activities. Daimaru examined the effects of the past store-based sales reform to build a more highly efficient and profitable new department store model.

Besides the efforts mentioned above, Daimaru and Matsuzakaya conducted joint sales promotions including events and catalog sales of selected goods targeted at the *gaisho* (out-of-store sales) customers of both companies. In July 2008, three stores in the Tokyo area jointly held "Summer Food Festival" to increase our presence there and attracted many customers. In September 2008, Matsuzakaya Ginza store was remodeled to newly target "working women in their 30s" and the number of customers visiting the store has increased dramatically.

In spite of these measures, consumers have

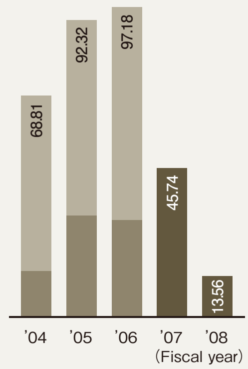
Net Income

(Unit: ¥Million)



Net Income per Share

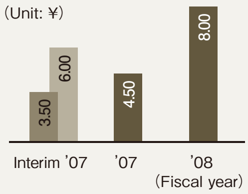
(Unit: ¥)



Cash Dividends per Share

(Non-Consolidated)

(Unit: ¥)



Daimaru
Matsuzakaya Holdings
JFR

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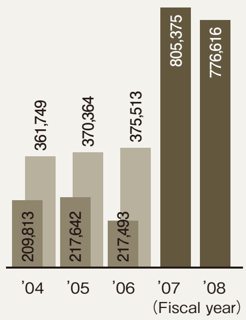
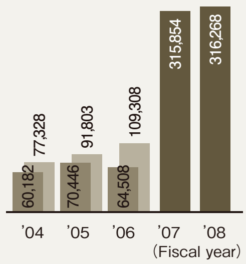
■ **Total Assets**

(Unit: ¥Million)



■ **Net Assets**

(Unit: ¥Million)



Daimaru
Matsuzakaya Holdings
JFR

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increasingly kept from buying big-ticket and fashion items, which are the main products of department stores, and *gaisho* sales were sluggish, though food sales remained steady. As a result, sales in this segment decreased by 7.0% to ¥836,189 million and operating income also fell by 36.6% to ¥21,616 million in spite of the efforts to streamline selling, general and administrative expenses.

● Supermarket business

In September 2008, four supermarket companies including Daimaru Peacock and Matsuzakaya Store were integrated into a new company named Peacock Stores Ltd. to improve competitiveness and profitability.
Using this opportunity of integration, the company strengthened purchasing capabilities through the centralization of product buying functions, as well as developing information systems including POS and unifying the headquarters functions, to further increase marketing capabilities and management efficiency. In order to strengthen revenue base, Yokodai and Korigaoka stores were remodeled as "Peacock Stores" and new type small urban stores "Exe Peacock" opened. In addition, the company developed private brand products combining "food security and safety" with "affordability" and thoroughly controlled products to enhance the accuracy of business operation.
Though we implemented these measures, sales and operating income in this segment decreased by 2.0% and 39.0% to ¥130,660 million and ¥1,105 million respectively due to a decline in purchase amount per person, which was attributable to consumers' growing awareness of the defense of their livelihoods, and the effects of the rebuilding and closure of large scale stores.

● Wholesale business

Though Daimaru Kogyo, Ltd. opened a new market and developed new merchandise in the existing businesses, it suffered weak sales of industrial materials and apparel partly because of the deteriorating market environment and sales in this segment decreased by 3.8% to ¥87,139 million. However, its continuing efforts to improve operating profit margin and the thorough reduction of selling, general and administrative expenses through the standardization and centralization of business operation resulted in operating income of ¥3,572 million, up 7.4%.

● Other businesses

Though the companies including the integrated design and construction company and staffing company addressed the improvement of profitability through differentiation and characterization in their respective business fields, sales in this segment decreased by 15.2% to ¥91,688 million partly due to a significant decline in the revenue of J. Front Design & Construction Co., Ltd. Operating income also fell by 35.6% to ¥2,558 million partly because of the temporary expenses incurred by JFR Card Co., Ltd. to issue "Matsuzakaya Card."

Financial condition

We worked on making effective use of the assets owned by the Group and reducing interest-bearing debt to improve the efficiency of assets and funds, while unifying the management of the funds of the Group to improve financial strength. These efforts resulted in total assets of ¥776,616 million (a decrease of ¥28,759 million compared with the end of the previous period), whereas total liabilities were ¥460,347 million (a decrease of ¥29,173 million compared with the end of the previous period) and total net assets amounted to ¥316,268 million (an increase of ¥414 million compared with the end of the previous period).
As a result, return on asset (ROA) was 3.6% and shareholders' equity ratio was 39.6%.

Cash flows

The Group is making efforts 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 fiscal condition. We raise working capital, business investment funds and investment and loan funds needed in the future to maintain the growth of the Group through borrowing and the issue of bonds in addition to cash reserves and cash flows from operating activities.
We generated a cash inflow of ¥22,686 million from operating activities because of income before income taxes and minority interests of ¥8,459 million, depreciation of ¥13,257 million and income taxes paid of ¥12,934 million. Investing activities resulted in a cash outflow of ¥11,676 million due to a cash outflow of ¥12,765 million from the acquisition of fixed assets including the remodeling of department stores and a cash inflow of ¥4,618 million from the sales of marketable securities.

Financing activities including the repayment of loans and the payment of dividends led to a cash outflow of ¥13,510 million.
As a result, cash and cash equivalents at the end of the consolidated fiscal year under review stood at ¥32,307 million, a decrease of ¥2,636 million compared with the end of the previous period, whereas the balance of interest-bearing debt amounted to ¥94,677 million, a decrease of ¥8,365 million compared with the end of the previous period.

Basic policy on profit distribution and dividends

The basic policy of JFR 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 will also consider stock buyback from time to time to improve capital efficiency and implement capital policies in a flexible manner.
We intend to use retained earnings to strengthen marketing capabilities through store remodeling and business expansion and increase financial strength in order to heighten our corporate value.
For the period under review, JFR has decided to pay an annual dividend of ¥8: an interim dividend of ¥4.50 and a term-end dividend of ¥3.50.
Our annual dividend for the next period is expected to be ¥6.

Business risk factors

The Group's business risk factors 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, 2009, and could be affected by domestic and overseas economic conditions. Therefore, the Group's business risk factors are not limited to them.

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

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

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

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

❺ Overseas operations
The Group is engaged in business activities abroad mainly in the wholesale business segment. In such overseas operations, unpredictable economic and currency fluctuations, political and social confusion arising from terrorism, wars and civil wars and legislative and taxation changes could adversely affect the performance and financial position of the Group.

❻ Significant lawsuits
During the consolidated fiscal year under review, there were no lawsuits that had a material impact on the Group. However, if a significant lawsuit occurs and judgment is taken 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, 2009 and February 29, 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2009**	2008	**2009**
Current assets:			
Cash on hand and in banks (Note 3)	**¥32,858**	¥37,562	**$335,937**
Marketable securities (Notes 3 and 4)	**1,093**	1,531	**11,175**
Notes and accounts receivable:	**62,137**	74,311	**635,283**
Less: allowance for doubtful accounts	**(743)**	(784)	**(7,596)**
Inventories	**42,939**	45,154	**439,004**
Deferred tax assets (Note12)	**10,993**	10,349	**112,391**
Other current assets	**27,554**	25,400	**281,709**
Total current assets	**176,833**	193,525	**1,807,924**
Property and equipment			
Land (Note 5)	**334,271**	335,025	**3,417,554**
Buildings and structures (Notes 5, 9 and 10)	**342,240**	346,189	**3,499,029**
Other	**12,879**	14,716	**131,674**
Construction in progress	**2,362**	1,047	**24,149**
Total	**691,753**	696,979	**7,072,416**
Accumulated depreciation	**(224,579)**	(224,190)	**(2,296,074)**
Net property and equipment	**467,173**	472,788	**4,776,332**
Investments and other assets:			
Investment securities (Notes 4 and 5)	**30,330**	44,582	**310,091**
Investments in unconsolidated subsidiaries and affiliates	**3,701**	3,834	**37,839**
Long-term loans	**1,089**	1,205	**11,134**
Leasehold and other deposits	**50,048**	47,362	**511,686**
Deferred tax assets (Note 12)	**12,263**	10,008	**125,376**
Other	**35,176**	32,068	**359,636**
Total investment and other assets	**132,608**	139,059	**1,355,771**
Total assets	**¥776,616**	¥805,375	**$7,940,047**

See notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 1) 2009
Current liabilities:			
Notes and accounts payable	**¥79,685**	¥89,956	**$814,692**
Short-term bank loans (Note 5)	**42,556**	47,968	**435,088**
Current portion of long-term debt (Note 5)	**14,000**	—	**143,135**
Income taxes payable (Note 12)	**3,563**	11,314	**36,428**
Advances received	**29,232**	30,319	**298,865**
Gift certificates	**35,275**	36,844	**360,648**
Allowance for employees' bonuses	**7,735**	6,216	**79,082**
Allowance for directors' and corporate auditors' bonuses	**185**	263	**1,891**
Reserve for sales promotion	**354**	1,999	**3,619**
Reserve for loss on collection of gift certificates	**7,317**	5,975	**74,808**
Reserve for loss on business restructuring (Note 10)	**2,679**	—	**27,390**
Other current liabilities	**51,644**	47,400	**528,003**
Total current liabilities	**274,228**	278,259	**2,803,681**
Long-term liabilities:			
Bonds (Note 5)	**5,000**	19,000	**51,120**
Long-term loans payable (Note 5)	**33,121**	36,073	**338,626**
Deferred tax liabilities (Note 12)	**98,072**	101,919	**1,002,679**
Deferred tax liabilities on revaluation	**1,492**	1,518	**15,254**
Reserve for retirement benefits (Note 6)	**34,422**	36,143	**351,927**
Reserve for directors' and corporate auditors' retirement allowances	**51**	206	**521**
Negative goodwill	**8,086**	10,502	**82,670**
Other	**5,871**	5,896	**60,025**
Total long-term liabilities	**186,118**	211,260	**1,902,852**
Total liabilities	**460,347**	489,520	**4,706,543**
Net assets (Note 7):			
Shareholders' equity:			
Common stock:			
Authorized: 2,000,000 thousand shares			
Issued: 536,238,328 shares in 2009 and 2008	**30,000**	30,000	**306,717**
Capital surplus	**209,657**	209,787	**2,143,513**
Retained earnings	**75,310**	72,938	**769,962**
Less: Treasury stock, at cost, 7,507,521 shares in 2009 7,301,098 shares in 2008	**(5,980)**	(5,973)	**(61,139)**
Total shareholders' equity	**308,987**	306,753	**3,159,053**
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	**(1,161)**	1,098	**(11,870)**
Deferred gains (losses) on hedges	**35**	(29)	**358**
Total valuation and translation adjustments	**(1,125)**	1,069	**(11,502)**
Stock acquisition rights	**130**	136	**1,329**
Minority interests	**8,276**	7,895	**84,613**
Total net assets	**316,268**	315,854	**3,233,494**
Total liabilities and net assets	**¥776,616**	¥805,375	**$7,940,047**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

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

Years ended February 28, 2009 and February 29, 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Sales:			
Net sales	**¥1,092,448**	¥1,013,221	**$11,169,083**
Real estate lease income	**4,242**	3,181	**43,370**
	1,096,690	1,016,402	**11,212,453**
Operating expenses:			
Cost of sales	**825,628**	763,698	**8,441,141**
Cost of real estate lease	**1,779**	1,403	**18,188**
	827,407	765,101	**8,459,329**
Gross profit	**269,282**	251,301	**2,753,113**
Selling, general and administrative expenses	**241,189**	211,583	**2,465,893**
Operating income	**28,092**	39,717	**287,210**
Other income (expenses):			
Interest and dividend income	**910**	642	**9,304**
Interest expenses	**(1,616)**	(1,543)	**(16,522)**
Net gain (loss) on sales or disposal of fixed assets	**(1,748)**	(723)	**(17,871)**
Gain on sales of investment securities	**1,352**	32	**13,823**
Loss on revaluation of investment securities	**(9,833)**	(362)	**(100,532)**
Loss on impairment (Note 9)	**(2,824)**	(2,078)	**(28,872)**
Gain on restructuring liabilities	**3,317**	2,447	**33,913**
Amortization of negative goodwill	**2,336**	1,199	**23,883**
Provision for loss on collection of gift certificates	**(3,731)**	(4,602)	**(38,145)**
Loss on business restructuring (Note 10)	**(5,761)**	—	**(58,900)**
Other, net	**(2,033)**	586	**(20,785)**
	(19,634)	(4,404)	**(200,736)**
Income before income taxes and minority interests	**8,459**	35,314	**86,484**
Income taxes: (Note 12)			
Current	**5,812**	15,710	**59,421**
Deferred	**(5,275)**	(1,756)	**(53,931)**
	537	13,953	**5,490**
Minority interests in earnings of consolidated subsidiaries	**751**	822	**7,678**
Net income	**¥7,170**	¥20,538	**$73,305**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHAGES IN NET ASSETS

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

Years ended February 28, 2009 and February 29, 2008

		Millions of yen				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance, February 28, 2007	270,830,356	¥20,283	¥23,184	¥60,982	¥(5,493)	¥98,956
Increase due to stock transfer	271,707,972	9,716	185,921			195,638
Cash dividends paid				(3,745)		(3,745)
Net income				20,538		20,538
Purchase of treasury stock			682		(5,448)	(4,766)
Disposal of treasury stock			0	(2)	135	132
Retirement of treasury stock	(6,300,000)			(4,834)	4,834	—
Net changes of items other than shareholders' equity during the year						
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**

	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 28, 2007	¥6,561	¥(1)	¥6,560	—	¥3,791	¥109,308
Increase due to stock transfer						195,638
Cash dividends paid						(3,745)
Net income						20,538
Purchase of treasury stock						(4,766)
Disposal of treasury stock						132
Retirement of treasury stock						—
Net changes of items other than shareholders' equity during the year	(5,462)	(28)	(5,491)	136	4,103	(1,251)
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**

See notes to consolidated financial statements.

		Thousands of U.S. dollars (Note 1)				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance, February 29, 2008	536,238,328	$306,717	$2,144,842	$745,711	$(61,067)	$3,136,213
Cash dividends paid				**(48,666)**		**(48,666)**
Net income				**73,305**		**73,305**
Purchase of treasury stock					**(3,722)**	**(3,722)**
Disposal of treasury stock			**(644)**		**1,840**	**1,186**
Disposal of treasury stock due to stock exchange			**(685)**		**1,799**	**1,114**
Decrease in affiliates accounted for by the equity method				**(389)**		**(389)**
Net changes of items other than shareholders' equity during the year						
Balance, February 28, 2009	**536,238,328**	**$306,717**	**$2,143,513**	**$769,962**	**$(61,139)**	**$3,159,053**

	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 29, 2008	$11,226	$(296)	$10,929	$1,390	$80,718	$3,229,261
Cash dividends paid						**(48,666)**
Net income						**73,305**
Purchase of treasury stock						**(3,722)**
Disposal of treasury stock						**1,186**
Disposal of treasury stock due to stock exchange						**1,114**
Decrease in affiliates accounted for by the equity method						**(389)**
Net changes of items other than shareholders' equity during the year	**(23,106)**	**665**	**(22,441)**	**(51)**	**3,895**	**(18,597)**
Balance, February 28, 2009	**$(11,870)**	**$358**	**$(11,502)**	**$1,329**	**$84,613**	**$3,233,494**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Years ended February 28, 2009 and February 29, 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥8,459**	¥35,314	**$86,484**
Depreciation	**13,257**	11,301	**135,538**
Loss on impairment	**4,554**	2,078	**46,560**
Amortization of negative goodwill	**(2,336)**	(1,199)	**(23,883)**
Increase (decrease) in allowance for doubtful accounts	**476**	30	**4,867**
Increase (decrease) in allowance for bonuses	**1,439**	133	**14,712**
Decrease in reserve for employees' retirement benefits	**(1,603)**	(3,606)	**(16,389)**
Increase in reserve for sales promotion	**(1,645)**	118	**(16,818)**
Decrease in reserve for loss on collection of gift certificates	**1,342**	5,975	**13,720**
Increase in reserve for business restructuring	**2,679**	—	**27,390**
Interest and dividend income	**(910)**	(643)	**(9,304)**
Interest expenses	**1,616**	1,543	**16,522**
Equity in earnings of affiliated companies	**(122)**	(158)	**(1,247)**
Gain on sales of property and equipment, net	**—**	(3,827)	**—**
Loss on sales or disposal of property and equipment	**1,665**	4,174	**17,023**
Gain on sale of investment securities, net	**(1,352)**	(32)	**(13,823)**
Write-down of investment securities	**9,833**	362	**100,532**
Increase in notes and accounts receivable	**12,115**	3,854	**123,863**
Increase in inventories	**2,214**	(488)	**22,636**
Increase in notes and accounts payable	**(10,264)**	(2,012)	**(104,938)**
Increase in other receivables	**(1,112)**	(3,357)	**(11,369)**
Increase in prepaid expenses	**(1,989)**	(2,961)	**(20,335)**
Other	**(1,953)**	(3,021)	**(19,967)**
Subtotal	**36,362**	43,579	**371,762**
Interest and dividend income received	**899**	738	**9,191**
Interest expenses paid	**(1,641)**	(1,594)	**(16,777)**
Income taxes paid	**(12,934)**	(14,927)	**(132,236)**
Net cash provided by operating activities	**22,686**	27,796	**231,939**
Cash flows from investing activities:			
Purchase of securities	**(1,903)**	(407)	**(19,456)**
Proceeds from sales of securities	**4,618**	416	**47,214**
Purchase of property and equipment	**(12,765)**	(16,122)	**(130,508)**
Proceeds from sale of property and equipment	**526**	21,322	**5,378**
Increase in long-term loans	**(29)**	(23)	**(296)**
Proceeds from collection of long-term loans	**148**	156	**1,513**
Net (increase) decrease in short-term loans	**111**	327	**1,135**
Other	**(2,383)**	122	**(24,364)**
Net cash provided by (used in) investing activities	**(11,676)**	5,792	**(119,374)**
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	**16,699**	(15,889)	**170,729**
Proceeds from long-term bank loans	**1,500**	8,499	**15,336**
Payment of long-term bank loans	**(26,563)**	(14,007)	**(271,578)**
Redemption of bonds	**—**	(13,500)	**—**
Purchase of treasury stock	**(357)**	(752)	**(3,650)**
Cash dividends paid	**(4,763)**	(3,722)	**(48,696)**
Cash dividends paid to minority shareholders	**(111)**	(68)	**(1,135)**
Other	**87**	132	**889**
Net cash used in financing activities	**(13,510)**	(39,309)	**(138,125)**
Effect of exchange rate changes	**(136)**	(73)	**(1,390)**
Net decrease in cash and cash equivalents	**(2,636)**	(5,794)	**(26,950)**
Cash and cash equivalents at beginning of year	**34,944**	33,103	**357,264**
Increase due to stock transfer	**—**	7,634	**—**
Cash and cash equivalents at end of year (Note 3)	**¥32,307**	¥34,944	**$330,304**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

J. Front Retailing Co., Ltd. and Consolidated Subsidiaries
Years ended February 28, 2009 and February 29, 2008

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. (hereafter 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, 2009, which was ¥97.81 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 27 (38 in 2008) significant subsidiaries (hereafter the "Companies").

Investments in 5 (6 in 2008) 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

Inventories are stated at cost determined principally by the retail inventory method.

(h) Property and equipment

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.

Certain subsidiaries had used the declining-balance method in depreciating building attachments and structures, but effective the year ended February 28, 2009, they changed their depreciation method to the straight-line method. The effect of this change was to increase operating income and income before income taxes and minority interests by ¥1,295 million ($13,240 thousand), compared with the previous method.

In addition, pursuant to an amendment to the Corporate Tax Law, the salvage value (5% of the acquisition costs) of the assets fully depreciated based on the Corporate Tax Law before the amendment is depreciated equally over five years starting from the year ended February 28, 2009. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥736 million ($7,525 thousand), compared with the previous method.

(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

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

(k) Reserve for Sales Promotion

Reserve for sales promotion is provided for the estimated future costs on the issuance of point card certificates and other gift 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 is 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 is attributable to the fiscal year.

(n) Reserve for loss on collection of gift certificates

Reserve 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) Reserve for loss on business restructuring

Reserve for loss on business restructuring is provided for estimated loss on restructuring affiliated companies.

(p) Reserve for retirement benefits

Reserve 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

Under the current Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. All other leases are accounted for as operating leases.

(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 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statements of cash flows at February 28, 2009 and February 29, 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Cash on hand and in banks	**¥32,858**	¥37,562	**$335,937**
Time deposits with maturities exceeding three months	**(568)**	(2,635)	**(5,807)**
Short-term investments	**16**	16	**164**
Cash and cash equivalents	**¥32,307**	¥34,944	**$330,304**

4 SECURITIES

Marketable securities classified as available-for-sale securities at February 28, 2009 and February 29, 2008 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	February 28, 2009					
	Acquisition cost	**Carrying value**	**Unrealized gains (losses)**	**Acquisition cost**	**Carrying value**	**Unrealized gains (losses)**
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥2,417**	**¥4,420**	**¥2,002**	**$24,711**	**$45,190**	**$20,468**
Debt securities	**872**	**878**	**6**	**8,915**	**8,977**	**61**
Subtotal	**3,290**	**5,299**	**2,009**	**33,637**	**54,176**	**20,540**
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	**21,093**	**17,127**	**(3,966)**	**215,653**	**175,105**	**(40,548)**
Debt securities	**1,812**	**1,715**	**(96)**	**18,526**	**17,534**	**(980)**
Subtotal	**22,905**	**18,842**	**(4,063)**	**234,179**	**192,639**	**(41,540)**
Total	**¥26,195**	**¥24,142**	**¥(2,053)**	**$267,815**	**$246,825**	**$(20,990)**

	Millions of yen		
	February 29, 2008		
	Acquisition cost	Carrying value	Unrealized gains (losses)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥7,152	¥13,774	¥6,621
Debt securities	2,631	2,648	17
Subtotal	9,784	16,423	6,638
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	27,066	22,177	(4,888)
Debt securities	361	360	(0)
Subtotal	27,428	22,538	(4,889)
Total	¥37,212	¥38,961	¥1,749

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, 2009 and February 29, 2008 amounted to ¥9,833 million ($100,532 thousand) and ¥362 million, respectively.

Available-for-sale securities whose fair value is not available at February 28, 2009 and February 29, 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Unlisted equity securities	**¥3,172**	¥3,184	**$32,430**
Other	**4,108**	3,967	**42,000**
Total	**¥7,281**	¥7,151	**$74,440**

Proceeds from sales of available-for-sale securities and gross realized gains on these sales for the year ended February 28, 2009 was ¥4,618 million ($47,214 thousand) and ¥1,352 million ($13,823 thousand), respectively.

The carrying values of debt securities and other securities by contractual maturities for securities classified as available-for-sale at February 28, 2009 are as follows:

	Millions of yen			
	2009			
	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	**¥280**	**¥100**	—	—
Other	**796**	**1,416**	—	—
Other securities:				
Investment trust	**16**	—	—	—
Total	**¥1,093**	**¥1,517**	—	—

	Thousands of U.S. dollars			
	2009			
	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	**$2,863**	**$1,022**	—	—
Other	**8,138**	**14,477**	—	—
Other securities:				
Investment trust	**164**	—	—	—
Total	**$11,175**	**$15,510**	—	—

5 SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at February 28, 2009 and February 29, 2008 consisted of notes to banks and bank overdrafts. The annual weighted average interest rate applicable to the short-term bank loans was 0.93%. Long-term debt at February 28, 2009 and February 29, 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Unsecured 0.76% straight bonds due 2009	**¥6,000**	¥6,000	**$61,343**
Unsecured 0.74% straight bonds due 2009	**3,000**	3,000	**30,672**
Unsecured 1.01% straight bonds due 2009	**3,000**	3,000	**30,672**
Unsecured 1.10% straight bonds due 2009	**2,000**	2,000	**20,448**
Unsecured 1.07% straight bonds due 2011	**3,000**	3,000	**30,672**
Unsecured 1.06% straight bonds due 2011	**2,000**	2,000	**20,448**
Loans from banks and others due serially to 2021	**37,494**	62,557	**383,335**
Total	**56,494**	81,557	**577,589**
Less: Current portion of long-term debt	**18,373**	26,484	**187,844**
	¥38,121	¥55,073	**$389,745**

Annual maturities of long-term debt including bonds at February 28, 2009 are as follows:

Years ending February 28 or 29	Millions of yen	Thousands of U.S. dollars
2010	**¥18,373**	**$187,844**
2011	**10,956**	**112,013**
2012	**11,634**	**118,945**
2013	**8,390**	**85,779**
2014 and thereafter	**7,141**	**73,009**
Total	**¥56,494**	**$577,589**

The carrying amounts of assets pledged as collateral for short-term loans of ¥2,886 million ($29,506 thousand) and the long-term loans of ¥11,685 million ($119,466 thousand) at February 28, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	**¥12,608**	**$128,903**
Buildings and structures	**15,429**	**157,745**
Investment securities	**521**	**5,327**
Total	**¥28,560**	**$291,995**

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.

6 RESERVE FOR RETIREMENT BENEFITS

The Companies have defined benefit pension plans, i.e., corporate pension 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, 2009 and February 29, 2008 for the Companies' retirement benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Retirement benefit obligation	**¥84,230**	¥92,686	**$861,159**
Plan assets at fair value	**(35,720)**	(50,471)	**(365,198)**
Retirement benefit trusts	**(8,095)**	(14,530)	**(82,762)**
Unfunded retirement benefit obligation	**40,414**	27,683	**413,189**
Unrecognized prior service cost	**3,428**	3,007	**35,048**
Unrecognized actuarial differences	**(19,589)**	(2,791)	**(200,276)**
	24,253	27,899	**247,960**
Prepaid pension cost	**10,168**	8,244	**103,957**
Reserve for retirement benefits	**¥34,422**	¥36,143	**$351,927**

The component of net retirement benefit costs for the years ended February 28, 2009 and February 29, 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service cost	**¥2,961**	¥2,602	**$30,273**
Interest cost	**1,798**	1,506	**18,383**
Expected return on plan assets	**(1,206)**	(928)	**(12,330)**
Amortization of prior service cost	**(552)**	(501)	**(5,644)**
Recognized actuarial differences	**294**	(824)	**3,006**
Net retirement benefit cost	**3,295**	1,855	**33,688**
Contribution to defined contribution plan	**283**	147	**2,893**
Total	**¥3,579**	¥2,003	**$36,591**

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

	2009	2008
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 10-13 year
Amortization of unrecognized actuarial differences	**10-12 year**	10-13 years

7 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 14, 2009, distribution of cash dividends amounting to ¥1,851 million ($18,924 thousand) was resolved. This distribution has not been accrued in the consolidated financial statements as of February 28, 2009 and is recognized in the period in which they were resolved.

8 STOCK OPTIONS

The stock options outstanding as of February 28, 2009 are 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 executive officers 1 employee	161,000 common shares	May 22, 2003	Sep. 3, 2007 to May 22, 2013
3rd	7 directors 4 corporate auditors 14 executive officers 1 employee	308,000 common shares	May 27, 2004	Sep. 3, 2007 to May 27, 2014
4th	7 directors 4 corporate auditors 12 executive 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 28, 2007-outstanding	140,000	161,000	308,000	336,000	63,000	300,000
Exercised						
Forfeited						
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

Price information is as follows:

	Yen					
Year ended February 28, 2009	1st	2nd	3rd	4th	5th	6th
Exercise price	¥404	¥317	¥699	¥691	¥1	¥794
Average stock price at time of exercise	—	634	—	—	661	—
Fair value at date of grant	*	*	*	*	833	279

	U.S. dollar					
Year ended February 28, 2009	1st	2nd	3rd	4th	5th	6th
Exercise price	$4.13	$3.24	$7.15	$7.06	$0.01	$8.12
Average stock price at time of exercise	—	6.48	—	—	6.76	—
Fair value at date of grant	*	*	*	*	8.52	2.85

*Fair value at date of grant is not disclosed since these options were granted before the enforcement of the Corporate Law.
No stock options were exercised during the year ended February 29, 2008.

9 LOSS ON IMPAIRMENT

The Companies recognized impairment losses on fixed assets including buildings and other assets in stores for the years ended February 28, 2009 and February 29, 2008 as follows:

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Buildings and other	**¥2,824**	¥2,078	**$28,872**

The carrying values of these assets were reduced to the recoverable amounts. The recoverable amounts of stores are measured based on the value of use and written-down to nil since no future cash inflows are expected.

10 LOSS ON BUSINESS RESTRUCTURING

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

	Millions of yen			
	Yokohama Matsuzakaya	**Imabari Daimaru**	**J. Front Retailing**	**Total**
Provision for loss on business restructuring	**¥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**

	Thousands of U.S. dollars			
	Yokohama Matsuzakaya	**Imabari Daimaru**	**J. Front Retailing**	**Total**
Provision for loss on business restructuring	**$27,400**	**$12,667**	**$1,063**	**$41,130**
Impairment loss on buildings and other properties	**4,059**	**13,608**	—	**17,667**
Other	**92**	—	—	**92**
Total	**$31,561**	**$26,275**	**$1,063**	**$58,900**

11 LEASES

a. Finance leases

The companies lease machinery and equipment and other assets.

Information regarding finance leases other than those which deem to transfer ownership of the leased assets to the lessee 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, 2009 and February 29, 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Property and equipment (Machinery, equipment, vehicles and other)			
Acquisition cost	**¥14,631**	¥15,927	**$149,586**
Accumulated depreciation	**6,588**	8,218	**67,355**
Accumulated impairment loss	**364**	178	**3,722**
Net leased assets	**¥7,677**	¥7,529	**$78,489**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Due within one year	**¥2,568**	¥2,500	**$26,255**
Due after one year	**5,393**	5,189	**55,138**
Total	**¥7,961**	¥7,690	**$81,392**
Impairment loss on leased assets	**¥283**	¥160	**$2,893**

Total lease payments and other information:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Total lease payments	**¥2,711**	¥2,322	**$27,717**
Reversal of allowance for impairment loss on leased assets	**117**	4	**1,196**
Depreciation expense	**2,594**	2,318	**26,521**
Impairment loss	**240**	109	**2,454**
Adjustment to allowance for impairment loss on leased assets	**—**	42	**—**

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, 2009 and February 29, 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Property and equipment (Machinery, equipment, vehicles and other)			
Acquisition cost	**¥1,284**	¥1,352	**$13,127**
Accumulated depreciation	**761**	649	**7,780**
Net leased assets	**¥522**	¥703	**$5,337**

Commitment received under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Due within one year	**¥161**	¥187	**$1,646**
Due after one year	**361**	515	**3,691**
Total	**¥522**	¥703	**$5,337**

Lease income and depreciation expense:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Lease income	**¥186**	¥188	**$1,901**
Depreciation expense	**186**	188	**1,901**

b. Operating leases

Future minimum lease payments under non-cancellable leases subsequent to February 28, 2009 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
As a lessee:		
Within one year	**¥3,482**	**$35,600**
After one year	**25,602**	**261,752**
Total	**¥29,084**	**$297,352**
As a lessor:		
Within one year	**¥827**	**$8,455**
After one year	**947**	**9,682**
Total	**¥1,775**	**$18,147**

12 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, 2009 and February 29, 2008. The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of February 28, 2009 and February 29, 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Reserve for retirement benefits	**¥9,769**	¥11,233	**$99,877**
Securities under retirement benefit trusts	**4,780**	4,606	**48,870**
Loss on evaluation recognized upon merger of consolidated subsidiaries	**4,516**	4,516	**46,171**
Allowance for bonuses	**3,165**	3,441	**32,359**
Tax loss carryforwards	**2,980**	1,269	**30,467**
Reserve for loss on collection of gift certificates	**2,979**	2,148	**30,457**
Loss on impairment	**2,849**	2,849	**29,128**
Reserve for loss on business restructuring	**1,087**	—	**11,113**
Allowance for doubtful accounts	**1,026**	890	**10,490**
Unrealized profits on fixed assets	**804**	867	**8,220**
Payables related to an amendment to the retirement benefit plan	**783**	1,217	**8,005**
Inventories	**480**	470	**4,907**
Accrued enterprise tax	**380**	1,051	**3,885**
Reserve for sales promotion	**143**	811	**1,462**
Other	**5,564**	5,719	**56,886**
Gross deferred tax assets	**41,312**	41,092	**422,370**
Less: Valuation allowance	**(10,297)**	(11,347)	**(105,276)**
Total deferred tax assets	**¥31,015**	¥29,745	**$317,094**
Deferred tax liabilities:			
Adjustments of book values by fair value method	**¥(96,014)**	¥(97,610)	**$(981,638)**
Deferred gains	**(6,585)**	(6,813)	**(67,324)**
Returned shares of retirement benefit trusts	**(3,179)**	(6,156)	**(32,502)**
Unrealized gains on available-for-sale securities	—	(700)	—
Others	**(52)**	(25)	**(532)**
Total deferred tax liabilities	**(105,831)**	(111,306)	**(1,082,006)**
Net of deferred tax assets	**¥(74,816)**	¥(81,561)	**$(764,912)**

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Current assets	**¥10,993**	¥10,349	**$112,391**
Investments and other assets	**12,263**	10,008	**125,376**
Long-term liabilities	**(98,072)**	(101,919)	**(1,002,679)**

13 DERIVATIVE TRANSACTIONS

There was no derivative transaction that is required to disclose its fair value as of February 28, 2009 and February 29, 2008, since all derivatives are accounted for under hedge accounting.

14 CONTINGENT LIABILITIES

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

	Millions of yen	Thousands of U.S. dollars
Guarantees on employees' home mortgage loans	**¥82**	**$838**
Guarantees on bank loans and lease arrangements for a subsidiary	**24**	**245**
Total	**¥106**	**$1,084**

15 PER SHARE INFORMATION

The financial data for the computation of basic net income per share for the years ended February 28, 2009 and February 29, 2008 is as follows:

	Millions of yen	Thousands of shares	Yen	Dollar
	Net income	**Weighted average shares**	**EPS**	
For the year ended February 28, 2009:				
Basic EPS				
Net income available to common shareholders	**¥7,170**	**528,667**	**¥13.56**	**$0.14**
For the year ended February 29, 2008:				
Basic EPS				
Net income available to common shareholders	¥20,538	449,037	¥45.74	

Net assets per share at February 28, 2009 and February 29, 2008 were calculated as follows:

	Millions of yen	Thousands of shares	Yen	Dollar
	Net assets	**Common shares at end of fiscal year**	**Net assets per shares**	
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**	**$5.95**
Outstanding number of common shares issued		**528,730**		
For the year ended February 29, 2008:				
Total net assets	¥315,854			
Amounts not attributable to common shares:	8,031			
—Stock subscription rights	(136)			
—Minority interests	(7,895)			
Net assets attributable to common shares	¥307,823		¥581.97	
Outstanding number of common shares issued		528,937		

16 SEGMENT INFORMATION

(a) Business segment information

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

Business segment information for the years ended February 28, 2009 and February 29, 2008 was as follows:

	Millions of yen					
Year ended February 28, 2009	**Department store**	**Super market**	**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**

	Millions of yen					
Year ended February 29, 2008	Department store	Super market	Wholesale	Other	Elimination or corporate	Consolidated
I. Sales and operating income						
Sales						
1) Sales to outside customers	¥754,195	¥114,908	¥82,733	¥64,565	¥—	¥1,016,402
2) Intersegment sales	1,625	4,825	7,888	32,866	(47,205)	—
Total	755,820	119,733	90,622	97,431	(47,205)	1,016,402
Operating expenses	724,479	117,848	87,295	93,797	(46,736)	976,684
Operating income	¥31,341	¥1,884	¥3,327	¥3,634	¥(469)	¥39,717
II. Assets, depreciation, impairment loss and capital expenditure						
Assets	¥728,833	¥43,791	¥29,732	¥98,549	¥(95,531)	¥805,375
Depreciation	10,047	832	159	473	(211)	11,301
Loss on impairment	—	1,939	—	179	(41)	2,078
Capital expenditure	15,438	1,275	115	376	(688)	16,517

Year ended February 28, 2009	Department store	Super market	Wholesale	Other	Elimination or corporate	Consolidated
	Thousands of U.S. dollars					
I. Sales and operating income						
Sales						
1) Sales to outside customers	**$8,527,727**	**$1,286,504**	**$813,352**	**$584,848**	**$—**	**$11,212,453**
2) Intersegment sales	**21,276**	**49,341**	**77,538**	**352,551**	**(500,838)**	**—**
Total	**8,549,116**	**1,335,855**	**890,901**	**937,409**	**(500,838)**	**11,212,453**
Operating expenses	**8,328,106**	**1,324,558**	**854,381**	**911,246**	**(493,058)**	**10,925,233**
Operating income	**$221,000**	**$11,297**	**$36,520**	**$26,153**	**$(7,770)**	**$287,210**
II. Assets, depreciation, impairment loss and capital expenditure						
Assets	**$6,948,410**	**$450,189**	**$293,498**	**$1,439,812**	**$(1,191,882)**	**$7,940,047**
Depreciation	**124,987**	**9,365**	**1,043**	**2,791**	**(2,658)**	**135,538**
Loss on impairment	**34,894**	**9,856**	**—**	**1,943**	**(143)**	**46,560**
Capital expenditure	**103,670**	**13,434**	**378**	**15,663**	**(2,127)**	**131,040**

Notes:

(1) As discussed in the note 2(h), certain subsidiaries changed the depreciation method from the declining-balance method to the straight-line method effective the year ended February 28, 2009. The effect of this change was to decrease operating expenses of "Department store," "Super market," "Wholesale" and "Other" by ¥1,200 million ($12,269 thousand), ¥30 million ($307 thousand), ¥15 million ($153 thousand) and ¥50 million ($511 thousand), respectively, and accordingly, operating income increased by the same amount.

(2) As discussed in the note 2(h), pursuant to the amendment to the Corporate Tax Law, the salvage value of the assets which were fully depreciated based on the Corporate Tax Law before the amendment is depreciated equally over five years starting from the year ended February 28, 2009. The effect of this change was to increase operating expenses of "Department store," "Super market," "Wholesale" and "Other" by ¥667 million ($6,819 thousand), ¥54 million ($552 thousand), ¥4 million ($41 thousand) and ¥10 million ($102 thousand), respectively, and accordingly, operating income decreased by the same amount.

(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.

17 RELATED PARTIES

There were no significant transactions and balances with related parties as of and for the years ended February 28, 2009 and February 29, 2008.