Everyday Fun and Fresh.

Financial Section 2018

For the year ended February 28, 2018

UFHD
FamilyMart UNY Holdings

FamilyMart UNY Holdings Co., Ltd. and Its Subsidiaries

Consolidated Statement of Financial Position
As of February 28, 2017 and 2018

ASSETS	Millions of Yen 2017 (February 28)	Millions of Yen 2018 (February 28)	Thousands of U.S. Dollars (Note 2) 2018 (February 28)
CURRENT ASSETS:			
Cash and cash equivalents (Note 8)	¥ 188,289	¥ 253,174	$ 2,366,112
Trade and other receivables (Notes 9 and 35)	258,729	259,654	2,426,673
Other financial assets (Notes 10 and 35)	27,254	19,463	181,897
Inventories (Note 11)	53,401	55,558	519,234
Other current assets (Note 12)	27,383	24,838	232,131
Subtotal	555,056	612,686	5,726,037
Assets held for sale (Note 13)	3,591	4,485	41,916
Total current assets	558,646	617,171	5,767,953
NON-CURRENT ASSETS:			
Property, plant and equipment (Notes 14 and 17)	367,232	393,596	3,678,467
Investment property (Note 15)	156,501	137,004	1,280,411
Goodwill (Notes 16 and 17)	161,496	155,763	1,455,729
Intangible assets (Notes 16 and 17)	71,606	66,252	619,178
Investments accounted for using the equity method (Note 18)	23,285	23,956	223,888
Leasehold deposits receivable (Note 35)	140,226	122,917	1,148,757
Other financial assets (Notes 10 and 35)	138,146	153,279	1,432,514
Assets for retirement benefits (Note 23)	927	1,758	16,430
Deferred tax assets (Note 19)	34,851	47,209	441,206
Other non-current assets (Note 12)	14,158	13,599	127,093
Total non-current assets	1,108,428	1,115,334	10,423,682
TOTAL ASSETS	¥1,667,074	¥1,732,506	$ 16,191,645

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and Its Subsidiaries

Consolidated Statement of Financial Position
As of February 28, 2017 and 2018

LIABILITIES AND EQUITY	Millions of Yen 2017 (February 28)	Millions of Yen 2018 (February 28)	Thousands of U.S. Dollars (Note 2) 2018 (February 28)
CURRENT LIABILITIES:			
Trade and other payables (Notes 22 and 35)	¥ 279,299	¥ 288,744	$ 2,698,542
Deposits received (Note 35)	159,957	152,155	1,422,009
Bonds and borrowings (Notes 20 and 35)	117,147	48,864	456,673
Lease obligations (Notes 20, 21, and 35)	20,240	27,160	253,832
Income taxes payable	4,579	7,885	73,692
Other current liabilities (Notes 24 and 25)	58,141	57,802	540,206
Total current liabilities	639,363	582,611	5,444,963
NON-CURRENT LIABILITIES:			
Bonds and borrowings (Notes 20 and 35)	276,682	332,282	3,105,439
Lease obligations (Notes 20, 21, and 35)	83,812	93,843	877,037
Other financial liabilities (Notes 20 and 35)	55,873	53,732	502,168
Liabilities for retirement benefits (Note 23)	15,245	16,970	158,598
Provisions (Note 24)	51,309	51,979	485,785
Other non-current liabilities (Notes 19 and 25)	11,391	11,711	109,449
Total non-current liabilities	494,313	560,517	5,238,477
TOTAL LIABILITIES	1,133,676	1,143,128	10,683,439
EQUITY:			
Common stock (Note 26)	16,659	16,659	155,692
Capital surplus (Note 26)	237,008	236,785	2,212,944
Treasury shares (Note 26)	(441)	(1,104)	(10,318)
Other components of equity	8,203	15,925	148,832
Retained earnings (Note 26)	256,414	274,970	2,569,813
Total equity attributable to owners of the parent	517,842	543,235	5,076,963
Non-controlling interests	15,555	46,143	431,243
TOTAL EQUITY	533,398	589,377	5,508,196
TOTAL LIABILITIES AND EQUITY	¥1,667,074	¥1,732,506	$ 16,191,645

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and Its Subsidiaries

Consolidated Statement of Profit or Loss
For the Years Ended February 28, 2017 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)	2018 (From March 1, 2017 to February 28, 2018)
Operating revenues (Notes 6, 15, and 28)	¥ 843,815	¥1,275,300	$ 11,918,692
Cost of sales (Notes 14, 16, 23, and 29)	(314,584)	(573,136)	(5,356,411)
Gross profit	529,231	702,164	6,562,280
Selling, general, and administrative expenses (Notes 14, 15, 16, 23, and 29)	(473,562)	(635,914)	(5,943,121)
Equity in earnings of associates and joint ventures (Notes 6 and 18)	731	908	8,486
Other income (Note 30)	3,880	9,681	90,477
Other expenses (Notes 17 and 30)	(27,304)	(48,865)	(456,682)
Operating profit	32,976	27,974	261,439
Finance income (Notes 31 and 35)	3,301	3,273	30,589
Finance costs (Notes 31 and 35)	(2,582)	(2,608)	(24,374)
Profit before income taxes	33,695	28,639	267,654
Income taxes (Note 19)	(9,393)	7,913	73,953
Profit for the year	¥ 24,302	¥ 36,552	$ 341,607
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the parent (Note 6)	¥ 21,585	¥ 33,656	$ 314,542
Non-controlling interests	2,717	2,896	27,065
Profit for the year	¥ 24,302	¥ 36,552	$ 341,607
EARNINGS PER SHARE (YEN):			
Basic earnings per share (Note 33)	¥ 195.07	¥ 265.82	$ 2.48

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and Its Subsidiaries

Consolidated Statement of Comprehensive Income
For the Years Ended February 28, 2017 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)	2018 (From March 1, 2017 to February 28, 2018)
PROFIT FOR THE YEAR	¥ 24,302	¥ 36,552	$ 341,607
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified subsequently to profit or loss			
Financial assets measured at fair value through other comprehensive income (Notes 32 and 35)	1,918	8,546	79,869
Remeasurements of defined benefit plans (Notes 23 and 32)	398	(1,354)	(12,654)
Share of other comprehensive income of investments accounted for using the equity method (Notes 18 and 32)	40	(14)	(131)
Total of items that will not be reclassified subsequently to profit or loss	2,356	7,178	67,084
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges (Notes 32 and 35)	401	(149)	(1,393)
Exchange difference on translating foreign operations (Note 32)	1,420	(542)	(5,065)
Share of other comprehensive income of investments accounted for using the equity method (Notes 18 and 32)	(133)	142	1,327
Total of items that may be reclassified subsequently to profit or loss	1,689	(550)	(5,140)
Total other comprehensive income, net of tax	4,045	6,628	61,944
COMPREHENSIVE INCOME	¥ 28,347	¥ 43,180	$ 403,551
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 24,983	¥ 40,404	$ 377,607
Non-controlling interests	3,364	2,776	25,944
Comprehensive income	¥ 28,347	¥ 43,180	$ 403,551

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and Its Subsidiaries

Consolidated Statement of Changes in Equity
For the Years Ended February 28, 2017 and 2018

	Millions of Yen											
	Equity attributable to owners of the parent											
				Other components of equity								
	Common stock	Capital surplus	Treasury shares	Exchange difference on translating foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
BALANCE, MARCH 1, 2016	¥ 16,659	¥ 13,705	¥ (8,784)	¥ (959)	¥ –	¥ 6,366	¥ –	¥ 5,408	¥ 244,889	¥271,876	¥ 11,646	¥ 283,522
Profit for the year									21,585	21,585	2,717	24,302
Other comprehensive income				597	401	1,993	407	3,398		3,398	647	4,045
Total comprehensive income				597	401	1,993	407	3,398	21,585	24,983	3,364	28,347
Purchase of treasury shares (Note 26)			(211)							(211)		(211)
Disposal of treasury shares (Note 26)		0	1							1		1
Cash dividends (Note 27)									(10,536)	(10,536)	(1,649)	(12,185)
Changes due to business combinations (Notes 7 and 26)		226,761	8,553							235,313	5,678	240,991
Changes in ownership interests in subsidiaries that do not result in a loss of control (Note 26)		(3,458)								(3,458)	(2,181)	(5,639)
Changes in ownership interests in subsidiaries that result in a loss of control											(1,303)	(1,303)
Others									(61)	(61)		(61)
Transfer from other components of equity to retained earnings						(131)	(407)	(538)	538			
Transfer from other components of equity to non-financial assets (Note 35)					(65)			(65)		(65)		(65)
Total transactions with owners		223,303	8,343		(65)	(131)	(407)	(603)	(10,060)	220,983	545	221,528
BALANCE, FEBRUARY 28, 2017	16,659	237,008	(441)	(361)	336	8,228	–	8,203	256,414	517,842	15,555	533,398
Profit for the year									33,656	33,656	2,896	36,552
Other comprehensive income				(204)	(133)	8,435	(1,350)	6,748		6,748	(120)	6,628
Total comprehensive income				(204)	(133)	8,435	(1,350)	6,748	33,656	40,404	2,776	43,180
Purchase of treasury shares (Note 26)			(41)							(41)		(41)
Disposal of treasury shares (Note 26)		0	4							4		4
Cash dividends (Note 27)									(14,188)	(14,188)	(3,640)	(17,828)
Changes due to business combinations (Notes 7 and 26)			(223)							(223)	11,684	11,461
Changes in ownership interests in subsidiaries that do not result in a loss of control (Note 26)		(224)			4	(1)		4		(220)	19,366	19,146
Others		0	(401)						37	(365)	401	37
Transfer from other components of equity to retained earnings						(401)	1,350	950	(950)			
Transfer from other components of equity to non-financial assets (Note 35)					21			21		21		21
Total transactions with owners		(224)	(662)		25	(401)	1,350	974	(15,101)	(15,012)	27,811	12,799
BALANCE, FEBRUARY 28, 2018	¥ 16,659	¥236,785	¥ (1,104)	¥ (565)	¥ 228	¥ 16,262	¥ –	¥15,925	¥274,970	¥543,235	¥ 46,143	¥ 589,377

	Thousands of U.S. Dollars (Note 2)											
	Equity attributable to owners of the parent											
				Other components of equity								
	Common stock	Capital surplus	Treasury shares	Exchange difference on translating foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
BALANCE, FEBRUARY 28, 2017	$ 155,692	$ 2,215,028	$ (4,121)	$ (3,374)	$ 3,140	$ 76,897	$ –	$ 76,664	$ 2,396,393	$ 4,839,645	$ 145,374	$ 4,985,028
Profit for the year									314,542	314,542	27,065	341,607
Other comprehensive income				(1,907)	(1,243)	78,832	(12,617)	63,065		63,065	(1,121)	61,944
Total comprehensive income				(1,907)	(1,243)	78,832	(12,617)	63,065	314,542	377,607	25,944	403,551
Purchase of treasury shares (Note 26)			(383)							(383)		(383)
Disposal of treasury shares (Note 26)		0	37							37		37
Cash dividends (Note 27)									(132,598)	(132,598)	(34,019)	(166,617)
Changes due to business combinations (Notes 7 and 26)			(2,084)							(2,084)	109,196	107,112
Changes in ownership interests in subsidiaries that do not result in a loss of control (Note 26)		(2,093)			37	(9)		37		(2,056)	180,991	178,935
Others			(3,748)						346	(3,411)	3,748	346
Transfer from other components of equity to retained earnings						(3,748)	12,617	8,879	(8,879)			
Transfer from other components of equity to non-financial assets (Note 35)					196			196		196		196
Total transactions with owners		(2,093)	(6,187)		234	(3,748)	12,617	9,103	(141,131)	(140,299)	259,916	119,617
BALANCE, FEBRUARY 28, 2018	$ 155,692	$ 2,212,944	$ (10,318)	$ (5,280)	$ 2,131	$ 151,981	$ –	$ 148,832	$ 2,569,813	$ 5,076,963	$ 431,243	$ 5,508,196

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and Its Subsidiaries

Consolidated Statement of Cash Flows
For the Years Ended February 28, 2017 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)	2018 (From March 1, 2017 to February 28, 2018)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes	¥ 33,695	¥ 28,639	$ 267,654
Depreciation and amortization	47,494	65,180	609,159
Impairment losses	14,568	33,389	312,047
Equity in earnings of associates and joint ventures	(731)	(908)	(8,486)
Decrease (increase) in trade and other receivables	(5,672)	(858)	(8,019)
Decrease (increase) in inventories	1,068	(1,810)	(16,916)
Increase (decrease) in trade and other payables	(21,925)	14,884	139,103
Increase (decrease) in deposits received	(3,481)	(7,743)	(72,364)
Increase (decrease) in assets and liabilities for retirement benefits	(563)	1,543	14,421
Other	30,093	20,896	195,290
Subtotal (Note 28)	94,547	153,212	1,431,888
Interest and dividends received	2,520	3,458	32,318
Interest paid	(2,464)	(2,984)	(27,888)
Income taxes paid	(11,251)	(7,123)	(66,570)
Income tax refund		6,166	57,626
Net cash generated by operating activities—(Forward)	¥ 83,351	¥152,729	$1,427,374

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and Its Subsidiaries

Consolidated Statement of Cash Flows
For the Years Ended February 28, 2017 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)	2018 (From March 1, 2017 to February 28, 2018)
Net cash provided by operating activities—(Forward)	¥ 83,351	¥152,729	$1,427,374
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment and investment property	(49,370)	(45,871)	(428,701)
Proceeds from sales of property, plant and equipment and investment property	2,060	16,601	155,150
Purchases of intangible assets	(7,052)	(9,413)	(87,972)
Payments of leasehold deposits receivable and construction assistance fund receivables	(27,391)	(20,832)	(194,692)
Collection of leasehold deposits receivable and construction assistance fund receivables	10,981	10,489	98,028
Purchases of investments	(1,522)	(8,489)	(79,336)
Proceeds from sales and redemption of investments	3,164	5,531	51,692
Proceeds from acquisition of businesses (Note 7)	36,339	700	6,542
Proceeds from disposal of businesses	905	307	2,869
Payments for disposal of businesses (Note 7)	(2,481)		
Other	3,709	1,474	13,776
Net cash used in investing activities	(30,657)	(49,502)	(462,636)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bonds and borrowings (Note 34)	129,235	228,662	2,137,028
Repayments of bonds and borrowings (Note 34)	(65,326)	(143,039)	(1,336,813)
Repayments of lease obligations (Note 34)	(40,299)	(28,666)	(267,907)
Purchases of treasury shares	(211)	(41)	(383)
Proceeds from sales of interests in subsidiaries to non-controlling shareholders		18,800	175,701
Purchases of interests in subsidiaries from non-controlling shareholders	(6,585)	(55)	(514)
Cash dividends paid (Note 27)	(10,536)	(14,188)	(132,598)
Cash dividends paid to non-controlling shareholders	(1,846)	(3,681)	(34,402)
Increase (decrease) in commercial paper (Note 34)	(10,000)	(96,000)	(897,196)
Other	652	333	3,112
Net cash used in financing activities	(4,916)	(37,875)	(353,972)
EFFECTS OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	1,474	(466)	(4,355)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	49,253	64,885	606,402
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	139,036	188,289	1,759,710
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 8)	¥188,289	¥253,174	$2,366,112

FamilyMart UNY Holdings Co., Ltd. and Its Subsidiaries

Notes to Consolidated Financial Statements

1. REPORTING ENTITY

FamilyMart UNY Holdings Co., Ltd. (the "Company") is a corporation located in Japan, and the registered address of its headquarters is 3-1-1 Higashi-Ikebukuro, Toshima-ku, Tokyo. The reporting period of the consolidated financial statements of the Company and its subsidiaries (collectively, the "Group"), including the Group's interests in associates and joint ventures, ends at the end of February.

The Group is engaged mainly in the convenience store business and the general merchandise store business. In the convenience store business, FamilyMart Co., Ltd. and its domestic and foreign franchisers develop chains of convenience stores, including FamilyMart stores. In the merchandise store business, UNY Co., Ltd. and other related companies are engaged in merchandise store operations, including retail stores, specialty stores, and financial services. The details of each line of business are described in Note 6. "SEGMENT INFORMATION."

The consolidated financial statements were approved by the Board of Directors at the meeting held on May 24, 2018.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Statement of Compliance with IFRSs

The consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRSs").

Except for IFRSs which have not been adopted early, the accounting policies of the Group are in accordance with IFRSs effective as of February 28, 2018.

(2) Basis of Measurement

The consolidated financial statements of the Group are prepared on the historical cost basis, except for certain financial instruments which are measured at fair value, as explained in Note 3. "SIGNIFICANT ACCOUNTING POLICIES."

(3) Functional Currency and Presentation Currency

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company's functional currency, and presented by rounding to the nearest million yen.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside of Japan and have been made at the rate of ¥107 to $1, the approximate rate of exchange at February 28, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be translated into U.S. dollars at that or any other rate.

(4) Early Application of New Standards

The Group has early applied IFRS 9 *Financial Instruments* (published in November 2009, revised in July 2014, "IFRS 9").

(5) Changes in Accounting Policies

The Group has applied the following standard effective from the fiscal year ended February 28, 2018. The application of this standard does not have a significant impact on the Group's consolidated financial statements.

IFRSs		Outline of new/amended standard
IAS 7	*Statement of Cash Flows*	Requirement for an additional disclosure of changes in liabilities arising from financing activities

3. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Consolidation

1) Subsidiaries

Subsidiaries are entities which are controlled directly or indirectly by the Company. In judging whether an entity is controlled directly or indirectly by the Company, the Company takes into consideration various factors indicating the possibility of control. Such factors include the existence of voting rights and potential voting rights which the Company can exercise in a substantial way, or whether the majority of the directors are occupied by officers and employees dispatched by the Company and its subsidiaries. Considering the above, the Company decides whether it has the exposure or the right to the variable returns from the involvement of the Company with the entity, and whether it has the ability to use its power over the entity to affect the amount of the Company's returns through power over the entity.

The financial statements of the subsidiaries are included in the scope of consolidation from the date on which the Group obtains control of a subsidiary and to the date on which the Group loses control of the subsidiary.

When the accounting policies of a subsidiary are different from those of the Group, adjustments have been reflected, as needed, in the financial statements of the subsidiary. Intragroup balances and transactions and unrealized gains and losses which have resulted from intragroup transactions have been eliminated in the presentation of the consolidated financial statements.

Disposals of a part of equity interests in a subsidiary are accounted for as capital transactions if the Company does not lose control over the subsidiary. The difference between the adjustment of the non-controlling interests and fair value of the consideration has been recognized directly in equity as equity interests attributable to owners of the parent.

When the Company loses control of a subsidiary, the gains or losses associated with the loss of control of the subsidiary are recognized in profit or loss.

2) Associates

Associates are entities over which the Group has significant influence. In determining whether the Group has significant influence over an entity or not, the Company takes into consideration various factors. Such factors include the existence of voting rights and potential voting rights which the Company can exercise in a substantial way and the proportion of director positions held by officers and employees dispatched by the Company and its subsidiaries.

Investments in associates are recognized at cost at the time of acquisition and are accounted for using the equity method. The carrying amount of investments in associates includes goodwill, which is recognized at the time of the acquisition, net of accumulated impairment losses.

When the accounting policies of an associate are different from those of the Group, adjustments have been reflected, as needed, to the financial statements of the associate.

3) Joint Arrangements

Joint arrangements are referred to as contractual arrangements of which two or more parties have joint control. The Group classifies its involvement in joint arrangements, depending on the rights and obligations of the parties involved in the arrangements, into: joint operations, where the Group has rights to the assets and obligations to the liabilities relating to the arrangements; and joint ventures, where the Group has only rights to the net assets relating to the arrangements. With regard to joint operations over which the Group has joint control, the assets, liabilities, revenues, and expenses attributable to the Group's equity interests have been recognized, while investments in joint ventures have been accounted for using the equity method.

(2) Business Combinations

Business combinations, except for the transactions among entities under common control, are accounted for by the acquisition method. Consideration for a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, net liabilities assumed by the acquirer to the former owners of the acquiree, and equity interests issued by the acquirer. When the sum of consideration transferred, any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree exceeds the net acquisition-date amount of the identifiable assets acquired and the liabilities assumed, the excess is recorded as goodwill in the consolidated statement of financial position. Conversely, when the net acquisition-date amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, the excess is recognized immediately in profit or loss.

Costs incurred by the acquirer in relation to a business combination, including brokerage, attorney's fees, and due diligence expenses, are expensed in the period in which these costs are incurred.

When the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the period after the acquisition date, during which the acquirer may adjust the provisional amounts recognized for a business combination (the "measurement period") to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date. During the measurement period, the acquirer also recognizes additional assets or liabilities if new information is obtained that would have resulted in the recognition of those assets and liabilities. The measurement period is at most one year from the acquisition date.

It is also noted that the additional acquisition of non-controlling interests after the acquisition of control is accounted for as a capital transaction, so that no goodwill is recognized.

The identifiable assets acquired and the liabilities assumed by the acquirer are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities are recognized and measured in accordance with IAS 12 *Income Taxes*;
- assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 19 *Employee Benefits*;
- liabilities related to share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment; and*
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. All business combination transactions among entities under common control are accounted for based on the carrying amounts on a continuous basis.

(3) Foreign Currency Translation

1) Foreign Currency Transactions

Foreign currency transactions are translated into the functional currency of each entity within the Group at the exchange rate on the transaction date.

Foreign currency monetary assets and liabilities at the end of the reporting period are translated into the functional currency using the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities which are measured at fair value in a foreign currency are translated into the functional currency using the exchange rate at the date on which the fair value was measured.

Exchange differences arising on translation or settlement of monetary items are recognized in profit or loss. Exchange differences arising on financial assets measured through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

2) Financial Statements of Foreign Operations

Assets and liabilities of foreign operations are translated into Japanese yen using the exchange rate at the end of the reporting period, while revenues and expenses of the foreign operations are translated into Japanese yen using the average exchange rate for the period, unless there have been significant changes in exchange rates. Exchange differences arising from the translation of financial statements of the foreign operations have been recognized in other comprehensive income. The cumulative amount of the exchange differences related to foreign operations are recognized in profit or loss in the period in which the foreign operations are disposed of.

(4) Financial Instruments

The Group has early applied IFRS 9 *Financial Instruments* (as revised in July 2014).

1) Financial Assets

(i) Initial recognition and measurement

Financial assets are initially recognized when the Group becomes a party to a contract and are classified into financial assets measured at fair value through profit or loss, through other comprehensive income or those measured at amortized cost.

All financial assets, other than those measured at fair value through profit or loss, are initially measured at fair value plus transaction costs that are directly attributable to the financial asset.

Financial assets that meet both of the following conditions are classified as financial assets measured at amortized cost.

- The financial asset is held to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.

Equity instruments measured at fair value, except for equity instruments held for trading that are required to be measured at fair value through profit or loss, are designated either as measured at fair value through profit or loss, or as measured at fair value through other comprehensive income for each equity instrument and such designation applies on an ongoing basis.

Debt instruments measured at fair value that meet both of the following conditions are classified as financial assets measured at fair value through other comprehensive income and all other debt instruments are classified into financial assets measured at fair value through profit or loss.

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(ii) Subsequent measurement

After initial recognition, financial assets are measured according to their classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Financial assets measured at fair value

Any changes in the fair value of financial assets measured at fair value are recognized in profit or loss.

However, for equity instruments that are designated as measured at fair value through other comprehensive income, any changes in fair value are recognized in other comprehensive income. When these financial assets are derecognized, cumulative gains or losses previously recognized in other comprehensive income are transferred to retained earnings. Dividends on the financial assets are recognized in profit or loss for the period as part of finance income.

For debt instruments that are classified as measured at fair value through other comprehensive income, any changes in fair value, excluding impairment losses (or reversals) and foreign currency exchange gains and losses, are recognized in other comprehensive income until the financial assets are derecognized or reclassified. When these financial assets are derecognized, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

(iii) Impairment of financial assets

For financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income, an allowance for expected credit losses is recognized.

At the end of each reporting period, the Group assesses whether the credit risk on each financial asset has increased significantly since initial recognition. If the credit risk has not increased significantly since initial recognition, the Group recognizes the loss allowance at an amount equal to 12-month expected credit losses. Meanwhile, if the credit risk has increased significantly since initial recognition, the Group recognizes the loss allowance at an amount equal to the lifetime expected credit losses.

While the Group assumes that there has been a significant increase in credit risk when contractual payments are past due at the time of the assessment, reasonably available and supportable information in addition to past due information is considered when assessing whether the credit risk has increased significantly.

The Group assumes that the credit risk on the financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the end of the reporting period.

However, for certain receivables, the Group always recognizes the loss allowance at an amount equal to the lifetime expected credit losses, regardless of whether there have been significant increases in credit risk since initial recognition.

Expected credit losses are measured as the present value of the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive.

The Group considers any financial asset that is deemed to have defaulted as a credit-impaired financial asset when the financial asset is significantly past due even after taking enforcement activities for the performance of obligations or the debtor has filed legal procedures, including bankruptcy, rehabilitation, civil rehabilitation, and special liquidation. The Group directly reduces the gross carrying amount of a financial asset when it has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof.

The provision of a loss allowance on financial assets is recognized in profit or loss. When an event that results in a reduction of the loss allowance occurs, the amount of reversal of the loss allowance is recognized in profit or loss.

(iv) Derecognition of financial assets

The Group derecognizes a financial asset when contractual rights to the cash flows from the financial asset expire or when it transfers substantially all the risks and rewards of ownership of the financial asset. If the Group retains control of the financial asset that has been transferred, it recognizes the asset and related liability to the extent of its continuing involvement in the financial asset.

2) Financial Liabilities

(i) Initial recognition and measurement

Financial liabilities are initially recognized when the Group becomes a party to a contract and are classified into financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost.

All financial liabilities are initially measured at fair value, except for financial assets measured at amortized cost, which are initially measured at fair value less directly related transaction costs.

(ii) Subsequent measurement

After initial recognition, financial liabilities are measured according to their classification as follows:

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as measured at fair value through profit or loss at initial recognition. They are measured at fair value after initial recognition and any changes in fair value are recognized in profit or loss for the period.

(b) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest method.

Amortization using the effective interest method and gains and losses on derecognition are recognized in profit or loss for the period as part of finance costs.

(iii) Derecognition of financial liabilities

The Group derecognizes a financial liability when it is extinguished, i.e., when the obligation specified in the contract is discharged or canceled or expires.

3) Presentation of Financial Assets and Financial Liabilities

A financial asset and a financial liability are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4) Derivatives and Hedge Accounting

The Group uses derivatives, such as forward foreign currency exchange contracts and interest rate swaps, to hedge foreign currency risk and interest rate risk. Such derivatives are initially measured at fair value on the date the contract is entered into and are subsequently remeasured at fair value.

At the inception of the hedging relationship, the Group formally designates and documents the hedging relationship to which the Group intends to apply hedge accounting and the Group's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how the Group will assess the effectiveness of changes in the fair value of the hedging instrument upon offsetting exposure to changes in fair value or variability in cash flows of the hedged item that is attributable to the hedged risk. Specifically, a hedge is deemed effective when all of the following criteria are met:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group continuously assesses whether hedging relationships are effective in the future.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective remains the same, the Group adjusts the hedge ratio of the hedging relationship so that it meets qualifying criteria. The Group discontinues the application of hedge accounting when the risk management objective for the hedging relationship has been changed.

Cash flow hedges that meet hedge accounting requirements are accounted for as follows:

The portion of the gain or loss on a hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income in the consolidated statement of comprehensive income. The ineffective portion is immediately recognized in profit or loss in the consolidated statement of profit or loss.

The amount on a hedging instrument that is presented in other comprehensive income is reclassified to profit or loss when the hedged transaction affects profit or loss. If the hedged item results in the recognition of a non-financial asset or a non-financial liability, the amount that was recognized in other comprehensive income is included in the initial carrying amount of the non-financial asset or non-financial liability.

The Group discontinues hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria, including instances when the hedging instrument expires or is sold, terminated, or exercised. If the hedged future cash flows are still expected to occur, the amount previously recognized in equity through other comprehensive income remains in equity until the future cash flows occur or, if that amount is a loss, until the amount that is not expected to be recovered is reclassified to profit or loss. If the hedged future cash flows are no longer expected to occur, the cumulative gains or losses previously recognized in equity through other comprehensive income are reclassified into profit or loss.

(5) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments that are readily convertible and subject to insignificant risk of changes in value with original maturities of three months or less.

(6) Inventories

The cost of inventories comprises all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. The cost of inventories is calculated primarily using the retail method, which determines the cost by reducing the sales value of the inventory by the appropriate percentage of gross margin. The grouping of inventories for determining profit margins is reviewed so that the calculation under the retail method approximates the cost.

(7) Property, Plant and Equipment

The Group applies the cost model to property, plant and equipment, and all property, plant and equipment are presented at cost, less any accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment includes costs directly attributable to the acquisition of the assets, and the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation of all assets, except for land and construction in progress, is calculated using the straight-line method over the estimated useful life of each asset. The estimated useful lives of major classes of assets are as follows:

- Buildings and structures: 2 to 50 years
- Machinery, equipment, and vehicles: 2 to 17 years
- Tools, furniture, and fixtures: 2 to 20 years

The estimated useful life, residual value, and depreciation method of an asset are reviewed at the end of each reporting period, and the change, if any, is accounted for as a change in accounting estimate and applied prospectively.

(8) Investment Property

Investment property is property held to earn rentals or for capital appreciation or both. The Group applies the cost model to investment properties and all investment properties are presented at cost less any accumulated depreciation and accumulated impairment losses.

Depreciation of all investment properties, except for land, is calculated using the straight-line method over the estimated useful life of each asset (three to fifty years).

(9) Goodwill and Intangible Assets

1) Goodwill

For measurement of goodwill at initial recognition, please refer to “(2) Business Combinations.”

After initial recognition, goodwill is presented at cost less accumulated impairment losses.

Goodwill is not amortized, but is allocated to cash-generating units (CGUs) identified based on the region where business is conducted and the type of business and is tested for impairment at least annually or more frequently if there is an indicator of impairment. Impairment losses on goodwill are recognized in profit or loss in the consolidated statement of profit or loss and are not subsequently reversed.

2) Intangible Assets

Intangible assets acquired individually are measured at cost at initial recognition. Intangible assets acquired in a business combination are identified separately from goodwill and recognized at fair value at the acquisition date if they meet the definition of an intangible asset, are identifiable, and their fair value is reliably measured.

The Group applies the cost model to all intangible assets, except for intangible assets with indefinite useful lives, and they are amortized after initial recognition using the straight-line method over their estimated useful lives and presented at cost less any accumulated amortization and impairment losses. The estimated useful lives of major intangible assets are as follows:

- Software: 5 years
- Customer-related: 10 to 20 years

The estimated useful life, residual value, and amortization method of an intangible asset are reviewed at the end of each reporting period, and the change, if any, is accounted for as a change in accounting estimate and applied prospectively.

(10) Lease

If the lease transfers substantially all the risks and rewards of ownership of assets to the Group, such leases are classified as finance leases and other leases are classified as operating leases.

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the arrangement and requires an assessment to determine whether fulfillment of the arrangement is dependent on the use of a specific asset or asset group, and whether the arrangement conveys a right to the use of the asset.

1) Lessee

Finance leases are initially recognized as assets at the fair value of the leased property or, if lower, the present value of the minimum lease payments determined at the inception of the lease. Such assets are depreciated using the straight-line method over the shorter of the estimated useful life or the lease term based on the accounting policy applicable to the assets. The lease payments are apportioned between the finance charge and repayments of lease obligations by the interest method. The finance charge is recognized in the consolidated statement of profit or loss.

The lease payments of operating lease transactions are recognized in the consolidated statement of profit or loss as expenses using the straight-line method over the lease term. Contingent rents are charged as expenses in the period in which they are incurred.

2) *Lessor*

Assets held under a finance lease are recognized as a receivable at an amount equal to the net investment in the lease at the inception of the lease on the commencement date of the lease term. The lease payments received are apportioned between finance income and collected lease receivables by the interest method. Finance income is recognized in the consolidated statement of profit or loss.

Assets subject to operating leases are recognized in the consolidated statement of financial position and the lease payments received are recognized in the consolidated statement of profit or loss as lease income using the straight-line method over the lease term. Contingent rents are recognized in income in the period in which they are incurred.

(11) Impairment Losses of Non-Financial Assets

The Group assesses at the end of each reporting period whether there is any indication that non-financial assets, other than inventories and deferred tax assets, may be impaired. If such indication exists, the Group estimates the recoverable amount of the asset or its CGU. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill and intangible assets with indefinite useful lives are tested for impairment at the same time every year and whenever there is an indication that the asset may be impaired. The CGU or CGUs to which goodwill is allocated is determined based on the level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment before aggregation.

The recoverable amount of an asset or a CGU is the higher of its value in use and fair value less cost of disposal. In calculation of an asset's or CGU's value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects the time value of money and inherent risks of the asset or CGU.

Corporate assets of the Group do not generate cash flows that are independent of those from other assets. When there is an indication that a corporate asset may be impaired, the Group calculates the recoverable amount of CGUs to which the corporate asset belongs.

An impairment loss is recognized in profit or loss when the carrying amount of an asset or a CGU exceeds its recoverable amount. The impairment loss recognized for a CGU is allocated first to reduce the carrying amount of any goodwill allocated to that CGU, and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU.

Impairment losses on goodwill are not reversed. The Group assesses at the end of each reporting period whether there is any indication that an impairment loss for an asset other than goodwill recognized in the prior period may no longer exist or may have decreased. If there has been a change in the estimates used to determine a recoverable amount of the asset other than goodwill, the related impairment loss is reversed. Reversing an impairment loss for an asset other than goodwill is limited to the amount that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had been no impairment loss been recognized for the asset in the prior period.

(12) Employee Benefits

1) *Postemployment Benefits*

The Group has a defined benefit plan and a defined contribution plan as retirement benefit plans for the employees.

The Group calculates the present value of defined benefit obligations, and the related current service cost and past service cost by the projected unit credit method.

The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds corresponding to a discounting period set based on a period up to the expected date of benefit payment in future periods.

Assets or liabilities for retirement benefits are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations.

Remeasurement of the net defined benefit liability (assets) is recognized in other comprehensive income in the period in which they occur and are immediately transferred to retained earnings from other components of equity.

Past service cost is recognized in profit or loss in the period in which it occurs.

Contributions to the defined contribution plan are recognized as expenses in the period in which employees have rendered service to the Group.

2) Short-Term Employee Benefits

Short-term employee benefits are recognized as expenses in the period in which employees have rendered service to the Group. Regarding bonuses, the amounts expected to be paid based on the relative provisions are recognized as liabilities when the Group has a legal or constructive obligation for such payments and when a reliable estimate of the obligation can be made.

(13) Provisions

Provisions are recognized when the Group has a present, legal, or constructive obligation, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. The provisions are determined by discounting the estimated future cash flows to the present value at a pre-tax discount rate that reflects the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognized as a finance cost.

1) Asset Retirement Obligations

Regarding real estate lease contracts, for instance, a store with an obligation to restore the premises to the original condition, the estimated costs for restoration are recognized as asset retirement obligations.

2) Provisions for Loss on Interest Repayment

The estimated amounts of interest repayment are recognized to provide for interest refund claims from the debtors whose payments exceeded the maximum interest under the Interest Rate Restriction Act.

(14) Financial Guarantee Contracts

The Group enters into financial guarantee contracts and similar contracts in which the Group agrees to make repayment of an obligation or to make monetary compensation on behalf of a guaranteed party if said guaranteed party went into certain default status. Guarantee loss provision is recognized at an estimated amount of the obligation when the loss from the financial guarantee contract becomes probable.

(15) Revenues

Revenues are measured by deducting discounts, sales rebates, and sales-related taxes from the fair value of the amount of consideration received through sale of goods and rendering of services.

1) Revenues from Franchisees

The Group receives royalties from franchisees under franchise agreements that allow third parties to sell products and to use the trademark through a franchise system. Such royalties are recognized on an accrual basis in accordance with the terms and conditions of such agreements.

2) Sale of Goods

Revenues from the sale of goods are recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, when the Group retains neither continuing involvement nor effective control over the goods, when it is probable that the future economic benefits associated with the transaction will flow to the Group, and when such benefits and the costs in respect of the transaction can be measured reliably.

3) Other Revenues

Other revenues from the rendering of services are recognized when the transaction has been completed by the end of the reporting period, the amount of revenue and the costs in respect of the transaction can be measured reliably, and when it is probable that the future economic benefits associated with the transaction will flow to the Group.

4) Presentation of Revenues

When the Group acts as a principal, revenues are presented in the total amounts of consideration received from customers. When the Group acts as an agent for third parties, revenues are presented as a commission fee by deducting the amounts collected on behalf of third parties from the total amount of consideration received from customers.

The Group considers the following in judging whether the Group is acting as a principal or as an agent:

- whether the Group has the primary responsibility for providing the goods or services to the customer or for fulfilling the order;
- whether the Group has inventory risks before and after the customer order or during shipping or return of goods;
- whether the Group has latitude in establishing prices, either directly or indirectly; and
- whether the Group bears the customer’s credit risk for the amount of receivables from the customer.

(16) Income Taxes

Income taxes are composed of current tax and deferred tax. They are recognized in profit or loss, except for items related to business combinations and items directly recognized in equity or other comprehensive income.

Current taxes are measured as the amount of income taxes payable to or recoverable from the taxation authorities. Taxes are calculated using the tax rates and the tax laws that have been enacted or substantially enacted by the end of the reporting period in the countries where the Group conducts business and earns taxable profits.

Deferred taxes are recognized for the carryforward of unused tax losses, the carryforward of tax credits, and the temporary differences between the carrying amount of an asset and liability for accounting purposes and its tax base at the end of the reporting period.

Deferred tax liabilities are recognized, in principal, for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and unused tax loss and tax credit carryforwards to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized by the Group.

However, deferred tax assets and liabilities are not recognized for the following temporary differences:
- those arising from the initial recognition of goodwill;
- those arising from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit; and
- those associated with investments in subsidiaries, associates, and joint ventures of which the Group is able to control the timing of the reversal of the temporary difference, and for which it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amounts of deferred tax assets are reviewed at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. The Group reassesses unrecognized deferred tax assets at the end of each reporting period and recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates and tax laws that are expected to apply to the period when the assets are realized or the liabilities are settled, based on the statutory tax rates and tax laws that have been enacted or substantially enacted by the end of the reporting period.

The Group offsets deferred tax assets and liabilities if the Group has a legally enforceable right to set off current tax assets against current tax liabilities, and if such tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

(17) Earnings per Share

Basic earnings per share are calculated by dividing profit or loss attributable to ordinary shareholders of the parent company by the weighted-average number of ordinary shares outstanding, adjusted for treasury shares, during the period.

(18) Segment Information

An operating segment is a component of business activities from which the Group may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Group. The results of all operating segments, for which discrete financial information is available, are reviewed regularly by the Company's Board of Directors and Executive Committee to make decisions about resources to be allocated to each segment and to assess their performance.

(19) Assets Held for Sale

The Group classifies assets and asset groups as non-current assets held for sale or as disposal groups if the carrying amount will be recovered through a sale transaction rather than through continuing use, if it is highly probable that the sale of the asset will be completed within one year and it is available for immediate sale in its present condition, and if the management of the Group is committed to a sale plan. Non-current assets are not depreciated or amortized and are measured at the lower of the carrying amount and fair value less costs to sell.

(20) Treasury Shares

Treasury shares are measured at cost and deducted from equity. The Group does not recognize gains or losses in purchase, sale, and retirement of treasury shares. The difference between the carrying amount and the disposal amount is recognized in other capital surplus.

(21) Fair Value Measurement

Particular assets and liabilities are required to be measured at fair value. Fair value of such assets and liabilities is measured based on market information, such as market prices, or on valuation techniques, such as a market approach, income approach, or cost approach. Inputs used in the measurement of fair value are categorized into the following levels:

- Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities with sufficient frequency and volume of transaction on an ongoing basis that the Group can access at the measurement date

- Level 2

Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs calculated or corroborated primarily by formula and valuation techniques or observable market data

- Level 3

Unobservable inputs reflecting the Group’s assumptions that market participants would use when pricing the asset or liability since relevant observable inputs are not available. The Group develops unobservable inputs using the best information available in the circumstances, which might include the Group’s own data.

(22) Franchise Agreement

In the convenience store business, each franchisee under a franchise agreement is provided with a variety of services and advice on the operation of convenience stores from the franchise chain headquarters, such as FamilyMart Co., Ltd., and continuously pays royalties based on a certain percentage of the respective franchised store’s gross profit as consideration for such services and advice.

Each franchisee orders goods through an information system provided by the headquarters. and the headquarters makes lump sum payments to the suppliers on behalf of franchisees and recognizes receivables from the franchisees.

Each franchisee remits sales proceeds and collected utility charges to the headquarters every day. The utility charges collected are recognized as payables to public service providers and are included in “Deposits received” in the consolidated statement of financial position.

The payments for goods purchased on behalf of the franchisees and the sales proceeds remitted from the franchisees every day are offset in order to present the net amount of receivables from and payables to the franchisees. Receivables from franchised stores and payables to franchised stores present such net balances and are included respectively in “trade and other receivables” and “trade and other payables” in the consolidated statement of financial position.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Management makes judgments and estimates in preparing the consolidated financial statements. Uncertainty of management’s judgments, assumptions, and estimates related to future periods affects the amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the end of the reporting period, as well as the amounts reported as profit or loss.

Information related to judgments made for the application of accounting policies that have a significant impact on the amounts recognized in the consolidated financial statements is included in the following notes:

- Determination of CGUs for impairment of assets (see Note 17. “IMPAIRMENT LOSSES”)
- Allocation of goodwill to a group of CGUs (see Note 17. “IMPAIRMENT LOSSES”)

Accounting estimates and their underlying assumptions are determined based on historical experience and other available information. However, actual results may differ from these estimates. The estimates and underlying assumptions are reviewed and revised by the management on a regular basis. The effects of the revisions to these estimates and underlying assumptions related to the future periods are recognized in the period of the revision and future periods.

Information about uncertainty of assumptions and estimates related to future periods that might cause material adjustments in the following fiscal year is as follows:

1) ***Estimates of useful life and residual value of property, plant and equipment; investment property; and intangible assets***

   Useful lives of property, plant and equipment; investment property; and intangible assets are estimated by considering various factors, such as expected usage, physical wear and tear, and technical or commercial obsolescence. Residual value is estimated at the amount that the Group currently expects to obtain from disposal of the asset, after deducting the estimated costs of disposal. They might cause material adjustments to the amount of depreciation and amortization as a result of uncertain future changes in economic conditions.

   The details and amounts of property, plant and equipment; investment property; and intangible assets are stated in Notes 14. "PROPERTY, PLANT AND EQUIPMENT," 15. "INVESTMENT PROPERTY," and 16. "GOODWILL AND INTANGIBLE ASSETS."

   (Change in useful life)

   During the fiscal year ended February 28, 2018, as part of the establishment of next-generation store systems, FamilyMart Co., Ltd. (convenience store business) entered into an agreement to replace POS registers and other assets. Accordingly, for tools, furniture, and fixtures held by the Company that are expected to be retired, their useful lives have been shortened prospectively.

   As a result of this change, operating profit for the fiscal year ended February 28, 2018 decreased ¥1,269 million.

2) ***Impairment of property, plant and equipment; investment property; goodwill; intangible assets; and investments accounted for using the equity method***

   Impairment tests for property, plant and equipment; investment property; goodwill; intangible assets; and investments accounted for using the equity method are conducted by calculating the recoverable amounts of assets or CGUs based on a number of assumptions and estimates, such as assumptions for measuring fair value of the assets or CGUs after deducting the estimated costs of disposal, or estimates of future cash flows of the assets or CGUs and discount rates for calculating their value in use. These assumptions and estimates might cause significant changes in the amount of impairment losses as a result of uncertain future changes in economic conditions.

   The details of and amounts related to impairment of property, plant and equipment; investment property; goodwill; intangible assets; and investments accounted for using the equity method are stated in Notes 14. "PROPERTY, PLANT AND EQUIPMENT," 15. "INVESTMENT PROPERTY," 16. "GOODWILL AND INTANGIBLE ASSETS," and 17. "IMPAIRMENT LOSSES."

3) ***Recoverability of deferred tax assets***

   In calculating income taxes, estimates and judgments are required for various factors, such as the interpretation of tax laws and regulations and the results of tax investigations in prior years. Therefore, the amount recognized as income taxes may differ from the amount actually imposed.

Furthermore, deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; however, the timing and amount of available taxable profits may be affected by uncertain future changes in economic conditions. If the actual timing and amounts differ from their estimates, they might cause significant changes in the amount to be recognized in the following fiscal years.

The details and amounts of income taxes are stated in Note 19. "INCOME TAXES."

4) Measurement of provisions

The Group records asset retirement obligations and a provision for loss on interest repayment. They are measured by discounting the best estimate of future payments required to settle the obligation, considering the risks and uncertainty at the end of the reporting period, by a pre-tax discount rate that reflects the risks specific to the liabilities.

The amount of future payments required to settle the obligations is calculated by considering various factors related to future possible outcomes; however, it may be affected by unpredictable events or changes in circumstances. If the amount of actual payments differs from the estimate, or if there is a significant change in the discount rate used for future payments due to changes in economic circumstances, they might cause significant changes in the amount to be recognized in the following fiscal years.

The details and amounts of provisions are stated in Note 24. "PROVISIONS."

5) Measurement of defined benefit obligations

The present value of defined benefit obligations and relevant service costs are calculated based on actuarial assumptions. In determining actuarial assumptions, estimates and judgments on a broad range of variables, such as discount rates and rates of future salary increase, are required.

The Group has obtained an external actuary's advice regarding the appropriateness of actuarial assumptions, including these variables.

Actuarial assumptions are determined based on management's best estimates and judgments; however, they may be affected by uncertain future changes in economic conditions and the amendment or promulgation of relevant laws and regulations. Any revision to actuarial assumptions, when necessary, might cause significant changes in the amount to be recognized in the consolidated financial statements in the following fiscal years.

The details and amounts of defined benefit obligations are stated in Note 23. "EMPLOYEE BENEFITS."

6) Fair values of financial instruments

The Group uses valuation techniques using inputs that are unobservable in the market in measuring certain financial instruments which are categorized as Level 3. Unobservable inputs may be affected by uncertain future changes in economic conditions. When revisions are needed, they might cause significant changes in the amounts to be recognized in the following fiscal years.

The details and amounts of fair values of financial instruments are stated in Note 35. "FINANCIAL INSTRUMENTS."

7) Impairment of financial assets measured at amortized cost

For financial assets measured at amortized cost, the Group assesses whether the credit risk on each financial asset has increased significantly since initial recognition at the end of each reporting period and estimates expected credit losses for 12 months or for a lifetime. Estimates of expected credit losses are conducted based on a number of assumptions and estimates, such as possibility of default, timing of recovery of a credit situation, and future projections on amount of loss to be incurred and discount rates. Such estimates might

cause significant changes in the amount of impairment losses as a result of uncertain future changes in economic conditions and other factors.
Details and amounts related to impairment of financial assets measured at amortized cost are stated in Note 35. “FINANCIAL INSTRUMENTS.”

5. NEW STANDARDS NOT YET APPLIED

New or amended major standards and interpretations that have been published by the date of approval of the consolidated financial statements but have not been applied early by the Group are as follows.

The impact of the application of IFRS 15 on the Group’s consolidated financial statements is expected to be immaterial. The potential impact of the application of IFRS 16 is currently under review and thus cannot be estimated at this time.

IFRSs		Mandatory application (Fiscal years beginning on or after)	Group application	Outline of new/amended standards
IFRS 15	*Revenue from Contracts with Customers*	January 1, 2018	Fiscal year ending February 28, 2019	Amendment to accounting treatment for revenue recognition
IFRS 16	*Leases*	January 1, 2019	Fiscal year ending February 29, 2020	Amendment to accounting treatment for lease contracts

6. SEGMENT INFORMATION

(1) Operating Segment Information

The Group’s reportable segments are components for which discrete financial information is available and that are evaluated regularly by the Board of Directors and Executive Committee in deciding allocation of business resources and in evaluating business performance.

The Group adopts a holding company structure. As a holding company, the Company conducts the planning and general management of group business strategies, and each subsidiary operates business activities. The Group’s reportable segments consist of the Convenience Store business and the General Merchandise Store business, which are defined by taking business forms, products and services offered, and other factors into consideration.

In the Convenience Store business, FamilyMart Co., Ltd. and domestic and foreign franchisers operate “FamilyMart” and other chain convenience stores. In the General Merchandise Store business, general merchandise store operations, such as retail stores, specialty stores, and financial services, are operated mainly by UNY Co., Ltd.

Segment revenues and results

The accounting policies of each reportable segment are consistent with those described in Note 3. “SIGNIFICANT ACCOUNTING POLICIES.”

Segment profit or loss is based on the profit for the year attributable to owners of the parent.

Fiscal Year Ended February 28, 2017 (From March 1, 2016 to February 28, 2017)

	Reportable segment				
	Convenience store	General merchandise store	Total	Reconciliations (*)	Consolidated
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Operating revenues:					
External revenue	¥484,225	¥359,590	¥843,815		¥843,815
Intersegment revenue	236	1,148	1,384	(1,384)	
Total	¥484,461	¥360,739	¥845,200	¥ (1,384)	¥843,815
Segment profit (loss)	¥11,278	¥9,824	¥21,102	¥483	¥21,585
Other items					
Depreciation and amortization	¥(41,999)	¥(5,503)	¥(47,502)	¥7	¥(47,494)
Finance income	3,114	167	3,281	20	3,301
Finance costs	(2,164)	(622)	(2,786)	204	(2,582)
Equity in earnings of associates and joint ventures	736	(5)	731		731
Impairment losses (**)	(13,932)	(636)	(14,568)		(14,568)
Income taxes	(8,368)	(1,236)	(9,604)	211	(9,393)
Segment assets	1,126,056	530,124	1,656,180	10,894	1,667,074
Investments accounted for using the equity method	14,429	8,856	23,285		23,285
Capital expenditures (***)	72,266	4,456	76,721		76,721

* Reconciliations in segment profit of ¥483 million are corporate expenses and elimination of intersegment transactions, which consist mainly of general and administrative expenses that are not attributable to any reportable segment.
Reconciliations in segment assets of ¥10,894 million include unallocated corporate assets, intersegment eliminations, and others, amounting to ¥77,352 million, ¥(52,202) million, and ¥(14,256) million, respectively. Corporate assets are mainly cash and cash equivalents that are not attributable to any reportable segment.

** For more details about impairment losses, please refer to Note 17. “IMPAIRMENT LOSSES.”

*** Capital expenditures are associated with property, plant and equipment; investment property; and intangible assets.

**** The provisional accounting treatment for business combinations was finalized in the second quarter of the fiscal year ended February 28, 2018. Amounts for the fiscal year ended February 28, 2017 reflect the finalization of the provisional accounting treatment.

Fiscal Year Ended February 28, 2018 (From March 1, 2017 to February 28, 2018)

	Reportable segment				
	Convenience store	General merchandise store	Total	Reconciliations (*)	Consolidated
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Operating revenues:					
External revenue	¥558,673	¥716,626	¥1,275,300	¥1	¥1,275,300
Intersegment revenue	2,207	2,142	4,349	(4,349)	
Total	¥560,880	¥718,768	¥1,279,649	¥ (4,349)	¥1,275,300
Segment profit (loss)	¥(1,285)	¥17,708	¥16,423	¥17,234	¥33,656
Other items					
Depreciation and amortization	¥(53,719)	¥(11,452)	¥(65,171)	¥(9)	¥(65,180)
Finance income	2,956	229	3,184	89	3,273
Finance costs	(2,047)	(2,001)	(4,048)	1,440	(2,608)
Equity in earnings of associates and joint ventures	1,166	(258)	908		908
Impairment losses (**)	(29,130)	(4,259)	(33,389)		(33,389)
Income taxes	(3,498)	(4,341)	(7,838)	15,752	7,913
Segment assets	1,158,185	523,364	1,681,549	50,956	1,732,506
Investments accounted for using the equity method	23,698	258	23,956		23,956
Capital expenditures (***)	85,240	8,449	93,689	21	93,711

* Reconciliations in segment profit of ¥17,234 million are corporate expenses and elimination of intersegment transactions, which include income taxes of ¥15,752 million that are not attributable to any reportable segment.
Reconciliations in segment assets of ¥50,956 million include unallocated corporate assets, intersegment eliminations, and others, amounting to ¥123,997 million, ¥(58,784) million, and ¥(14,256) million, respectively. Corporate assets are mainly cash and cash equivalents that are not attributable to any reportable segment.

** For more details about impairment losses, please refer to Note 17. “IMPAIRMENT LOSSES.”

*** Capital expenditures are associated with property, plant and equipment; investment property; and intangible assets.

(2) Geographic Information

The geographic breakdown of operating revenues and non-current assets is as follows:

Operating revenues from outside of the Group

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Japan	¥776,161	¥1,193,789
Taiwan	55,232	60,229
Others	12,422	21,282
Total	¥843,815	¥1,275,300

Operating revenues are classified based on the location of the entity.

Non-current assets

	2017 (February 28, 2017)	2018 (February 28, 2018)
	Millions of Yen	Millions of Yen
Japan	¥721,904	¥719,413
Taiwan	46,649	45,582
Others	2,439	1,221
Total	¥770,993	¥766,215

Non-current assets are classified based on the location of assets and do not include financial instruments, deferred tax assets, or post-employment benefit assets.

(3) Information on Major Customers

Disclosure of major customers is omitted because operating revenues from any individual external customer does not account for a significant portion of the Group's operating revenues.

7. BUSINESS COMBINATIONS AND LOSS OF CONTROL

Year Ended February 28, 2017 (From March 1, 2016 to February 28, 2017)

(Business combination through acquisitions)
Effective February 3, 2016, the Company (formerly "FamilyMart Co., Ltd.") and UNY Group Holdings Co., Ltd. (the two companies are collectively, the "Companies" hereinafter) entered into an agreement on an absorption-type merger ("Absorption-Type Merger") whereby the Company is the surviving company of the Absorption-Type Merger and UNY Group Holdings Co., Ltd. is the absorbed company (the Company after the Absorption-Type Merger is called the "Integrated Company"), subject to the approval of the general shareholders' meetings of the Companies and Circle K Sunkus Co., Ltd. Upon the consummation of the Absorption-Type Merger, the Company and Circle K Sunkus Co., Ltd., a wholly owned subsidiary of UNY Group Holdings Co., Ltd., also entered into an agreement on the absorption-type demerger ("Absorption-Type Demerger") whereby the Integrated Company was the demerged company and Circle K Sunkus Co., Ltd. is the succeeding company. The Integrated Company's convenience store business was succeeded by Circle K Sunkus Co., Ltd. Both agreements were approved at the ordinary general meetings of shareholders of the respective companies, and the Absorption-Type Merger and the Absorption-Type Demerger became effective on September 1, 2016. Effective September 1, 2016, the former FamilyMart Co., Ltd. changed its company name to FamilyMart UNY Holdings Co., Ltd. and Circle K Sunkus Co., Ltd. to FamilyMart Co., Ltd.

(1) Overview of the business combination

The Company acquired UNY Group Holdings Co., Ltd. through an absorption-type merger with UNY Group Holdings Co., Ltd. on September 1, 2016. UNY Group Holdings Co., Ltd. conducts the management and planning of operations of the corporate group composed of general merchandise stores, convenience stores, specialty stores, financial services business, and other businesses (holding company).
The aim of the management integration is to integrate the management resources and establish a new retail group to thrive in a competitive environment and to be a company that provides value to customers, franchisees, business partners, shareholders, and employees.

1) Legal form of business combination
Absorption-type merger where the Company is the surviving company

2) Ratio of voting rights acquired
Ratio of voting rights held immediately before the business combination: None
Ratio of voting rights held after the acquisition: 100.00%

3) Major reason for determining the acquiring company

By reason of the Company acquiring the shares in UNY Group Holdings Co., Ltd. by issuing its ordinary shares and its treasury stock as consideration.

(2) Merger ratio by class of stock and its calculation method, and the number of shares delivered for the Absorption-Type Merger

1) Merger ratio by class of stock

0.138 shares of common stock of the Company for one share of common stock of UNY Group Holdings Co., Ltd.

2) Calculation method of the merger ratio

The Company designated Citigroup Global Markets Japan Inc. and KPMG FAS Co., Ltd., while UNY Group Holdings Co., Ltd. designated Nomura Securities Co., Ltd. and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. as third-party financial advisors for the calculation of the merger ratio. The merger ratio was agreed upon and decided after comprehensive consideration of factors, including the analysis conducted by the respective third-party financial advisors, each company's financial condition, share prices, and future prospects. Upon prudent and thorough discussions between the Companies, the merger ratio was determined fairly and appropriately.

3) Number of shares issued

31,785,870 shares of common stock (including 2,756,690 shares of treasury stock owned by the Company)

(3) Fair values of consideration paid, and recognized amounts of major classes of assets acquired and liabilities assumed at the date of acquisition

The provisional accounting treatment was used for the fiscal year ended February 28, 2017 and finalized in the second quarter of the fiscal year ended February 28, 2018.

	Provisional	Retrospectively adjusted	Finalized
	Millions of Yen	Millions of Yen	Millions of Yen
Fair value of consideration paid:			
Equity interests of the acquirer	¥235,533		¥235,533
Total	235,533		235,533
Recognized amounts of assets acquired and liabilities assumed:			
Current assets:			
Cash and cash equivalents	31,893		31,893
Trade and other receivables	156,585		156,585
Other financial assets	12,011		12,011
Inventories	36,440		36,440
Other current assets	16,979	¥ (56)	16,923
Assets held for sale	27,398	248	27,646
Total current assets	281,306	192	281,498
Non-current assets:			
Property, plant and equipment	211,073	(38,720)	172,353
Investment property	171,445	(28,346)	143,099
Intangible assets	54,209	(2,418)	51,790
Investments accounted for using the equity method	9,141		9,141
Leasehold deposits receivable	72,239		72,239
Other financial assets	17,899	(382)	17,517
Deferred tax assets	68,130	(40,840)	27,291
Other non-current assets	2,786	419	3,206
Total non-current assets	606,924	(110,287)	496,636
Total assets	¥888,230	¥ (110,096)	¥778,134
Current liabilities:			
Trade and other payables	¥ (157,461)	¥ (225)	¥ (157,686)
Deposits received	(47,853)		(47,853)
Bonds and borrowings	(146,421)		(146,421)
Lease obligations	(6,707)		(6,707)
Income taxes payable	(4,802)		(4,802)
Other current liabilities	(36,947)	(933)	(37,880)
Liabilities directly related to assets held for sale	(13,525)		(13,525)
Total current liabilities	(413,715)	(1,158)	(414,873)
Non-current liabilities:			
Bonds and borrowings	(170,506)		(170,506)
Lease obligations	(18,583)		(18,583)
Other financial liabilities	(45,169)		(45,169)
Liabilities for retirement benefits	(774)		(774)
Provisions	(31,435)		(31,435)
Other non-current liabilities	(6,813)	(885)	(7,699)
Total non-current liabilities	(273,280)	(885)	(274,166)
Total liabilities	¥ (686,995)	¥ (2,044)	¥ (689,039)
Recognized amounts of assets acquired and liabilities assumed (net)	¥201,234	¥ (112,139)	¥89,095
Non-controlling interests(*)	(5,678)		(5,678)
Goodwill	¥39,977	¥112,139	¥152,116

* Non-controlling interests are associated with subsidiaries of UNY Group Holdings Co., Ltd., and were measured at the proportionate share in the recognized amounts of the subsidiaries' identifiable net assets.
Acquisition-related costs of the business combination were ¥439 million and all the costs were recognized as "selling, general, and administrative expenses" on the consolidated statement of profit or loss.

Goodwill arising from the business combination is recorded in the convenience store business segment. The major components of the goodwill include the effects of synergy with existing businesses and excess profitability expected to arise from the acquisition.

Goodwill recognized is not future-deductible for tax purposes.

(4) Cash flows due to acquisition

	Amount
	Millions of Yen
Cash and cash equivalents paid for acquisition	―
Assets held by the acquiree at the time of acquisition:	
Cash and cash equivalents	¥31,893
Cash and cash equivalents included in assets held for sale	4,446
Cash inflow from acquisition of business	¥36,339

(5) Fair value of receivables

The fair value of receivables acquired is as follows:

	Trade and other receivables	Receivables included in other financial assets
	Millions of Yen	Millions of Yen
Total contractual amounts receivable	¥157,317	¥25,346
Best estimates of contractual cash flows expected to be uncollectible	(732)	(370)
Fair value of receivables	¥156,585	¥24,975

(6) Impact on business results

Operating revenues of ¥432,667 million and profit for the year attributable to owners of the Company of ¥7,281 million arising from the former UNY Group Holdings Co., Ltd. and its subsidiaries and associates on and after the date of acquisition are included in the Group's consolidated statement of profit or loss for the year ended February 28, 2017. Operating revenues and profit for the year of the Group for the fiscal year ended February 28, 2017 would have been ¥1,267,329 million and ¥28,667 million, respectively, had the business combination been executed on March 1, 2016 (unaudited information).

(Disposals of subsidiaries and others subsequent to business combination)
Among those that became subsidiaries of the Company due to the business combination with UNY Group Holdings Co., Ltd., the Group lost control of the following companies through sales and other reasons after the business integration:

1) Disposal of SAGAMI Co., Ltd.

UNY Group Holdings Co., Ltd. concluded a contract on August 17, 2016 to accept a tender offer conducted by AG No. 2 Investment Limited Partnership for its entire holdings of the shares in SAGAMI Co., Ltd., and the tender offer was completed on October 11, 2016. The impact of the transaction on the Group’s operating results is immaterial.

2) Disposal of Palemo Co., Ltd.

UNY Group Holdings Co., Ltd. concluded a contract on August 31, 2016 to accept a tender offer conducted by Endeavour United Partners Three Investment Partnership for its entire holdings of the shares in Palemo Co., Ltd., and the tender offer was completed on October 17, 2016. The impact of the transaction on the Group’s operating results is immaterial.

3) Disposal of UNY (Cayman Islands) Holding Co., Ltd.

The Company concluded a contract on December 5, 2016 to transfer its entire holdings of the shares in UNY (Cayman Islands) Holding Co., Ltd. (hereinafter “UNY (Cayman Islands)”) to UNION CHEER INVESTMENT LIMITED, and the disposal was completed on December 31, 2016. The impact of the transaction on the Group’s business operating results is immaterial.

<u>Year Ended February 28, 2018 (From March 1, 2017 to February 28, 2018)</u>

(Acquisition of Kanemi Co., Ltd. as a subsidiary through purchase of additional shares)
The Company resolved at a meeting of its Board of Directors held on June 29, 2017 to acquire shares in an associate, Kanemi Co., Ltd. (“Kanemi”), from ITOCHU Corporation and nine individuals, and make it a subsidiary. The agreement on the share transfer was entered into on July 7, 2017, and Kanemi became a subsidiary on July 20, 2017.

(1) Overview of the business combination

1) Name of the acquiree and its business
Name of the acquiree: Kanemi Co., Ltd.
Outline of the business: Operation of retail stores selling sushi, fried food, prepared dishes, etc. and production of boxed lunches for convenience stores

2) Date of the business combination
July 20, 2017

3) Ratio of voting rights acquired
Ratio of voting rights held immediately before the business combination: 26.05%
Ratio of voting rights additionally acquired at the date of business combination: 26.42%
Ratio of voting rights held after the acquisition: 52.47%

4) Major reason for the business combination
For the reason that the business combination is expected to further improve the overall profitability of the Group through the following measures to increase sales:
- Initiatives of Kanemi and the Group to revitalize sales of Kanemi’s prepared dishes provided in UNY Co., Ltd. stores.
- Cooperation between Kanemi and the Group to raise the quality of Kanemi’s home-meal replacement products for FamilyMart Co., Ltd. by sharing the know-how held by both companies and reviewing the production process.

5) Background to the acquisition of control of the acquiree
The Company acquired the majority of voting rights through the acquisition of shares in exchange of cash.

(2) *Fair values of consideration paid, and recognized amounts of major classes of assets acquired and liabilities assumed at the date of acquisition*

	Amount
	Millions of Yen
Fair value of consideration paid (cash)	¥8,733
Fair value of existing interests	8,611
Total	17,345
Recognized amounts of assets acquired and liabilities assumed:	
Current assets:	
Cash and cash equivalents	9,434
Trade and other receivables	6,211
Inventories	518
Other current assets	281
Total current assets	16,443
Non-current assets:	
Property, plant and equipment	12,781
Intangible assets	102
Leasehold deposits receivable	295
Other financial assets	2,397
Assets for retirement benefits	488
Deferred tax assets	1,512
Other non-current assets	102
Total non-current assets	17,678
Total assets	¥34,121
Current liabilities:	
Trade and other payables	¥ (5,734)
Deposits received	(175)
Income taxes payable	(80)
Other current liabilities	(2,691)
Total current liabilities	(8,680)
Non-current liabilities:	
Other financial liabilities	(130)
Provisions	(59)
Total non-current liabilities	(189)
Total liabilities	¥ (8,869)
Recognized amounts of assets acquired and liabilities assumed (net)	¥25,252
Non-controlling interests(*)	(12,002)
Goodwill	¥4,095

*Non-controlling interests were measured at the proportionate share in the recognized amounts of the identifiable net assets.

Acquisition-related costs of the business combination were ¥16 million and all the costs were recognized as “selling, general, and administrative expenses” on the consolidated statement of profit or loss.

The major components of the goodwill arising from the business combination include the effects of synergy with existing businesses and excess profitability expected to arise from the acquisition. Recognition and measurement of identifiable assets and liabilities at the date of the business combination have not been completed and, therefore, the amount of goodwill is determined provisionally. In addition, allocation of goodwill to CGUs has not been completed.

Goodwill recognized is not future-deductible for tax purposes.

(3) Gain on step acquisition

The Company held 26.05% equity interests in Kanemi at the date of acquisition and remeasured them at the fair value as of the acquisition date. As a result, gain on step acquisition of ¥62 million is recognized due to the business combination. This gain is included in "other income" on the consolidated statement of profit or loss.

(4) Cash flows due to acquisition

	Amount
	Millions of Yen
Cash and cash equivalents paid for acquisition	¥(8,733)
Cash and cash equivalents held by the acquiree at the time of acquisition	9,434
Cash inflow from acquisition of subsidiary	¥700

(5) Impact on business results

Operating revenues of ¥52,065 million and loss for the year attributable to owners of the Company of ¥270 million arising from Kanemi on or after the date of acquisition are included in the Group's consolidated statement of profit or loss. Operating revenues and profit for the year attributable to owners of the Company for the fiscal year ended February 28, 2018 would have been ¥1,310,505 million and ¥33,392 million, respectively, had the business combination been executed at the beginning of the year (unaudited information).

8. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents is as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Cash and cash equivalents:		
Cash and deposits	¥188,289	¥253,174
Total	¥188,289	¥253,174

9. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Receivables due from franchised stores	¥39,816	¥36,215
Accounts receivable—other	81,938	82,914
Credit card receivables	115,537	116,203
Advances paid	16,331	19,029
Others	5,531	5,993
Allowance for doubtful receivables	(424)	(701)
Total	¥258,729	¥259,654

Trade and other receivables are presented in the net amount after deducting allowance for doubtful receivables in the consolidated statement of financial position.

10. OTHER FINANCIAL ASSETS

(1) Breakdown of other financial assets

The breakdown of other financial assets is as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Financial assets measured at fair value through other comprehensive income:		
Listed stocks	¥16,219	¥22,984
Unlisted stocks	14,354	18,453
Financial assets measured at amortized cost:		
Time deposits	3,071	96
Debt securities	4,899	2,704
Loans	1,641	1,612
Construction assistance fund receivables	118,090	123,957
Others	6,100	4,382
Allowance for doubtful receivables	(2,236)	(2,819)
Derivative assets	3,262	1,372
Total	¥165,400	¥172,742
Current assets	¥27,254	¥19,463
Non-current assets	138,146	153,279
Total	¥165,400	¥172,742

Other financial assets are presented in the net amount after deducting allowance for doubtful receivables in the consolidated statement of financial position.

(2) Equity instruments measured at fair value through other comprehensive income

Major equity instruments measured at fair value through other comprehensive income were as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Ryohin Keikaku Co., Ltd.	¥13,338	¥20,583
Tpoint Japan Co., Ltd.	11,540	15,126
Joyous Foods Co., Ltd.	524	1,154
SEIBU HOLDINGS INC.	1,046	993
E-net Co., Ltd.	756	772
Tokai Tokyo Financial Holdings, Inc.	189	527
Kagome Co., Ltd.	655	

These equity instruments are classified as financial assets measured at fair value through other comprehensive income as they are held for the long term primarily with the objective of strengthening business relationships. Refer to Note 31. "FINANCE INCOME AND FINANCE COST" for dividends received from financial assets measured at fair value through other comprehensive income.

The Company disposed of certain equity instruments measured at fair value through other comprehensive income during the fiscal years ended February 28, 2017 and 2018 as a result of reconsideration of business relationships and other reasons. The fair values and accumulated gains or losses recognized in other comprehensive income at the time of sale in the respective fiscal years were as follows:

2017 (From March 1, 2016 to February 28, 2017)			2018 (From March 1, 2017 to February 28, 2018)		
Fair value at the time of derecognition	Accumulated gains (losses)	Dividends received	Fair value at the time of derecognition	Accumulated gains (losses)	Dividends received
Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
¥792	¥137	¥1	¥2,416	¥436	¥23

Accumulated gains (losses) (net of income taxes) reclassified from other comprehensive income to retained earnings were ¥131 million and ¥401 million for the fiscal years ended February 28, 2017 and 2018, respectively.

11. INVENTORIES

The breakdown of inventories is as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Merchandise	¥52,843	¥54,489
Others	558	1,069
Total	¥53,401	¥55,558

The valuation loss on inventories that was recognized as an expense was ¥104 million and ¥23 million for the fiscal years ended February 28, 2017 and 2018, respectively.

12. OTHER ASSETS

The breakdown of other assets is as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Prepaid expenses	¥19,354	¥20,038
Long-term prepaid expenses	12,908	12,102
Others	9,279	6,297
Total	¥41,541	¥38,437
Other current assets	¥27,383	¥24,838
Other non-current assets	14,158	13,599
Total	¥41,541	¥38,437

13. ASSETS HELD FOR SALE

Assets held for sale as of February 28, 2017 are land for distribution centers and stores that was originally earmarked for development by the general merchandise store business, and later classified as held for sale as the Company decided to sell. For the assets held for sale, impairment losses were not recognized for the fiscal year ended February 28, 2017, and their sales were completed during the fiscal year ended February 28, 2018.

Assets held for sale as of February 28, 2018 are properties for stores and living facilities for the elderly (land and buildings) in the general merchandise store business, and were subsequently classified as held for sale as the Company decided to sell. For the assets held for sale, impairment losses of ¥720 million were recognized for the fiscal year ended February 28, 2018 and included in “other expenses” in the consolidated statement of profit or loss. The properties are scheduled to be sold within one year from the end of the fiscal year.

14. PROPERTY, PLANT AND EQUIPMENT

Changes in the cost, accumulated depreciation and accumulated impairment losses, and carrying amounts of property, plant and equipment were as follows:

Cost

	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
March 1, 2016	¥6,365	¥118,771	¥20,793	¥181,592	¥912	¥328,433
Acquisition	1	23,960	4,639	38,246	6,039	72,886
Acquisition through business combinations (*)	59,958	90,513	6,845	13,629	1,408	172,353
Sale or disposal	(4,899)	(15,683)	(1,352)	(13,618)	(118)	(35,670)
Reclassification(**)		757	31	95	(1,901)	(1,018)
Exchange difference on translating foreign operations and others	270	596	(161)	2,234	(240)	2,700
February 28, 2017	61,696	218,914	30,796	222,179	6,099	539,684
Acquisition	111	28,812	5,167	51,816	4,249	90,156
Acquisition through business combinations (*)	3,723	4,442	4,006	390	221	12,781
Sale or disposal	(7,534)	(10,029)	(1,614)	(13,849)		(33,025)
Reclassification (**)	9,090	4,808		2,142	(7,760)	8,279
Exchange difference on translating foreign operations and others	(404)	13	(121)	(50)	(429)	(991)
February 28, 2018	¥66,682	¥246,962	¥38,236	¥262,626	¥2,378	¥616,884

* For more details about business combinations, please refer to Note 7. “BUSINESS COMBINATIONS AND LOSS OF CONTROL.”

** Reclassification includes reclassification to and from investment properties and reclassification to assets held for sale.

Accumulated depreciation and accumulated impairment losses

	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
March 1, 2016	¥(66)	¥(49,523)	¥(7,409)	¥(88,851)		¥(145,849)
Depreciation (*)		(9,451)	(2,535)	(24,879)		(36,865)
Impairment losses (**)		(5,125)	(492)	(5,512)	¥(474)	(11,603)
Sale or disposal		11,507	680	10,721		22,908
Exchange difference on translating foreign operations and others		(405)	32	(575)	(96)	(1,044)
February 28, 2017	(66)	(52,997)	(9,724)	(109,095)	(570)	(172,452)
Depreciation (*)		(15,162)	(3,384)	(31,078)		(49,624)
Impairment losses (**)	(352)	(11,950)	(1,444)	(5,272)		(19,017)
Sale or disposal	184	5,609	696	10,832		17,320
Reclassification (***)		630			570	1,200
Exchange difference on translating foreign operations and others		(885)	7	163		(715)
February 28, 2018	¥(233)	¥(74,755)	¥(13,850)	¥(134,450)	–	¥(223,288)

* Depreciation of property, plant and equipment is included in "cost of sales" and "selling, general, and administrative expenses" in the consolidated statement of profit or loss.

** For more details about impairment losses, please refer to Note 17. "IMPAIRMENT LOSSES."

*** Reclassification includes reclassification to and from investment properties and reclassification to assets held for sale.

Carrying amount

	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Balance, February 28, 2017	¥61,630	¥165,918	¥21,072	¥113,084	¥5,529	¥367,232
Balance, February 28, 2018	66,449	172,207	24,386	128,176	2,378	393,596

The following finance lease assets were included in the carrying amount of property, plant and equipment.

Lease assets

	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Balance, February 28, 2017	–	–	¥10,183	¥81,575	–	¥91,758
Balance, February 28, 2018	–	–	10,380	88,947	–	99,327

15. INVESTMENT PROPERTY

Changes in the cost, accumulated depreciation and accumulated impairment losses, and carrying amount and fair value of investment property were as follows:

Cost

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥12,454	¥162,753
Acquisition	603	417
Acquisition through business combinations (*)	143,099	
Sale or disposal		(1,155)
Reclassification (**)	5,429	(13,057)
Exchange difference on translating foreign operations and others	1,167	(18)
Balance at the end of year	¥162,753	¥148,939

* For more details about business combinations, please refer to Note 7. "BUSINESS COMBINATIONS AND LOSS OF CONTROL."

** Reclassification includes reclassification to and from investment properties and reclassification to assets held for sale.

Accumulated depreciation and accumulated impairment losses

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥(3,634)	¥(6,251)
Depreciation (*)	(2,546)	(4,766)
Sale or disposal		28
Reclassification (**)		(947)
Exchange difference on translating foreign operations and others	(71)	1
Balance at the end of year	¥(6,251)	¥(11,935)

*Depreciation of investment property is included in "selling, general, and administrative expenses" in the consolidated statement of profit or loss.

**Reclassification includes reclassification to and from investment properties and reclassification to assets held for sale.

Carrying amount and fair value

	2017 (February 28)		2018 (February 28)	
	Carrying amount	Fair value	Carrying amount	Fair value
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Investment property	¥156,501	¥159,403	¥137,004	¥150,073

The fair value of investment property is calculated based mainly on evaluations by independent external real estate appraisers. Such evaluations are made on the basis of market transaction prices of similar assets and the discounted cash flow analysis. They include significant unobservable inputs, such as projected returns from each property and discount rates. Therefore, they are categorized within Level 3 of the fair value hierarchy.

Revenues and expenses from investment property were as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Lease income	¥21,991	¥42,752
Direct operating cost	12,907	26,503

Lease income from investment property (mainly rents received from tenants at the stores of the general merchandise store business) is included in “operating revenues” in the consolidated statement of profit or loss. Direct operating cost incidental to lease income (depreciation, maintenance cost, insurance expenses, taxes and dues, and others) is included in “selling, general, and administrative expenses” in the consolidated statement of profit or loss.

16. GOODWILL AND INTANGIBLE ASSETS

Changes in the cost, accumulated amortization and accumulated impairment losses, and carrying amounts of goodwill and intangible assets are as follows:

Cost

		Intangible assets			
	Goodwill	Software	Customer-related	Other	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
March 1, 2016	¥12,753	¥37,801	¥3,808	¥11,555	¥53,164
Acquisition		5,290	1,491	482	7,263
Acquisition through business combinations (*)	152,116	3,190	48,497	104	51,790
Sale or disposal	(35)	(6,866)	(1,279)	(751)	(8,896)
Exchange difference on translating foreign operations and others	27	242	(148)	69	162
February 28, 2017	164,861	39,657	52,369	11,459	103,484
Acquisition		6,125	3,260	77	9,461
Acquisition through business combinations (*)	4,095	99		3	102
Sale or disposal		(3,243)	(29)	(119)	(3,391)
Exchange difference on translating foreign operations and others		270		95	366
February 28, 2018	¥168,956	¥42,908	¥55,600	¥11,515	¥110,022

* For more details about business combinations, please refer to Note 7. “BUSINESS COMBINATIONS AND LOSS OF CONTROL.”

Accumulated amortization and accumulated impairment losses

	Goodwill	Intangible assets: Software	Customer-related	Other	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
March 1, 2016	¥(1,270)	¥(25,435)	¥(1,880)	¥(4,596)	¥(31,912)
Amortization (*)		(5,619)	(1,625)	(840)	(8,083)
Impairment losses (**)	(2,096)	(2)	(149)	(441)	(592)
Sale or disposal		7,181	1,133	143	8,457
Exchange difference on translating foreign operations		161		89	251
February 28, 2017	(3,366)	(23,714)	(2,520)	(5,645)	(31,879)
Amortization (*)		(6,509)	(3,043)	(1,240)	(10,792)
Impairment losses (**)	(9,827)	(127)	(4,181)	(69)	(4,378)
Sale or disposal		3,013		72	3,085
Exchange difference on translating foreign operations		197		(4)	193
February 28, 2018	¥(13,193)	¥(27,140)	¥(9,744)	¥(6,885)	¥(43,770)

* Amortization of intangible assets is included in “cost of sales” and “selling, general, and administrative expenses” in the consolidated statement of profit or loss.

** For more details about impairment losses, please refer to Note 17. “IMPAIRMENT LOSSES.”

Carrying amount

	Goodwill(*)	Intangible assets(**): Software	Customer-related	Other	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Balance, February 28, 2017	¥161,496	¥15,943	¥49,848	¥5,814	¥71,606
Balance, February 28, 2018	155,763	15,768	45,856	4,629	66,252

* For details about material components of goodwill, please refer to Note 17. “IMPAIRMENT LOSSES.”

** The major components of the above intangible assets include relationships with customers of the former Circle K Sunkus Co., Ltd. recognized in the business combination with UNY Group Holdings Co., Ltd., amounting to ¥47,285 million and ¥40,733 million as of February 28, 2017 and 2018, respectively (the remaining amortization period is 18.5 years).

17. IMPAIRMENT LOSSES

(1) Property, Plant and Equipment;, Intangible Assets; and Others

The Group estimates the recoverable value of a CGU, which in most cases is each store, while CGUs for idle assets are the individual asset.

The Group recognized impairment losses of ¥12,472 million and ¥23,562 million for the fiscal years ended February 28, 2017 and 2018, respectively, which are included in “other expenses” in the consolidated statement of profit or loss. The major components include store assets that experienced a significant profitability decline (buildings and structures; tools, furniture, and fixtures; and others), and their carrying amounts are reduced to recoverable amounts.

The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal. The discount rate used in measuring the value in use is calculated based on a pre-tax weighted-average cost of capital (4.8% to 5.2%). The fair value is calculated based mainly on evaluations by independent external real estate appraisers in accordance with appraisal standards in the respective country where the real estate is located and categorized within Level 3 of the fair value hierarchy.

(2) Goodwill

The Group performs tests of goodwill impairment on an annual basis and whenever there is any indication of impairment. The recoverable amount for impairment testing is calculated based on the value in use.

The value in use is calculated, in principle, by discounting the estimated future cash flows, which are based on an upcoming five-year business plan approved by management, to their present value using a pre-tax weighted-average cost of capital for the CGU (4.8% to 7.5%). The growth rate used for forecasting cash flows after the term of the business plan is determined to the extent that it does not exceed the long-term average growth rate of the market or country where the CGU belongs (0.0% level).

The breakdown of the carrying amount of goodwill by segment is as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Convenience store business	¥161,496	¥151,668
General merchandise store business		4,095
Total	¥161,496	¥155,763

The major components of the carrying amounts of goodwill above are goodwill related to SENIOR LIFE CREATE Co., Ltd. (the convenience store business), the former Cocostore Corporation (the convenience store business that was merged into the Company, the surviving company, in December 2015), the former UNY Group Holdings Co., Ltd. (allocation to the convenience store business, which was merged into the Company, the surviving company in September 2016), and Kanemi Co., Ltd. (the general merchandise store business).

The carrying amounts of goodwill related to SENIOR LIFE CREATE Co., Ltd. were ¥1,500 million and ¥1,110 million as of February 28, 2017 and 2018, respectively.

Impairment losses of ¥2,096 million and ¥390 million were recognized on the goodwill above for the fiscal years ended February 28, 2017 and 2018, respectively, as the recoverable amount fell below the carrying amount as a result of review of the business plan in light of recent changes in business environments and results.

The carrying amounts of goodwill related to the former Cocostore Corporation were ¥7,355 million and ¥7,134 million as of February 28, 2017 and 2018, respectively.

Impairment losses were not recognized on the goodwill above for the fiscal year ended February 28, 2017. For the fiscal year ended February 28, 2018, an impairment loss of ¥221 million was recognized for stores whose profitability declined significantly, as the recoverable amounts fell below their carrying amounts.

The carrying amounts of goodwill related to the former UNY Group Holdings Co., Ltd. were ¥152,116 million and ¥142,900 million as of February 28, 2017 and 2018, respectively.

Impairment losses were not recognized on the goodwill above for the fiscal year ended February 28, 2017. For the fiscal year ended February 28, 2018, an impairment loss of ¥9,216 million was recognized for stores whose profitability declined significantly and subsequently closed, as the recoverable amounts fell below their carrying amounts.

The carrying amount of goodwill related to Kanemi Co., Ltd. was ¥4,095 million as of February 28, 2018.

Impairment losses of goodwill were not recognized on the goodwill above for the fiscal year ended February 28, 2018, since the fair value measurement of property, plant and equipment and intangible assets is incomplete and thus, allocation of the related goodwill to CGUs is also incomplete.

The impairment losses of goodwill are included in “other expenses” in the consolidated statement of profit or loss.

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(1) Investments in Associates

The carrying amount of investments in individually immaterial associates was as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Total carrying amounts	¥22,236	¥22,802

Share of comprehensive income of individually immaterial associates was as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Share of profit for the year	¥1,978	¥1,528
Share of other comprehensive income	46	(21)
Share of comprehensive income	¥2,024	¥1,506

(2) Investments in Joint Ventures

The carrying amount of investments in individually immaterial joint ventures was as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Total carrying amounts	¥1,050	¥1,153

Share of comprehensive income of individually immaterial joint ventures was as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Share of profit for the year	¥(1,247)	¥(620)
Share of other comprehensive income	(139)	149
Share of comprehensive income	¥(1,386)	¥(471)

19. INCOME TAXES

(1) Deferred Tax Assets and Deferred Tax Liabilities

The major components of deferred tax assets and deferred tax liabilities and their changes were as follows:

Fiscal year ended February 28, 2017 (From March 1, 2016 to February 28, 2017)

	March 1, 2016	Recognized through profit or loss	Recognized in other comprehensive income	Business combinations	February 28, 2017
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Deferred tax assets					
Accounts payable–other and accrued expenses	¥1,162	¥(254)		¥7,329	¥8,237
Unearned revenue	610	(95)		1,120	1,635
Provisions	3,512	189		4,468	8,170
Liabilities for retirement benefits	4,391	(109)	¥195	29	4,506
Property, plant and equipment; investment property; and intangible assets	7,550	(3,196)		33,662	38,016
Financial assets measured at amortized cost	1,699	(2,187)		3,325	2,837
Financial liabilities measured at amortized cost		(411)		1,870	1,458
Tax loss carryforwards	38	592		546	1,176
Other	3,174	(2,082)	(565)	5,362	5,889
Total	¥22,136	¥(7,552)	¥(370)	¥57,710	¥71,924
Deferred tax liabilities					
Financial assets measured at fair value through other comprehensive income	¥(3,803)		¥(442)	¥(340)	¥(4,565)
Property, plant and equipment; investment property; and intangible assets	(1,248)	¥833		(25,801)	(26,215)
Investments in subsidiaries and associates	(928)	(101)	(156)	(945)	(2,131)
Other	(158)	254	(137)	(4,150)	(4,191)
Total	¥(6,137)	¥985	¥(715)	¥(31,236)	¥(37,102)

Fiscal year ended February 28, 2018 (From March 1, 2017 to February 28, 2018)

	March 1, 2017	Recognized through profit or loss	Recognized in other comprehensive income	Business combinations	February 28, 2018
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Deferred tax assets					
Accounts payable–other and accrued expenses	¥8,237	¥(1,358)		¥624	¥7,503
Unearned revenue	1,635	(120)			1,515
Provisions	8,170	(377)		18	7,810
Liabilities for retirement benefits	4,506	(214)	¥668		4,961
Property, plant and equipment; investment property; and intangible assets	38,016	(9,562)		756	29,211
Financial assets measured at amortized cost	2,837	(1,181)			1,656
Financial liabilities measured at amortized cost	1,458	(699)			760
Tax loss carryforwards	1,176	22,284		369	23,830
Other	5,889	699	(398)	(81)	6,109
Total	¥71,924	¥9,473	¥270	¥1,686	¥83,354
Deferred tax liabilities					
Financial assets measured at fair value through other comprehensive income	¥(4,565)		¥(2,649)	¥(326)	¥(7,539)
Property, plant and equipment; investment property; and intangible assets	(26,215)	¥2,464		(20)	(23,771)
Investments in subsidiaries and associates	(2,131)	742	51		(1,338)
Other	(4,191)	968	(133)	(167)	(3,523)
Total	¥(37,102)	¥4,174	¥(2,730)	¥(512)	¥(36,171)

Deferred tax assets are recognized for deductible temporary differences, tax loss carryforwards, or tax credit carryforwards to the extent that it is probable that such deferred tax assets will be recovered based on the estimation of taxable profit for each taxpayer.

Tax loss carryforwards and deductible temporary differences for which deferred tax assets were not recognized were as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Tax loss carryforwards	¥8,083	¥6,930
Deductible temporary differences	219,580	208,391
Total	¥227,663	¥215,321

The expiration schedule for tax loss carryforwards for which deferred tax assets were not recognized is as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
1st year	¥32	
2nd year	336	¥980
3rd year	1,119	1,527
4th year	1,676	1,598
5th year and after	4,921	2,825
Total	¥8,083	¥6,930

As stated in Note 41. "ADDITIONAL INFORMATION," the Company intends to apply the consolidated taxation system in Japan effective from the fiscal year ending February 28, 2019. The above table does not include tax loss carryforwards for which deferred tax assets relating to local taxes (corporate inhabitant tax and enterprise tax, which are not within the scope of application of the domestic consolidated taxation system) were not recognized. Tax loss carryforwards for which deferred tax assets relating to local taxes (corporate inhabitant tax and enterprise tax) were not recognized as of February 28, 2018, consisted of corporate inhabitant tax of ¥63,134 million and enterprise tax of ¥64,582 million.

Deferred tax assets for tax loss carryforwards were recognized in the fiscal year ended February 28, 2018, since the tax loss carryforwards were not expected to be recurring and the Company has determined that it is probable that there will be sufficient future taxable profit within the consolidated taxation group.

Total taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures for which deferred tax liabilities had not been recognized at February 28, 2017 and 2018 were ¥14,754 million and ¥6,994 million, respectively. Deferred tax liabilities were not recognized because the Group was able to control the timing of the reversal of the temporary differences and it was probable that the temporary differences would not reverse in the foreseeable future.

(2) Income Taxes

The breakdown of income taxes is as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Current tax expense	¥2,826	¥5,662
Deferred tax expense	6,567	(13,575)
Total	¥9,393	¥(7,913)

The Company is subject to corporate, corporate inhabitant, and enterprise taxes that are deductible for income tax purposes, and the applicable tax rates for the fiscal years ended February 28, 2017 and 2018, which are calculated based on these taxes, were 33.06% and 30.86%, respectively. For overseas subsidiaries, corporate taxes are imposed in accordance with their local tax laws.

The amount of the benefit arising from a previously unrecognized tax loss or temporary difference of prior periods that is used to reduce current tax expense for the fiscal year ended February 28, 2018 was ¥2,523 million and was included in current tax expense.

Deferred tax expense is mainly related to tax loss carryforwards and the occurrence and reversal of temporary differences, except for the following:

In Japan, the “Act for Partial Revision of the Income Tax Act, etc.” and the “Act on Partial Revision of the Local Tax Act, etc.” were enacted on March 29, 2016 to reduce the corporate tax rates effective from the fiscal year beginning on or after April 1, 2016. As a result, the statutory effective tax rate, which is used to calculate deferred tax assets and deferred tax liabilities, was reduced from 32.26% to 30.86% for temporary differences that are expected to reverse during the fiscal years beginning on March 1, 2017 and March 1, 2018, and to 30.62% for temporary differences that are expected to reverse during the fiscal years beginning on or after March 1, 2019. As a result of this change in the tax rate, deferred tax expense for the fiscal year ended February 28, 2017 increased by ¥1,875 million.

Deferred tax expense for the fiscal years ended February 28, 2017, and 2018 increased by ¥128 million and ¥2,347, respectively, as a result of write-downs of deferred tax assets.

Deferred tax expense for the fiscal years ended February 28, 2017, and 2018 decreased by ¥592 million and ¥22,284 million, respectively, as a result of recognizing deferred tax assets on tax loss carryforwards arising during the reporting period. Please see Note 41. “ADDITIONAL INFORMATION” for the impact of application of the consolidated taxation system during the fiscal year ended February 28, 2018.

The differences between the statutory effective tax rate and the average actual effective tax rate were as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	%	%
Statutory effective tax rate	33.06	30.86
(Adjustments)		
Expense not deducted for income tax purpose	1.74	2.37
Foreign tax credit	1.16	1.62
Unrecognized deferred tax assets	(12.63)	(66.64)
Effect from the tax rate change	5.57	
Investment in associates	0.30	(2.59)
Impairment loss on goodwill	2.06	10.59
Differences from applicable tax rates for overseas subsidiaries	(2.94)	(3.92)
Others	0.44	0.08
Average actual effective tax rate	27.88	(27.63)

20. BONDS, BORROWINGS, LEASE OBLIGATIONS, AND OTHER FINANCIAL LIABILITIES

(1) Breakdown of Financial Liabilities

The breakdown of bonds, borrowings, lease obligations, and other financial liabilities is as follows:

	2017 (February 28)	2018 (February 28)	Average interest rate(*)	Repayment period (**)
	Millions of Yen	Millions of Yen	%	
Financial liabilities measured at amortized cost:				
Commercial paper	¥96,000			
Short-term borrowings	8,269	¥11,392	0.90	
Current portion of long-term borrowings	12,878	37,471	0.38	
Short-term lease obligations	20,240	27,160	1.02	
Bonds	39,820	39,854	0.25	From 2022 to 2024
Long-term borrowings	236,862	292,429	0.54	From 2019 to 2025
Long-term lease obligations	83,812	93,843	1.04	From 2019 to 2026
Leasehold deposits refundable	44,937	43,918		
Others	10,030	9,214		
Derivative liabilities	906	655		
Total	¥553,754	¥555,937		
Current liabilities	¥137,387	¥76,080		
Non-current liabilities	416,367	479,858		
Total	¥553,754	¥555,937		

* Average interest rate is the weighted-average interest rate based on the balances at the end of this fiscal year.

** Repayment period as of the end of this fiscal year.

The summary of terms of bonds is as follows:

Company Name	Trading Name	Issuance Date	2017 (February 28)	2018 (February 28)	Interest Rate	Collateral	Maturity Period
			Millions of Yen	Millions of Yen	%		
FamilyMart UNY Holdings Co., Ltd.	1st Non-Collateralized Bond	February 22, 2017	¥30,000 (-)	¥30,000 (-)	0.14	None	February 22, 2022
FamilyMart UNY Holdings Co., Ltd.	2nd Non-Collateralized Bond	February 22, 2017	10,000 (-)	10,000 (-)	0.24	None	February 22, 2024
Total			¥40,000 (-)	¥40,000 (-)	-	-	-

Figures in parentheses are the expected redemption amounts within one year.

(2) Assets Pledged as Collateral

Assets pledged as collateral were as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Land	¥822	¥822
Buildings and structures	348	327
Leasehold deposits receivable	140,226	122,917
Other financial assets	52	21
Total	¥141,448	¥124,087

Leasehold deposits receivable is a deposit pledged as collateral for future payments to the lessor such as rent, penalty in the event of premature termination, and costs for restoring the site to its original condition to be paid in accordance with lease agreements for the real estate used as store premises. With respect to the obligation to restore the site to its original condition, asset retirement obligations were recorded, which is described in detail in Note 24. “PROVISIONS.”

The obligations other than those corresponding to leasehold deposits receivable were as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Other financial liabilities	¥1,560	¥1,502

21. LEASE

(1) Lessee

1) Finance Lease

As a lessee, the Group leases assets such as furniture and fixtures under finance leases.

The total minimum lease payments under the finance lease contracts and their present values are as follows:

	Minimum lease payments	
	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Within 1 year	¥21,390	¥28,295
1 to 5 years	69,213	78,346
Over 5 years	17,257	18,162
Total	107,861	124,803
Future financial cost	(3,809)	(3,799)
Present value of lease obligations	¥104,052	¥121,004

	Present value of minimum lease payments	
	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Within 1 year	¥20,240	¥27,160
1 to 5 years	66,956	76,049
Over 5 years	16,856	17,794
Total	104,052	121,004
Future financial cost		
Present value of lease obligations	¥104,052	¥121,004

The aggregate amount of minimum sublease fees expected to be received in the future under non-cancelable sublease contracts at February 28, 2017 and 2018 was ¥392 million and ¥326 million, respectively.

Lease contracts do not have variable lease payments, renewal or purchase options, escalation clauses, or restrictions imposed by the lease contracts (restrictions on dividends, additional borrowings, or additional leases, etc.).

2) Non-Cancelable Operating Leases

As a lessee, the Group leases assets such as land and buildings under operating leases.

The total minimum lease payments under non-cancelable operating leases are as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Within 1 year	¥30,539	¥30,316
1 to 5 years	102,930	101,296
Over 5 years	48,905	46,496
Total	¥182,374	¥178,108

The total minimum lease payments and contingent rents that were recognized as expense under operating lease contracts are as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Minimum lease payments	¥163,381	¥206,117
Contingent rents	2,424	3,491
Total	¥165,805	¥209,607

The aggregate amount of minimum sublease fees expected to be received in the future under non-cancelable sublease contracts at February 28, 2017 and 2018 was ¥660 million and ¥829 million, respectively.

Received sublease fees recognized as revenue under cancelable or non-cancelable operating leases for the fiscal years ended February 28, 2017 and 2018 were ¥11,118 million and ¥15,521 million, respectively.

Certain lease contracts have renewal options and escalation clauses. There are also lease contracts under which additional lease payments shall be paid according to changes in the price index and other indexes. There were neither purchase options nor restrictions imposed by the lease contracts, such as restrictions on dividends, additional borrowings, or additional leases.

(2) Lessor

1) Finance Leases

As a lessor, the Group leases assets such as vehicles under finance leases.

Gross investment in the lease and present value of minimum lease payments receivable under finance lease contracts are as follows:

	Gross investment in the lease	
	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Within 1 year	¥346	¥452
1 to 5 years	720	957
Over 5 years	4	90
Total	1,071	1,499
Unearned finance income	(116)	(79)
Present value of lease receivables	¥955	¥1,420

	Present value of minimum lease payment receivable	
	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Current portion	¥309	¥425
Over 1 year, within 5 years	642	906
Over 5 years	4	89
Total	955	1,420
Unearned finance income		
Present value of lease receivables	¥955	¥1,420

2) Operating Leases

As a lessor, the Group leases land, buildings, and other assets under operating leases.

Minimum lease payments receivable under non-cancelable operating leases are as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Within 1 year	¥325	¥224
1 to 5 years	336	395
Over 5 years		210
Total	¥660	¥830

For contingent rents under operating lease contracts that were recognized as revenue, please refer to Note 28. "OPERATING REVENUES."

22. TRADE AND OTHER PAYABLES

The breakdown of trade and other payables is as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Accounts and notes payable—trade	¥213,069	¥220,667
Due to franchised stores	10,562	10,387
Accounts payable—other	50,027	51,765
Other	5,641	5,925
Total	¥279,299	¥288,744

23. EMPLOYEE BENEFITS

The Company and its domestic subsidiaries have funded and unfunded defined benefit plans to cover employee retirement benefits for almost all of the employees. As defined benefit plans, there are corporate pension plans, contract-type defined benefit corporate pension plans, and lump-sum retirement benefit plans. Certain overseas subsidiaries have defined benefit plans and defined contribution plans.

For the domestic corporate pension plans, there are unified standards relating to funding standards, fiduciary responsibilities, and information disclosure, and actuarial revaluation is conducted at least every five years in order to maintain budgetary balances in the future. If the funded amounts are less than those prescribed by the funding standards, contributions will be raised.

Plan assets are legally separated from the Group. Asset management trustees are responsible for plan assets; have a duty of loyalty to participants in pension plans and operational responsibilities, such as an obligation to diversify investments; and are subject to prohibition on conflicts of interest.

Plan assets are carefully managed; however, they are exposed to investment risks related to financial instruments. In addition, since defined benefit obligations are measured based on various actuarial assumptions, such as discount rates, they are exposed to risks of fluctuation of those assumptions.

A defined contribution plan is a retirement benefit plan in which the employer contributes a certain amount of contributions to other independent companies and is not subject to legal or constructive obligations to pay over the contribution amount.

Other than the above, certain subsidiaries have selective defined contribution pension plans that cover only employees who have requested to participate and allows the employees to contribute a portion of their bonuses paid corresponding to their service as employees.

(1) Defined Benefit Plan

1) Reconciliation of Defined Benefit Obligations and Plan Assets

Reconciliation between defined benefit obligations and plan assets, and liabilities or assets for retirement benefits in the consolidated statement of financial position are as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Present value of funded defined benefit obligations	¥111,729	¥116,885
Fair value of plan assets	(100,187)	(107,481)
Subtotal	11,542	9,404
Present value of unfunded defined benefit obligations	748	349
Effects from asset ceiling	2,028	5,459
Liabilities (assets) for retirement benefits	¥14,318	¥15,212
Amounts presented in the consolidated statement of financial position:		
Liabilities for retirement benefits	¥15,245	¥16,970
Assets for retirement benefits	(927)	(1,758)
Liabilities (assets) for retirement benefits presented in the consolidated statement of financial position (net)	¥14,318	¥15,212

2) Change in Present Value of Defined Benefit Obligations

Changes in the present value of defined benefit obligations are as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥30,126	¥112,477
Service cost	3,391	5,014
Interest cost	476	774
Remeasurements		
Actuarial losses (gains) arising from changes in demographic assumptions	(465)	277
Actuarial losses (gains) arising from changes in financial assumptions	(977)	(10)
Actuarial losses (gains) arising from factual inputs	124	736
Effects of fund restructuring (*)		2,014
Past service cost	(4)	466
Benefit payment	(3,965)	(8,093)
Changes due to business combinations	83,493	3,547
Others	279	31
Balance at the end of year	¥112,477	¥117,234

* This is the effect associated with the withdrawal of some business operators from the corporate pension plan in which the Company's subsidiaries participate (UNY Group Corporate Pension Fund) during the fiscal year ended February 28, 2018.

The weighted-average duration of the defined benefit obligations was 11.9 years for the fiscal year ended February 28, 2017, and 12.1 years for the fiscal year ended February 28, 2018.

3) Changes in Fair Value of Plan Assets

Changes in the fair value of plan assets are as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥15,483	¥100,187
Interest revenue	340	677
Remeasurements		
Income from plan assets	1,348	1,300
Effects of fund restructuring		3,206
Contributions from employer	3,767	5,521
Benefits paid	(3,620)	(7,643)
Changes due to business combinations	82,752	4,195
Others	116	38
Balance at the end of year	¥100,187	¥107,481

The Group plans to contribute ¥5,032 million during the fiscal year ending February 28, 2019.

4) Changes in Effects of Asset Ceiling

Changes in the effects of asset ceiling are as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Balance at the beginning of year		¥2,028
Interest revenue		15
Remeasurements		
Changes in effects of asset ceiling	¥2,028	2,224
Effects of fund restructuring		1,192
Balance at the end of year	¥2,028	¥5,459

5) ***Breakdown of Plan Assets***

The breakdown by major items of plan assets is as follows:

	2017 (February 28)			2018 (February 28)		
	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Equity financial instruments						
Domestic equity securities		¥7,391	¥7,391		¥7,733	¥7,733
Foreign equity securities		7,658	7,658		8,856	8,856
Debt instruments						
Domestic bonds		22,744	22,744		18,954	18,954
Foreign bonds	¥1,644	5,869	7,514	¥1,016	8,885	9,901
Life insurance general account (*)		36,331	36,331		39,958	39,958
Alternatives (**)		15,721	15,721		17,075	17,075
Cash and deposits and others	541	2,287	2,828	716	4,289	5,005
Total	¥2,185	¥98,001	¥100,187	¥1,732	¥105,749	¥107,481

* Life insurance general account is a joint investment portfolio by life insurance companies under which the minimum yield is guaranteed.

** Alternatives are investments primarily in hedge funds.

6) Significant Actuarial Assumptions

Significant actuarial assumptions are as follows:

	2017 (February 28)	2018 (February 28)
	%	%
Discount rate	0.7	0.6

7) Sensitivity Analysis

Fluctuation of the discount rate used in actuarial calculation by 0.25% would have the following impact on the present value of the defined benefit obligations:

	2018 (February 28)
	Millions of Yen
When the discount rate increases by 0.25%	¥(3,321)
When the discount rate decreases by 0.25%	3,480

(2) Defined Contribution Plans

Amounts recognized as expense related to defined contribution plans for the fiscal years ended February 28, 2017 and 2018 were ¥805 million and ¥948 million, respectively.

(3) Employee Benefit Expenses

Total employee benefit expenses included in "cost of sales" and "selling, general, and administrative expenses" in the consolidated statements of profit or loss for the fiscal years ended February 28, 2017 and 2018 were ¥128,444 million and ¥200,814 million, respectively.

24. PROVISIONS

The breakdown and changes in provisions is as follows:

	Asset retirement obligations	Provision for loss on interest repayment	Total
	Millions of Yen	Millions of Yen	Millions of Yen
March 1, 2016	¥18,471		¥18,471
Increase during the year	4,319		4,319
Periodic interest costs on discount calculation	339	¥10	350
Decrease during the year (used)	(2,583)	(359)	(2,942)
Decrease during the year (reversal)	(14)		(14)
Changes due to business combinations (*)	29,363	5,506	34,869
Others	33		33
February 28, 2017	49,927	5,158	55,085
Increase during the year	5,597		5,597
Periodic interest costs on discount calculation	380	13	392
Decrease during the year (used)	(4,802)	(472)	(5,274)
Decrease during the year (reversal)	(1,146)		(1,146)
Changes due to business combinations (*)	(90)		(90)
Others	(18)		(18)
February 28, 2018	¥49,847	¥4,698	¥54,545
Current liabilities (February 28, 2017)	¥3,090	¥686	¥3,776
Non-current liabilities (February 28, 2017)	46,836	4,472	51,309
Total	¥49,927	¥5,158	¥55,085
Current liabilities (February 28, 2018)	¥1,956	¥611	¥2,567
Non-current liabilities (February 28, 2018)	47,892	4,087	51,979
Total	¥49,847	¥4,698	¥54,545

* For additional details on business combinations, please refer to Note 7. "BUSINESS COMBINATIONS AND LOSS OF CONTROL."

Asset retirement obligations are obligations to restore sites operated by the Group to their original condition in accordance with lease contracts for stores and other real estate. Although these expenses are expected to be paid mainly more than one year after the end of the reporting period, the timing of the payments will be affected by various conditions, such as future business plans.

Provision for loss on interest repayment is a provision for the estimated future repayment of interest in response to claims for refund of interest from debtors who paid interests exceeding the maximum interest rate provided by the Interest Rate Restriction Act in Japan. The amounts to be repaid in the future are estimated over the period in which refund claims are expected to be made. The estimation is based on several factors, including the historical rate of repayment against total risk exposure in the past and the rate of expiration of rights of refund. The above claims generally become void after ten years from the completion of the relevant transactions. Since March 2007, the Group has not entered into loan agreements with interest rates exceeding the maximum interest rate provided by the Interest Rate Restriction Act, which would cause further claims.

25. OTHER LIABILITIES

The breakdown of other liabilities is as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Accrued expenses	¥26,617	¥27,327
Unearned revenue	15,342	15,666
Provision for bonuses	4,575	5,287
Short-term asset retirement obligations	3,090	1,956
Other	19,908	19,278
Total	¥69,533	¥69,513
Other current liabilities	¥58,141	¥57,802
Other non-current liabilities	11,391	11,711
Total	¥69,533	¥69,513

26. EQUITY AND OTHER EQUITY COMPONENTS

(1) Common Stock and Capital Surplus

Changes in the number of authorized shares, issued shares, and the balance of common stock and capital surplus were as follows:

	The number of authorized shares	The number of issued shares(*)	Common stock	Capital surplus
	Shares	Shares	Millions of Yen	Millions of Yen
Beginning of 2017 (March 1, 2016)	250,000,000	97,683,133	¥16,659	¥13,705
Changes during the year (**)		29,029,180		223,303
2017 (February 28, 2017)	250,000,000	126,712,313	16,659	237,008
Changes during the year				(224)
2018 (February 28, 2018)	250,000,000	126,712,313	16,659	236,785

* All shares issued by the Company are common shares without face value and have no limitation set on the rights of holders. The issued shares have been fully paid in.

** The change is mainly due to the issuance of new shares in connection with an absorption-type merger where the shares of the Company were allotted as consideration.

The Companies Act of Japan (the “Companies Act”) prescribes that at least half of the payment or delivery relating to issuance of shares must be incorporated into common stock and the remaining amount must be incorporated into legal capital surplus included in capital surplus. In addition, under the Companies Act, legal capital surplus may be incorporated into common stock by resolution at the general shareholders’ meeting.

(2) ***Treasury Shares***

The number of treasury shares and changes in the balances are as follows:

	The number of shares	Amounts
	Shares	Millions of Yen
Beginning of 2017 (March 1, 2016)	2,761,063	¥(8,784)
Changes during the year (*)	(2,689,226)	8,343
2017 (February 28, 2017)	71,837	(441)
Changes during the year (**)	105,591	(662)
2018 (February 28, 2018)	177,428	(1,104)

* The change is mainly due to the disposal of treasury shares in connection with an absorption-type merger where the shares of the Company were allotted as consideration.

** The change is mainly due to the acquisition of the Company's shares held by subsidiaries.

(3) ***Retained Earnings***

The Companies Act prescribes that one-tenth of the amount of a distribution of surplus must be set aside as legal capital surplus or legal retained earnings until the total amount of legal capital surplus or legal retained earnings reaches one-fourth of common stock. The accumulated legal retained earnings may be used to compensate for deficit. In addition, legal retained earnings may be reversed by resolution at the general shareholders' meeting.

27. DIVIDENDS

Dividends paid are as follows:

Date of resolution	Total dividends	Dividends per share	Record date	Effective date
	Millions of Yen	Yen		
April 8, 2016 Board of Directors	¥5,221	¥55.00	February 29, 2016	May 6, 2016
October 11, 2016 Board of Directors	5,316	56.00	August 31, 2016	November 10, 2016
April 11, 2017 Board of Directors	7,094	56.00	February 28, 2017	May 8, 2017
October 11, 2017 Board of Directors	7,094	56.00	August 31, 2017	November 10, 2017

Dividends for which the effective date will be in the following fiscal year are as follows:

Date of resolution	Total dividends	Dividends per share	Record date	Effective date
	Millions of Yen	Yen		
April 11, 2018 Board of Directors	¥7,086	¥56.00	February 28, 2018	May 7, 2018

28. OPERATING REVENUES

The breakdown of operating revenues is as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Revenues from franchisees (*)	¥303,427	¥355,308
Sale of goods	452,096	792,931
Real estate lease income (**)	30,373	53,071
Interest income (***)	2,545	5,104
Others	55,374	68,886
Total	¥843,815	¥1,275,300

* Revenues from franchisees comprises royalties received from franchisees in accordance with franchise agreements in the convenience store business. The agreements include leases of store fixtures, signboards, and information systems.

** Real estate lease income includes contingent rents of ¥10,243 million and ¥21,954 million under operating lease agreements that were recognized as revenue in the general merchandise store business for the fiscal years ended February 28, 2017 and 2018, respectively. For more details about real estate lease income, please refer to Notes 15. “INVESTMENT PROPERTY” and 21. “LEASE.”

*** Interest income represents interest on loans related to the loan business, such as revolving payments and short-term cash loans taken against credit cards. Interest income for the fiscal years ended February 28, 2017 and 2018 is ¥2,583 million and ¥5,145 million, respectively. For further details about credit card receivables, please refer to Note 9. “TRADE AND OTHER RECEIVABLES.”

In the consolidated statement of cash flows, interest income is not included in “interest and dividends received,” but in the items above “subtotal” under cash flows from operating activities.

29. COST OF SALES and SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of cost of sales is as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Cost of merchandise purchased	¥302,003	¥516,570
Cost of products manufactured		
Employees' salaries and bonuses	2,052	11,961
Depreciation and amortization (*)	527	1,244
Raw materials cost	6,670	33,954
Others	3,331	9,407
Total	¥314,584	¥573,136

* For additional details on depreciation and amortization, please refer to Notes 14. "PROPERTY, PLANT AND EQUIPMENT," 15. "INVESTMENT PROPERTY," and 16. "GOODWILL AND INTANGIBLE ASSETS."

The breakdown of selling, general and administrative expenses is as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Advertising expenses	¥21,771	¥26,038
Promotion expenses	15,422	13,346
Employees' salaries and bonuses	101,727	150,795
Retirement benefit expenses (*)	4,160	6,256
Leasehold and office rents (**)	163,623	206,639
Repair expenses	9,473	15,273
Depreciation and amortization (***)	46,967	63,936
Utilities expenses	11,845	18,423
Operations consignment expenses	13,233	18,922
Provision of allowance for doubtful receivables	477	1,052
Others	84,865	115,233
Total	¥473,562	¥635,914

* For additional details on retirement benefit expenses, please refer to Note 23. "EMPLOYEE BENEFITS."
** For additional details on leasehold and office rents, please refer to Note 21. "LEASE."
*** For additional details on depreciation and amortization, please refer to Notes 14. "PROPERTY, PLANT AND EQUIPMENT," 15. "INVESTMENT PROPERTY," and 16. "GOODWILL AND INTANGIBLE ASSETS."

30. OTHER INCOME AND EXPENSES

The breakdown of other income is as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Gain on sales of non-current assets	¥246	¥5,691
Gain on sales of shares of subsidiaries and associates	232	245
Gain on reversal of asset retirement obligations		538
Gain from insurance claims	365	673
Compensation income	451	225
Others	2,585	2,309
Total	¥3,880	¥9,681

The breakdown of other expenses is as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Loss on sales of non-current assets	¥154	¥157
Loss on disposals of non-current assets	5,150	5,552
Impairment losses (*)	14,568	33,389
Loss on cancellation of rental contracts	2,686	4,851
Loss on sales of shares of subsidiaries and associated companies	153	
Foreign exchange losses	52	127
Others	4,542	4,790
Total	¥27,304	¥48,865

* For additional details on impairment losses, please refer to Note 17. “IMPAIRMENT LOSSES.”

31. FINANCE INCOME AND FINANCE COST

The breakdown of finance income is as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Interest income:		
Financial assets measured at amortized cost (*)	¥2,165	¥2,428
Others		22
Dividend income:		
Financial assets measured at fair value through other comprehensive income (*)	397	697
Reversal of allowance for doubtful receivables	729	111
Other finance income	10	15
Total	¥3,301	¥3,273

* For additional details on financial assets, please refer to Note 10. “OTHER FINANCIAL ASSETS.”

The breakdown of finance cost is as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Interest expenses:		
Financial liabilities measured at amortized cost (*)	¥939	¥986
Lease obligations (**)	1,161	1,114
Others	475	506
Other finance cost	7	1
Total	¥2,582	¥2,608

* For additional details on financial liabilities measured at amortized cost, please refer to Note 20. “BONDS, BORROWINGS, LEASE OBLIGATIONS, AND OTHER FINANCIAL LIABILITIES.”

** For additional details on lease obligations, please refer to Notes 20. “BONDS, BORROWINGS, LEASE OBLIGATIONS, AND OTHER FINANCIAL LIABILITIES” and 21. “LEASE.”

32. OTHER COMPREHENSIVE INCOME

The breakdown of the amount recognized in other comprehensive income, the amount reclassified to profit or loss, and tax effects is as follows.

Year Ended February 28, 2017 (From March 1, 2016 to February 28, 2017)

	Amount recognized	Amount reclassified	Before-tax effects	Tax effects	Net of tax
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Items that will not be reclassified subsequently to profit or loss:					
Financial assets measured at fair value through other comprehensive income	¥2,468		¥2,468	¥(550)	¥1,918
Remeasurements of defined benefit plans	638		638	(240)	398
Share of other comprehensive income of investments accounted for using the equity method	40		40		40
Total of items that will not be reclassified subsequently to profit or loss	3,146		3,146	(790)	2,356
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges	3,101	¥(2,546)	554	(153)	401
Exchange difference on translating foreign operations	1,573		1,573	(152)	1,420
Share of other comprehensive income of investments accounted for using the equity method	(133)		(133)		(133)
Total of items that may be reclassified subsequently to profit or loss	4,540	(2,546)	1,994	(305)	1,689
Total	¥7,687	¥(2,546)	¥5,140	¥(1,095)	¥4,045

Year Ended February 28, 2018 (From March 1, 2017 to February 28, 2018)

	Amount recognized	Amount reclassified	Before-tax effects	Tax effects	Net of tax
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Items that will not be reclassified subsequently to profit or loss:					
Financial assets measured at fair value through other comprehensive income	¥11,705		¥11,705	¥(3,159)	¥8,546
Remeasurements of defined benefit plans	(1,927)		(1,927)	574	(1,354)
Share of other comprehensive income of investments accounted for using the equity method	(14)		(14)		(14)
Total of items that will not be reclassified subsequently to profit or loss	9,763		9,763	(2,586)	7,178
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges	(665)	¥455	(210)	60	(149)
Exchange difference on translating foreign operations	(591)		(591)	49	(542)
Share of other comprehensive income of investments accounted for using the equity method	(3)	146	142		142
Total of items that may be reclassified subsequently to profit or loss	(1,259)	601	(658)	109	(550)
Total	¥8,504	¥601	¥9,105	¥(2,477)	¥6,628

33. EARNINGS PER SHARE

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
Profit for the year attributable to common shareholders of the parent (Millions of Yen)	¥21,585	¥33,656
The average number of common shares for the fiscal year (Shares)	110,653,556	126,613,784
Basic earnings per share (Yen)	¥195.07	¥265.82

Diluted earnings per share are not presented because there were no potential shares that have dilutive effects.

34. CASH FLOW INFORMATION

(1) Non-Cash Transactions

Property, plant and equipment acquired under finance leases were as follows:

	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen
Property, plant and equipment acquired under finance leases	¥ 29,573

For more details on the issuance of equity interests, please refer to Note 7. “BUSINESS COMBINATIONS AND LOSS OF CONTROL.”

For information on property, plant and equipment acquired under finance leases for the fiscal year ended February 28, 2018, please refer to the increased amount of liabilities under “new finance leases” in “(2) Changes in Liabilities Arising from Financing Activities” below.

(2) Changes in Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities are as follows:

Year Ended February 28, 2018 (From March 1, 2017 to February 28, 2018)

			Changes not involving cash flows						
	Balance as of March 1, 2017	Cash flows from financing activities	Exchange difference on translating foreign operations	Changes in fair value	New finance leases	Changes due to transfers between long-term and short-term liabilities	Changes due to amortization	Others	Balance as of February 28, 2018
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Commercial paper	¥96,000	¥(96,000)							
Short-term borrowings	8,269	3,209	¥(86)						¥11,392
Bonds	39,820						¥34		39,854
Long-term borrowings	249,740	82,414	15	¥ (1,876)			(393)		329,900
Lease obligations	104,052	(28,666)			¥46,497			¥ (879)	121,004
Derivative liabilities (current, shown in negative values for assets)	(882)			1,394		¥ (1,705)			(1,194)
Derivative liabilities (non-current, shown in negative values for assets)	(1,465)			184		1,705			425
Total	¥495,534	¥(39,043)	¥(71)	¥(299)	¥46,497	–	¥(360)	¥(879)	¥501,380

35. FINANCIAL INSTRUMENTS

(1) Capital Management

In order to realize improvement of shareholders' returns and sustainable enhancement of corporate value, the Group's basic policies of capital management are to improve capital efficiency and to maintain an optimal capital composition that ensures the soundness and flexibility of finance.

Regarding financial soundness, flexibility, and capital efficiency, the Group monitors external credit ratings, D/E ratio, return on equity (ROE), and other information.

Certain subsidiaries and associates of the Company are obligated to maintain the amount of net assets (total assets less total liabilities) above a certain level under capital regulations including the Act on Settlement of Funds. Levels of net assets of these companies comply with such regulations.

(2) Financial Risk Management

In the course of carrying out business activities, the Group is exposed to financial risk, including credit risk, liquidity risk, foreign currency exchange rate risk, interest rate risk, and market value fluctuation risk. The Group manages risk in order to reduce the financial risk above.

The Group uses derivative instruments in order to hedge foreign currency exchange rate risk and interest rate risk; however, it does not carry out speculative transactions in accordance with its risk management policy. The Group executes and manages derivative transactions with the approval of the authorizer in accordance with its internal rules, in which the transaction authority and maximum amount are defined.

(3) Credit Risk Management

Credit risk is the risk of counter parties defaulting on contractual obligations, causing financial losses to the Group. The Group's maximum value of credit risk is the total of trade and other receivables (see Note 9. "TRADE AND OTHER RECEIVABLES"), leasehold deposits receivable, other financial assets (see Note 10. "OTHER FINANCIAL ASSETS") excluding equity financial assets, the undrawn balance of loan commitments, and the balance of guarantee obligations (as described in Note 39. "CONTINGENT LIABILITIES").

With regard to receivables and the undrawn balance of loan commitments related to the credit card business, the Group aims to reduce credit risk by establishing a system for credit management, including credit examination and delinquency monitoring, in accordance with laws and regulations as well as each company's credit management policy.

With regard to trade receivables, including receivables due from franchised stores and accounts receivable—other, the Group monitors delinquency and outstanding balances by each counterparty while receiving leasehold deposits refundable (as described in Note 20. "BONDS, BORROWINGS, LEASE OBLIGATIONS, AND OTHER LIABILITIES"), mainly from franchise tenants in the general merchandise store business, aiming to promptly identify and reduce the risk of uncollectibility due to deterioration of financial positions of counterparties and other reasons.

Regarding loans and guarantee obligations for associates, joint ventures, and other business partners, the Group aims to promptly identify and reduce the risk of uncollectibility through exercise of voting rights at general shareholders' meetings of these borrowers, business management and directions by directors appointed by the Group, and collection and evaluation of information concerning their financial position.

With respect to other items including leasehold deposits receivable, construction assistance fund receivables, and advances paid, the Company aims to promptly identify and reduce the risk of uncollectibility by collecting and evaluating information concerning the financial position of counterparties, as well as taking collaterals and guarantees as necessary.

Regarding derivative assets to which impairment requirements in IFRS 9 are not applicable, the credit risk is immaterial as the Group enters into derivative contracts only with financial institutions with high credit ratings. The Group is not exposed to credit risks that are over-concentrated in an individual party or group to which the party belongs.
The Group measures allowance for doubtful receivables on a collective basis by groups of receivables with a similar status of delinquency and type of transactions from which receivables were recognized.

1) Receivables and the undrawn balance of loan commitments related to the credit card business

Credit risk associated with credit card receivables and the undrawn balance of loan commitments is evaluated depending on delinquency status. The credit risk exposure (before deducting allowance for doubtful receivables) and changes in allowance for doubtful receivables are as follows.

	Measured at the amount equal to 12-month expected credit losses	Measured at the amount equal to the lifetime expected credit losses		Total
		Financial assets that are not credit-impaired	Credit-impaired financial assets	
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Credit risk exposure: (Before deducting allowance for doubtful receivables)				
Balance at February 28, 2017	¥684,033	¥1,807	¥43	¥685,883
No delinquency	684,033			684,033
Delinquent for a period of 80 days or less		95		95
Delinquent for a period over 80 days		1,711	43	1,755
Balance at February 28, 2018	671,873	1,862	48	673,783
No delinquency	671,873			671,873
Delinquent for a period of 80 days or less		146		146
Delinquent for a period over 80 days		1,715	48	1,763
Reconciliation of allowance for doubtful receivables:				
Balance at March 1, 2016				
Increase (provision)	142	2	44	188
Decrease (write-off)			(1)	(1)
Decrease (reversal)				
Balance at February 28, 2017	142	2	43	188
Increase (provision)	307	5	82	395
Decrease (write-off)	(51)		(75)	(125)
Decrease (reversal)			(3)	(3)
Balance at February 28, 2018	¥399	¥7	¥48	¥454

Expected credit losses associated with the undrawn balance of loan commitments in the credit card business cannot be identified separately from those associated with credit card receivables, and thus, are recognized together with the allowance for doubtful receivables associated with credit card receivables.

2) Receivables and guarantee obligations related to businesses other than the credit card business

Credit risk associated with receivables and guarantee obligations related to businesses other than the credit card business is evaluated based on one or more factors such as status of delinquency, debtor's intention of and status of repayment after delinquency, the length of the delinquency period or debtor's financial position, and capacity of repayment.

The Group adopts simplified approaches prescribed in IFRS 9 regarding expected credit losses associated with trade receivables and allowance for doubtful receivables has been measured at an amount equal to lifetime expected credit losses.

The credit risk exposure (before deducting allowance for doubtful receivables) and changes in allowance for doubtful receivables are as follows.

	Measured at the amount equal to 12-month expected credit losses	Measured at the amount equal to the lifetime expected credit losses			Total
		Financial assets that are not credit-impaired	Credit-impaired financial assets	Trade receivables	
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Credit risk exposure: (Before deducting allowance for doubtful receivables)					
Balance at February 28, 2017	¥297,119	¥1,602	¥382	¥124,761	¥423,864
No delinquency	296,755	1,479		124,053	422,287
Delinquency	364	123	382	708	1,577
Balance at February 28, 2018	277,787	2,134	418	125,232	405,571
No delinquency	277,325	2,027		124,383	403,735
Delinquency	462	107	418	850	1,836
Changes in allowance for doubtful receivables:					
Balance at March 1, 2016	199	823	517	725	2,264
Increase (provision)	25	786	12	321	1,144
Decrease (write-off)	(26)		(56)	(131)	(214)
Decrease (reversal)	(40)	(192)	(94)	(161)	(487)
Exchange difference on translating foreign operations			3		3
Balance at February 28, 2017	158	1,417	382	755	2,711
Increase (provision)	0	406	109	363	878
Decrease (used)	(39)	(7)	(54)	(175)	(275)
Decrease (write-off)	(28)	(45)	(19)	(59)	(150)
Exchange difference on translating foreign operations			0		0
Balance at February 28, 2018	¥91	¥1,772	¥418	¥883	¥3,164

There were no material expected credit losses arising from guarantee obligations at February 28, 2017 and 2018.

During the fiscal year ended February 28, 2017, the credit risk exposure (before deducting allowance for doubtful receivables) increased by ¥811,372 million in total, which included credit card receivables at UCS CO., LTD., because the Group acquired the former UNY Group Holdings Co., Ltd. and its subsidiaries and associates as described in Note 7. “BUSINESS COMBINATIONS AND LOSS OF CONTROL.” There were no significant changes in the amount of credit risk with respect to these financial instruments during the period from the business combination to February 28, 2017, causing no material impact on the changes in the allowance for doubtful receivables. During the fiscal year ended February 28, 2018, there were no significant changes in the carrying amounts of financial instruments that have a material impact on the allowance for doubtful receivables.
The amount of outstanding financial assets that were written off and are still subject to enforcement activity is not material.

(4) Liquidity Risk Management

Liquidity risk is the risk that the Group is unable to perform its repayment obligations of financial liabilities on the settlement date.

The Group has commercial paper, borrowings, finance leases, and other liabilities for funding operating transactions and capital investments, and thus, is exposed to liquidity risk.

The Group manages liquidity risk by diversifying channels of funding, each group company timely preparing and updating its funding plans, and maintaining sufficient short-term liquidity. The Group also reduces the liquidity risk by entering into commitment line agreements with financial institutions.

Financial guarantee contracts, which are contracts to compensate losses incurred when the debtor fails to make payments on the guaranteed obligations upon the creditor's claim, are included in the earliest period in which the maximum amount of compensation may be claimed.
The balance of financial liabilities by settlement date is as follows:

Year Ended February 28, 2017

	Carrying amount	Contractual amount	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Non-derivative financial liabilities:								
Trade and other payables	¥279,299	¥279,299	¥279,299					
Deposits received	159,957	159,957	159,957					
Commercial paper	96,000	96,000	96,000					
Short-term borrowings	8,269	8,269	8,269					
Current portion of long-term borrowings	12,878	12,878	12,878					
Short-term lease obligations	20,240	20,240	20,240					
Bonds	39,820	40,378	66	¥66	¥66	¥66	¥30,066	¥10,048
Long-term borrowings	236,862	235,384		52,031	46,270	78,195	20,628	38,259
Long-term lease obligations	83,812	86,471		21,212	18,739	15,245	14,017	17,257
Others	54,967	55,286	1,392	9,183	11,354	8,903	8,817	15,638
Derivative financial liabilities:								
Currency derivatives								
Interest rate swaps	906	1,093	290	230	155	140	118	160
Financial guarantee contracts		27,360	27,360					
Total	¥993,011	¥1,022,614	¥605,751	¥82,721	¥76,585	¥102,549	¥73,646	¥81,362

Net receivables or payables arising from derivative transactions are stated at a net amount.

Year Ended February 28, 2018

	Carrying amount	Contractual amount	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Non-derivative financial liabilities:								
Trade and other payables	¥288,744	¥288,744	¥288,744					
Deposits received	152,155	152,155	152,155					
Commercial paper								
Short-term borrowings	11,392	11,392	11,392					
Current portion of long-term borrowings	37,471	37,471	37,471					
Short-term lease obligations	27,160	27,160	27,160					
Bonds	39,854	40,312	66	¥66	¥66	¥30,066	¥24	¥10,024
Long-term borrowings	292,429	298,335		48,451	79,058	33,338	12,960	124,528
Long-term lease obligations	93,843	96,508		24,191	21,423	18,411	14,320	18,162
Others	53,133	53,444	1,467	8,698	8,564	8,618	8,501	17,595
Derivative financial liabilities:								
Currency derivatives	53	1,376	1,376					
Interest rate swaps	602	803	230	155	140	118	110	49
Financial guarantee contracts		24,644	24,644					
Total	¥996,837	¥1,032,346	¥544,708	¥81,562	¥109,250	¥90,552	¥35,915	¥170,359

Net receivables or payables arising from derivative transactions are stated at a net amount.

Commercial paper facilities and undrawn facilities are as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Commercial paper facilities	¥200,000	¥200,000
Commercial paper issued	96,000	
Undrawn	¥104,000	¥200,000

The total amount of commitment lines and undrawn commitment line are as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Commitment line	¥31,849	¥36,987
Commitment line used	4,314	8,785
Undrawn	¥27,535	¥28,202

(5) Foreign Currency Exchange Rate Risk Management

The Group hedges foreign exchange risk, depending on foreign exchange conditions, using currency swaps for borrowings denominated in foreign currencies and foreign currency exchange forward contracts for part of the settlements of imported merchandise denominated in foreign currencies. Accordingly, the Group's exposure to foreign currency exchange rate risk is limited and the effects of exchange rate fluctuations on profit before income taxes in the consolidated statement of profit or loss is insignificant.

(6) Interest Rate Risk Management

The Group raises funds mainly through borrowings with fixed rates. Although certain borrowings are exposed to interest rate risk, the Group uses interest rate swaps to hedge interest rate risk. Accordingly, the Group's exposure to interest rate risk is limited and the effects of interest rate fluctuations on profit before income taxes in the consolidated statement of profit or loss is insignificant.

(7) Hedge Transactions

Details of the hedging instruments designated as cash flow hedges are as follows:

February 28, 2017

	Notional amount – total	Notional amount – due after one year	Carrying amount (*)		Average rate, etc.
			Assets	Liabilities	
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	
Foreign currency exchange rate risk:					
Foreign currency exchange forward contracts:					
Yen/U.S. dollars	¥792		¥10		¥110.72
Currency swaps					
Yen/U.S. dollars	21,819	¥19,819	3,248		
Interest rate risk:					
Interest rate swaps:					
Fixed interest rate payments/floating interest rate receipts	54,319	52,319	5	¥906	0.53%

*The carrying amounts of derivatives are based on the fair values determined by financial institutions. As all material inputs are observable, they are categorized within Level 2 in the fair value hierarchy. They are presented in "other financial assets" or "other financial liabilities" in the consolidated statement of financial position. Derivatives with maturities of more than one year are classified as non-current assets or non-current liabilities.

February 28, 2018

	Notional amount – total	Notional amount – due after one year	Carrying amount (*)		Average rate, etc.
			Assets	Liabilities	
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	
Foreign currency exchange rate risk:					
Foreign currency exchange forward contracts:					
Yen/U.S. dollars	¥1,376			¥53	¥111.01
Currency swaps					
Yen/U.S. dollars	19,819	¥8,319	¥1,372		
Interest rate risk:					
Interest rate swaps:					
Fixed interest rate payments/floating interest rate receipts	52,319	25,819		602	0.55%

*The carrying amounts of derivatives are based on the fair values determined by financial institutions. As all material inputs are observable, they are categorized within Level 2 in the fair value hierarchy. They are included in “other financial assets” or “other financial liabilities” in the consolidated statement of financial position. The amounts due after one year are classified as non-current assets or non-current liabilities.

Details of valuation gains or losses arising from hedging instruments designated in cash flow hedges are as follows:

	Effective portion of the changes in fair value of hedging instruments(**)		
	Foreign exchange rate risk	Interest rate risk	Total
	Millions of Yen	Millions of Yen	Millions of Yen
Balance at March 1, 2016 (after tax)			
Other comprehensive income:			
Amount recognized	¥2,554	¥547	¥3,101
Amount reclassified (*)	(2,479)	(67)	(2,546)
Tax effects	(3)	(150)	(153)
Transfer to non-financial assets, etc.	(65)		(65)
Balance at February 28, 2017 (after tax)	7	329	336
Other comprehensive income:			
Amount recognized	(1,108)	443	(665)
Amount reclassified (*)	1,025	(570)	455
Tax effects	19	41	60
Transfer to non-financial assets, etc.	21		21
Balance at February 28, 2018 (after tax)	¥(37)	¥244	¥208

* Reclassification to profit or loss corresponding to the recognition of profit or loss from hedged item is included in “finance income” or “finance costs” in the consolidated statement of profit or loss.

** The ineffective portion of hedges is immaterial. There is no cash flow hedge reserve arising from hedge relationships to which hedge accounting no longer applies.

(8) Market Value Fluctuation Risk Management

The Group's investments of surplus funds are limited to debt instruments (mainly bonds) with a high level of safety.

The Group is exposed to stock price fluctuation risk arising from equity instruments (stocks). The Group monitors market values and financial position of issuers of the equity instruments on a regular basis. If the issuer of equity instruments is a business counterparty of the Group, it also reviews its shareholdings on an ongoing basis by considering the relationship with the issuer of the equity instruments.

If the market value of marketable equity instruments that the Group holds had increased by 10%, the effects on other comprehensive income (before-tax effects) as at February 28, 2017 and 2018 would have been ¥1,622 million and ¥2,298 million, respectively.

The analysis above is based on the assumption that the other variable factors are fixed.

(9) Fair Values of Financial Instruments

The fair value hierarchy is categorized as follows according to the observability and materiality of inputs used for fair value measurement:

Level 1: Quoted prices in active markets for identical assets or liabilities
Level 2: Fair values other than quoted prices included within Level 1 that are determined using observable prices either directly or indirectly
Level 3: Fair values determined using valuation techniques, including unobservable inputs

1) Financial instruments and lease obligations measured at amortized cost

Carrying amounts and fair values of financial instruments and lease obligations measured at amortized cost are as follows:

The table below excludes financial assets and liabilities whose fair values are identical or similar to their carrying amounts, including financial instruments that will be settled shortly after the end of the reporting period.

	2017 (February 28)		2018 (February 28)	
	Carrying amount	Fair value	Carrying amount	Fair value
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Assets:				
Leasehold deposits receivable	¥140,226	¥135,484	¥122,917	¥119,719
Other financial assets (*)	105,202	110,483	111,667	116,521
Total	¥245,428	¥245,968	¥234,584	¥236,240
Liabilities:				
Bonds and borrowings	¥276,682	¥276,867	¥332,282	¥332,396
Lease obligations	83,812	84,060	93,843	92,669
Other financial liabilities (**)	54,967	55,096	53,133	53,486
Total	¥415,462	¥416,024	¥479,258	¥478,551

* Other financial assets consist of financial assets measured at amortized cost, such as construction assistance fund receivables, debt securities, and time deposits which are included in "other financial assets" classified as non-current assets in the consolidated statement of financial position.

** Other financial liabilities consist of financial liabilities measured at amortized cost, such as leasehold deposits refundable which are included in “other financial liabilities” classified as non-current liabilities in the consolidated statement of financial position.

Fair value of bonds included in bonds and borrowings is based on a quoted price in a market that is not active and classified as Level 2. Fair values of other financial assets and liabilities are determined based on the present value of reasonably estimated future cash flows discounted using an appropriate discount rate and are categorized as Level 3. The Group uses an interest rate that is anticipated to be applied for new similar transactions as a discount rate for interest-bearing financial instruments. For non-interest-bearing financial instruments, the Group uses an interest rate, reflecting credit risk to appropriate benchmark rates, such as the yield on government bonds corresponding to the remaining period of the financial instruments as a discount rate.

2) Financial instruments measured at fair value

Financial instruments measured at fair value were as follows:

February 28, 2017

	Level 1	Level 2	Level 3	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Assets:				
Financial assets measured at fair value through other comprehensive income:				
Stocks	¥16,219		¥14,354	¥30,574
Derivative assets		¥3,262		3,262
Total	¥16,219	¥3,262	¥14,354	¥33,836
Liabilities:				
Derivative liabilities		¥906		¥906
Total		¥906		¥906

February 28, 2018

	Level 1	Level 2	Level 3	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Assets:				
Financial assets measured at fair value through other comprehensive income:				
Stocks	¥22,984		¥18,453	¥41,437
Derivative assets		¥1,372		1,372
Total	¥22,984	¥1,372	¥18,453	¥42,809
Liabilities:				
Derivative liabilities		¥655		¥655
Total		¥655		¥655

The measurement methods of fair values are as follows:

(Derivative assets and liabilities)

Fair values of derivative assets and liabilities are measured based on the fair values determined by financial institutions. When all material inputs are observable, they are categorized within Level 2. When material unobservable inputs are included, they are categorized within Level 3.

(Stocks)

Fair values of listed stocks are measured based on the prices transacted at stock exchanges. Unlisted stocks are measured by the discount cash flow method, by comparable peer company analysis using financial indicators as inputs, or by valuation models based on net assets. Thus, unobservable inputs, such as a discount rate (6.3% to 7.9%) or earnings before interest, tax, depreciation, and amortization (EBITDA) multiples, are used, and accordingly, fair values of unlisted stocks are categorized within Level 3. The fair value of financial instruments categorized within Level 3 is not expected to significantly change even if reasonably possible changes were made to the unobservable inputs.

3) Valuation process

Level 3 financial instruments are evaluated by external valuation experts or qualified personnel within the Group, in accordance with policies and procedures approved by the management division. The results of such valuation are reviewed and approved by the management division.

4) Reconciliation of financial instruments categorized within Level 3 from the balance at the beginning of the year to the balance at the end of the year

Changes in financial instruments categorized within Level 3 from the beginning of the year to the end of year are as follows:

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥11,642	¥14,354
Gains and losses:		
Other comprehensive income (*)	1,811	4,166
Acquisition	37	41
Disposal	(413)	(108)
Changes due to business combinations (**)	1,237	
Other	39	
Balance at the end of year	¥14,354	¥18,453

* Gains and losses included in other comprehensive income relate to financial assets measured at fair value through other comprehensive income as of the end of the year. These gains and losses are included in “financial assets measured at fair value through other comprehensive income” in the consolidated statement of comprehensive income.

** For additional details on business combinations, please refer to Note 7. “BUSINESS COMBINATIONS AND LOSS OF CONTROL.”

(10) Offsetting Financial Assets and Financial Liabilities

The Group currently has a legally enforceable right to set off the recognized amounts of certain financial assets and financial liabilities and intends either to settle on a net basis or to realize these assets and settle these liabilities simultaneously. Therefore, the Group offsets these financial assets and financial liabilities and presents the net amount in the consolidated statement of financial position.

The breakdown of the amounts that are offset and not offset in the consolidated statement of financial position on February 28, 2017 and February 28, 2018 is as follows:
Note that financial assets and financial liabilities other than those included in the following table did not include enforceable master netting agreements or similar agreements.

February 28, 2017

	Gross recognized amount	Gross amounts set off	Carrying amount	Related amounts not set off	Net amount
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Financial assets:					
Trade and other receivables	¥267,434	¥(8,704)	¥258,729	¥(6,037)	¥252,693
Other financial assets	165,400		165,400	(200)	165,200
Financial liabilities:					
Trade and other payables	¥288,004	¥(8,704)	¥279,299	¥(6,037)	¥273,263
Other financial liabilities	55,873		55,873	(200)	55,673

February 28, 2018

	Gross recognized amount	Gross amounts set off	Carrying amount	Related amounts not set off	Net amount
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Financial assets:					
Trade and other receivables	¥269,468	¥(9,814)	¥259,654	¥(4,749)	¥254,905
Other financial assets	172,742		172,742	(237)	172,505
Financial liabilities:					
Trade and other payables	¥298,559	¥(9,814)	¥288,744	¥(4,749)	¥283,995
Other financial liabilities	53,732		53,732	(237)	53,495

Related amounts not set off in the table above are the financial assets and financial liabilities subject to enforceable master netting agreements or similar agreements that the Group does not intend to settle on a net basis, or for which the right to offset will become enforceable only in the event of default which is not expected to occur in the course of normal business activities or other predetermined circumstances.

36. SUBSIDIARIES, ASSOCIATES, AND JOINT VENTURES

Major subsidiaries, associates, and joint ventures as of February 28, 2018 were as follows:

(1) Subsidiaries

Name	Location	Reportable segment	Ownership ratio of voting rights (%)
FamilyMart Co., Ltd.	Toshima-ku, Tokyo	Convenience store business	100.00
UNY Co., Ltd.	Inazawa City, Aichi	General merchandise store business	60.00
Taiwan FamilyMart Co., Ltd.*	Taipei, Taiwan	Convenience store business	50.00
famima Retail Service Co., Ltd.	Toshima-ku, Tokyo	Convenience store business	100.00
UFI FUTECH Co., Ltd.	Toshima-ku, Tokyo	Convenience store business	72.33
UCS CO., LTD.	Inazawa City, Aichi	General merchandise store business	81.35
Sun Sougou Maintenance Co., Ltd.	Inazawa City, Aichi	General merchandise store business	100.00
UNY (HK) CO., LIMITED	Eastern District, Hong Kong	General merchandise store business	100.00
Kanemi Co., Ltd.	Midori-ku, Nagoya City, Aichi	General merchandise store business	52.47

*Although the Group did not hold the majority voting rights in the investee for a certain period during the previous fiscal year, the Group had substantial control over the investee throughout the previous fiscal year based on the distribution of voting rights and the power to appoint directors.

(2) Associates and Joint Ventures

Name	Location	Reportable segment	Ownership ratio of voting rights (%)
Okinawa FamilyMart Co., Ltd.	Naha City, Okinawa	Convenience store business	48.98
Minami Kyushu FamilyMart Co., Ltd.	Kagoshima City, Kagoshima	Convenience store business	49.00
Central FamilyMart Co., Ltd.	Nonthaburi Province, Thailand	Convenience store business	49.00
Shanghai FamilyMart Co., Ltd.	Shanghai, People's Republic of China	Convenience store business	(**)
Guangzhou FamilyMart Co., Ltd.	Guangzhou, Guangdong Province, People's Republic of China	Convenience store business	(**)
Suzhou FamilyMart Co., Ltd.	Suzhou, Jiangsu Province, People's Republic of China	Convenience store business	(**)
POCKET CARD CO., LTD. (*)	Minato-ku, Tokyo	Convenience store business	23.08

* The Group did not hold 20% of voting rights during the previous fiscal year and for a period during this fiscal year. However, the Group determined that it had significant influence considering the dispersion of voting rights held by other entities, rights to attend meetings of the board of directors, business relationships through the famima T card business, and other factors.

** China CVS (Cayman Islands) Holding Corp., a joint-venture investee of the Group, held 100% of voting rights. FamilyMart China Holding Co., Ltd., a subsidiary, held 40.35% of voting rights of China CVS (Cayman Islands) Holding Corp.

37. RELATED PARTIES

(1) Transactions with Related Parties

Fiscal year ended February 28, 2017 (From March 1, 2016 to February 28, 2017)

Category	Name	Transaction (*)	Transaction amount	Unsettled amount
			Millions of Yen	Millions of Yen
Other related parties	NIPPON ACCESS, INC. (**)	Purchases of merchandise (****)	¥17,249	¥30,596
Other related parties	Revamp Corporation (***) and its two subsidiaries	Consulting for sales promotion, etc.	19	4
		System development	4	3

* Terms and conditions of transactions with related parties have been determined in the same manner as ordinary business transactions, taking into consideration market prices and other factors.
** This is a subsidiary of a company that has significant influence over the Company.
*** This is a company under the control of Takashi Sawada, an executive of the Company, and his relatives.
**** The unsettled amount includes accounts payable for purchases on behalf of franchised stores.

Fiscal year ended February 28, 2018 (From March 1, 2017 to February 28, 2018)

Category	Name	Transaction (*)	Transaction amount	Unsettled amount	Gains or losses on sales
			Millions of Yen	Millions of Yen	Millions of Yen
Other related parties	NIPPON ACCESS, INC. (**)	Purchases of merchandise (****)	¥28,635	¥32,016	
Company that had significant influence	ITOCHU Corporation	Sale of land	2,691		¥1,294
Other related parties	Revamp Corporation (***) and its two subsidiaries	Consulting for sales promotion, etc.	47	4	
		System development	24	1	
		Planning of commercials	26		

* Terms and conditions of transactions with related parties have been determined in the same manner as ordinary business transactions, taking into consideration market prices and other factors.
** This is a subsidiary of a company that has significant influence over the Company.
*** This is a company under the control of Takashi Sawada, an executive of the Company, and his relatives.
**** The unsettled amount includes accounts payable for purchases on behalf of franchised stores.

(2) Remunerations for Major Executives

	2017 (From March 1, 2016 to February 28, 2017)	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen	Millions of Yen
Short-term remuneration	¥313	¥226
Long-term remuneration	65	9

38. COMMITMENTS

Commitments related to expenditures after the end of the fiscal year were as follows:

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Purchase of property, plant and equipment	¥2,768	¥3,404
Purchase of intangible assets	3,209	1,369
Total	¥5,976	¥4,773

39. CONTINGENT LIABILITIES

(1) Guarantee Obligations

The Group provided guarantees for the obligations of the following companies:

1) Guarantee obligations for borrowings from financial institutions

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Philippine FamilyMart CVS, Inc.	¥104	
Central FamilyMart Co., Ltd.	2,615	¥3,255
Franchised convenience stores	2,858	626
Total	¥5,577	¥3,880

2) Guarantee obligations for the execution of contracts related to machinery installation

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
JAPAN FOOD SUPPLY Co., Ltd.	¥1,346	¥1,234

3) Guarantee obligations for the payment of trade payables and others which makers of goods sold at convenience stores owe to JAPAN FOOD SUPPLY Co., Ltd.

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Fujidelica Co., Ltd. and 37 other companies	¥20,436	¥19,530

(2) Loan Commitments

Undrawn balance of loan commitments for the cash advance services provided in the credit card business operated by UCS CO., LTD

	2017 (February 28)	2018 (February 28)
	Millions of Yen	Millions of Yen
Total amount of loan commitments	¥580,044	¥566,462
Loans executed	9,769	9,127
Undrawn loan balance	¥570,275	¥557,335

Note: For additional details on credit risk of loan commitments, please refer to Note 35. "FINANCIAL INSTRUMENTS."

40. SUBSEQUENT EVENTS

Sale of subsidiaries

(1) Disposal of Molie Co., Ltd.

At the management meeting of the Company held on May 17, 2018, the management resolved on the sale of the common shares of and loans receivables from Molie Co., Ltd., owned by UNY Co., Ltd. As a result, Molie Co., Ltd. will no longer be a subsidiary of the Company. The impact of the transaction on the income of the Group is immaterial.

(2) Disposal of UNY (HK) CO., Ltd.

At a Board of Directors' meeting of the Company held on May 24, 2018, the Board resolved on the disposal of the common shares of UNY (HK) Co., Ltd. ("UNY Hong Kong"), owned by UNY Co., Ltd. As a result, UNY Hong Kong will no longer be a subsidiary of the Company. The impact of the transaction on the income of the Group is immaterial.

41. ADDITIONAL INFORMATION

Application of the consolidated taxation system

The Company resolved at a Board of Directors' meeting held on October 11, 2017 to apply for the consolidated taxation system and filed the application to relevant authorities in November 2017 for implementation from the fiscal year ending February 28, 2019. As a result of the application, deferred tax assets of ¥15,718 million are recognized for the fiscal year ended February 28, 2018.

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of FamilyMart UNY Holdings Co., Ltd.:

We have audited the accompanying consolidated statement of financial position of FamilyMart UNY Holdings Co., Ltd. and its subsidiaries as of February 28, 2018, and the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FamilyMart UNY Holdings Co., Ltd. and its subsidiaries as of February 28, 2018, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 2(3) to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

May 25, 2018