Financial Section

2019

For the year ended February 28, 2019

FamilyMart

FamilyMart UNY Holdings Co., Ltd. and Its Subsidiaries

Consolidated Statement of Financial Position
As of February 28, 2018 and 2019

ASSETS	Millions of Yen 2018 (February 28)	Millions of Yen 2019 (February 28)	Thousands of U.S. Dollars (Note 2) 2019 (February 28)
CURRENT ASSETS:			
Cash and cash equivalents (Note 8)	¥253,174	¥353,498	$ 3,184,664
Trade and other receivables (Notes 9 and 36)	259,654	147,750	1,331,080
Other financial assets (Notes 10 and 36)	19,463	12,857	115,833
Inventories (Note 11)	55,558	17,956	161,767
Other current assets (Note 12)	24,838	25,822	232,634
Subtotal	612,686	557,884	5,025,978
Assets held for sale (Note 13)	4,485	45,981	414,244
Total current assets	617,171	603,865	5,440,221
NON-CURRENT ASSETS:			
Property, plant and equipment (Notes 14 and 17)	393,596	254,540	2,293,157
Investment property (Note 15)	137,004	12,105	109,052
Goodwill (Notes 16 and 17)	156,557	142,732	1,285,874
Intangible assets (Notes 16 and 17)	66,252	56,833	512,005
Investments accounted for using the equity method (Note 18)	23,956	23,224	209,228
Leasehold deposits receivable (Note 36)	122,917	89,813	809,125
Other financial assets (Notes 10 and 36)	153,279	115,580	1,041,264
Assets for retirement benefits (Note 23)	1,758		
Deferred tax assets (Note 19)	45,697	60,879	548,456
Other non-current assets (Note 12)	13,599	12,547	113,038
Total non-current assets	1,114,615	768,253	6,921,197
TOTAL ASSETS	¥1,731,787	¥1,372,117	$ 12,361,419

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and Its Subsidiaries

Consolidated Statement of Financial Position
As of February 28, 2018 and 2019

LIABILITIES AND EQUITY	Millions of Yen 2018 (February 28)	Millions of Yen 2019 (February 28)	Thousands of U.S. Dollars (Note 2) 2019 (February 28)
CURRENT LIABILITIES:			
Trade and other payables (Notes 22 and 36)	¥ 288,744	¥ 210,903	$ 1,900,030
Deposits received (Note 36)	152,155	132,500	1,193,692
Bonds and borrowings (Notes 20 and 36)	48,864	39,723	357,863
Lease obligations (Notes 20, 21, and 36)	27,160	26,270	236,666
Income taxes payable	7,885	4,659	41,976
Other current liabilities (Notes 24 and 25)	57,802	27,998	252,231
Subtotal	582,611	442,053	3,982,458
Liabilities directly associated with assets held for sale (Note 13)		8,891	80,101
Total current liabilities	582,611	450,944	4,062,559
NON-CURRENT LIABILITIES:			
Bonds and borrowings (Notes 20 and 36)	332,282	173,152	1,559,925
Lease obligations (Notes 20, 21, and 36)	93,843	82,831	746,221
Other financial liabilities (Notes 20 and 36)	53,732	14,489	130,533
Liabilities for retirement benefits (Note 23)	16,970	15,281	137,663
Provisions (Note 24)	51,979	36,812	331,637
Other non-current liabilities (Notes 19 and 25)	11,711	8,873	79,934
Total non-current liabilities	560,517	331,436	2,985,913
TOTAL LIABILITIES	1,143,128	782,380	7,048,472
EQUITY:			
Common stock (Note 26)	16,659	16,659	150,079
Capital surplus (Note 26)	236,785	236,747	2,132,857
Treasury shares (Note 26)	(1,104)	(1,185)	(10,678)
Other components of equity	15,925	6,773	61,017
Retained earnings (Note 26)	274,970	309,768	2,790,705
Total equity attributable to owners of the parent	543,235	568,762	5,123,980
Non-controlling interests	45,424	20,975	188,967
TOTAL EQUITY	588,659	589,737	5,312,947
TOTAL LIABILITIES AND EQUITY	¥1,731,787	¥1,372,117	$ 12,361,419

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, 2018 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)	2019 (From March 1, 2018 to February 28, 2019)
Continuing operations:			
Operating revenues (Notes 6, 15, and 28)	¥ 637,013	¥ 617,174	$5,560,123
Cost of sales (Notes 14, 16, 23, and 29)	(154,292)	(141,764)	(1,277,150)
Gross profit	482,721	475,410	4,282,973
Selling, general, and administrative expenses (Notes 14, 15, 16, 23, and 29)	(441,050)	(423,857)	(3,818,532)
Equity in earnings (losses) of associates and joint ventures (Notes 6, and 18)	906	(2,070)	(18,651)
Other income (Note 30)	5,070	6,077	54,747
Other expenses (Notes 17, and 30)	(42,700)	(51,665)	(465,447)
Finance income (Notes 31, and 36)	3,053	2,409	21,704
Finance costs (Notes 31, and 36)	(2,126)	(2,079)	(18,734)
Profit before income taxes	5,874	4,225	38,060
Income taxes (Note 19)	12,520	20,574	185,349
Profit from continuing operations	18,394	24,798	223,409
Discontinued operations:			
Profit from discontinued operations (Note 33)	18,158	32,517	292,948
Profit for the year	¥ 36,552	¥ 57,316	$ 516,357
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the parent (Note 6)	¥ 33,656	¥ 45,370	$ 408,735
Non-controlling interests	2,896	11,946	107,622
Profit for the year	¥ 36,552	¥ 57,316	$ 516,357
EARNINGS PER SHARE (Yen, U.S. dollars):			
Basic earnings per share(Note 34)			
Continuing operations	¥ 31.31	¥ 43.42	$ 0.39
Discontinued operations	35.14	46.22	0.42
Total	¥ 66.45	¥ 89.64	$ 0.81

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, 2018 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)	2019 (From March 1, 2018 to February 28, 2019)
PROFIT FOR THE YEAR	¥ 36,552	¥ 57,316	$516,357
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 36)	8,546	(5,094)	(45,894)
Remeasurements of defined benefit plans (Notes 23, and 32)	(1,354)	1,198	10,789
Share of other comprehensive income of investments accounted for using the equity method (Notes 18, and 32)	(14)	(17)	(154)
Total of items that will not be reclassified subsequently to profit or loss	7,178	(3,914)	(35,259)
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges (Notes 32, and 36)	(149)	(210)	(1,892)
Exchange difference on translating foreign operations (Note 32)	(542)	(576)	(5,192)
Share of other comprehensive income (loss) of investments accounted for using the equity method (Notes 18, and 32)	142	(80)	(721)
Total of items that may be reclassified subsequently to profit or loss	(550)	(866)	(7,804)
Total other comprehensive income (loss), net of tax	6,628	(4,780)	(43,064)
COMPREHENSIVE INCOME	¥ 43,180	¥ 52,536	$473,293
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 40,404	¥ 41,327	$372,311
Non-controlling interests	2,776	11,209	100,982
Comprehensive income	¥ 43,180	¥ 52,536	$473,293

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, 2018 and 2019

	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 parent	Non-controlling interests	Total equity
BALANCE, MARCH 1, 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)	10,965	10,742
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 36)					21			21		21		21
Total transactions with owners		(224)	(662)		25	(401)	1,350	974	(15,101)	(15,012)	27,092	12,080
BALANCE, FEBRUARY 28, 2018	16,659	236,785	(1,104)	(565)	228	16,262		15,925	274,970	543,235	45,424	588,659
Profit for the year									45,370	45,370	11,946	57,316
Other comprehensive income				(316)	(216)	(4,738)	1,227	(4,043)		(4,043)	(737)	(4,780)
Total comprehensive income				(316)	(216)	(4,738)	1,227	(4,043)	45,370	41,327	11,209	52,536
Purchase of treasury shares (Note 26)			(83)							(83)		(83)
Disposal of treasury shares (Note 26)		1	1							2		2
Cash dividends (Note 27)									(15,121)	(15,121)	(15,834)	(30,954)
Changes in ownership interests in subsidiaries that do not result in a loss of control (Note 26)		(39)								(39)	(6,646)	(6,684)
Changes in ownership interests in subsidiaries that result in a loss of control											(13,203)	(13,203)
Others		0							(552)	(552)	25	(527)
Transfer from other components of equity to retained earnings						(3,875)	(1,227)	(5,102)	5,102			
Transfer from other components of equity to non-financial assets (Note 36)					(7)			(7)		(7)		(7)
Total transactions with owners		(37)	(82)		(7)	(3,875)	(1,227)	(5,109)	(10,571)	(15,799)	(35,658)	(51,457)
BALANCE, FEBRUARY 28, 2019	¥ 16,659	¥236,747	¥ (1,185)	¥ (881)	¥ 5	¥ 7,649	¥ –	¥6,773	¥309,768	¥568,762	¥20,975	¥589,737

	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 parent	Non-controlling interests	Total equity
BALANCE, FEBRUARY 28, 2018	$150,079	$2,133,194	$ (9,942)	$ (5,092)	$2,056	$146,506	$ —	$143,470	$2,477,204	$4,894,006	$409,224	$5,303,230
Profit for the year									408,735	408,735	107,622	516,357
Other comprehensive income				(2,845)	(1,949)	(42,682)	11,052	(36,424)		(36,424)	(6,640)	(43,064)
Total comprehensive income				(2,845)	(1,949)	(42,682)	11,052	(36,424)	408,735	372,311	100,982	473,293
Purchase of treasury shares (Note 26)			(748)							(748)		(748)
Disposal of treasury shares (Note 26)		6	12							17		17
Cash dividends (Note 27)									(136,223)	(136,223)	(142,645)	(278,867)
Changes in ownership interests in subsidiaries that do not result in a loss of control (Note 26)		(347)								(347)	(59,871)	(60,218)
Changes in ownership interests in subsidiaries that result in a loss of control											(118,950)	(118,950)
Others		4							(4,976)	(4,972)	226	(4,746)
Transfer from other components of equity to retained earnings						(34,912)	(11,052)	(45,964)	45,964			
Transfer from other components of equity to non-financial assets (Note 36)					(65)			(65)		(65)		(65)
Total transactions with owners		(337)	(736)		(65)	(34,912)	(11,052)	(46,029)	(95,235)	(142,337)	(321,240)	(463,576)
BALANCE, FEBRUARY 28, 2019	$150,079	$2,132,857	$ (10,678)	$(7,937)	$ 43	$ 68,912	$ —	$61,017	$ 2,790,705	$5,123,980	$ 188,967	$ 5,312,947

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, 2018 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)	2019 (From March 1, 2018 to February 28, 2019)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes from continuing operations	¥ 5,874	¥ 4,225	$ 38,060
Depreciation and amortization	54,588	59,397	535,108
Impairment losses	29,838	34,741	312,978
Equity in (losses) earnings of associates and joint ventures	(906)	2,070	18,651
Decrease (increase) in trade and other receivables	(973)	3,600	32,435
Decrease (increase) in inventories	(1,682)	1,689	15,217
Increase (decrease) in trade and other payables	14,220	1,660	14,959
Increase (decrease) in deposits received	(7,120)	(11,453)	(103,177)
Increase (decrease) in assets and liabilities for retirement benefits	2,399	157	1,418
Other	14,738	20,427	184,031
Subtotal(Note 28)	110,974	116,514	1,049,678
Interest and dividends received	3,268	2,007	18,083
Interest paid	(2,749)	(3,461)	(31,179)
Income taxes paid	(5,353)	(2,402)	(21,635)
Income tax refund	4,485	2,723	24,534
Cash flows from operating activities from discontinued operations	42,103	44,360	399,638
Net cash generated by operating activities—(Forward)	¥152,729	¥159,742	$1,439,119

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, 2018 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)	2019 (From March 1, 2018 to February 28, 2019)
Net cash provided by operating activities—(Forward)	¥152,729	¥159,742	$1,439,119
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment and investment property	(40,463)	(30,284)	(272,833)
Proceeds from sales of property, plant and equipment and investment property	5,234	1,399	12,607
Purchases of intangible assets	(8,434)	(4,618)	(41,599)
Payments of leasehold deposits receivable and construction assistance fund receivables	(20,234)	(19,124)	(172,287)
Collection of leasehold deposits receivable and construction assistance fund receivables	9,472	7,620	68,644
Purchases of investments	(8,489)	(4,250)	(38,285)
Proceeds from sales and redemption of investments	5,530	8,745	78,781
Proceeds from acquisition of businesses (Note 7)	700		
Proceeds from disposal of businesses (Note 7)		3,617	32,587
Other	(290)	(1,529)	(13,775)
Cash flows from investing activities from discontinued operations	7,471	147,681	1,330,461
Net cash (used in) provided by investing activities	(49,502)	109,257	984,301
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bonds and borrowings (Note 35)	145,832	132,891	1,197,214
Repayments of bonds and borrowings (Note 35)	(137,139)	(221,719)	(1,997,469)
Repayments of lease obligations (Note 35)	(28,650)	(34,754)	(313,102)
Purchases of treasury shares	(41)	(83)	(751)
Payments for acquisitions of interests in subsidiaries from non-controlling interests	(55)	(202)	(1,819)
Dividends paid (Note 27)	(14,188)	(15,121)	(136,223)
Dividends paid to non-controlling interests	(3,593)	(2,634)	(23,726)
Decrease in commercial paper (Note 35)	(96,000)		
Other	333	16	144
Cash flows from financing activities from discontinued operations	95,626	(14,627)	(131,778)
Net cash used in financing activities	(37,875)	(156,234)	(1,407,510)
EFFECTS OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(466)	(778)	(7,005)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	64,885	111,988	1,008,905
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	188,289	253,174	2,280,847
CASH AND CASH EQUIVALENTS INCLUDED IN ASSETS HELD FOR SALE(Note 13)		(11,665)	(105,087)
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 8)	¥253,174	¥353,498	$3,184,664

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 3-1-21 Shibaura, Minato-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 parent company of the Group is ITOCHU Corporation.

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. As the Company sold all of its shares of UNY Co., Ltd. during the fiscal year ended February 28, 2019, the businesses of UNY Co., Ltd. and its subsidiaries are classified as discontinued operations. The details of businesses lines are described in Note 6. "SEGMENT INFORMATION."

The consolidated financial statements were approved by the Board of Directors at the meeting held on May 28, 2019.

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, 2019.

(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 ¥111 to $1, the approximate rate of exchange at February 28, 2019. 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) Changes in Accounting Policies

The Group has applied the following standard effective from the fiscal year ended February 28, 2019.

IFRSs		Outline of new/amended standard
IFRS 15	*Revenue from Contracts with Customers*	Amendment concerning accounting treatment for revenue recognition

The Group adopted IFRS 15, "Revenue from Contracts with Customers" (issued in May 2014), and "Clarifications to IFRS 15" (issued in April 2016) (collectively "IFRS 15") from the fiscal year ended February 28, 2019.

In the adoption of IFRS 15, the Group has applied the transitional guidance wherein the cumulative effect of initially applying this standard is recognized at the date of initial application.

With regard to contracts with customers, the Group recognizes revenue by applying the following steps (except for interest and dividend revenue, etc., under IFRS 9 and lease payments receivable under IAS 17).

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group operates chains of convenience and general retailer stores. The Group has contractual obligations to its convenience store franchisees. Such obligations include preparations for opening a store; providing guidance on how to run a store; provision of licenses such as trademarks; providing services such as training and accounting services; and lending of sales equipment, signboards, and information systems. These activities are closely related to each other and cannot be separated and fulfilled as separate performance obligations, and thus, these are determined as a single performance obligation, except for lease transactions. A performance obligation is considered to be satisfied over time and as services are provided. Nevertheless, since the transaction price is a variable royalty based on a store's gross operating profit, the Group recognizes revenue over the contractual period for the obligations above as gross operating profit is generated at the store.

The Group sells goods such as food products and daily necessities to customers at directly operated stores. Revenue from sales of these items is recognized when those products are delivered to the customers, considering that control of those products has been transferred to the customers.

When identifying the performance obligations, the Group considers the following criteria 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, during shipping or return of goods; and
- Whether the Group has latitude in establishing prices, either directly or indirectly.

When the Group is acting as a principal, transaction price is determined to be the total amount of consideration received from customers. When the Group is acting as an agent for third parties, transaction price is determined to be the commission fee, which is calculated by deducting the amounts collected on behalf of third parties from the total amount of consideration received from customers.

Consideration paid to customers, such as price concessions, discounts, and rebates, is deducted from the transaction price.

If the Group grants customers a material right to acquire additional goods or services, the material right is deemed to be a separate performance obligation and the transaction price is thus allocated accordingly, and revenue is recognized when the future goods or services are transferred or the option is extinguished.

The effects of the adoption of this standard on the Group's consolidated financial statements are insignificant.

(5) *Changes in Presentation*

Presentation of operating profit

Until the previous fiscal year, "operating profit" was presented as taking operating revenue and adding or subtracting cost of sales; selling, general and administrative expenses; equity in earnings of associates and joint ventures; other income; and other expenses. Under the new presentation, operating profit is not presented from the fiscal year ended February 28, 2019, and the consolidated statement of profit or loss for the previous fiscal year has been reclassified.

This change was made in line with the additional disclosure of segment profit or loss (core operating profit) at the amount of operating revenues less cost of sales and selling, general and administrative expenses as an important management index in segment information (see Note 6. "SEGMENT INFORMATION") because the Group determined that the new presentation would provide more relevant information for users of the consolidated financial statements, considering the common practice regarding presentation of the consolidated statement of profit or loss in the industry to which the Group belongs.

Presentation of profit or loss from discontinued operations

Profit or loss from discontinued operations is separately presented on the consolidated statement of profit or loss, net of income taxes, underneath profit from continuing operations. The consolidated statement of profit or loss, the consolidated statement of cash flows, and related notes to consolidated financial statements for the previous fiscal year were partially reclassified to reflect the businesses classified as discontinued operations.

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

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.

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.

(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

With regard to contracts with customers, the Group recognizes revenue by applying the following steps (except for interest and dividend revenue, etc., under IFRS 9 and lease payments receivable under IAS 17).

Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group operates chains of convenience and general retailer stores.

The Group has contractual obligations to its convenience store franchisees. Such obligations include preparations for opening a store; providing guidance on how to run a store; provision of licenses such as trademarks; providing services such as training and accounting services; and lending of sales equipment, signboards, and information systems. These activities are closely related to each other and cannot be separated and fulfilled as separate performance obligations, and thus, these are determined as a single performance obligation, except for lease transactions. A performance obligation is considered to be satisfied over time and as services are provided. Nevertheless, since the transaction price is a variable royalty based on a store’s gross operating profit, the Group recognizes revenue over the contractual period for the obligations above as gross operating profit is generated at the store.

The Group sells goods such as food products and daily necessities to customers at directly operated stores. Revenue from sales of these items is recognized when those products are delivered to the customers, considering that control of those products has been transferred to the customers.

When identifying the performance obligations, the Group considers the following criteria in determining whether the Group is acting as a principal or an agent:

- Whether the Group has the primary responsibility to provide the goods or services to the customer or to fulfill the order;
- Whether the Group has inventory risks before and after the customer order while the goods are in transit or regarding return of goods; and
- Whether the Group has discretion in establishing prices, either directly or indirectly.

When the Group is acting as a principal, transaction price is determined to be the total amount of consideration received from customers. When the Group is acting as an agent for third parties, transaction price is determined to be the commission fee, which is calculated by deducting the amounts collected on behalf of third parties from the total amount of consideration received from customers.

Discounts and rebates provided to costumers are deducted from the transaction price.

If the Group grants customers a material right to acquire additional goods or services, the material right is deemed to be a separate performance obligation and the transaction price is thus allocated accordingly, and revenue is recognized when the future goods or services are transferred or the option is extinguished.

(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 and Discontinued Operations

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.

A discontinued operation includes a component of an entity that either has been disposed of, or is classified as held for sale, and a component constitutes a major line of business or geographical area of operations of the Group. The Group classifies a component as a discontinued operation when there is a plan to abandon such a line of business or geographical area.

(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 FamilyMart Co., Ltd. that are expected to be retired, their useful lives have been shortened prospectively.

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

   During the fiscal year ended February 28, 2019, FamilyMart Co., Ltd. (convenience store business) decided to introduce a new type of store activation terminal ("SATs") and next-generation coffee machines to enhance store competitiveness. Accordingly, the useful lives of tools, furniture, and fixtures held by FamilyMart Co., Ltd. that are expected to be retired have been shortened, and the change is applied prospectively.

   As a result of this change, for the fiscal year ended February 28, 2019, profit before income taxes decreased by ¥4,728 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 36. “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 36. "FINANCIAL INSTRUMENTS."

5. NEW STANDARDS NOT YET APPLIED

Standards and interpretations that have been established or amended by the date of approval of the consolidated financial statements, but have not been applied early by the Group, are mainly as follows:

IFRSs		Mandatory application (Fiscal years beginning on or after)	Group application	Outline of new/amended standards
IFRS 16	*Leases*	January 1, 2019	Fiscal year ending February 29, 2020	Amendment to accounting treatment for lease contracts

IFRS 16 introduces a single accounting model for leases of a lessee that does not distinguish between finance leases and operating leases, and in principle, requires a lessee to recognize a right-of-use asset presenting its right to use the underlying leased asset and a lease liability presenting its obligation to make lease payments over the lease term. Subsequently, the lessee recognizes depreciation of right-of-use asset and interest on the lease liability.

The Group plans to recognize the cumulative effect of applying this standard at the date of initial application. As a result, assets and liabilities are each expected to increase by approximately ¥ 600 billion in the Group's consolidated statement of financial position at the beginning of the fiscal year ending February 29, 2020. The impact on the consolidated statement of profit or loss will be immaterial.

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.

As all shares of UNY Co., Ltd. held by the Company were transferred in January 2019; the amounts in the accounts, such as operating revenues and profit or loss, of UNY Co., Ltd. and its subsidiaries for the fiscal year ended February 28, 2018 have been classified as discontinued operations in the consolidated statement of profit or loss. Accordingly, the related amounts have been reclassified from the general merchandise store business to "Transfer to discontinued operations."

Changes in segment profit or loss (addition of a profit indicator)
The Group has been reporting segment profit or loss based on profit for the year attributable to owners of the parent. However, since the management integration and business restructuring in the previous fiscal years have generally been completed, considering the common practice regarding presentation in the industry to which the Group belongs, the Group decided to newly disclose its "core operating profit," which is obtained by deducting cost of sales and selling, general and administrative expenses from operating revenues, to be used as an indicator for deciding the allocation of resources to segments and evaluating segment performance in or after the fiscal year ended February 28, 2019.

The segment profit or loss for the fiscal year ended February 28, 2018, has also been reclassified to reflect the change above.

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

	Reportable segment					
	Convenience store	General merchandise store (****,*****)	Total	Transfer to discontinued operations (*****)	Other reconciliations (*)	Consolidated
	Millions of Yen	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	¥(638,287)	¥1	¥637,013
Intersegment revenue	2,207	2,142	4,349		(4,349)	
Total	¥560,880	¥718,768	¥1,279,649	¥(638,287)	¥(4,349)	¥637,013
Segment profit (loss) (core operating profit)	¥42,934	¥23,531	¥66,465	¥(24,579)	¥(215)	¥41,671
Equity in earnings of associates and joint ventures	¥1,166	¥(258)	¥908	¥(1)		¥906
Other income	1,693	7,906	9,598	(4,665)	¥136	5,070
Other expenses	(41,596)	(7,355)	(48,951)	6,218	33	(42,700)
Finance income	2,956	229	3,184	(220)	89	3,053
Finance costs	(2,047)	(2,001)	(4,048)	482	1,440	(2,126)
Profit before income taxes	¥5,106	¥22,051	¥27,157	¥(22,765)	¥1,482	¥5,874
Segment profit (loss) (profit for the year attributable to owners of the parent)	¥(1,285)	¥17,708	¥16,423		¥17,234	¥33,656
Other items						
Depreciation and amortization	¥(53,719)	¥(11,452)	¥(65,171)	¥10,593	¥(9)	¥(54,588)
Impairment losses(**)	(29,130)	(4,259)	(33,389)	3,552		(29,838)
Income taxes	(3,498)	(4,341)	(7,838)	4,607	15,752	12,520
Segment assets	1,158,185	522,646	1,680,831		50,956	1,731,787
Investments accounted for using the equity method	23,698	258	23,956			23,956
Capital expenditures(***)	85,240	8,449	93,689	(6,851)	21	86,860

* Reconciliations in segment profit (loss) (core operating profit) of ¥(215) 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. In addition, reconciliations in segment profit (loss) (profit for the year attributable to owners of the parent) of ¥17,234 million are corporate expenses and elimination of intersegment transactions, which consist mainly of ¥15,718 million of income taxes (credit side balance) that are not attributable to any reportable segment. This is due to the recording of deferred tax assets associated with the application for the consolidated taxation system in the fiscal year ended February 28, 2018.
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.

**** The provisional accounting treatment for business combinations was finalized in the second quarter of the fiscal year ended February 28, 2019. Amounts for the fiscal year ended February 28, 2018 reflect the finalization of the provisional accounting treatment.

***** The amounts in the accounts, such as operating revenues and profit or loss, of UNY Co., Ltd. and its subsidiaries in the general merchandise store business have been reclassified to "Transfer to discontinued operations." The information of the general merchandise store business after the reclassification consists of the amount in the accounts, such as operating revenues and profit or loss, of Kanemi Co., Ltd. and other subsidiaries.

Fiscal Year Ended February 28, 2019 (From March 1, 2018 to February 28, 219)

	Reportable segment					
	Convenience store	General merchandise store (****)	Total	Transfer to discontinued operations (****, *****)	Other reconciliations (*)	Consolidated
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Operating revenues:						
External revenue	¥524,173	¥638,200	¥1,162,373	¥(545,208)	¥9	¥617,174
Intersegment revenue	3,545	1,940	5,486		(5,486)	
Total	¥527,719	¥640,140	¥1,167,859	¥(545,208)	¥(5,477)	¥617,174
Segment profit (loss) (core operating profit)	¥53,550	¥29,444	¥82,993	¥(29,565)	¥(1,875)	¥51,553
Equity in earnings of associates and joint ventures	¥(2,070)	¥4	¥(2,066)	¥(4)		¥(2,070)
Other income	2,005	4,525	6,530	(15,481)	¥15,027	6,077
Other expenses	(49,782)	(6,097)	(55,879)	4,462	(248)	(51,665)
Finance income	2,361	184	2,545	(146)	11	2,409
Finance costs	(1,898)	(2,142)	(4,041)	968	993	(2,079)
Profit before income taxes	¥4,165	¥25,918	¥30,083	¥(39,766)	¥13,907	¥4,225
Segment profit (loss) (profit for the year attributable to owners of the parent)	¥(4,280)	¥11,291	¥7,011	¥1,360	¥36,999	¥45,370
Other items						
Depreciation and amortization	¥(58,188)	¥(10,273)	¥(68,461)	¥9,089	¥(25)	¥(59,397)
Impairment losses(**)	(33,173)	(2,331)	(35,504)	763		(34,741)
Income taxes	(5,298)	(6,735)	(12,033)	9,516	23,091	20,574
Segment assets	1,141,809	35,135	1,176,944		195,173	1,372,117
Investments accounted for using the equity method	23,224		23,224			23,224
Capital expenditures (***)	60,601	9,794	70,395	(8,926)	581	62,050

* Reconciliations in segment profit (loss) (core operating profit) of ¥(1,875) 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. In addition, reconciliations in segment profit (profit for the year attributable to owners of the parent) of ¥36,999 million are corporate expenses and elimination of intersegment transactions, which consist mainly of ¥20,298 million of income tax expenses (credit side balance) that are not attributable to any reportable segment. This is due to the recognizing of deferred tax assets for the tax loss carryforwards resulting from losses on sales of share on a tax basis and other items upon the sale of all shares of UNY Co., Ltd. held by the Company during the fiscal year ended February

28, 2019. The income taxes (credit side balance) are included in "profit from continuing operations" in the consolidated statement of profit or loss in consideration of factors for incurring the tax loss carryforwards. Reconciliations in segment assets of ¥195,173 million include unallocated corporate assets, intersegment eliminations, and others, amounting to ¥259,214 million, ¥(49,784) 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.

**** The amounts in accounts, such as operating revenues and profit or loss, of UNY Co., Ltd. and its subsidiaries in the general merchandise store business have been reclassified to "Transfer to discontinued operations." The information of the general merchandise store business after the reclassification consists of the amounts in the accounts, such as operating revenues and profit or loss, of Kanemi Co., Ltd and other companies.

***** Segment profit (profit for the year attributable to owners of the parent) of ¥1,360 million is presented under "Transfer to discontinued operations" to reflect the effect of discontinued depreciation of UNY Co., Ltd. and its subsidiaries in applying IFRS 5.

(2) Geographic Information

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

Operating revenues from outside of the Group

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Japan	¥555,502	¥542,604
Taiwan	60, 229	64,479
Others	21,282	10,091
Total	¥637,013	¥617,174

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

Non-current assets

	2018 (February 28, 2018)	2019 (February 28, 2019)
	Millions of Yen	Millions of Yen
Japan	¥720,206	¥433,492
Taiwan	45,582	44,809
Others	1,221	456
Total	¥767,009	¥478,757

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

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

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*

The fair values are preliminary and was used for the fiscal year ended February 28, 2018 and finalized in the second quarter of the fiscal year ended February 28, 2019.

	Provisional	Retrospectively adjusted	Finalized
	Millions of Yen	Millions of Yen	Millions of Yen
Fair value of consideration paid (cash)	¥8,733		¥8,733
Fair value of existing interests	8,611		8,611
Total	17,345		17,345
Recognized amounts of assets acquired and liabilities assumed:			
Current assets	16,443		16,443
Non-current assets	17,678	¥(1,512)	16,165
Total assets	¥34,121	¥(1,512)	¥32,609
Current liabilities	¥(8,680)		¥(8,680)
Non-current liabilities	(189)		(189)
Total liabilities	¥(8,869)		¥(8,869)
Recognized amounts of assets acquired and liabilities assumed (net)	¥25,252	¥(1,512)	¥23,739
Non-controlling interests(*)	(12,002)	719	(11,283)
Goodwill	¥4,095	¥793	¥4,889

*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.

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, 2019 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).

Fiscal Year Ended February 28, 2019 (From March 1, 2018 to February 28, 2019)

Sale of subsidiaries

(1) Sale of UNY (HK) CO., LIMITED.

On May 24, 2018, the Company entered into an agreement to transfer all of its shares of UNY (HK) CO., LIMITED to Urban Kirin Limited, and sold the shares on May 31, 2018. Consequently, gain on sales of shares of subsidiaries and associates of ¥3,884 million was recorded, and the gain on sales is included in “other income” in the consolidated statement of profit or loss.

(2) Sale of the shares of UNY Co., Ltd. and its subsidiaries

The Company resolved at the meeting of its Board of Directors held on October 11, 2018, to transfer all of its shares of UNY Co., Ltd. to Pan Pacific International Holdings Corporation (formerly Don Quijote Holdings Co., Ltd.), and completed the transfer on January 4, 2019. As a result of this transfer of shares, the Company lost control over UNY Co., Ltd. and its subsidiaries, effective the same date. Transfer price will be adjusted based on the agreement for share transfer in the following fiscal year.

1) Major assets and liabilities as of the date control was lost

	Amount Millions of Yen
Current assets	
Cash and cash equivalents	¥42,813
Trade and other receivables	145,811
Other financial assets	2,974
Inventories	37,910
Other current assets	6,184
Total current assets	235,692
Non-current assets	
Property, plant and equipment	113,434
Investment property	123,564
Intangible assets	3,610
Investments accounted for using the equity method	231
Leasehold deposits receivable	25,015
Other financial assets	7,881
Assets for retirement benefits	1,530
Deferred tax assets	4,234
Other non-current assets	1,112
Total non-current assets	280,612
Total assets	¥516,304
Current liabilities	
Trade and other payables	¥144,891
Deposits received	17,338
Bonds and borrowings	160,860
Lease obligations	8
Income taxes payable	2,651
Other current liabilities	28,285
Total current liabilities	354,033
Non-current liabilities	
Bonds and borrowings	69,230
Lease obligations	9
Other financial liabilities	36,148
Provisions	19,886
Other non-current liabilities	8,462
Total non-current liabilities	133,735
Total liabilities	¥487,768

2) Cash flows resulting from loss of control

	Amount
	Millions of Yen
Cash and cash equivalents received as consideration for loss of control	¥28,200
Cash and cash equivalents of subsidiaries over which control was lost	(42,813)
Payments for sales of shares of subsidiaries(*)	¥(14,613)

* Payments for sales of shares of subsidiaries are included in "Cash flows from investing activities from discontinued operations" in the consolidated statement of cash flows.

3) Gains on loss of control

Gain on sales of shares of subsidiaries and associates of ¥11,079 million was recognized associated with the loss of control over UNY Co., Ltd. and its subsidiaries. The gain on sales is included in profit from discontinued operations in the consolidated statement of profit or loss.

8. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents is as follows:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Cash and cash equivalents:		
Cash and deposits	¥253,174	¥203,498
Short-term investments(*)		150,000
Total	¥253,174	¥353,498

* Short-term investments comprise funds entrusted to a company under the same parent. For more details on entrusted transactions, please refer to Note 38. "RELATED PARTIES."

9. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Receivables due from franchised stores	¥36,215	¥31,639
Accounts receivable—other	82,914	95,404
Credit card receivables	116,203	
Advances paid	19,029	19,195
Others	5,993	1,613
Allowance for doubtful receivables	(701)	(102)
Total	¥259,654	¥147,750

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:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Financial assets measured at fair value through other comprehensive income:		
Listed stocks	¥22,984	¥10,104
Unlisted stocks	18,453	2,979
Financial assets measured at amortized cost:		
Debt securities	2,704	1,465
Loans	1,612	920
Construction assistance fund receivables	123,957	111,952
Others	4,478	2,771
Allowance for doubtful receivables	(2,819)	(1,754)
Derivative assets	1,372	
Total	¥172,742	¥128,438
Current assets	¥19,463	¥12,857
Non-current assets	153,279	115,580
Total	¥172,742	¥128,438

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. The following table includes equity instruments classified as held for sale to which the measurement requirements of IFRS 5 do not apply:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Tpoint Japan Co., Ltd.	¥15,126	¥13,594
Ryohin Keikaku Co., Ltd.	20,583	8,523
Joyous Foods Co., Ltd.	1,154	1,488
SEIBU HOLDINGS INC.	993	1,076
E-net Co., Ltd.	772	621
Tokai Tokyo Financial Holdings, Inc.	527	

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, 2018 and 2019, 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:

2018 (From March 1, 2017 to February 28, 2018)			2019 (From March 1, 2018 to February 28, 2019)		
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
¥2,416	¥436	¥23	¥7,589	¥6,436	¥211

Accumulated gains (losses) (net of income taxes) reclassified from other comprehensive income to retained earnings were ¥401 million and ¥3,875 million for the fiscal years ended February 28, 2018 and 2019, respectively.

11. INVENTORIES

The breakdown of inventories is as follows:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Merchandise	¥54,489	¥17,506
Others	1,069	450
Total	¥55,558	¥17,956

12. OTHER ASSETS

The breakdown of other assets is as follows:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Prepaid expenses	¥20,038	¥22,099
Long-term prepaid expenses	12,102	10,955
Others	6,297	5,316
Total	¥38,437	¥38,370
Other current assets	¥24,838	¥25,822
Other non-current assets	13,599	12,547
Total	¥38,437	¥38,370

13. ASSETS HELD FOR SALE

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 sales of these assets were completed during the fiscal year ended February 28, 2019.

Assets held for sale and liabilities directly associated with assets held for sale as of February 28, 2019 have been classified as those held for sale because the Company decided to sell shares of Kanemi Co., Ltd. , a subsidiary in the Company’s general merchandise store business, and the shares in Tpoint Japan Co., Ltd. that were held as equity instruments in the company’s convenience store business. The breakdown of those assets and liabilities is as follows. For the goodwill related to Kanemi Co., Ltd., impairment losses of ¥229 million were recognized for the fiscal year ended February 28, 2019 and included in “Other expenses” in the consolidated statement of profit or loss. For more details about impairment losses, please refer to Notes 17. “IMPAIRMENT LOSSES.” The assets held for sale and liabilities directly associated with assets held for sale are to be sold within one year from the end of the fiscal year. For more details on the reasons for and the method and timing of the disposal of Kanemi Co., Ltd., please refer to Note 41. “SUBSEQUENT EVENTS.”

	2019 (February 28)
	Millions of Yen
Assets held for sale	
Current assets:	
Cash and cash equivalents	¥11,665
Trade and other receivables	2,548
Inventories	454
Other current assets	172
Total current assets	14,838
Non-current assets:	
Property, plant and equipment	10,837
Goodwill	4,660
Intangible assets	103
Leasehold deposits receivable	288
Other financial assets	14,147
Assets for retirement benefits	417
Deferred tax assets	431
Other non-current assets	260
Total non-current assets	31,143
Total	¥45,981
Liabilities directly associated with assets held for sale	
Current liabilities:	
Trade and other payables	¥4,765
Deposits received	51
Income taxes payable	292
Other current liabilities	3,673
Total current liabilities	8,781
Non-current liabilities:	
Other financial liabilities	31
Provisions	80
Total non-current liabilities	111
Total	¥8,891

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, 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
Acquisition	17	29,919	4,121	34,834	3,507	72,397
Sale or disposal	(1,985)	(17,287)	(2,089)	(26,349)	(415)	(48,124)
Decrease due to sale of subsidiaries(*)	(52,118)	(65,543)	(7,288)	(5,093)	(107)	(130,150)
Reclassification(**)	(2,476)	(9,044)	(4,443)	(346)	(1,407)	(17,716)
Exchange difference on translating foreign operations and others	(121)	1,057	(172)	(639)	(898)	(773)
February 28, 2019	¥9,998	¥186,063	¥28,365	¥265,034	¥3,059	¥492,519

* For more details about the business combinations and sale of subsidiaries, 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, 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(*)		(14,280)	(3,224)	(36,356)		(53,859)
Impairment losses(**)	(275)	(11,243)	(1,720)	(7,221)		(20,459)
Sale or disposal		13,830	1,198	22,423		37,451
Decrease due to sale of subsidiaries	78	12,459	1,659	2,059		16,255
Reclassification(***)	31	3,139	2,017	215		5,402
Exchange difference on translating foreign operations and others		30	19	471		521
February 28, 2019	¥(400)	¥(70,820)	¥(13,901)	¥(152,858)	¥ –	¥(237,978)

* Depreciation of property, plant and equipment is included in "Cost of sales," "Selling, general, and administrative expenses," and "Profit from discontinued operations" in the consolidated statement of profit or loss.

** Impairment loss of property, plant and equipment is included in "Other expenses" and" Profit from discontinued operations" 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, 2018	¥66,449	¥172,207	¥24,386	¥128,176	¥2,378	¥393,596
Balance, February 28, 2019	¥9,599	¥115,243	¥14,464	¥112,176	¥3,059	¥254,540

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, 2018			¥10,380	¥88,947		¥99,327
Balance, February 28, 2019			¥9,581	¥77,758		¥87,338

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

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥162,753	¥148,939
Acquisition	417	
Sale or disposal	(1,155)	
Decrease due to sale of subsidiaries (*)		(132,997)
Reclassification(**)	(13,057)	3,334
Exchange difference on translating foreign operations and others	(18)	(145)
Balance at the end of year	¥148,939	¥19,131

* For more details about sale of subsidiaries, 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

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥(6,251)	¥(11,935)
Depreciation(*)	(4,766)	(2,691)
Sale or disposal	28	
Decrease due to sale of subsidiaries		9,434
Reclassification(**)	(947)	(1,857)
Exchange difference on translating foreign operations and others	1	24
Balance at the end of year	¥(11,935)	¥(7,026)

*Depreciation of investment property is included in "Selling, general, and administrative expenses" and "Profit from discontinued operations" 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

	2018 (February 28)		2019 (February 28)	
	Carrying amount	Fair value	Carrying amount	Fair value
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Investment property	¥137,004	¥150,073	¥12,105	¥15,541

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:

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Lease income	¥1,258	¥1,785
Direct operating cost	1,307	1,789

Lease income from investment property (mainly distribution centers in the convenience 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. Note that revenues and expenses incurred from investment properties which were classified as discontinued operations are not included in the table above.

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, 2017	¥164,861	¥39,657	¥52,369	¥11,459	¥103,484
Acquisition		6,125	3,260	77	9,461
Acquisition through business combinations(*)	4,889	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	169,750	42,908	55,600	11,515	110,022
Acquisition		5,116	1,018	594	6,728
Sale or disposal		(5,694)	(73)	(332)	(6,098)
Decrease due to sale of subsidiaries(*)		(5,896)		(512)	(6,408)
Reclassification(**)	(4,889)	5		(176)	(171)
Exchange difference on translating foreign operations and others	(26)	(351)		158	(192)
February 28, 2019	¥164,836	¥36,088	¥56,545	¥11,248	¥103,881

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

**Reclassification includes classification to assets held for sale.

Accumulated amortization and accumulated impairment losses

		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, 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(*)		(5,429)	(2,971)	(1,160)	(9,561)
Impairment losses(**)	(9,139)	(2)	(1,471)	(183)	(1,656)
Sale or disposal		4,331	38	235	4,603
Decrease due to sale of subsidiaries		2,716		53	2,769
Reclassification(***)	229	65		3	67
Exchange difference on translating foreign operations		646		(147)	499
February 28, 2019	¥ (22,104)	¥ (24,815)	¥ (14,148)	¥ (8,086)	¥ (47,048)

* Amortization of intangible assets is included in "Cost of sales," "Selling, general, and administrative expenses," and "Profit from discontinued operations" in the consolidated statement of profit or loss.

** Impairment losses of goodwill and intangible assets are included in "Other expenses" and "Profit from discontinued operations" in the consolidated statement of profit or loss. For more details about impairment losses, please refer to Note 17. "IMPAIRMENT LOSSES."

*** Reclassification includes classification to assets held for sale.

Carrying amount

		Intangible assets			
	Goodwill	Software	Customer-related	Other	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Balance, February 28, 2018	¥156,557	¥15,768	¥45,856	¥4,629	¥66,252
Balance, February 28, 2019	142,732	11,273	42,398	3,162	56,833

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 ¥40,733 million and ¥37,241 million as of February 28, 2018 and 2019, respectively (the remaining amortization period is 17.5 years).

17. IMPAIRMENT LOSSES

(1) Property, Plant and Equipment; Intangible Assets; Investments Accounted for Using the Equity Method; 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 ¥20,010 million and ¥25,601 million for the fiscal years ended February 28, 2018 and 2019, 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 investments accounted for using the equity method. 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 (5.0% 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 (5.0% to 8.8%). The growth rate used for forecasting cash flows after the term covered by the business plan is determined to the extent that it does not exceed the long-term average growth rate of the market or country to which the CGU belongs (0.0% level).

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

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Convenience store business	¥151,668	¥142,732
General merchandise store business	4,889	
Total	¥156,557	¥142,732

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. as of February 28, 2018 and 2019, were ¥1,110 million each.

An impairment loss of ¥390 million was recognized on the goodwill above for the fiscal year ended February 28, 2018, 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. Impairment losses were not recognized on the goodwill above for the fiscal year ended February 28, 2019.

The carrying amounts of goodwill related to the former Cocostore Corporation were ¥7,134 million and ¥5,280 million as of February 28, 2018 and 2019, respectively.

For the fiscal years ended February 28, 2018 and 2019, impairment losses of ¥221 million and ¥1,835 million were recognized, respectively, for stores whose profitability declined significantly, as the recoverable amounts fell below their carrying amounts.

The carrying amounts of goodwill related to the former Circle K Sunkus Co., Ltd. resulting from the integration with the former UNY Group Holdings Co., Ltd. were ¥142,900 million and ¥135,825 million as of February 28, 2018 and 2019, respectively.

For the fiscal years ended February 28, 2018 and 2019, impairment losses of ¥9,216 million and ¥7,075 million were recognized, respectively, 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 ¥4,889 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. In the fiscal year ended February 28, 2019, the Company resolved to transfer part of its shares in Kanemi Co., Ltd. and performed an impairment test for the related goodwill. As the recoverable amount fell below its carrying amount, an impairment loss of ¥229 million was recognized. The carrying amount, after the recognition of impairment loss, of ¥4,660 million was classified to "Assets held for sale" in the consolidated statement of financial position. For more details, please refer to Note 13. "ASSETS HELD FOR SALE."

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:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Total carrying amounts	¥22,802	¥21,915

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

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Share of profit for the year	¥1,528	¥1,577
Share of other comprehensive income	(21)	18
Share of comprehensive income	¥1,506	¥1,595

(2) Investments in Joint Ventures

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

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Total carrying amounts	¥1,153	¥1,309

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

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Share of profit for the year	¥(620)	¥(3,647)
Share of other comprehensive income	149	(115)
Share of comprehensive income	¥(471)	¥(3,762)

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, 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)			¥6,879
Unearned revenue	1,635	(120)			1,515
Provisions	8,170	(377)			7,792
Liabilities for retirement benefits	4,506	(214)	¥668		4,961
Property, plant and equipment; investment property; and intangible assets	38,016	(9,562)			28,454
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			23,460
Other	5,889	699	(398)	¥(339)	5,852
Total	¥71,924	¥9,473	¥270	¥(339)	¥81,329
Deferred tax liabilities					
Financial assets measured at fair value through other comprehensive income	¥(4,565)		¥(2,649)		¥(7,214)
Property, plant and equipment; investment property; and intangible assets	(26,215)	¥2,464			(23,751)
Investments in subsidiaries and associates	(2,131)	742	51		(1,338)
Other	(4,191)	968	(133)		(3,356)
Total	¥(37,102)	¥4,174	¥(2,730)		¥(35,658)

Fiscal Year Ended February 28, 2019 (From March 1, 2018 to February 28, 2019)

	March 1, 2018	Recognized through profit or loss	Recognized in other comprehensive income	Business combinations	Reclassification (*)	February 28, 2019
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Deferred tax assets						
Accounts payable–other and accrued expenses	¥6,879	¥(1,213)		¥(2,878)	¥(401)	¥2,387
Unearned revenue	1,515	(336)				1,179
Provisions	7,792	(208)		(1,646)		5,939
Liabilities for retirement benefits	4,961	(335)	¥(177)	(4)		4,445
Property, plant and equipment; investment property; and intangible assets	28,454	(2,285)		(8,667)	(88)	17,415
Financial assets measured at amortized cost	1,656	(397)		(229)		1,031
Financial liabilities measured at amortized cost	760	(571)				189
Tax loss carryforwards	23,460	18,540		(33)	(149)	41,819
Other	5,852	948	130	(3,850)	(19)	3,060
Total	¥81,329	¥14,143	¥(47)	¥(17,307)	¥(656)	¥77,463
Deferred tax liabilities						
Financial assets measured at fair value through other comprehensive income	¥(7,214)		¥3,119	¥118	¥83	¥(3,894)
Property, plant and equipment; investment property; and intangible assets	(23,751)	1,817		10,063		(11,871)
Investments in subsidiaries and associates	(1,338)	923	60			(354)
Other	(3,356)	(92)	270	2,550	142	(486)
Total	¥(35,658)	¥2,648	¥3,449	¥12,731	¥225	¥(16,605)

* This represents classification to “Assets held for sale.”

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:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Tax loss carryforwards	¥7,546	¥2,606
Deductible temporary differences	211,159	32,527
Total	¥218,706	¥35,133

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

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
1st year		
2nd year	¥980	¥1,053
3rd year	1,527	446
4th year	1,598	432
5th year and after	3,442	674
Total	¥7,546	¥2,606

The Group has applied the consolidated taxation system in Japan. 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 and 2019, consisted of corporate inhabitant tax of ¥63,134 million and ¥147,997 million, and enterprise tax of ¥64,582 million and ¥161,884 million, respectively.

Deferred tax assets for tax loss carryforwards were recognized in the fiscal year ended February 28, 2019, 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, 2018 and 2019, were ¥6,994 million and ¥3,119 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:

Income taxes related to discontinued operations are described in Note 33. “DISCONTINUED OPERATIONS.”

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Current tax expense	¥3,307	¥(2,140)
Deferred tax expense	(15,826)	(18,433)
Total	¥(12,520)	¥(20,574)

The Group is subject to income tax, corporate inhabitant tax, and enterprise tax, which is deductible for income tax purposes, and the applicable tax rate, which is calculated based on these taxes, was 30.86%. For overseas subsidiaries, corporate taxes are imposed in accordance with their local tax laws.

The amounts of the tax benefits arising from a previously unrecognized tax loss or temporary difference in prior periods that are used to reduce current tax expense for the fiscal years ended February 28, 2018 and 2019, were ¥2,523 million and ¥6,868 million, respectively, and were included in current tax expense.

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

In addition, deferred tax expense for the fiscal years ended February 28, 2018, and 2019 decreased by ¥22,284 million and ¥18,392 million, respectively, as a result of recognizing deferred tax assets on tax loss carryforwards arising during the reporting period.

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

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	%	%
Statutory effective tax rate	30.86	30.86
(Adjustments)		
Expense not deducted for income tax purpose	13.99	23.74
Foreign tax credit	7.89	11.66
Unrecognized deferred tax assets(*)	(282.37)	(610.54)
Equity in earnings of associates and joint ventures	(4.76)	15.12
Investment in associates	(9.72)	(3.67)
Impairment loss on goodwill	51.63	66.76
Differences from applicable tax rates for overseas subsidiaries	(19.12)	(20.50)
Others	(1.53)	(0.41)
Average actual effective tax rate	(213.13)	(486.99)

* The tax effects of the shares of subsidiaries not recognized at the time of reorganization in previous fiscal years were generated due to the recognizing of deferred tax assets for the recoverable portion in connection with the sale of the shares in the fiscal year ended February 28, 2019.

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:

	2018 (February 28)	2019 (February 28)	Average interest rate(*)	Repayment period (**)
	Millions of Yen	Millions of Yen	%	
Financial liabilities measured at amortized cost:				
Short-term borrowings	¥11,392	¥8,451	1.40	
Current portion of long-term borrowings	37,471	31,271	0.24	
Short-term lease obligations	27,160	26,270	1.05	
Bonds	39,854	39,887	0.25	From 2022 to 2024
Long-term borrowings	292,429	133,264	0.24	From 2020 to 2025
Long-term lease obligations	93,843	82,831	1.03	From 2020 to 2027
Leasehold deposits refundable	43,918	6,802		
Others	9,214	7,613		
Derivative liabilities	655	74		
Total	¥555,937	¥336,464		
Current liabilities	¥76,080	¥65,993		
Non-current liabilities	479,858	270,471		
Total	¥555,937	¥336,464		

* 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	2018 (February 28)	2019 (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:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Land	¥822	
Buildings and structures	327	
Leasehold deposits receivable	122,917	¥89,813
Other financial assets	21	21
Total	¥124,087	¥89,833

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:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Other financial liabilities	¥1,502	

21. LEASE

(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	
	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Within 1 year	¥28,295	¥27,299
1 to 5 years	78,346	71,945
Over 5 years	18,162	13,029
Total	124,803	112,274
Future financial cost	(3,799)	(3,173)
Present value of lease obligations	¥121,004	¥109,100

	Present value of minimum lease payments	
	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Within 1 year	¥27,160	¥26,270
1 to 5 years	76,049	70,064
Over 5 years	17,794	12,767
Total	121,004	109,100
Future financial cost		
Present value of lease obligations	¥121,004	¥109,100

The aggregate amount of minimum sublease fees expected to be received in the future under non-cancelable sublease contracts at February 28, 2018 and 2019 was ¥326 million and ¥255 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:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Within 1 year	¥30,316	¥59,680
1 to 5 years	101,296	76,035
Over 5 years	46,496	27,298
Total	¥178,108	¥163,014

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

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Minimum lease payments	¥183,962	¥177,224
Contingent rents	3,488	2,759
Total	¥187,449	¥179,982

The aggregate amount of minimum sublease fees expected to be received in the future under non-cancelable sublease contracts at February 28, 2018 and 2019 was ¥829 million and ¥900 million, respectively.

Received sublease fees recognized as revenue under cancelable or non-cancelable operating leases for the fiscal years ended February 28, 2018 and 2019 were ¥10,274 million and ¥8,447 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.

22. TRADE AND OTHER PAYABLES

The breakdown of trade and other payables is as follows:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Accounts and notes payable—trade	¥220,667	¥150,642
Due to franchised stores	10,387	9,215
Accounts payable—other	51,765	47,389
Other	5,925	3,658
Total	¥288,744	¥210,903

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:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Present value of funded defined benefit obligations	¥116,885	¥45,428
Fair value of plan assets	(107,481)	(30,391)
Subtotal	9,404	15,037
Present value of unfunded defined benefit obligations	349	244
Effects from asset ceiling	5,459	
Liabilities (assets) for retirement benefits	¥15,212	¥15,281
Amounts presented in the consolidated statement of financial position:		
Liabilities for retirement benefits	¥16,970	¥15,281
Assets for retirement benefits	(1,758)	
Liabilities (assets) for retirement benefits presented in the consolidated statement of financial position (net)	¥15,212	¥15,281

2) Change in Present Value of Defined Benefit Obligations

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

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥112,477	¥117,234
Service cost	5,014	4,610
Interest cost	774	662
Remeasurements		
Actuarial losses (gains) arising from changes in demographic assumptions	277	(1,558)
Actuarial losses (gains) arising from changes in financial assumptions	(10)	(276)
Actuarial losses (gains) arising from factual inputs	736	(41)
Effects of fund restructuring (*)	2,014	
Past service cost	466	
Benefit payment	(8,093)	(7,113)
Changes due to business combinations(**)	3,547	(63,641)
Reclassification(***)		(4,132)
Others	31	(73)
Balance at the end of year	¥117,234	¥45,671

* 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.

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

*** The amount was offset against plan assets by reclassifying it to "Assets held for sale" in the consolidated statement of financial position.

**** The weighted-average duration of the defined benefit obligations was 12.1 years for the fiscal year ended February 28, 2018, and 12.6 years for the fiscal year ended February 28, 2019.

3) Changes in Fair Value of Plan Assets

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

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥100,187	¥107,481
Interest revenue	677	576
Remeasurements		
Income from plan assets	1,300	(182)
Effects of fund restructuring	3,206	
Contributions from employer	5,521	4,775
Benefits paid	(7,643)	(7,019)
Changes due to business combinations	4,195	(70,644)
Reclassification(*)		(4,548)
Others	38	(48)
Balance at the end of year	¥107,481	¥30,391

* The amount offset against defined benefit obligations has been reclassified to “Assets held for sale” in the consolidated statement of financial position.

The Group plans to contribute ¥2,585 million during the fiscal year ending February 29, 2020.

4) Changes in Effects of Asset Ceiling

Changes in the effects of asset ceiling are as follows:

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥2,028	¥5,459
Interest revenue	15	29
Remeasurements		
Changes in effects of asset ceiling	2,224	
Effects of fund restructuring	1,192	
Changes due to business combinations		(5,489)
Balance at the end of year	¥5,459	¥–

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

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

	2018 (February 28)			2019 (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		¥7,733	¥7,733		¥2,075	¥2,075
Foreign equity securities		8,856	8,856		4,441	4,441
Debt instruments						
Domestic bonds		18,954	18,954		7,993	7,993
Foreign bonds	¥1,016	8,885	9,901		8,085	8,085
Life insurance general account(*)		39,958	39,958		1,619	1,619
Alternatives (**)		17,075	17,075		3,387	3,387
Cash and deposits and others	716	4,289	5,005	¥517	2,275	2,792
Total	¥1,732	¥105,749	¥107,481	¥517	¥29,874	¥30,391

* 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:

	2018 (February 28)	2019 (February 28)
	%	%
Discount rate	0.6	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:

	2019 (February 28)
	Millions of Yen
When the discount rate increases by 0.25%	¥(1,319)
When the discount rate decreases by 0.25%	1,384

(2) Defined Contribution Plans

Amounts recognized as expense related to defined contribution plans for the fiscal years ended February 28, 2018 and 2019, were ¥948 million and ¥970 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, 2018 and 2019, were ¥109,147 million and ¥110,175 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, 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
Increase during the year	8,727		8,727
Interest for the year in discounting	299	11	310
Decrease during the year (used)	(3,022)	(340)	(3,361)
Decrease during the year (reversal)	(635)		(635)
Changes due to business combinations(*)	(17,762)	(4,370)	(22,132)
Reclassification(**)	(80)		(80)
February 28, 2019	¥37,374	–	¥37,374
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
Current liabilities (February 28, 2019)	¥562		¥562
Non-current liabilities (February 28, 2019)	36,812		36,812
Total	¥37,374	–	¥37,374

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

** This represents reclassification to "Liabilities directly associated with assets held for sale."

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:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Accrued expenses	¥27,327	¥18,133
Contract liabilities(*)		5,159
Liabilities associated with application of the equity method	1,148	5,066
Unearned revenue	15,666	4,510
Short-term asset retirement obligations	1,956	562
Provision for bonuses	5,287	62
Other	18,130	3,378
Total	¥69,513	¥36,870
Other current liabilities	¥57,802	¥27,998
Other non-current liabilities	11,711	8,873
Total	¥69,513	¥36,870

* For more details about contract liabilities, please refer to Note 28. “OPERATING REVENUES.”

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:

	Number of authorized shares	Number of issued shares(*)	Common stock	Capital surplus
	Shares	Shares	Millions of Yen	Millions of Yen
Beginning of 2018 (March 1, 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
Changes during the year				(37)
2019 (February 28, 2019)	250,000,000	126,712,313	¥16,659	¥236,747

* 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 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.

The Company effected a 4-for-1 share split of its common stock on March 1, 2019. Accordingly, the number of authorized shares and issued shares increased by 750,000,000 shares and 380,136,939 shares, respectively.

(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 2018 (March 1, 2017)	71,837	¥(441)
Changes during the year(*)	105,591	(662)
2018 (February 28, 2018)	177,428	(1,104)
Changes during the year(**)	6,571	(82)
2019 (February 28, 2019)	183,999	¥(1,185)

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

** The change is mainly due to requests for purchase or sale of shares less than one unit.

The Company effected a 4-for-1 share split of its common stock on March 1, 2019. Accordingly, the number of treasury shares increased by 551,997 shares.

(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 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
April 11, 2018 Board of Directors	7,086	56.00	February 28, 2018	May 7, 2018
October 11, 2018 Board of Directors	8,035	63.50	August 31, 2018	November 9, 2018

* The Company effected a 4-for-1 share split of its common stock with the effective date of March 1, 2019. "Dividends per share" for which the record date is before February 28, 2019 represents the actual amount of dividends per share before the share split.

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 10, 2019 Board of Directors	¥10,186	¥80.50	February 28, 2019	May 7, 2019

* The Company effected a 4-for-1 share split of its common stock with the effective date of March 1, 2019. "Dividends per share" above represents the actual amount of dividends per share before the share split.

28. OPERATING REVENUES

The breakdown of operating revenues is as follows:

	2018 (From March 1, 2017 to February 28, 2018)
	Millions of Yen
Revenues from franchisees(*)	¥355,308
Sale of goods	224,354
Real estate lease income (**)	12,311
Others	45,040
Total	¥637,013

* 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.

** For more details about real estate lease income, please refer to Notes 15. "INVESTMENT PROPERTY" and 21. "LEASE."

(1) Breakdown of Revenues

The breakdown of operating revenues and segment operating revenues by major customer or type of services and geographic area is as follows:

Fiscal Year Ended February 28, 2019 (From March 1, 2018 to February 28, 2019)

	Reportable segments				
	Convenience store business	General merchandise store business	Transfer to discontinued operations	Other reconciliations	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Customer or service type					
Revenues from franchisees	¥364,780				¥364,780
Sales of goods(*)	109,850	¥585,412	¥(491,304)	¥(1,470)	202,488
Real estate lease income	10,634	34,734	(34,230)	(231)	10,907
Interest income		4,205	(4,205)		
Others	42,454	15,788	(15,469)	(3,776)	38,998
Total	¥527,719	¥640,140	¥(545,208)	¥(5,477)	¥617,174
Geographic area					
Japan	¥456,600	¥636,689	¥(545,208)	¥(5,477)	¥542,604
Taiwan	64,479				64,479
Others	6,640	3,451			10,091
Total	¥527,719	¥640,140	¥(545,208)	¥(5,477)	¥617,174

* Net sales by product in the general merchandise store business are as follows:

	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen
Clothing	¥63,034
Household goods	71,702
Foods	408,973
Others	41,703
Total	¥585,412

Revenues from franchisees are comprised of royalties received from franchisees in accordance with franchise agreements in the convenience store business. The Group has contractual obligations including preparations for opening a store; providing guidance on how to run a store; provision of licenses such as trademarks; providing services such as training and accounting services; and lending of sales equipment, signboards, and information systems. These activities are closely related to each other and cannot be separated and fulfilled as separate performance obligations, and thus, these are determined as a single performance obligation, except for lease transactions. A performance obligation is considered to be satisfied over time and as services are provided. Nevertheless, since the transaction price is a variable royalty based on a store’s gross operating profit, the Group recognizes revenue over the contractual period for the obligations above as gross operating profit is generated at the store. Various incentives and compensations paid to franchisees are deducted from the transaction price. Revenues from lease transactions are recognized in accordance with IAS 17, “Leases,” and included in revenues from franchisees.

Sales of goods are comprised of product sales by directly operated stores in the convenience store business and the general merchandise store business. The Group sells goods such as food products and daily necessities to customers at directly operated stores. Revenue from sales of these items is recognized when those products are delivered to the customers, considering that control of those products has been transferred to the customers. Discounts to customers are deducted from the transaction price, while providing goods or services in the future through granting points are recognized as a separate performance obligation with an allocated transaction price.

Real estate lease income is recognized as revenue in accordance with IAS 17, “Leases.” For more details, please refer to Note 15. “INVESTMENT PROPERTY” and Note 21. “LEASE.”

Interest income represents interest on loans related to the loan business, such as fees for revolving payments in respect of credit card receivables and short-term cash loans taken against credit cards, and revenues are recognized in accordance with IFRS 9, “Financial Instruments.” For more details about credit card receivables, please refer to Note 9. “TRADE AND OTHER RECEIVABLES.” Interest income for the fiscal year ended February 28, 2019, is ¥4,132 million. In the consolidated statement of cash flows, interest income is not included in “Interest and dividends received,” but in the “Cash flows from operating activities from discontinued operations” under cash flows from operating activities.

Other operating revenues include sales commissions as agents at stores; various commissions received from business partners, such as product vendors and ATM operators; and royalty income received from area franchisers in the convenience store business.

Revenues recognized from sources other than contracts with customers are presented as “Other income” and “Finance income” in the consolidated statement of profit or loss.

(2) Contract Balance

The balances of receivables arising from contracts with customers and contract liabilities at the beginning and the end of the year are as follows:

Fiscal Year Ended February 28, 2019 (From March 1, 2018 to February 28, 2019)

	Balance at the beginning of the year (March 1, 2018)	Balance at the end of the year (February 28, 2019)
	Millions of Yen	Millions of Yen
Receivables arising from contracts with customers	¥28,782	¥18,632
Contract liabilities	12,226	5,159

With regard to revenues recognized for the fiscal year ended February 28, 2019, those included in the balance of contract liabilities at the beginning of the year were ¥9,818 million.

In the consolidated statement of financial position, contract liabilities are recorded in “Other current liabilities.” Contract liabilities mainly relate to customer options arising from the granting of points and advances received from customers related to issuance of gift certificates.

The major changes in contract liabilities are an increase of ¥18,614 million due to receipt of cash, a decrease of ¥14,711 million due to recognition of revenue, and a decrease of ¥10,890 million due to a sale of subsidiaries.

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

The breakdown of cost of sales is as follows:

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Cost of merchandise purchased	¥100,368	¥62,661
Cost of products manufactured		
Employees' salaries and bonuses	11,333	17,828
Depreciation and amortization(*)	842	1,271
Raw materials cost	33,954	49,713
Others	7,795	10,292
Total	¥154,292	¥141,764

* 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:

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Advertising expenses	¥11,184	¥9,453
Promotion expenses	13,250	12,315
Employees' salaries and bonuses	77,552	72,302
Retirement benefit expenses (*)	4,120	3,590
Leasehold and office rents (**)	184,650	177,809
Repair expenses	12,659	12,271
Depreciation and amortization(***)	53,747	58,116
Utilities expenses	7,931	6,392
Operations consignment expenses	15,329	14,269
Provision of allowance for doubtful receivables	547	468
Others	60,081	56,871
Total	¥441,050	¥423,857

* 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:

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Gain on sales of non-current assets	¥2,451	¥259
Gain on sales of shares of subsidiaries and associates	223	3,884
Gain on reversal of asset retirement obligations	538	
Compensation income	225	237
Others	1,632	1,697
Total	¥5,070	¥6,077

The breakdown of other expenses is as follows:

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Loss on sales of non-current assets	¥152	¥182
Loss on disposals of non-current assets	4,684	7,529
Impairment losses(*)	29,838	34,741
Loss on cancellation of rental contracts	4,850	5,605
Foreign exchange losses	180	146
Others	2,997	3,462
Total	¥42,700	¥51,665

* 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:

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Interest income:		
Financial assets measured at amortized cost(*)	¥2,233	¥1,760
Others	4	3
Dividend income:		
Financial assets measured at fair value through other comprehensive income(*)	691	570
Reversal of allowance for doubtful receivables	111	61
Other finance income	15	15
Total	¥3,053	¥2,409

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

The breakdown of finance cost is as follows:

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Interest expenses:		
Financial liabilities measured at amortized cost(*)	¥355	¥464
Lease obligations(**)	1,438	1,365
Others	332	244
Other finance cost	1	6
Total	¥2,126	¥2,079

* 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.

Fiscal 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

Fiscal Year Ended February 28, 2019 (From March 1, 2018 to February 28, 2019)

	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	¥(6,908)		¥(6,908)	¥1,813	¥(5,094)
Remeasurements of defined benefit plans	1,694		1,694	(496)	1,198
Share of other comprehensive income of investments accounted for using the equity method	(17)		(17)		(17)
Total of items that will not be reclassified subsequently to profit or loss	(5,231)		(5,231)	1,317	(3,914)
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges	698	¥(1,004)	(305)	95	(210)
Exchange difference on translating foreign operations	(635)		(635)	59	(576)
Share of other comprehensive income of investments accounted for using the equity method	(80)		(80)		(80)
Total of items that may be reclassified subsequently to profit or loss	(17)	(1,004)	(1,020)	154	(866)
Total	¥(5,248)	¥(1,004)	¥(6,251)	¥1,471	¥(4,780)

33. DISCONTINUED OPERATIONS

In October 2018, the Company decided to sell all of its shares of UNY Co., Ltd. and transferred the shares to Pan Pacific International Holdings Corporation (formerly Don Quijote Holdings Co., Ltd.) on January 4, 2019, losing control over UNY Co., Ltd. on the same date. Accordingly, the Company has classified profit or loss from operations of UNY Co., Ltd. and its subsidiaries for the fiscal year ended February 28, 2019 as discontinued operations, restated the related amounts for the fiscal year ended February 28, 2018, and presented the discontinued operations separately.

(1) Reportable Segment

General merchandise store business

(2) Results of Discontinued Operations

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Profit or loss from discontinued operations		
Revenues	¥643,172	¥560,840
Expenses	(620,407)	(518,769)
Profit before income taxes from discontinued operations	22,765	42,071
Income taxes	(4,607)	(9,553)
Profit from discontinued operations	¥18,158	¥32,517

34. EARNINGS PER SHARE

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
Profit for the year attributable to ordinary shareholders of the parent company (Millions of Yen)	¥33,656	¥45,370
Profit from discontinued operations attributable to ordinary shareholders of the parent company (Millions of Yen)	17,797	23,395
Profit from continuing operations used to calculate basic earnings per share (Millions of Yen)	¥15,859	¥21,975
Average number of ordinary shares for the fiscal year (Shares)	506,455,135	506,125,541
Basic earnings per share (Yen)		
Continuing operations	¥31.31	¥43.42
Discontinued operations	35.14	46.22
Total	¥66.45	¥89.64

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

** The Company effected a 4-for-1 share split of its common stock with the effective date of March 1, 2019. Basic earnings per share are calculated on the assumption that the share split was effected at the beginning of the fiscal year ended February 28, 2018.

35. CASH FLOW INFORMATION

Changes in Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities are as follows:

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

	Balance as of March 1, 2017	Cash flows from financing activities (*)	Changes not involving cash flows					Balance as of February 28, 2018
			Exchange difference on translating foreign operations	Changes in fair value	New finance leases	Changes due to amortization	Others	
	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 (shown in negative values for assets)	(2,347)			1,577				(769)
Total	¥495,534	¥(39,043)	¥(71)	¥(299)	¥46,497	¥(360)	¥(879)	¥501,380

* The amounts include cash flows from discontinued operations.

Fiscal Year Ended February 28, 2019 (From March 1, 2018 to February 28, 2019)

	Balance as of March 1, 2018	Cash flows from financing activities (*)	Changes not involving cash flows						Balance as of February 28, 2019
			Exchange difference on translating foreign operations	Changes in fair value	New finance leases	Changes due to business combi-nations	Changes due to amortizati on	Others	
	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
Short-term borrowings	¥11,392	¥(2,724)	¥(217)						¥8,451
Bonds	39,854						¥34		39,887
Long-term borrowings	329,900	(94,305)		¥(1,372)		¥(69,230)	(480)	¥21	164,536
Lease obligations	121,004	(34,762)			¥23,209	(17)		(333)	109,100
Derivative liabilities (shown in negative values for assets)	(769)			843					74
Total	¥501,380	¥(131,791)	¥(217)	¥(528)	¥23,209	¥(69,247)	¥(446)	¥(312)	¥322,049

* This change includes cash flows from discontinued operations.

36. 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 associates of the Company are obligated to maintain net assets (total assets less total liabilities) above a certain level based on capital control under the Money Lending Business Act. Levels of net assets of those associates comply with the requirements.

(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, and the balance of guarantee obligations (as described in Note 40. "CONTINGENT LIABILITIES").

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, 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.

Deposits paid mainly include funds entrusted to a company under the same parent and are exposed to the credit risk of the entrusted company.

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, 2018	¥671,873	¥1,862	¥48	¥673,783
No delinquency	671,873			671,873
Delinquent for a period of 80 days or fewer		146		146
Delinquent for a period over 80 days		1,715	48	1,763
Balance at February 28, 2019				
No delinquency				
Delinquent for a period of 80 days or less				
Delinquent for a period over 80 days				
Reconciliation of allowance for doubtful receivables:				
Balance at March 1, 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
Increase (provision)	411		92	503
Decrease (write-off)	(206)		(88)	(294)
Decrease (reversal)			(3)	(3)
Decrease due to sale of subsidiaries (*)	(604)	(7)	(50)	(661)
Balance at February 28, 2019	¥–	¥–	¥–	¥–

* For more details on sale of subsidiaries, please refer to Note 7. “BUSINESS COMBINATIONS AND LOSS OF CONTROL.”

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, 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
Balance at February 28, 2019	230,245	467	754	128,654	360,120
No delinquency	229,326	387		127,367	357,081
Delinquency	919	80	754	1,286	3,040
Changes in allowance for doubtful receivables:					
Balance at March 1, 2017	158	1,417	382	755	2,711
Increase (provision)	0	406	109	363	878
Decrease (write-off)	(39)	(7)	(54)	(175)	(275)
Decrease (reversal)	(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
Increase (provision)		28	450	563	1,040
Decrease (write-off)		(1,654)	(68)	(148)	(1,870)
Decrease (reversal)	(34)	(93)	(45)	(250)	(421)
Exchange difference on translating foreign operations			(1)		(1)
Balance at February 28, 2019	¥57	¥54	¥754	¥1,048	¥1,913

There were no material expected credit losses arising from guarantee obligations at February 28, 2018 and 2019.

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.

During the fiscal year ended February 28, 2019, the credit risk exposure (before deducting allowance for doubtful receivables) decreased by ¥701,334 million in total, including credit card receivables of UCS CO., LTD., a subsidiary of UNY Co., Ltd., as a result of transferring all shares of UNY Co., Ltd. held by the Company as described in Note 7. “BUSINESS COMBINATIONS AND LOSS OF CONTROL.”

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:

Fiscal 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					
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 in net amounts.

Fiscal Year Ended February 28, 2019

	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	¥210,903	¥210,903	¥210,903					
Deposits received	132,500	132,500	132,500					
Short-term borrowings	8,451	8,451	8,451					
Current portion of long-term borrowings	31,271	31,271	31,271					
Short-term lease obligations	26,270	26,270	26,270					
Bonds	39,887	40,246	66	¥66	¥30,066	¥24	¥10,024	
Long-term borrowings	133,264	133,493		69,328	27,898	2,350	10,318	¥23,599
Long-term lease obligations	82,831	84,974		23,224	20,526	16,460	11,736	13,029
Others	14,415	14,456	1,303	1,285	1,451	1,270	938	8,209
Derivative financial liabilities:								
Interest rate swaps	74	107	20	20	20	20	20	5
Financial guarantee contracts		24,487	24,487					
Total	¥679,867	¥707,159	¥435,272	¥93,923	¥79,961	¥20,125	¥33,036	¥44,843

Net receivables or payables arising from derivative transactions are stated in net amounts.

Commercial paper facilities and undrawn facilities are as follows:

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Commercial paper facilities	¥200,000	¥200,000
Commercial paper issued		
Undrawn	¥200,000	¥200,000

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

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Commitment line	¥36,987	¥21,060
Commitment line used	8,785	7,181
Undrawn	¥28,202	¥13,879

(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. 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, 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 classified as Level 2 of the fair value hierarchy. They are presented as "Other financial assets" or "Other financial liabilities" in the consolidated statement of financial position. The amounts that mature in more than one year are classified as non-current assets or non-current liabilities.

February 28, 2019

	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	
Interest rate risk:					
Interest rate swaps:					
Fixed interest rate payments/floating interest rate receipts	¥3,000	¥3,000		¥74	0.68%

* The carrying amounts of derivatives are based on the fair values determined by financial institutions. As all material inputs are observable, they are classified as Level 2 of the fair value hierarchy. They are presented as "Other financial assets" or "Other financial liabilities" in the consolidated statement of financial position. The amounts that mature in more than 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, 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
Other comprehensive income:			
Amount recognized	566	132	698
Amount reclassified(*)	(525)	(479)	(1,004)
Tax effects	(12)	107	95
Transfer to non-financial assets	7		7
Balance at February 28, 2019 (after tax)	–	¥5	¥5

* Reclassification to profit or loss corresponding to the recognition of profit or loss from hedged items 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, 2018 and 2019 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. The following table includes financial assets classified as held for sale to which the measurement requirements of IFRS 5 do not apply.

	2018 (February 28)		2019 (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	¥122,917	¥119,719	¥90,101	¥89,040
Other financial assets(*)	111,667	116,521	102,499	106,792
Total	¥234,584	¥236,240	¥192,600	¥195,832
Liabilities:				
Bonds and borrowings	¥332,282	¥332,396	¥173,152	¥171,767
Lease obligations	93,843	92,669	82,831	81,916
Other financial liabilities (**)	53,133	53,486	14,446	14,433
Total	¥479,258	¥478,551	¥270,428	¥268,117

* 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 "Assets held for sale" and "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 "Liabilities directly associated with assets held for sale" and "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:

The following table includes financial assets classified as held for sale to which the measurement requirements of IFRS 5 do not apply.

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

February 28, 2019

	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	¥10,655		¥16,573	¥27,228
Total	¥10,655		¥16,573	¥27,228
Liabilities:				
Derivative liabilities		¥74		¥74
Total		¥74		¥74

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%) 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:

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥14,354	¥18,453
Gains and losses:		
Other comprehensive income (*)	4,166	(1,249)
Acquisition	41	300
Disposal	(108)	(445)
Changes due to business combinations(**)		(481)
Other		(5)
Balance at the end of year	¥18,453	¥16,573

* 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, 2018 and February 28, 2019 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, 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

February 28, 2019

	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	¥153,898	¥(6,148)	¥147,750	¥(3,547)	¥144,203
Other financial assets	128,438		128,438		128,438
Financial liabilities:					
Trade and other payables	¥217,051	¥(6,148)	¥210,903	¥(3,547)	¥207,356
Other financial liabilities	14,489		14,489		14,489

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.

37. SUBSIDIARIES, ASSOCIATES, AND JOINT VENTURES

Major subsidiaries, associates, and joint ventures as of February 28, 2019 were as follows:

(1) Subsidiaries

Name	Location	Reportable segment	Ownership ratio of voting rights (%)
FamilyMart Co., Ltd.	Minato-ku, Tokyo	Convenience store business	100.00
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.	Minato-ku, Tokyo	Convenience store business	72.33
SENIOR LIFE CREATE Co., Ltd.	Minato-ku, Tokyo	Convenience store business	95.43
EVENTIFY INC.	Toshima-ku, Tokyo	Convenience store business	100.00
Kanemi Co., Ltd.	Midori-ku, Nagoya City, Aichi	General merchandise store business	53.14

(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	34.00
LIVE VIEWING JAPAN Inc.	Shibuya-ku, Tokyo	Convenience store business	33.34

* The Group did not hold 20% of voting rights for a period during the previous 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.

38. RELATED PARTIES

(1) Transactions with Related Parties

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
Company that has significant influence	ITOCHU Corporation	Sale of land	¥2,691		¥1,294
Other related parties	NIPPON ACCESS, INC. (**)	Purchases of merchandise (****)	28,635	¥32,016	
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.

Fiscal Year Ended February 28, 2019 (From March 1, 2018 to February 28, 2019)

Category	Name	Transaction(*)	Transaction amount	Unsettled amount	Gains or losses on sales
			Millions of Yen	Millions of Yen	Millions of Yen
Parent company	ITOCHU Corporation(**)	Sale of assets held for sale (land and buildings)	¥2,650		¥1,158
Other related parties	ITOCHU Treasury Corp.(***)	Entrusting of funds(*****)	150,000	¥150,000	
		Receipt of interest(*****)	6	6	
Other related parties	NIPPON ACCESS, INC. (***)	Purchases of merchandise (******)	25,031	30,205	
Other related parties	CONEXIO Corporation(***)	Purchases of merchandise (******)	2,948	14,120	
Other related parties	Revamp Corporation (****) and its one subsidiary	Consulting for sales promotion	135	9	
		System development	59	1	
		Planning of commercials	8	4	

* 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.

** Through a tender offer for the Company's shares by ITOCHU RETAIL INVESTMENT, LLC, a wholly owned subsidiary of ITOCHU Corporation, ITOCHU Corporation was changed from a company that has significant influence to the parent company on August 16, 2018.

*** This is a company under the same parent as the Company.

**** This is a company under the control of Takashi Sawada, an executive officer of the Company, and his relatives.

***** Interest rates of contracts for entrusting funds are reasonably determined, taking into consideration market interest rates.

****** The unsettled amounts include accounts payable for purchases on behalf of franchised stores.

(2) Remunerations for Major Executives

	2018 (From March 1, 2017 to February 28, 2018)	2019 (From March 1, 2018 to February 28, 2019)
	Millions of Yen	Millions of Yen
Short-term remuneration	¥226	¥328
Long-term remuneration	9	

39. COMMITMENTS

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

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Purchase of property, plant and equipment	¥3,404	¥12,436
Purchase of intangible assets	1,369	2,799
Total	¥4,773	¥15,236

40. CONTINGENT LIABILITIES

(1) Guarantee Obligations

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

1) Guarantee obligations for borrowings from financial institutions

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Central FamilyMart Co., Ltd.	¥3,255	¥3,678
Franchised convenience stores	626	
Total	¥3,880	¥3,678

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

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
JAPAN FOOD SUPPLY Co., Ltd.	¥1,234	¥934

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.

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
SHINOBU FOODS PRODUCTS CO., LTD. and 31 other companies	¥19,530	¥19,875

(2) Loan Commitments

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

	2018 (February 28)	2019 (February 28)
	Millions of Yen	Millions of Yen
Total amount of loan commitments	¥566,462	
Loans executed	9,127	
Undrawn loan balance	¥557,335	

Note: For additional details on credit risk of loan commitments, please refer to Note 36. "FINANCIAL INSTRUMENTS."

41. SUBSEQUENT EVENTS

Share split

The Company effected a share split on March 1, 2019 in accordance with the resolution made at a meeting of its Board of Directors held on December 13, 2018.

(1) Purpose of share split

The purpose of the share split is to increase the liquidity of the Company's shares and to expand its investor base by lowering the amount per investment unit.

(2) Method of share split

1) Method of split

The Company effected a 4-for-1 share split of its common stock for the shares held by shareholders recorded in the final shareholder register as of the record date of February 28, 2019.

2) Increase in the number of shares due to share split

Total number of issued shares prior to share split	126,712,313
Increase in issued shares due to share split	380,136,939
Total number of issued shares after share split	506,849,252
Total number of authorized shares after share split	1,000,000,000

3) Schedule for share split

Announcement of the record date:	February 13, 2019
Record date:	February 28, 2019
Effective date:	March 1, 2019

Note 34. “EARNINGS PER SHARE” is calculated based on the assumption that the share split was effected at the beginning of the fiscal year ended February 28, 2018.

Partial transfer of shares of Kanemi Co., Ltd.

(1) Overview of transaction

The Company decided to partially transfer its shares of Kanemi Co., Ltd. to Pan Pacific International Holdings Corporation in accordance with the resolution made at the meeting of the Board of Directors held on February 27, 2019. The shares were transferred on April 12, 2019.

(2) Transfer price of shares and share ownership before and after the transfer

1) Transfer price:	¥7,892 million
2) Share ownership ratio before the transfer:	53.14%
3) Share ownership ratio after the transfer:	26.57% (*)

* The Company lost control over Kanemi Co., Ltd. due to this share transfer.

(3) Effects of the share transfer on performance

The effects of this share transfer on the Company’s consolidated financial statements for the following fiscal year are currently being assessed.

Absorption-type merger of a subsidiary

At the meeting of its Board of Directors held on April 10, 2019, the Company resolved to conduct an absorption-type merger of FamilyMart Co., Ltd., a wholly owned subsidiary of the Company, and entered into a merger agreement on the same date. The Company also resolved to submit a proposal for partial amendments to the current Articles of Incorporation, including changes to the trade name at the 38th Ordinary General Meeting of Shareholders held on May 28, 2019, and the amendments were approved on that same date. After the merger, the Company will change its trade name from FamilyMart UNY Holdings Co., Ltd. to FamilyMart Co., Ltd.

(1) Overview of transaction

1) Overview of the merged company and its business details

Name of the merged company:	FamilyMart Co., Ltd.
Business details:	Management of convenience stores through the franchise system

2) Schedule

Resolution date of the merger by the Board of Directors:	April 10, 2019
Conclusion of the merger agreement:	April 10, 2019
Effective date of the merger:	September 1, 2019 (scheduled)

Note: The merger constitutes a simplified merger for the Company as pursuant to Article 796, Paragraph 2 of the Companies Act of Japan, and a short-form merger for FamilyMart Co., Ltd. pursuant to Article 784, Paragraph 1 of the Companies Act of Japan. Consequently, neither company will hold general meetings of shareholders to obtain approval for the merger agreement.

3) Method of the merger

The merger is an absorption-type merger, in which the Company is the surviving company and FamilyMart Co., Ltd. is the absorbed company. FamilyMart Co., Ltd. will be dissolved after the merger.

4) Company name after the merger

FamilyMart Co., Ltd. (The trade name will be changed from FamilyMart UNY Holdings Co., Ltd., effective September 1, 2019.)

5) Other matters relating to the overview of the transaction

The Company, following the management integration with the former UNY Group Holdings Co., Ltd., has established a management structure with the core business of convenience store management. In light of the current structure, the Company has decided to conduct an absorption-type merger of FamilyMart Co., Ltd. to simplify the Group structure and to further promote management efficiency by centralizing Group business management.

As FamilyMart Co., Ltd. is a wholly owned subsidiary of the Company, there will be no issuance of shares or consideration in cash or any other asset in this merger.

6) Effects on future performance

The effects of this transaction on the Company's consolidated financial statements for the following fiscal year are currently being assessed.

Deloitte.

Deloitte Touche Tohmatsu LLC
Marunouchi Nijubashi Building
3-2-3 Marunouchi, Chiyoda-ku
Tokyo 100-8360
Japan

Tel: +81 (3) 6213 1000
Fax: +81 (3) 6213 1005
www.deloitte.com/jp/en

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, 2019, 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, 2019, 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 29, 2019