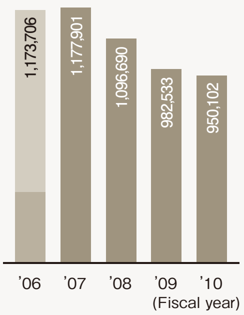
Financial Information

Analysis of Financial Condition and Operating Results

Sales

(Millions of yen)



Sales by Business Segment

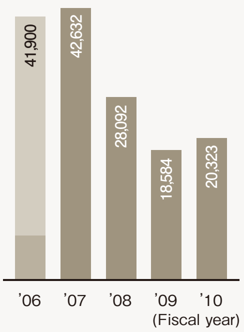
〈Composition of sales not including intersegment sales〉

〈including intersegment sales〉
(Millions of yen)

Department store business	739,311
Supermarket business	118,462
Wholesale business	54,445
Other businesses	92,737

Operating Income

(Millions of yen)



Daimaru
Matsuzakaya Holdings
JFR

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

Business overview

During the consolidated fiscal year under review (fiscal 2010), an improvement in corporate earnings and other developments provided evidence of a rebound in the Japanese economy. Amid continuing deflation, however, conditions surrounding employment and incomes remained severe, and there was little sense that a recovery had taken hold.

Department store sales fell short of the previous year's levels amid fierce competition crossing the boundaries of business type and segment, coupled with changes in consumer values and a deep-seated sense of consumer thrift.

Under these circumstances, the Group completed the creation of a one industry, one company structure through the merger of Daimaru and Matsuzakaya in March 2010. And, with a new Group management structure as the foundation, we stepped up the pace in resolving outstanding issues facing our company.

In our department store business, we set the rapid establishment of a "new department store model" as our goal. Toward this end, we pressed forward with efforts to create a novel type of store that responds to market changes and is free of the boundaries defining traditional department stores, and also strove to establish a highly efficient and highly productive store management structure.

In order to establish a more robust business foundation for the future, we forged ahead with plans to increase the floor space of the Daimaru Umeda store in response to increasingly intense competition in the Umeda district in Osaka. The Daimaru Tokyo store is also increasing its floor space. Meanwhile, the Matsuzakaya Nagoya Station store closed its doors on August 29, 2010, and we reached a decision to close the Hakata Daimaru Nagasaki store in July 2011 (scheduled).

With respect to initiatives designed to enhance Group-wide growth, we embarked on efforts to bolster our catalog shopping business with a focus on the Internet, which holds promise for further growth. Toward this end, we consolidated a portion of Daimaru Matsuzakaya Department Stores Co. Ltd.'s catalog shopping business into Daimaru Home Shopping, Inc., which was relaunched in March 2011 under the new name of JFR Online Co. Ltd. In March we also acquired shares in StylingLife Holdings Inc., which runs Plaza, a retailer of miscellaneous goods popular among young women, and made it an equity-method affiliate. In the area of cost cutting, we made further revisions to our cost structure, taking on additional tasks in-house that had previously been outsourced and consolidating facilities. In addition, we strengthened cost controls targeting individual companies within the Group, thereby promoting greater cost efficiencies.

Furthermore, in our drive to improve human productivity, the entire Group tackled structural and personnel reform initiatives, including efforts to promote both a slimmed-down workforce and the cultivation of a select group of employees through the optimal deployment of personnel within the Group.

Sales

Sales for our flagship department store business again underperformed the previous year's result, and sales for our supermarket, wholesale and other businesses also fell. As a result of the measures outlined above, however, total consolidated sales amounted to ¥950,102 million, a decrease of 3.3% compared to the previous year.

Selling, general and administrative expenses

Selling, general and administrative expenses were ¥209,265 million, down 5.6% from the previous year. Work-related expenses decreased as a result of cost cuts achieved through insourcing, while store closures led to lower leasing costs. 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

Gross profit decreased by ¥10,623 million. However, we achieved substantial cuts of ¥12,362 million in selling, general and administrative expenses, centering on personnel expenses. As a result, operating income rose by 9.4% from the previous year to ¥20,323 million.

Other income and expenses

The Group recorded a net loss of ¥5,670 million in other expenses (income), compared to a net loss of ¥4,762 million the previous year. While we recorded income of ¥1,600 million received on the closure of the Matsuzakaya Nagoya Station store and a ¥569 million gain on the sale of investment securities, we recorded expenses in the amount of ¥3,382 million on the disposal of fixed assets as a result of improvements to sales floors, and a ¥1,434 million loss on the revaluation of investment securities.

Net income

As a result of the foregoing, income before income taxes and minority interests increased by 6.0% from the previous year to ¥14,652 million, and net income increased by 8.5% from the previous year to ¥8,862 million.

Segment overview

Department store business

In this segment, we committed our full energies to creating a "new department store model" to overcome two existing issues: a "weakness in market response capabilities" and a "high cost/low profit structure."

Efforts to strengthen market responsiveness included the enhancement of product offerings so as to appeal to a variety of age groups and a review of product pricing for enhanced affordability. Particular effort was expended to create sales floors with clearly defined targets and concepts. These "specialty zones" allow customers to sense at a glance that a shop fits their values and lifestyle. A representative example is the "ufufu girls" fashion floor targeting young women, which has been a hit since it opened at the Daimaru Shinsaibashi store. "ufufu girls" was subsequently introduced at the Daimaru Kyoto, Daimaru Kobe and Matsuzakaya Ginza stores, where it has sparked significant gains in both store visits and purchases by women in their 20's and 30's. So that we might meet the needs of local customers as never before, we established and upgraded "specialty zones" such as the "International Boutique & Salon du Goût" exclusive women's sales floor, "Cinderella Avenue" women's shoes boutiques and the "Daimaru Gochipara-kan" food floor. Elsewhere, we worked to create retail spaces that are unencumbered by the boundaries defining conventional department stores, and to expand our customer demographic through measures such as the introduction of a "Forever 21" fast fashion boutique and a "Laox" home electronics store at the Matsuzakaya Ginza store.

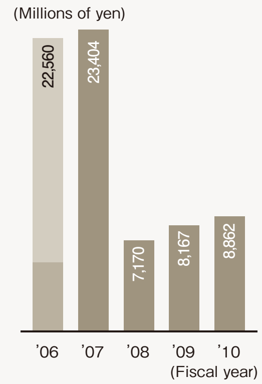
With the realization of a highly productive store management structure as our goal, we created two categories of sales floor management. They consist of "shop management," focusing on purchasing and sales functions primarily executed by our trading partners, and "self-management" functions executed by the department store itself. We strove to establish operations suited to the characteristics of each category of management and also addressed personnel deployment and human resource development.

As the culmination of our efforts to create a "new department store model," the Daimaru Osaka Umeda store, which implemented a large-scale expansion, worked to create multiple "specialty zones" and to realize efficient store management.

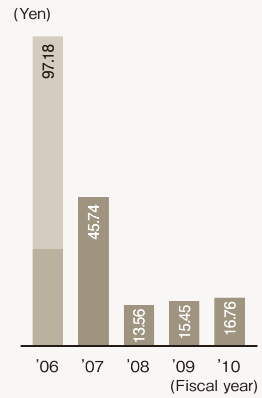
In the area of sales promotion activities, we staged highly topical projects including a spring and autumn "Thanks Festival" at all of our stores and a commemorative event in honor of "the 400th anniversary of Matsuzakaya's establishment." In addition, we proactively made use of new communication tools in the form of "digital sales promotions" incorporating the Internet and email. And in keeping with our decision to place greater importance on using cards to develop regular customers, we endeavored to increase the number of new card members by issuing "Sakura Panda" and "ufufu girls" cards.

In spite of the foregoing measures, sales in the segment decreased by 2.8% to ¥739,311 million. Contributing factors included a 50% reduction in sales floor area at the Daimaru Osaka Umeda store resulting from the store's expansion work and the effects of the closure of the Matsuzakaya Okazaki store and the Matsuzakaya Nagoya Station store. Operating income, however, rose 14.3% to ¥14,853 million, thanks to cost-cutting initiatives targeting selling, general and administrative expenses.

Net Income

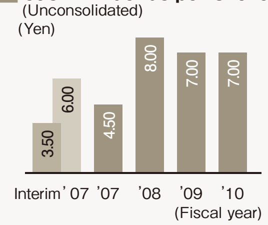


Net Income per Share



Cash Dividends per Share

(Unconsolidated)



Daimaru
Matsuzakaya Holdings
JFR

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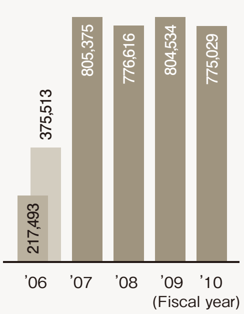
*2 For fiscal 2007, full-year consolidated figures are used for Matsuzakaya Group.

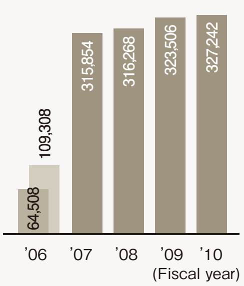
■ **Total Assets**

(Millions of yen)



■ **Net Assets**

(Millions of yen)



Daimaru
Matsuzakaya Holdings
JFR

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

●Supermarket business

In keeping with our aim of operating a high-quality foods supermarket with close ties to local communities, Peacock Stores focused on providing products that offer food safety and security, enhancing its lineup of reasonably priced original products, and also developed products commemorating the 50th anniversary of its founding. Responding to changes in local markets, we remodeled stores including the Senboku Harumidai store (Sakai City, Osaka) and the Takanodai store (Nerima-ku, Tokyo). And in January we reopened the Nakano store (Nakano-ku, Tokyo), which had been closed for reconstruction. In spite of these measures, sales for the segment decreased by 3.9% to ¥118,462 million and operating income fell by 80.2% to ¥282 million. These results were partly due to the effects of closing five stores, a move made in consideration of future trends in the market.

●Wholesale business

Daimaru Kogyo, Ltd. focused on the procurement of new commodities and materials overseas, mainly in ASEAN nations, and on the expansion of its sales channels. While there were signs of a recovery in some product categories, such as metal and resin products and food products, market conditions overall remained harsh. Sales decreased by 13.9% to ¥54,445 million, while operating income fell by 13.1% to ¥2,235 million.

●Other businesses

J. Front Design & Construction Co., Ltd. enjoyed an increase in orders received for interior design work covering facilities used in every type of business, particularly in metropolitan areas, while growth in cardholder numbers fueled a steady gain in profit for JFR Card Co., Ltd. These businesses, along with Dimples Co. Ltd. (staffing company), contributed to a 14.4% rise in this segment's sales to ¥92,737 million, and a 52.1% jump in operating income to ¥4,263 million.

Financial condition

As a result of our efforts to improve asset efficiency and capital efficiency by effectively utilizing Group-owned assets, and to create a unified management structure for our Group assets to foster greater financial strength, total assets came to ¥775,029 million. Total liabilities amounted to ¥447,786 million and total net assets came to ¥327,242 million.

On the basis of these results, return on assets (ROA) was 2.6%, and the shareholders' equity ratio was 41.0%.

Cash flows

The Group is striving to generate stable operating cash flows and to secure broad-based financing methods with the goals of ensuring access to appropriate funds for its business activities, maintaining liquidity and achieving a sound financial condition. We raise working capital, capital investment funds and investment and loan funds needed to sustain 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 net cash inflow of ¥21,270 million from operating activities, a decrease of ¥1,726 million from the previous consolidated fiscal year. Although income before income taxes and minority interests increased, accounts payable recorded as "Other" decreased.

We recorded a cash outflow of ¥8,432 million on investing activities. While sales of property and equipment resulted in an inflow of ¥3,359 million, property and equipment purchases associated with the renovation of sales floors, including the expansion of the Daimaru Osaka Umeda store, resulted in an outflow of ¥14,601 million. Cash flows decreased by ¥32,447 million as compared with the previous consolidated fiscal year, when we acquired the North Building of the Daimaru Shinsaibashi store.

The cash outflow on financing activities amounted to ¥23,128 mainly due to the repayment of debt. The outflow increased by ¥52,340 million compared to the previous consolidated fiscal year, when we obtained ¥47,450 in loans as investment funds.

As a result of the above, cash and cash equivalents at the end of the consolidated fiscal year under review stood at ¥33,204 million, a decrease of ¥10,311 million compared with the previous period. The balance of interest-bearing debt came to ¥108,658 million, a decrease of ¥17,279 million compared with the previous period.

Going forward, the Group intends to continue appropriate levels of profit distribution and capital investment, taking into consideration trends in our profit levels and cash flows.

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, while simultaneously working to maintain and improve upon our 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 to improve our corporate value, by strengthening our marketing capabilities through investment in store remodeling and business expansion, and by enhancing our financial strength.

For the period under review, JFR has decided to distribute an interim dividend of ¥3.50 and a year-end dividend of ¥3.50, for an annual dividend of ¥7.

With respect to the next fiscal year, we plan to distribute mid-term and year-end dividends of ¥3.50 each, 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 assessments as of February 28, 2011. Since they could be affected by domestic and overseas economic conditions, the Group's business risk factors are not limited to those discussed here.

❶ Business environment

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

❷ Laws, regulations and legal revisions

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

❸ Changes in the 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 result in decreased sales of the Group's main products, such as clothing and foodstuffs. Thus, changes in the natural environment could adversely affect the performance and financial position of the Group.

❹ Information management

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

❺ Overseas operations

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

❻ Significant lawsuits

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

CONSOLIDATED BALANCE SHEETS

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

February 28, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2011	2010	2011
Current assets:			
Cash on hand and in banks (Notes 4 and 16)	**¥34,087**	¥44,103	**$417,170**
Marketable securities (Notes 4, 5 and 16)	**1,484**	776	**18,162**
Notes and accounts receivable:	**53,937**	59,598	**660,103**
Less: allowance for doubtful accounts	**(761)**	(673)	**(9,313)**
Inventories (Notes 3(a) and 6)	**30,382**	35,186	**371,827**
Deferred tax assets (Note15)	**13,020**	13,295	**159,344**
Other current assets	**25,945**	26,456	**317,525**
Total current assets	**158,096**	178,744	**1,934,843**
Property and equipment:			
Land (Note 7)	**354,742**	358,177	**4,341,476**
Buildings and structures (Notes 7, 11 and 12)	**352,574**	352,718	**4,314,943**
Other	**12,827**	12,573	**156,982**
Construction in progress	**5,634**	2,870	**68,951**
Total	**725,777**	726,338	**8,882,352**
Accumulated depreciation	**(227,100)**	(226,768)	**(2,779,342)**
Net property and equipment	**498,678**	499,571	**6,103,023**
Investments and other assets:			
Investment securities (Notes 5, 7 and 16)	**23,053**	24,588	**282,132**
Investments in unconsolidated subsidiaries and affiliates	**3,831**	3,817	**46,885**
Long-term loans	**1,505**	992	**18,419**
Leasehold and other deposits (Note 16)	**47,760**	51,420	**584,506**
Deferred tax assets (Note 15)	**7,764**	11,215	**95,019**
Other	**34,340**	34,185	**420,267**
Total investment and other assets	**118,253**	126,218	**1,447,228**
Total assets	**¥775,029**	¥804,534	**$9,485,118**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND NET ASSETS	**2011**	2010	**2011**
Current liabilities:			
Notes and accounts payable (Note 16)	**¥76,310**	¥76,955	**$933,913**
Short-term bank loans (Notes 7 and 16)	**43,181**	46,324	**528,467**
Current portion of bonds (Note 7)	—	5,000	—
Income taxes payable (Note 15)	**3,296**	2,972	**40,338**
Advances received	**17,463**	27,610	**213,719**
Gift certificates	**41,727**	33,311	**510,672**
Allowance for employees' bonuses	**6,352**	6,979	**77,738**
Allowance for directors' and corporate auditors' bonuses	**164**	221	**2,007**
Provision for sales promotion	**337**	350	**4,124**
Provision for loss on collection of gift certificates	**9,179**	8,413	**112,336**
Provision for loss on business liquidation (Note 12)	**1,666**	1,641	**20,389**
Other current liabilities	**46,510**	53,328	**569,208**
Total current liabilities	**246,190**	263,109	**3,012,973**
Long-term liabilities:			
Long-term loans payable (Notes 7 and 16)	**65,476**	74,612	**801,322**
Deferred tax liabilities (Note 15)	**95,717**	98,331	**1,171,423**
Deferred tax liabilities on revaluation	**1,492**	1,492	**18,260**
Provision for retirement benefits (Note 8)	**29,409**	32,002	**359,919**
Provision for directors' and corporate auditors' retirement allowances	**65**	58	**795**
Negative goodwill	**3,443**	5,761	**42,137**
Other	**5,990**	5,660	**73,308**
Total long-term liabilities	**201,596**	217,918	**2,467,213**
Total liabilities	**447,786**	481,028	**5,480,186**
Net assets (Note 9) **:**			
Shareholders' equity:			
Common stock:			
Authorized: 2,000,000,000 shares			
Issued: 536,238,328 shares in 2011 and 2010	**30,000**	30,000	**367,152**
Capital surplus	**209,605**	209,636	**2,565,231**
Retained earnings	**84,895**	81,585	**1,038,979**
Less: Treasury stock, at cost, 7,611,040 shares in 2011			
7,582,002 shares in 2010	**(5,976)**	(5,991)	**(73,137)**
Total shareholders' equity	**318,523**	315,231	**3,898,213**
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	**(477)**	(676)	**(5,838)**
Deferred gains (losses) on hedges	**(12)**	(60)	**(147)**
Total valuation and translation adjustments	**(490)**	(736)	**(5,997)**
Stock acquisition rights	**115**	124	**1,407**
Minority interests	**9,093**	8,887	**111,284**
Total net assets	**327,242**	323,506	**4,004,920**
Total liabilities and net assets	**¥775,029**	¥804,534	**$9,485,118**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

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

Years ended February 28, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Sales:			
Net sales	**¥944,140**	¥977,880	**$11,554,767**
Rent income of real estate	**5,962**	4,652	**72,965**
	950,102	982,533	**11,627,732**
Operating expenses:			
Cost of sales	**718,067**	740,429	**8,787,994**
Cost of real estate rent	**2,447**	1,892	**29,947**
	720,514	742,321	**8,817,942**
Gross profit	**229,588**	240,211	**2,809,791**
Selling, general and administrative expenses	**209,265**	221,627	**2,561,070**
Operating income	**20,323**	18,584	**248,721**
Other income (expenses):			
Interest and dividend income	**756**	756	**9,252**
Interest expenses	**(1,717)**	(1,679)	**(21,013)**
Net gain (loss) on sales or disposal of fixed assets	**(3,129)**	1,756	**(38,294)**
Gain on sales of investment securities	**569**	970	**6,964**
Loss on revaluation of investment securities	**(1,434)**	(1,800)	**(17,550)**
Loss on impairment (Note 11)	**(1,097)**	(3,505)	**(13,426)**
Gain on restructuring liabilities	**3,441**	3,371	**42,112**
Amortization of negative goodwill	**2,317**	2,326	**28,356**
Provision for loss on collection of gift certificates	**(3,436)**	(3,615)	**(42,051)**
Loss on business restructuring (Note 12)	**(1,940)**	(1,251)	**(23,743)**
Reversal of provision for loss on business liquidation	**136**	938	**1,664**
Loss on valuation of inventories	**—**	(665)	**—**
Expenses related to acquisition of real estates	**—**	(1,822)	**—**
Compensation for store removal	**1,600**	—	**19,581**
Business structure improvement expenses (Note 13)	**(1,148)**	(868)	**(14,050)**
Other, net	**(586)**	327	**(7,172)**
	(5,670)	(4,762)	**(69,392)**
Income before income taxes and minority interests	**14,652**	13,822	**179,317**
Income taxes: (Note 15)			
Income taxes - current	**4,550**	4,807	**55,685**
Income taxes for prior periods	**—**	1,598	**—**
Income taxes - deferred	**938**	(1,411)	**11,480**
	5,489	4,993	**67,177**
Minority interests in earnings of consolidated subsidiaries	**300**	661	**3,672**
Net income	**¥8,862**	¥8,167	**$108,457**

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, 2011 and 2010

		Millions of yen				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
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
Cash dividends paid				**(5,552)**		**(5,552)**
Net income				**8,862**		**8,862**
Purchase of treasury stock					**(53)**	**(53)**
Disposal of treasury stock			**(31)**		**67**	**36**
Net changes of items other than shareholders' equity during the year						
Balance, February 28, 2011	**536,238,328**	**¥30,000**	**¥209,605**	**¥84,895**	**¥(5,976)**	**¥318,523**

	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, 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
Cash dividends paid						**(5,552)**
Net income						**8,862**
Purchase of treasury stock						**(53)**
Disposal of treasury stock						**36**
Net changes of items other than shareholders' equity during the year	**199**	**47**	**246**	**(9)**	**205**	**443**
Balance, February 28, 2011	**¥(477)**	**¥(12)**	**¥(490)**	**¥115**	**¥9,093**	**¥327,242**

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, 2010	536,238,328	$367,152	$2,565,610	$998,470	$(73,320)	$3,857,924
Cash dividends paid				**(67,948)**		**(67,948)**
Net income				**108,457**		**108,457**
Purchase of treasury stock					**(649)**	**(649)**
Disposal of treasury stock			**(379)**		**820**	**441**
Net changes of items other than shareholders' equity during the year						
Balance, February 28, 2011	**536,238,328**	**$367,152**	**$2,565,231**	**$1,038,979**	**$(73,137)**	**$3,898,213**

	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, 2010	$(8,273)	$(734)	$(9,007)	$1,518	$108,763	$3,959,197
Cash dividends paid						**(67,948)**
Net income						**108,457**
Purchase of treasury stock						**(649)**
Disposal of treasury stock						**441**
Net changes of items other than shareholders' equity during the year	**2,435**	**575**	**3,011**	**(110)**	**2,509**	**5,422**
Balance, February 28, 2011	**$(5,838)**	**$(147)**	**$(5,997)**	**$1,407**	**$111,284**	**$4,004,920**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

Years ended February 28, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥14,652**	¥13,822	**$179,317**
Depreciation	**13,610**	13,295	**166,565**
Loss on impairment	**1,936**	3,769	**23,694**
Amortization of negative goodwill	**(2,317)**	(2,326)	**(28,356)**
Increase in allowance for doubtful accounts	**23**	409	**281**
Decrease in allowance for bonuses	**(683)**	(705)	**(8,359)**
Decrease in provision for employees' retirement benefits	**(2,592)**	(2,275)	**(31,722)**
Decrease in provision for sales promotion	**(13)**	(3)	**(159)**
Increase in provision for loss on collection of gift certificates	**765**	1,096	**9,362**
Increase (decrease) in provision for business liquidation	**25**	(1,038)	**306**
Interest and dividend income	**(756)**	(756)	**(9,252)**
Interest expenses	**1,717**	1,679	**21,013**
Equity in earnings of affiliated companies	**(66)**	(200)	**(808)**
(Gain) loss on sales or disposal of property and equipment, net	**2,927**	(1,939)	**35,822**
Gain on sales of investment securities, net	**(569)**	(970)	**(6,964)**
Write-down of investment securities	**1,434**	1,800	**17,550**
Decrease in notes and accounts receivable	**5,660**	2,310	**69,269**
Decrease in inventories	**4,803**	7,703	**58,781**
Decrease in notes and accounts payable	**(645)**	(2,622)	**(7,894)**
(Increase) decrease in other receivables	**(1,216)**	1,884	**(14,882)**
Increase in prepaid expenses	**(328)**	(1,741)	**(4,014)**
Other	**(12,597)**	(3,612)	**(154,167)**
Subtotal	**25,769**	29,581	**315,371**
Interest and dividend income received	**710**	711	**8,689**
Interest expenses paid	**(1,728)**	(1,574)	**(21,148)**
Income taxes paid	**(3,480)**	(5,721)	**(42,590)**
Net cash provided by operating activities	**21,270**	22,996	**260,311**
Cash flows from investing activities:			
Purchase of securities	**(1,538)**	(2,149)	**(18,823)**
Proceeds from sales of securities	**1,872**	8,327	**22,910**
Purchase of property and equipment	**(14,601)**	(55,748)	**(178,693)**
Proceeds from sales of property and equipment	**3,359**	7,971	**41,109**
Increase in long-term loans	**(95)**	(36)	**(1,163)**
Proceeds from collection of long-term loans	**158**	375	**1,934**
(Increase) decrease in short-term loans	**122**	(87)	**1,493**
Other	**2,288**	468	**28,001**
Net cash used in investing activities	**(8,432)**	(40,879)	**(103,194)**
Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	**(8,818)**	2,184	**(107,918)**
Proceeds from long-term bank loans	**2,500**	47,450	**30,596**
Payments of long-term bank loans	**(5,960)**	(4,374)	**(72,941)**
Redemption of bonds	**(5,000)**	(14,000)	**(61,192)**
Purchase of treasury stock	**(51)**	(50)	**(624)**
Cash dividends paid	**(5,523)**	(1,858)	**(67,593)**
Cash dividends paid to minority shareholders	**(94)**	(83)	**(1,150)**
Other	**(180)**	(54)	**(2,203)**
Net cash provided by (used in) financing activities	**(23,128)**	29,212	**(283,050)**
Effect of exchange rate changes	**(20)**	(121)	**(245)**
Net increase (decrease) in cash and cash equivalents	**(10,311)**	11,208	**(126,190)**
Cash and cash equivalents at beginning of year	**43,515**	32,307	**532,554**
Cash and cash equivalents at end of year (Note 4)	**¥33,204**	¥43,515	**$406,364**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Years ended February 28, 2011 and 2010

1 BASIS OF PRESENTING CONSOLIDATED FINANCIALSTATEMENTS

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, 2011, which was ¥81.71 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 21 (23 in 2010) significant subsidiaries (hereafter the "Companies").

Investments in 5 significant affiliates are accounted for by the equity method after the elimination of unrealized intercompany profits. Investments in the remaining unconsolidated subsidiaries and affiliates 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 affiliates 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 affiliates 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 affiliates 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 foreign exchange forward contracts are used as hedges and meet certain hedging criteria, hedged items are stated using the foreign exchange forward contract rates.

Also, if interest rate swaps 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 foreign exchange forward 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 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 unconsolidated subsidiaries and affiliates 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

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 adopted the, "Accounting Standard for Measurement of Inventories"(ASBJ Statement No. 9, issued 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 and ¥823 million, respectively, compared with the previous method.

(b) Accounting Standard for Lease Transactions as Lessee

Effective from the year ended February 28, 2010, the Companies adopted the "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 the "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 for the year ended February 28, 2010.

Also, there were no effects on operating income in the segment information for the year ended February 28, 2010.

(c) Accounting Standard for Retirement Benefits

Effective from the year ended February 28, 2011, the Companies have adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19, issued on July 31, 2008).

There are no effects on operating income and income before income taxes and minority interests for the year ended February 28, 2011.

4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents in the statements of cash flows at February 28, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash on hand and in banks	**¥34,087**	¥44,103	**$417,170**
Time deposits with maturities exceeding three months	**(900)**	(605)	**(11,015)**
Short-term investments	**17**	17	**208**
Cash and cash equivalents	**¥33,204**	¥43,515	**$406,364**

5 SECURITIES

Marketable securities classified as available-for-sale securities at February 28, 2011 and 2010 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	February 28, 2011					
	Acquisition cost	Carrying value	Unrealized gains (losses)	Acquisition cost	Carrying value	Unrealized gains (losses)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥4,539**	**¥6,396**	**¥1,857**	**$55,550**	**$78,277**	**$22,727**
Debt securities	**3,306**	**3,340**	**34**	**40,460**	**40,876**	**416**
Subtotal	**7,845**	**9,737**	**1,892**	**96,010**	**119,165**	**23,155**
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	**13,100**	**10,484**	**(2,615)**	**160,323**	**128,307**	**(32,003)**
Debt securities	**1,112**	**1,108**	**(4)**	**13,609**	**13,560**	**(49)**
Subtotal	**14,213**	**11,592**	**(2,620)**	**173,944**	**141,868**	**(32,065)**
Total	**¥22,058**	**¥21,329**	**¥(728)**	**$269,955**	**$261,033**	**$(8,910)**

	Millions of yen		
	February 28, 2010		
	Acquisition cost	Carrying value	Unrealized gains (losses)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥5,177	¥7,504	¥2,327
Debt securities	3,094	3,136	42
Subtotal	8,272	10,641	2,369
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	14,275	10,848	(3,427)
Debt securities	659	644	(15)
Subtotal	14,935	11,492	(3,442)
Total	¥23,207	¥22,134	¥(1,073)

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, 2011 and 2010 amounted to ¥1,434 million ($17,550 thousand) and ¥1,800 million, respectively.

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

	Millions of yen
	2010
Unlisted equity securities	¥3,195
Other	35
Total	¥3,230

Information on available-for-sale securities whose fair value is not available at February 28, 2011 is described in Note 16 FINANCIAL INSTRUMENTS.

Proceeds from sales of available-for-sale securities, gross realized gains and gross realized losses on these sales for the year ended February 28, 2011 and 2010 were ¥1,013 million ($12,398 thousand) and ¥8,327 million, ¥569 million ($6,964 thousand) and ¥970 million, and ¥15 million ($184 thousand) and ¥96 million, respectively.

6 INVENTORIES

Inventories as of February 28, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Merchandise and products	¥29,729	¥34,364	$363,836
Work in process	294	398	3,598
Raw materials and supplies	358	423	4,381
Total	¥30,382	¥35,186	$371,827

7 SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at February 28, 2011 and 2010 consisted of notes to banks and bank overdrafts. The annual weighted average interest rate applicable to the short-term bank loans was 0.57%. Long-term debt at February 28, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Unsecured 0.88% straight bonds due 2011	¥—	¥3,000	$—
Unsecured 0.86% straight bonds due 2011	—	2,000	—
Loans from banks and others due serially to 2021	**77,108**	80,569	**943,679**
Total	**77,108**	85,569	**943,679**
Less: Current portion of long-term debt	**11,632**	10,957	**142,357**
	¥65,476	¥74,612	**$801,322**

Annual maturities of long-term debt including bonds due subsequent to February 28, 2011 were as follows:

Years ending February 28	Millions of yen	Thousands of U.S. dollars
2012	**¥11,632**	**$142,357**
2013	**42,389**	**518,774**
2014	**15,285**	**187,064**
2015	**4,049**	**49,553**
2016 and thereafter	**3,753**	**45,931**
Total	**¥77,108**	**$943,679**

The carrying amounts of assets pledged as collateral for short-term loans of ¥2,668 million ($32,652 thousand) and the long-term loans of ¥8,314 million ($101,750 thousand) at February 28, 2011 were as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	**¥13,881**	**$169,881**
Land	**12,612**	**154,351**
Investment securities	**441**	**5,397**
Total	**¥26,935**	**$329,641**

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, 2011 and 2010 for the Companies' retirement benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Retirement benefit obligation	**¥75,350**	¥83,381	**$922,164**
Plan assets at fair value	**(35,660)**	(37,161)	**(436,421)**
Retirement benefit trusts	**(9,476)**	(9,039)	**(115,971)**
Unfunded retirement benefit obligation	**30,213**	37,180	**369,759**
Unrecognized prior service cost	**2,892**	2,191	**35,393**
Unrecognized actuarial differences	**(15,004)**	(18,087)	**(183,625)**
	18,101	21,284	**221,527**
Prepaid pension cost	**11,308**	10,717	**138,392**
Provision for retirement benefits	**¥29,409**	¥32,002	**$359,919**

The component of net retirement benefit costs for the years ended February 28, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	**¥2,678**	¥2,768	**$32,774**
Interest cost	**1,603**	1,671	**19,618**
Expected return on plan assets	**(888)**	(952)	**(10,868)**
Amortization of prior service cost	**(574)**	(292)	**(7,025)**
Recognized actuarial differences	**1,742**	1,653	**21,319**
Net retirement benefit cost	**4,560**	4,848	**55,807**
Contribution to defined contribution plan	**215**	248	**2,631**
Total	**¥4,775**	¥5,097	**$58,438**

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

	2011	2010
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	**Mainly 10-12 years**	Mainly 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 12, 2011, distribution of cash dividends amounting to ¥1,850 million ($22,641 thousand) was resolved. This distribution has not been accrued in the consolidated financial statements as of February 28, 2011 and is recognized in the period in which they were resolved.

10 STOCK OPTIONS

The stock options outstanding as of February 28, 2011 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 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
Exercised	35,000	35,000			11,000	
Forfeited						
February 28, 2011-outstanding	105,000	70,000	308,000	336,000	38,000	300,000

Price information is as follows:

	Yen					
Year ended February 28, 2011	1st	2nd	3rd	4th	5th	6th
Exercise price	¥404	¥317	¥699	¥691	¥1	¥794
Average stock price at time of exercise	548	546	—	—	523	—
Fair value at date of grant	*	*	*	*	833	279

	U.S. dollar					
Year ended February 28, 2011	1st	2nd	3rd	4th	5th	6th
Exercise price	$4.94	$3.88	$8.55	$8.46	$0.12	$9.72
Average stock price at time of exercise	6.71	6.68	—	—	6.40	—
Fair value at date of grant	*	*	*	*	10.19	3.41

*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 property and equipment including buildings, other properties and land in stores for the years ended February 28, 2011 and 2010 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
	2011	2010	2011
Buildings and other properties	**¥727**	¥2,640	**$8,898**
Land	**369**	864	**4,516**
Total	**¥1,097**	¥3,505	**$13,426**

The carrying values of these assets were reduced to the recoverable amounts. The recoverable amounts of buildings and other properties 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 were measured according to the estimated net sale value, which are based on the appraisal value by quotation from a real-estate appraiser. The recoverable amounts of 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 for the year ended February 28, 2010.

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, 2011 and 2010 as follows:

	Millions of yen	
	2011	
	Hakata Daimaru Nagasaki store	Total
Provision for loss on business liquidation	**¥1,102**	**¥1,102**
Impairment loss on buildings and other properties	**838**	**838**
Total	**¥1,940**	**¥1,940**

	Thousands of U.S. dollars	
	2011	
	Hakata Daimaru Nagasaki store	Total
Provision for loss on business liquidation	**$13,487**	**$13,487**
Impairment loss on buildings and other properties	**10,256**	**10,256**
Total	**$23,743**	**$23,743**

	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**

13 BUSINESS STRUCTURE IMPROVEMENT EXPENSES

The main components of business structure improvement expenses are registration expense for the transfer of real property related to the merger of The Daimaru, Inc. and Matsuzakaya Co., Ltd. and expenses associated with implementing flexible retirement system.

14 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, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Property and equipment (Machinery, furniture and fixtures)			
Acquisition cost	**¥10,713**	¥13,159	**$131,110**
Accumulated depreciation	**6,969**	7,477	**85,289**
Accumulated impairment loss	**568**	547	**6,951**
Net leased assets	**¥3,174**	¥5,135	**$38,845**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	**¥1,714**	¥2,104	**$20,977**
Due after one year	**1,757**	3,390	**21,503**
Total	**¥3,471**	¥5,494	**$42,480**
Impairment loss on leased assets	**¥296**	¥359	**$3,623**

Total lease payments and other information:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Total lease payments	**¥2,086**	¥2,532	**$25,529**
Reversal of allowance for impairment loss on leased assets	**172**	145	**2,105**
Depreciation expense	**1,913**	2,387	**23,412**
Impairment loss	**109**	220	**1,334**

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, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Property and equipment (Machinery, furniture and fixtures)			
Acquisition cost	**¥713**	¥1,172	**$8,726**
Accumulated depreciation	**474**	813	**5,801**
Net leased assets	**¥239**	¥358	**$2,925**

Commitment received under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2010
Due within one year	**¥72**	¥119	**$881**
Due after one year	**166**	239	**2,032**
Total	**¥239**	¥358	**$2,925**

Lease income and depreciation expense:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease income	**¥97**	¥156	**$1,187**
Depreciation expense	**97**	156	**1,187**

b. Operating leases

Future minimum lease payments under non-cancelable leases subsequent to February 28, 2011 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
As a lessee:		
Within one year	**¥3,793**	**$46,420**
After one year	**21,534**	**263,542**
Total	**¥25,327**	**$309,962**
As a lessor:		
Within one year	**¥730**	**$8,934**
After one year	**901**	**11,027**
Total	**¥1,632**	**$19,973**

15 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, 2011 and 2010. The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of February 28, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Provision for retirement benefits	**¥7,342**	¥8,611	**$89,854**
Securities under retirement benefit trusts	**4,921**	4,843	**60,225**
Loss on evaluation recognized upon merger of consolidated subsidiaries	**4,516**	4,516	**55,269**
Loss on impairment	**4,538**	3,717	**55,538**
Provision for loss on collection of gift certificates	**3,697**	3,380	**45,245**
Points payable	**2,884**	2,809	**35,296**
Allowance for bonuses	**2,607**	2,878	**31,906**
Tax loss carryforwards	**2,174**	2,272	**26,606**
Allowance for doubtful accounts	**1,249**	1,193	**15,286**
Unrealized gains on fixed assets	**742**	598	**9,081**
Provision for loss on business liquidation	**697**	666	**8,530**
Accrued enterprise tax	**374**	406	**4,577**
Provision for sales promotion	**136**	173	**1,664**
Payables related to an amendment to the retirement benefit plan	**159**	415	**1,946**
Inventories	**132**	228	**1,615**
Other	**4,356**	5,044	**53,310**
Gross deferred tax assets	**40,532**	41,755	**496,047**
Less: Valuation allowance	**(11,214)**	(10,797)	**(137,241)**
Total deferred tax assets	**¥29,317**	¥30,958	**$358,793**
Deferred tax liabilities:			
Adjustments of book values by fair value method	**¥(94,546)**	¥(94,970)	**$(1,157,092)**
Deferred gains	**(7,615)**	(7,344)	**(93,195)**
Returned shares of retirement benefit trusts	**(2,063)**	(2,464)	**(25,248)**
Other	**(25)**	—	**(306)**
Total deferred tax liabilities	**(104,250)**	(104,778)	**(1,275,854)**
Net of deferred tax assets	**¥(74,933)**	¥(73,820)	**$(917,060)**

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
	2011	2010	2011
Current assets	**¥13,020**	¥13,295	**$159,344**
Investments and other assets	**7,764**	11,215	**95,019**
Long-term liabilities	**(95,717)**	(98,331)	**1,171,423**

16 FINANCIAL INSTRUMENTS

The Companies have adopted the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, issued on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, issued on March 10, 2008) effective from the year ended February 28, 2011.

(1) Overview

(a) The Companies policy for financial instruments

The Companies manage funds through low-risk bank deposits and bonds only. Funds are raised through bank borrowings, issuance of corporate bonds and securitization receivables. Derivatives are only utilized to hedge foreign currency fluctuation risk to accounts receivable and accounts payable denominated in foreign currencies and interest rate fluctuation risk to loans payable and bonds, and are not used for speculative purposes.

(b) Types of financial instruments and related risk and risk management

Trade receivables such as notes and accounts receivable are exposed to credit risk.

Leasehold and other deposits are mainly associated with store rentals and exposed to lessors' credit risk. For these credit risks, the Companies manage the due date and balances for each counterparty periodically and keep track of the adverse financial conditions of them in the early stage to mitigate bad debts.

Stocks as Investment securities are exposed to market fluctuation risk, but mainly consist of securities of companies with which a business relationship has been established. The Companies review these fair value periodically and readjusting the portfolio on an ongoing basis.

Most of trade payables such as notes and accounts payable are due within one year. Some of these trade payables are denominated in foreign currencies that are exposed to foreign currency fluctuation risk. The Companies utilizes foreign exchange forward contracts to hedge foreign currency fluctuation risk to trade payables denominated in foreign currencies.

Short-term bank loans and securitization receivables are mainly used to finance operating capital and long-term loans payable are mainly used to finance necessary funds for the capital investments. Variable interest rate loans payable are exposed to interest rate fluctuation risk. The Companies utilize derivative transactions (interest rate swaps) as hedging instruments for each long-term loan to mitigate the interest fluctuation risk and fix interest payment. The Companies evaluate the effectiveness of each hedge transaction periodically. For some debts that meet short-cut method of interest rate swaps, evaluation of hedge effectiveness is omitted.

Implementation and management of derivative transactions are based on the internal rules which determines the authorization and maximum amounts of the transactions. The Companies enter into derivative transactions only with creditworthy financial institutions to mitigate credit risk.

Trade payables and loans payable are exposed to liquidity risk. The Companies manage the risk by preparing and updating the monthly cash management schedule and keep the necessary liquidity by commitment lines and overdraft contracts with several financial institutions.

(2) Fair value of financial instruments

Carrying amount on the consolidated balance sheet as of February 28, 2011, fair value and difference are as follows. The financial instruments whose fair value is extremely difficult to determine are not included below.

	Millions of Yen			Thousands of U.S. dollars		
	2011					
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash on hand and in banks	¥35,387	¥35,387	¥—	$433,080	$433,080	$—
Notes and accounts receivable	53,937	53,937	—	660,103	660,103	—
Marketable and investment securities:						
Available-for-sale securities	21,329	21,329	—	261,033	261,033	—
Investments in affiliates	1,237	484	(752)	15,139	5,923	(9,203)
Leasehold and other deposits	37,458	33,191	(4,267)	458,426	406,205	(52,221)
Total assets	¥149,351	¥144,331	¥(5,020)	$1,827,818	$1,766,381	$(61,437)
Notes and accounts payable	¥76,310	¥76,310	¥—	$933,913	$933,913	$—
Short-term bank loans	31,549	31,549	—	386,893	386,893	—
Long-term loans payable	77,109	78,244	1,135	943,691	957,582	13,891
Total liabilities	¥184,969	¥186,104	¥1,135	$2,264,509	$2,278,399	$13,891
Derivative transactions, net	¥(21)	¥(21)	¥—	$(257)	$(257)	$—

(Note 1) Valuation method for financial instruments and information on investment securities and derivative transactions are summarized below:

Cash on hand and in banks and Notes and accounts receivable
Fair value of cash on hand and in banks is based on its carrying amount since these are primarily paid in short-term and the fair value approximates carrying amount. The amounts in the above table include deposits with maturities exceeding one year.

Marketable and investment securities
Fair value of stocks is based on the quoted price on stock exchanges and that of bonds is based on the quoted price on bond markets or price presented by the counter party financial institutions.

Leasehold and other deposits
Fair value of leasehold and other deposits is determined by discounting the future cash flows at the rate considering credit risk. The amounts in the above table include leasehold and other deposits which refundable within one year.

Notes and accounts payable and Short-term bank loans
Fair value of notes and accounts payable is based on its carrying amount since these are paid in short-term and the fair value approximates carrying amount.

Long-term loans payable
Fair value of variable interest rate long-term loans payable is based on its carrying amount since these reflect interest rates market in short-term and the fair value approximates carrying amount. Some of them subject to the short-cut method of the interest rate swaps are calculated by discounting the sum of principal and interest including the interest swaps, using the reasonable interest rate applied to when a new borrowing is made.

Fair value of fixed interest rate long-term loans payable are calculated by discounting the sum of principal and interest, using the rate assumed when a similar and new borrowing is made. The amounts in the above table include current portion of long-term loans payable.

Derivative transactions
Please see Note 17 DERIVATIVE TRANSACTIONS.

(Note2) Financial instruments whose fair value is extremely difficult to determine as of February 28, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
	Carrying Value	
Unlisted stock	¥5,800	$70,983
Leasehold and other deposit	10,705	131,012

(Note3) The redemption schedule for financial instruments and securities with maturities as of February 28, 2011 is as follows:

	Millions of yen			
	2011			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash in banks	¥29,136	¥1,300	¥—	¥—
Notes and accounts receivable	53,937	—	—	—
Marketable and investment securities:				
Available-for-sale securities with maturities				
Government bonds	—	250	—	—
Corporate bonds	1,300	2,200	100	—
Other	176	400	—	—
Leasehold and other deposits	964	2,970	1,833	7,829
Total	¥85,515	¥7,120	¥1,933	¥7,829

	Thousands of U.S. dollars			
	2011			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash in banks	$356,578	$15,910	$—	$—
Notes and accounts receivable	660,103	—	—	—
Marketable and investment securities:				
Available-for-sale securities with maturities				
Government bonds	—	3,060	—	—
Corporate bonds	15,910	26,924	1,224	—
Other	2,154	4,895	—	—
Leasehold and other deposits	11,798	36,348	22,433	95,814
Total	$1,046,567	$87,137	$23,657	$95,814

17 DERIVATIVE TRNSACTIONS

There are no derivative transactions where hedge accounting is not applied as of February 28, 2011.

Derivative transactions to which hedge accounting is applied as of February 28, 2011 are as follows:

(a) Currency related

	Millions of yen			
	2011			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Allocation method				
Foreign exchange forward contracts:				
USD (Selling)	Accounts receivable	**¥290**	**¥**—	*
HKD (Selling)	Accounts receivable	**0**	—	*
USD (Buying)	Accounts payable	**1**	—	*
Benchmark method				
Foreign exchange forward contracts:				
USD (Buying)	Foreign-currency-dominated forecasted transactions (Accounts payable)	**759**	—	**¥(9)**
EUR (Buying)	Foreign-currency-dominated forecasted transactions (Accounts payable)	**685**	—	**(10)**
GBP (Buying)	Foreign-currency-dominated forecasted transactions (Accounts payable)	**0**	—	**(0)**
THB (Buying)	Foreign-currency-dominated forecasted transactions (Accounts payable)	**12**	—	**(0)**

	Thousands of U.S. dollars			
	2011			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Allocation method				
Foreign exchange forward contracts:				
USD (Selling)	Accounts receivable	**$3,549**	**$**—	*
HKD (Selling)	Accounts receivable	**0**	—	*
USD (Buying)	Accounts payable	**12**	—	*
Benchmark method				
Foreign exchange forward contracts:				
USD (Buying)	Foreign-currency-dominated forecasted transactions (Accounts payable)	**9,289**	—	**¥(110)**
EUR (Buying)	Foreign-currency-dominated forecasted transactions (Accounts payable)	**8,383**	—	**(122)**
GBP (Buying)	Foreign-currency-dominated forecasted transactions (Accounts payable)	**0**	—	**(0)**
THB (Buying)	Foreign-currency-dominated forecasted transactions (Accounts payable)	**147**	—	**(0)**

*Fair value of the foreign exchange forward contracts to which allocation method of accounting have been applied is included in the fair value of corresponding accounts receivable and accounts payable as hedged item.

Fair value of derivatives is measured at quoted price obtained from the financial institutions.

(b) Interest rate related

		Millions of yen		
		2011		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Short-cut method				
Interest rate swaps:				
Receive floating and pay fixed rate	Long-term loans payable	**¥44,000**	**¥41,000**	*

		Thousands of U.S. dollars		
		2011		
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Short-cut method				
Interest rate swaps:				
Receive floating and pay fixed rate	Long-term loans payable	**$538,490**	**$501,775**	*

* Fair value of the interest rate swaps to which short-cut method have been applied is included in the fair value of corresponding long-term loans payable as hedged item.

As described in Note 16 FINANCIAL INSTRUMENTS, the Companies have adopted the "Accounting Standard for Financial Instruments" and the " Guidance on Disclosures about Fair Value of Financial Instruments". The accounting standard and the guidance are effective from the years ending on or after March 31, 2010; therefore, the required information regarding derivatives is disclosed only for the year ended February 28, 2011.

18 CONTINGENT LIABILITIES

The Companies had the following contingent liabilities at February 28, 2011 and 2010:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Guarantees of payment for Daimaru Kogyo International Trading (Shanghai) Co., Ltd. (a subsidiary of Daimaru Kogyo Ltd.)	**¥100**	¥—	**$1,224**
Guarantees on employees' home mortgage loans	**54**	68	**661**
Guarantees on lease arrangements for SDS Planning Co.,Ltd.(a subsidiary of The Shimonoseki Daimaru,Inc.)	**17**	20	**208**
Total	**¥172**	¥89	**$2,105**

19 PER SHARE INFORMATION

The financial data for the computation of basic net income per share for the years ended February 28, 2011 and 2010 was as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollar
	Net income	Weighted average shares	EPS	
For the year ended February 28, 2011:				
Basic EPS				
Net income available to common shareholders	**¥8,862**	**528,676**	**¥16.76**	**$0.21**
For the year ended February 28, 2010:				
Basic EPS				
Net income available to common shareholders	¥8,167	528,689	¥15.45	

Net assets per share at February 28, 2011 and 2010 were calculated as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollar
	Net assets	Common shares at end of fiscal year	Net assets per shares	
For the year ended February 28, 2011:				
Total net assets	**¥327,242**			
Amounts not attributable to common shares:	**9,209**			
—Stock subscription rights	**(115)**			
—Minority interests	**(9,093)**			
Net assets attributable to common shares	**318,033**		**¥601.62**	**$7.36**
Outstanding number of common shares issued		**528,627**		
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	
Outstanding number of common shares issued		528,656		

20 BUSINESS COMBINATION

Transactions under common control

(a) Department store business

Matsuzakaya Co., Ltd. and The Daimaru, Inc., both wholly owned subsidiaries of the Company, merged on March 1, 2010. Overview of the merger is as follows:

(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 an absorption-type merger 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, The Daimaru, Inc. and Matsuzakaya Co., Ltd. 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 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 ($122,384 thousand).

(6) Overview of accounting procedures implemented

This merger has been accounted for as a transaction under common control according to the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 26, 2008).

(b) Special prepayment-based transaction business

The Daimaru Tomonokai Inc. and Matsuzakaya Tomonokai Co., Ltd., both wholly owned subsidiaries of the Company, merged on September 1, 2010. Overview of the merger is as follows:

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

Absorbing company:

Company name The Daimaru Tomonokai, Inc.

Description of the business

Special prepayment-based transaction business based on the Installment Sales Act

Absorbed company:

Company name Matsuzakaya Tomonokai, Co., Ltd.

Description of the business

Special prepayment-based transaction business based on the Installment Sales Act

(2) Date of the business combination

September 1, 2010

(3) Legal form of the business combination

The merger was an absorption-type merger with The Daimaru Tomonokai, Inc. as a surviving company, and Matsuzakaya Tomonokai Co., Ltd. went into liquidation on September 1, 2010.

(4) Name of company following the business combination

Daimaru Matsuzakaya Tomonokai Co., Ltd.

(5) Overview of the transactions including purposes

The Company aims to have stable financial ground by scale expansion, establish efficient management base by streamlining overlapping services. And through building up the structure of membership association of Daimaru Matsuzakaya Department Stores Co., Ltd, "tomonokai", that can provide more convenient, better and new customer services continuously in the broader area, it contributes to strategic advantages in regular customers, corporate survival and growth strategy of the Companies.

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 capital.

(6) Overview of accounting procedures implemented

This merger has been accounted for as a transaction under common control according to the "Accounting Standard for Business Combinations" (ASBJ Statement No.21, issued on December 26, 2008) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 26, 2008).

21 INVESTMENT AND RENTAL PROPERTY

Effective from the year ended February 28, 2011, the Companies have adopted the "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20, issued on November 28, 2008) and the " Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23, issued on November 28, 2008).

Certain consolidated subsidiaries of the Company own buildings for rent (including land) in Tokyo and other areas.

Revenue and cost related to the real estate for rent are recorded in rent income of real estate in sales and cost of real estate rent in operating expenses, respectively. Net profit of the real estate for rent is ¥3,515 million ($43,018 thousand) for the year ended February 28, 2011.

Gain on sales of fixed assets of ¥448 million ($5,483 thousand), loss on disposal of fixed assets of ¥254 million ($3,109 thousand), and loss on impairment of ¥363 million ($4,443 thousand) are recorded in other income (expense), respectively, for the year ended February 28, 2011.

The carrying amounts, increase/decrease in balances and the fair value of the properties at February 28, 2011 are as follows:

Millions of yen			
Carrying amount			Fair value
February 28, 2010	Increase/ Decrease	February 28, 2011	February 28, 2011
¥92,590	¥25,230	¥117,820	¥112,958

Thousands of U.S. dollars			
Carrying amount			Fair value
February 28, 2010	Increase/ Decrease	February 28, 2011	February 28, 2011
$1,133,154	$308,775	$1,441,929	$1,382,426

(Note1) Carrying amount is net of accumulated depreciation.

(Note2) Increase during the year ended February 28, 2011 is mainly due to the transfer from real estate for own use to real estate for rent of ¥26,256 million ($321,332 thousand) and the acquisition of real estate of ¥1,655 million ($20,255 thousand). Decrease during the year ended February 28, 2011 was mainly due to the sales of real estate for rent of ¥2,332 million ($28,540 thousand).

(Note3) Fair value of significant properties as of February 28, 2011 is calculated by the outside real-estate appraiser, based on the real estate appraisal standards. Fair value of other properties is measured by the Company using market indexes and other information.

22 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, 2011 and 2010 was as follows:

	Millions of yen					
Year ended February 28, 2011	Department store	Super market	Wholesale	Other	Elimination or corporate	Consolidated
I. Sales and operating income						
Sales						
1) Sales to outside customers	¥736,570	¥114,688	¥47,628	¥51,216	¥—	¥950,102
2) Intersegment sales	2,741	3,774	6,817	41,521	(54,854)	—
Total	739,311	118,462	54,445	92,737	(54,854)	950,102
Operating expenses	724,457	118,180	52,209	88,473	(53,541)	929,779
Operating income	¥14,853	¥282	¥2,235	¥4,263	¥(1,312)	¥20,323
II. Assets, depreciation, impairment loss and capital expenditure						
Assets	¥671,811	¥40,025	¥26,650	¥129,291	¥(92,748)	¥775,029
Depreciation	12,526	846	99	367	(228)	13,610
Loss on impairment	838	649	78	369	—	1,936
Capital expenditure	18,564	578	107	1,134	(608)	19,776

	Millions of yen					
Year ended February 28, 2010	Department store	Super market	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

Year ended February 28, 2011	Thousands of U.S. dollars					
	Department store	Super market	Wholesale	Other	Elimination or corporate	Consolidated
I. Sales and operating income						
Sales						
1) Sales to outside customers	$9,014,441	$1,403,598	$582,891	$626,802	$—	$11,627,732
2) Intersegment sales	33,545	46,188	83,429	508,151	(671,325)	—
Total	9,047,987	1,449,786	666,320	1,134,953	(671,325)	11,627,732
Operating expenses	8,866,198	1,446,335	638,955	1,082,768	(655,256)	11,379,011
Operating income	$181,777	$3,451	$27,353	$52,172	$(16,057)	$248,721
II. Assets, depreciation, impairment loss and capital expenditure						
Assets	$8,221,895	$489,842	$326,153	$1,582,316	$(1,135,088)	$,9,485,118
Depreciation	153,298	10,354	1,212	4,491	(2,790)	166,565
Loss on impairment	10,256	7,943	955	4,516	—	23,694
Capital expenditure	227,194	7,074	1,310	13,878	(7,441)	242,027

Notes: As discussed in the note 3 (a), the Companies have adopted the "Accounting Standards for Measurement of Inventories" (ASBJ Statement No.9, issued 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 and decrease operating income of "Supermarket" and "Other" by ¥193 million and ¥2 million, respectively, compared with the previous method for the year ended February 28, 2010.

(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.

23 RELATED PARTIES

There were no significant transactions between the Company and related parties for the year ended February 28, 2011.

Significant transactions between the consolidated subsidiaries and a related party for the year ended February 28, 2011 were as follows:

Name of related party	Type of transaction	Millions of yen	Thousands of U.S. dollars
		2011	2011
Ryoichi Yamamoto	Contract for housing construction	¥113	$1,383

Ryoichi Yamamoto is a director of the Company and owns 0.01% of voting rights of the Company.
The contract amount is determined based on general terms and conditions.

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

24 SUBSEQUENT EVENT

The Company entered into share transfer agreements for acquiring stocks of StylingLife Holdings Inc. (hereafter "SLH") with Sony Corporation, MITSUI & Co., LTD. and Senshukai Co., Ltd. on March 1, 2011 and Tokyu Corporation on March 28, 2011 upon the resolution by the Board of Directors' meeting held on February 25, 2011 and March 28, 2011, respectively, and acquired the stocks of SLH on March 30, 2011 and SLH became its affiliated company accounted for by the equity method.

(1) Purposes of the stock acquisition

The Companies aim at establishing a status as a leading Japanese retail company both in terms of quality and quantity with the department store business as its core.

SLH is involved in the 4 core business areas, general merchandise, known as "PLAZA" stores and popular among young women, mail-order, manufacturing and distribution of beauty products and food services, under its fundamental principles, "enhancing the lifestyles of customers" and "pursuing something new ". Some of these stores are in the department stores of the Companies.

The Company believes that strengthening cooperation with SLH enables the enhancement of competitiveness in main department store business through improving the store arrangement and gaining young customers. The Company also believes that introducing new effective businesses will contribute to the future growth of the Companies as a whole.

Hereafter the Company works on improving the corporate value of SLH, in cooperation with Tokyo Broadcasting systems holdings, Inc., the parent company of SLH.

(2) Overview of the acquired company:

Company name: StylingLife Holdings Inc.
Address: 2-12-2 Kita Aoyama, Minato-ku, Tokyo
Representative: Kimio Uchida, President and CEO
Description of the business: Retailing, cosmetic manufacturing and sales. Management of business, finance, HR, compliance and IR and business development as a holding company for retail businesses, comprised of LightUp Shopping Club inc. (mail-order business), CP Cosmetics Inc. (cosmetics wholesaler) and Maxim's de Paris Ltd. (restaurant and confectionary).
Capital: ¥1,048 million ($12,826 thousand)

(3) Overview of the companies from which the shares were acquired:

a) Sony Corporation
Company name: Sony Corporation
Address: 1-7-1 Konan, Minato-ku, Tokyo
Representative: Howard Stringer, Chairman, CEO and President
Description of the business: Manufacturing and distribution of electronic and electric machinery and appliances

b) MITSUI & Co., LTD.
Company name: MITSUI & Co., LTD.
Address: 1-2-1 Ohtemachi, Chiyoda-ku, Tokyo
Representative: Masami Iijima, President and CEO
Description of the business: Business developments in the fields of Iron and Steel products, Mineral and Metal Resources, Chemicals, Energy, Foods and Retail, Consumer Services, Information, Financial Markets and Transportation Logistics.

c) Senshukai Co., Ltd.
Company name: Senshukai Co., Ltd.
Address: 1-8-9 Doushin, Kita-ku, Osaka
Representative: Michio Tanabe, Representative Director
Description of the business: Catalog business, hanpukai business and other business

d) Tokyu Corporation
Company name: Tokyu Corporation
Address: 5-6 Nanpeidai-cho, Shibura-ku, Tokyo
Representative: Toshiaki Koshimura, President and Representative Director
Description of the business: Transportation, real estate business, retail business, leisure and service business, hotel business and other business.

(4) Number of shares holding before and after the acquisition, holding ratio, acquisition cost and investment ratio:

a) Number of shares before the acquisition: 0 shares (share holding ratio 0.0%)
b) Number of shares acquired: 72,786 shares
c) Acquisition cost: ¥9,826 million ($120,255 thousand)
d) Number of shares after the acquisition: 72,786 shares (share holding ratio 48.5%)
e) Investment ratio after the acquisition:

Name of company	Number of shares	Holding ratio
Tokyo Broadcasting System Holdings, Inc.	**76,500**	**51.0%**
J. Front Retailing Co., Ltd. (the Company)	**72,786**	**48.5%**
StylingLife group shareholding association	**714**	**0.5%**
Total	**150,000**	**100.0%**