FamilyMart

Annual Report 2016

Fun & Fresh

FamilyMart's Basic Principles

Our Slogan

"FamilyMart, Where You Are One of the Family"

Our mission is to always be close to our customers' hearts, and an indispensable part of their lives.

FamilyMart's Goal

We aim to make our customers' lives more comfortable and enjoyable, primarily by displaying hospitality in everything we do, and by ensuring a shopping experience characterized by convenience, friendliness and fun.

FamilyMart's Basic Management Policies

- We will continue to provide innovative, high-quality products and services that make a positive, lasting impression on our customers and warm their hearts.
- We are working to raise enterprise value through our business activities in line with the spirit of "Co-Growing," by which we mean realizing mutually beneficial relationships with our franchisees, business partners, and employees, thereby fulfilling our responsibilities to all our stakeholders.
- We aim to win the highest trust of the general public by observing all laws and ethical norms, raising the level of transparency in our business activities, and always upholding the principles of fair competition.
- In consideration of the overriding need for environmental preservation, we will enthusiastically contribute to the welfare of the local communities in which we operate and society as a whole, providing reliable and safe products and services to help realize a future full of new possibilities.
- We encourage our colleagues to create a vibrant corporate culture by keeping abreast of social trends and showing an interest in a wide range of subjects. In this way, we are confident that our staff will hit upon good ideas and then act on them.

FamilyMart's Action Guidelines

"Famimaship"

"Listen, Decide, Act" "Wholehearted Hospitality"

- Exceeding customers' expectations
- Growing together, through mutual trust
- Cultivating esthetic sensitivity
- Enjoying new challenges
- Acting with integrity

Fun & Fresh

Thanks to FamilyMart, every day is filled with excitement.
Thanks to FamilyMart, spending time with friends is all the more enjoyable.
Thanks to FamilyMart, family life is safe and secure.
Thanks to FamilyMart, lifestyles remain fresh through change.
Thanks to FamilyMart, people throughout the neighborhood become familiar friends.

More than ever before, FamilyMart will bring a fun & fresh sensation to customers' everyday lives and deliver a store experience that excites and exceeds all expectations!

Fun & Fresh
Setting new standards in fun and refreshing ways,
FamilyMart will provide customers with new lifestyle proposals.
This aspiration will also set FamilyMart's future in motion.

Contents

Outline

Messages from Management

Management Integration

Business Strategies

Corporate Social Responsibility

Corporate Governance

Data and Financial Section

Editorial Policy
In Annual Report 2016, management sets out its image of the next-generation convenience store as well as details of the principal initiatives being undertaken to bring that image to a reality. In addition, the report contains an overview of the Company's management integration with UNY Group Holdings Co., Ltd., scheduled for September 1, 2016. Turning to its CSR activities, FamilyMart reports on key endeavors aimed at resolving social issues with a particular focus on local communities.

Period and Scope of the Report
This annual report covers the fiscal year ended February 29, 2016 (fiscal 2015), and also includes some activities subsequent to February 29, 2016. Environment-related data refers only to FamilyMart (non-consolidated).

Cautionary Statement
This report contains forward-looking statements, including the Company's strategies, future business plans, and projections. Such forward-looking statements are not based on historical facts and involve known and unknown risks and uncertainties that relate to, but are not necessarily confined to, such areas as economic trends and consumer preferences in Japan and abrupt changes in the market environment. Accordingly, the actual business performance of the Company may substantially differ from the forward-looking statements in this report.

FamilyMart plans to merge with UNY Group Holdings Co., Ltd., on September 1, 2016. Our earnings forecasts, however, do not reflect this merger.

Delivering Ever-increasing Levels of Convenience, FamilyMart is a Familiar and Trusted Name in Japan and throughout Asia

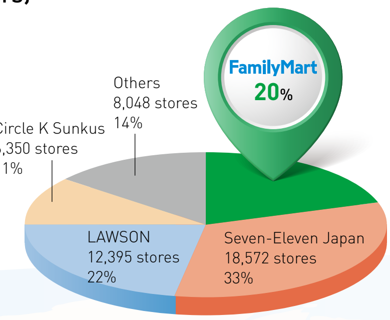
Founded in 1973, FamilyMart is a chain of convenience stores that originated in Japan. FamilyMart has stayed one step ahead of social trends and diversifying consumer needs, evolving as a social and lifestyle infrastructure provider by constantly improving its business model. It has proactively developed operations overseas since opening its first store in Taiwan in 1988. As of the end of February 2016, FamilyMart had a presence in seven countries and regions in Asia.

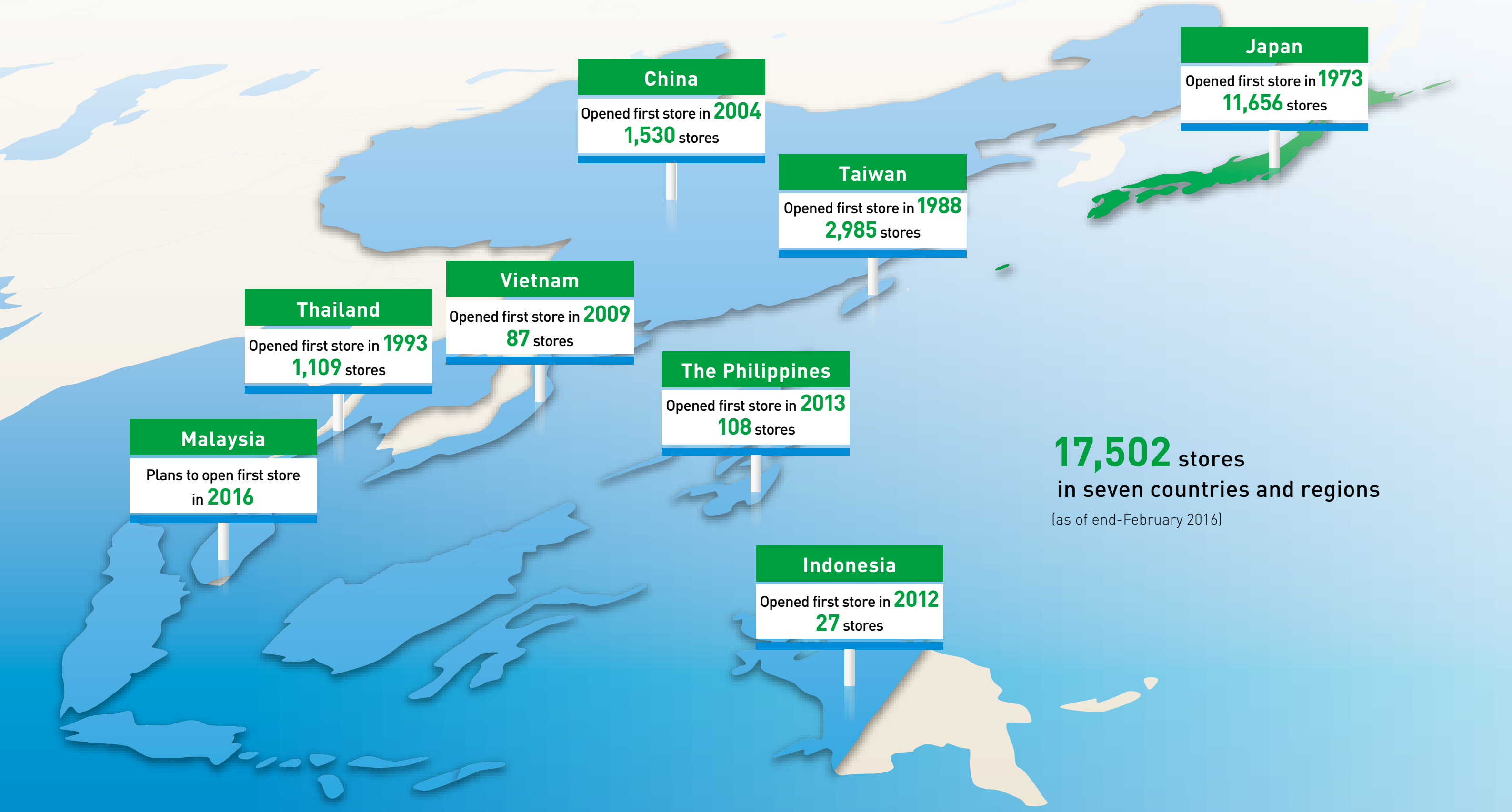
Number of Total Chain Stores (Japan, includes stores under area franchisers)

11,656 stores

(as of end-February 2016)

Ranks third in Japan in number of stores





17,502 stores in seven countries and regions

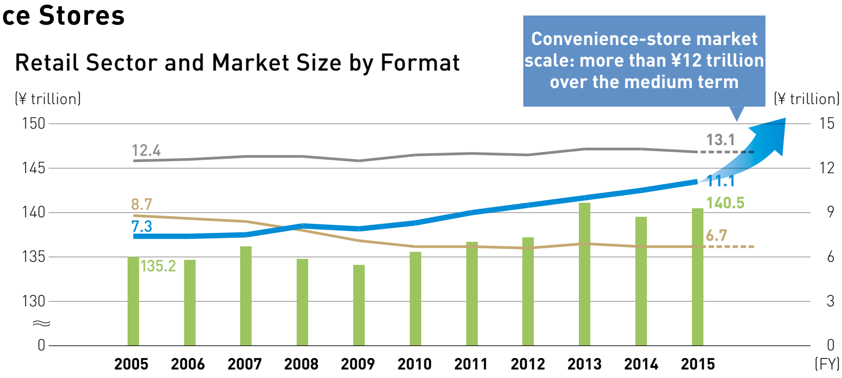
(as of end-February 2016)

Operating Environment for FamilyMart

Retail Industry and Convenience Stores

Amid minor growth in the overall retail market worth ¥140 trillion, the ¥11 trillion convenience store market is projected to expand to more than ¥12 trillion. Convenience stores have made their presence increasingly felt, taking market share away from other retail formats.

Retail Sector and Market Size by Format

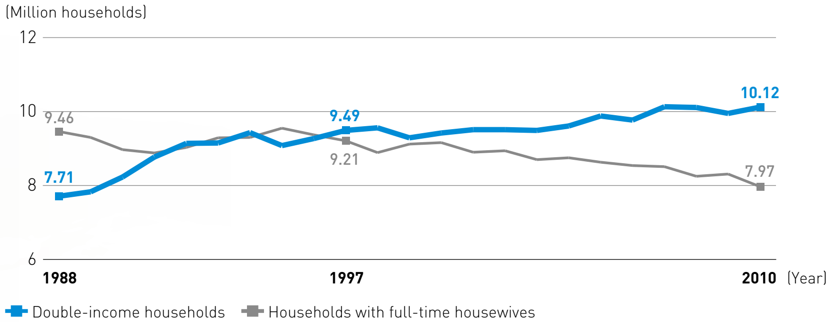


Source: Retail Statistical Yearbook, Ministry of Economy, Trade and Industry

Society and Demographics in Japan

Changes in the social fabric of Japan, characterized by an aging population and increases in single-member households and working women, are likely to accelerate in the future. This trend has sparked an increase in customers who do not have enough time for, or cannot be bothered with, housework and shopping, and should be a boon for convenience stores that offer consumers with convenient services in small retail areas.

Increase in Double-income Households

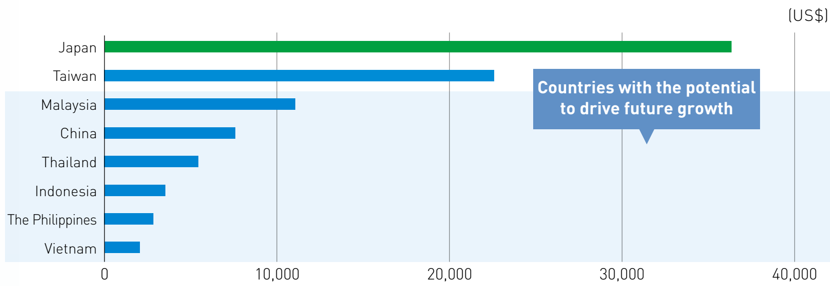


Source: The figures until and including 2001 are compiled from the Special Survey of the Labour Force Survey, Ministry of Internal Affairs and Communications and the figures for 2002 onwards are compiled from the Labour Force Survey (Detailed Tabulation), Ministry of Internal Affairs and Communications

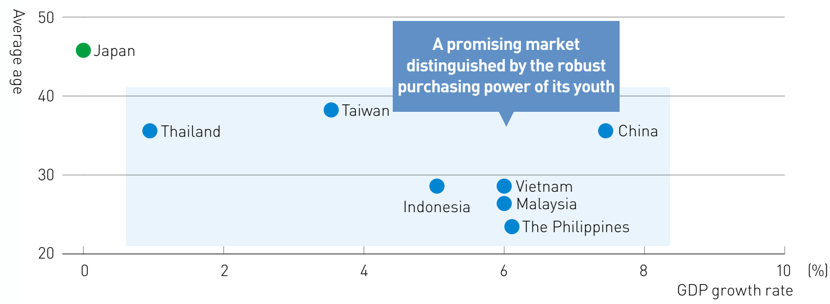
Growth in Emerging Economies

Many emerging countries, especially in Asia, are likely to see an increase in consumer spending as their economies grow. These regions, with retail sectors poised for growth, are promising markets for business expansion with our advanced know-how in convenience store operations in Japan.

Nominal GDP per Capita in FamilyMart's Markets (2014)



GDP Growth Rate and Average Age in FamilyMart's Market (2014)



Source: JETRO reports for individual countries and regions / CIA "World Factbook"

1st Phase

Pursuit of Convenience

Efforts to deliver greater convenience by expanding the store network and staying open 24/7

2nd Phase

Expansion of Products and Services

Creation of trends with better products and more convenient services

3rd Phase

Transition to a Lifestyle Infrastructure Provider in Small Retail Areas

Evolution toward a lifestyle infrastructure provider that underpins people's everyday lives in small retail areas

Bringing to Fruition the Ideal Next-Generation Convenience Store

Convenience stores have continued to enjoy considerable growth and development in tune with the changes of each era. In the initial phase, FamilyMart focused on making its stores more convenient and an integral part of everyone's lifestyles by staying open for extended hours and expanding its store network, features that traditional retailers lacked. The second phase entailed expanding products and services. Convenience stores are increasingly expected to fulfill new roles amid far-reaching changes in society. In the current third phase, FamilyMart is endeavoring to bring to fruition the ideal next-generation convenience store.

Readily Available and Reliable Lifestyle Support

Providing services that support people's everyday lives, including delivery services, lockers for receiving and storing items, electric vehicle charging facilities, and car-sharing services

Provision of new value that underpins people's everyday lives and instills a "Fun & Fresh" sensation

Fun & Fresh

Multifunction Counters

Expanding counters that welcome customers; strengthening communication as a direct point of contact; providing mouth-watering products fresh from the oven; and addressing a wide range of service needs

Access on a 24/7 Basis, Offering Shopping Flexibility and Freedom

Providing a shopping experience that transcends both real and virtual boundaries, an abundant source of information on eat-in facilities and services as well as shopping options that utilize mobile device applications

Home Kitchens, Offering Food that is Eaten Every Day

Providing a full range of everyday meals from dishes that are hot and fresh out of the oven to delicatessen and other items

Consolidated Financial Highlights

FamilyMart Co., Ltd. and Consolidated Subsidiaries   Year Ended the Last Day of February

	2016	2015	2014	2013
Results of operations:				
Total operating revenues (Note 1):	427,677	374,431	345,604	334,087
Commission from franchised stores	254,246	234,074	217,314	198,222
Other operating revenues	36,545	34,710	32,362	30,800
Net sales	136,886	105,647	95,928	105,065
Operating income	48,735	40,418	43,310	43,108
Net income	21,068	25,672	22,611	25,020
Net cash provided by (used in) operating activities	97,986	71,838	60,844	64,638
Net cash used in investing activities	(61,566)	(53,675)	(64,377)	(46,237)
Net cash (used in) provided by financing activities	(17,394)	(21,375)	(21,054)	(16,089)
Financial position:				
Total assets (Note 2)	730,296	666,245	588,137	526,758
Total equity (Note 3)	295,230	284,830	265,458	247,755
Per share of common stock (in yen and U.S. dollars):				
Total equity (Note 3)	2,987.3	2,872.4	2,686.4	2,515.6
Basic net income	221.9	270.5	238.2	263.6
Cash dividends applicable to the year	110.0	106.0	102.0	100.0
Ratios:				
Equity ratio (%)	38.8	40.9	43.4	45.3
ROE (return on equity) (%)	7.6	9.7	9.2	11.0
ROA (return on total assets) (%)	3.0	4.1	4.1	5.0
PER (price earnings ratio) (times)	24.4	20.0	19.0	14.8
Payout ratio (%)	49.6	39.2	42.8	37.9
Other data:				
Growth rate of average daily sales of existing stores (non-consolidated) (%)	1.3	(2.2)	(0.4)	(1.6)
Number of store openings (non-consolidated) (Note 4)	703	1,061	1,284	900
Number of total chain stores	17,502	16,970	23,622	22,181
Japan (including area franchised stores)	11,656	11,328	10,547	9,481
Overseas	5,846	5,642	13,075	12,700
Number of full-time employees	7,622	7,281	6,373	6,081
Number of shareholders	9,742	10,276	11,498	12,270

Notes: 1. Operating revenues from the fiscal year ended February 2009 declined as a result of a change in the method of revenue recognition for consolidated subsidiary famima.com Co., Ltd., from a gross basis to a net basis.
2. Total assets as of the fiscal 2008 year-end include the amount for trade payables (¥42,334 million) as the due date (February 28, 2009) fell on a bank holiday.
3. Beginning with the fiscal year ended February 28, 2007, minority interests have been included in total equity.
4. Includes stores opened under the TOMONY format, stores converted from the am/pm brand, and the Cocostore brand.
5. Conversion into U.S. dollars has been made at the exchange rate of ¥114 = US$1, the rate prevailing on February 29, 2016.

	Millions of yen						Thousands of U.S. dollars (Note 5)
2012	2011	2010	2009	2008	2007	2006	2016
329,218	319,889	278,175	287,342	319,439	297,849	276,443	3,751,552
189,659	181,064	161,167	162,288	150,351	142,294	138,636	2,230,228
29,546	27,129	22,988	22,571	21,232	21,049	19,256	320,570
110,013	111,696	94,020	102,483	147,856	134,506	118,551	1,200,754
42,586	38,223	33,531	36,532	31,214	29,609	32,662	427,500
16,584	18,023	15,103	16,452	16,438	14,969	14,195	184,807
72,900	50,338	(6,575)	75,028	49,375	35,093	42,778	859,527
(20,746)	(25,798)	(36,152)	(28,217)	(24,593)	(32,938)	(32,249)	(540,053)
(14,189)	(13,977)	(8,342)	(7,030)	3,956	(19,155)	(4,238)	(152,579)
472,822	436,034	424,209	398,126	351,271	315,256	314,121	6,406,105
225,939	216,979	206,490	197,529	191,281	171,155	168,233	2,589,737
2,299.1	2,207.5	2,096.4	2,001.5	1,921.6	1,771.3	1,736.2	26.20
174.7	189.7	158.5	172.6	173.5	158.8	145.7	1.95
82.0	72.0	70.0	68.0	60.0	46.0	43.0	0.96
46.2	48.1	47.1	47.9	52.2	51.9	53.6	
7.8	8.8	7.7	8.8	9.5	9.0	8.7	
3.6	4.2	3.7	4.4	4.9	4.8	4.7	
18.1	16.3	18.0	19.2	17.8	20.5	25.1	
46.9	37.9	44.2	39.4	34.6	29.0	29.5	
4.4	(0.2)	(2.4)	7.1	0.9	(1.4)	(1.6)	
851	741	545	542	520	586	606	
20,079	17,598	15,789	14,651	13,875	13,122	12,452	
8,834	8,248	7,688	7,404	7,187	6,974	6,734	
11,245	9,350	8,101	7,247	6,688	6,148	5,718	
8,327	7,569	7,204	6,950	6,647	6,735	6,048	
11,913	12,391	13,274	12,293	14,933	17,880	17,444	

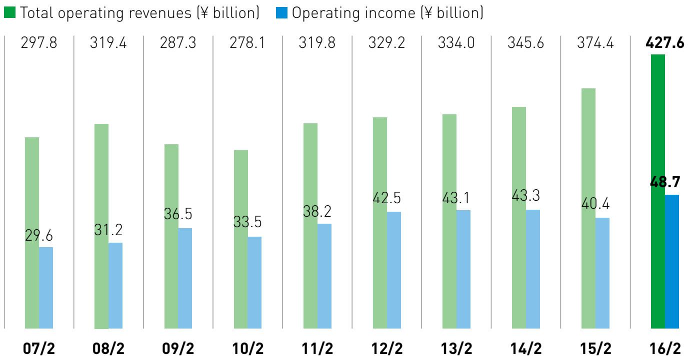
Consolidated Performance

Consolidated Business Performance

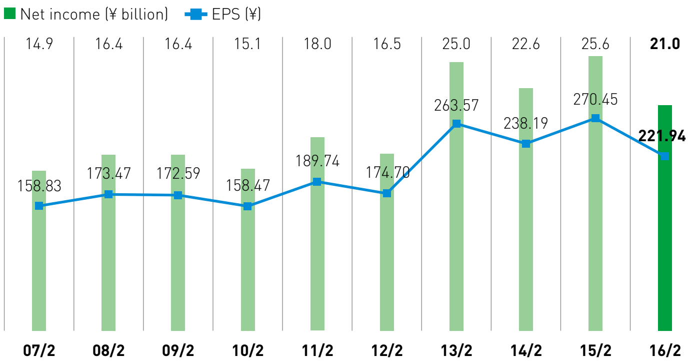
In the fiscal year ended February 2016, total operating revenues increased 14.2% year on year to ¥427,677 million, reflecting growth in sales at existing stores (non-consolidated) and robust earnings at consolidated subsidiary Taiwan FamilyMart Co., Ltd. Operating income rose 20.6% to ¥48,735 million and ordinary income grew 22.0% to ¥51,888 million, achieving record highs for both.

Net income declined 17.9% from the previous fiscal year to ¥21,068 million, owing to the absence of gains posted last year on the sale of shares in Group companies. Earnings per share was ¥221.94. Dividends per share totaled ¥110, an increase of ¥4 per share from the previous fiscal year, for a payout ratio of 49.6%.

Total Operating Revenues / Operating Income



Net Income / EPS

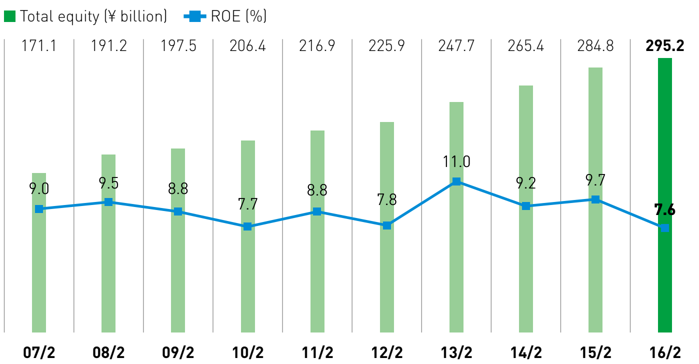


Financial Position

Total assets at the end of the fiscal year under review stood at ¥730,296 million, an increase of ¥64,051 million from the end of the previous fiscal year. Total equity increased ¥10,400 million to ¥295,230 million from the accumulation of retained earnings.

As a result, the equity ratio decreased from 40.9% to 38.8%, and return on equity (ROE) declined from 9.7% to 7.6%. Total equity per share of common stock was ¥2,987.34.

Total Equity / ROE

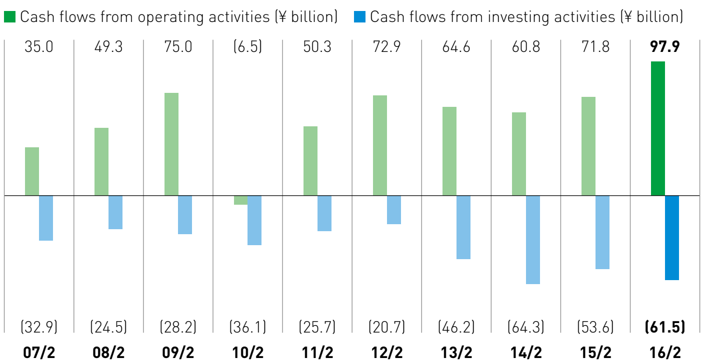


Cash Flows

Net cash provided by operating activities totaled ¥97,986 million, an increase of ¥26,148 million from the previous fiscal year.

Net cash used in investing activities amounted to ¥61,566 million, an increase of ¥7,891 million from the previous fiscal year, reflecting the acquisition of shares in Tpoint Japan Co., Ltd. and Cocostore Corporation.

Cash Flows

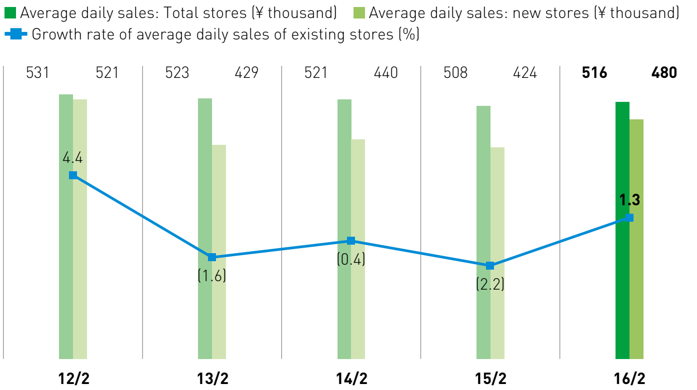


Operating Data (Non-Consolidated)

Average daily sales at existing stores grew 1.3%, thanks to efforts to enhance quality and develop attractive original products with a focus on ready-to-eat items. Average daily sales at newly opened stores climbed ¥56,000 compared with the previous fiscal year, to ¥480,000, mainly on the back of successful efforts aimed at opening high-quality stores.

Note: Excludes figures for TOMONY and Cocostore as well as am/pm stores prior to brand conversion

Average Daily Sales / Growth Rate of Average Daily Sales of Existing Stores



Guided by the basic policy of opening stores to ensure the sound growth of a network that exceeds 10,000 stores, FamilyMart has concentrated on opening stores via a strategic scrap-and-build policy and integration with other retail formats. As a result, the Company saw a net increase of 320 stores, with 703 store openings and 383 store closures during the fiscal year.

Note: Includes figures for TOMONY and am/pm stores as well as stores converted from the Cocostore brand

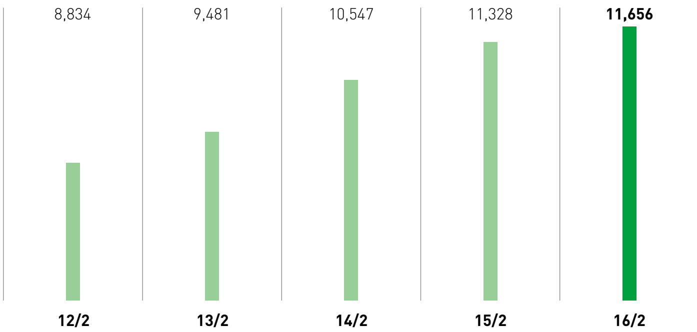
Store Openings and Store Closures

As of the end of February 2016, FamilyMart had a total of 11,656 chain stores in Japan, including area franchisers.

The Company had a total of 17,502 chain stores worldwide, including 5,846 overseas locations in six countries and regions in Asia.

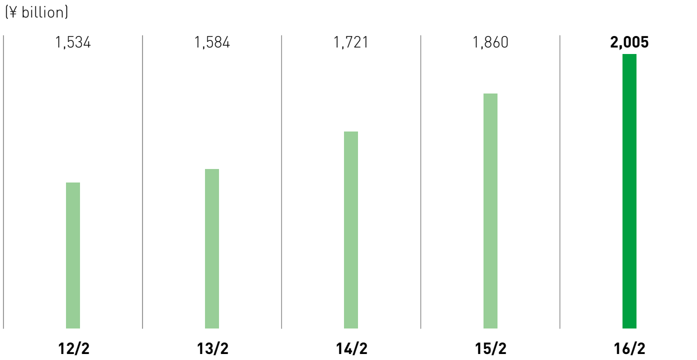
Note: Excludes figures for Cocostore as well as am/pm stores prior to brand conversion

Number of Total Chain Stores (Japan, includes stores under area franchisers)



By accurately grasping the needs of society, FamilyMart has continued to steadily increase sales. Total store sales surpassed ¥2 trillion in the fiscal year ended February 29, 2016. In addition to contributions from fast food and other ready-to-eat items, this milestone was largely due to an increase in the number of stores as a result of the acquisition of Cocostore Corporation, a medium-sized convenience store chain.

Total Store Sales



Chairman's Message

Chairman and Chief Executive Officer
Junji Ueda

Through integration with UNY Group Holdings Co., Ltd. and the concentration of both companies' management resources, we will draw on the passion and energy of a new leadership team that is committed to continuous growth.

As the Company's name suggests, FamilyMart places the utmost value on instilling a sense of familiarity in all of its stakeholders. This commitment to becoming more like a family has in fact underpinned our history of uninterrupted growth. Cognizant that the retail sector has undergone a substantial transformation in recent years, we have also recognized the need for a fresh and innovative format to overcome the increasingly intense competition imposed by business models that extend beyond traditional boundaries.

Under these circumstances, FamilyMart has engaged in ongoing discussions with UNY Group Holdings Co., Ltd. with a view to management integration since March 2015. Following the approval of shareholders at each company's annual general meeting, the two companies have decided to turn the page and begin a new chapter as the single entity FamilyMart UNY Holdings Co., Ltd.

Scheduled to commence business on September 1, 2016, the new holding company will not only oversee the operations of the new CVS company FamilyMart Co., Ltd., but also those of the new GMS Business company UNY CO., LTD. By utilizing the operating platforms of each company to the fullest possible extent, we will maximize any and all synergy effects.

Following management integration, steps will be taken to consolidate Circle K and Sunkus stores into the FamilyMart network within a period of two-and-a-half years. Operating as one of the largest convenience store chains in Japan, business will therefore be conducted under the uniform FamilyMart brand. Taking into consideration the scale merits that this unification will generate, we will be well positioned to accelerate the pace of efforts aimed at enhancing quality across every facet of our operations and to forge a presence among the elite of the industry over the next five to 10 years.

As far as our GMS activities are concerned, we will work to maximize synergies with the CVS business, strengthen product development, draw on the positive aspects of complementary items, and reduce costs by revising the terms of trade with business partners as well as logistics. We will also reinforce our store development activities and build a new business model. Leveraging the fruits of these endeavors, every effort will be made to establish a robust earnings platform.

As representative director and president of the newly integrated company, I plan to work closely with Norio Sako, the current representative director and president of UNY Group Holdings, and Isamu Nakayama, the current representative director and president of FamilyMart, in their new positions as representative directors and executive vice presidents.

Overseeing the new CVS company FamilyMart Co., Ltd., plans are in place to appoint Takashi Sawada to the position of representative director and president. Mr. Sawada has a wealth of experience and expertise in retail operations and corporate management and will work in tandem with Mr. Nakayama, who will take up the concurrent position of representative director and chairman of the CVS company in September, to kick-start a new phase of growth while taking great strides in advancing the convenience store business.

Since assuming the position of FamilyMart president in 2002, I have continued to push forward the concept that a lively festival atmosphere can increase the effectiveness of retailing operations. I strongly believe that the essence of our retail activities must entail contributing to the betterment of each and every consumer's lifestyle and life by working hand-in-hand with employees, franchise owners, and business partners to invigorate stores on a daily basis. Following integration and as a new company, we will draw on the passion and energy of the new management team to consistently deliver a bright, fun, and cheerful future while creating new value for all our stakeholders.

We welcome your expectations as we enter a new stage of growth and ask for your continued support and understanding.

June 2016

Chairman and Chief Executive Officer

J. Ueda

Interview with the President

President
Isamu Nakayama

Convenience stores have entered a new phase of growth. FamilyMart is bringing next-generation convenience stores to reality through its strategic "Fun & Fresh" theme.

Question What is your take on fiscal 2015—a great year for FamilyMart with record-high operating income and ordinary income?

Answer **A virtuous cycle has begun for FamilyMart, as customers come to appreciate our focus on quality.**

In fiscal 2015, the year ended February 29, 2016, FamilyMart launched a new three-year medium-term management plan. Amid a whirlwind of changes in the competitive landscape of the retail sector, the social role played by convenience stores has never been larger. On plotting out strategies for future growth, I believe it has become necessary to draw up new initiatives for the medium and long terms that cannot be accomplished in a single fiscal year. With this in mind, we have come up with the strategic "Fun & Fresh" theme as a catchphrase for all of our business partners to rally behind. We have put all of our efforts into evolving into a convenience store chain that gives our customers unprecedented experiences in "Fun & Fresh" through all aspects of our operations, including products, services, store operations, and customer interactions.

In fiscal 2015, the first year of our new management plan, FamilyMart achieved record highs in total operating revenues, operating income, and ordinary income on both a consolidated and non-consolidated basis. Aiming to be number one in the industry in terms of quality, FamilyMart's intent focus on providing quality to customers in all aspects of operations has consistently translated into better performance.

In particular, we concentrated on further improving the quality of our products, which directly affects how we are perceived as a convenience store chain. By adding a dash of originality to ready-to-eat items, we turned them into products that customers come into our stores to specifically buy, differentiating FamilyMart from the competition. Since these products often encourage customers to buy other products as well, we believe improving our ready-to-eat items is the best path forward for achieving first place in quality.

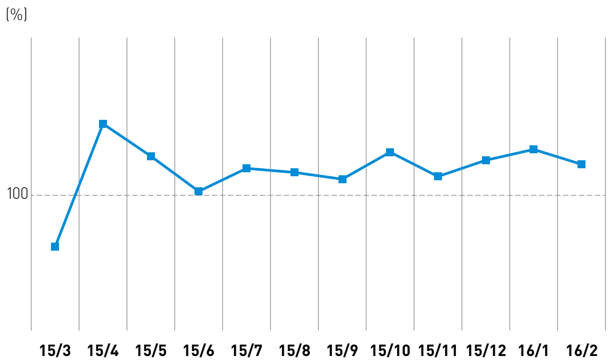
We ramped up steps to reinvigorate ready-to-eat products, an initiative that began in fiscal 2014 with the aim of completely overhauling our approach to ingredients, preparation methods, and appearance. We made a three-pronged push on sales, products and marketing, strengthening promotions with Famima Festa, our first attempt at a major marketing campaign. As a result, monthly same-store daily sales grew year on year for 11 straight months starting in April 2015. FamilyMart has put in place a foundation to provide customers with great products, such as by having daily producers of ready-to-eat products install the latest food preparation facilities. Coupled with major promotions and an expanded lineup, I believe these efforts have started the engines of a virtuous cycle that will lead to the creation of even better products. We aim to step up these product-centric initiatives and make ardent strides forward in fiscal 2016.

Medium-Term Management Plan: Numerical Targets and Results (Consolidated)

		(¥ million)	(%)	
	15/2	16/2	YoY change	18/2 (target)
Total operating revenues	374,431	**427,677**	14.2	—
Operating income	40,418	**48,735**	20.6	—
Ordinary income	42,520	**51,888**	22.0	¥60 billion or more
Net income	25,672	**21,068**	(17.9)	¥30 billion or more
ROE	9.7%	**7.6%**	—	10% or more

Note: FamilyMart plans to merge with UNY Group Holdings Co., Ltd., on September 1, 2016. Our earnings forecasts, however, do not reflect this merger.

Growth Rate of Average Daily Sales at Existing Stores (Fiscal 2015) (Non-consolidated)



Question

Please explain once again FamilyMart's aspirations with respect to next-generation convenience stores, and the initiatives underway to make them a reality.

Answer

As lifestyle infrastructure in small retail areas, FamilyMart continues to add new functions that are a departure from the traditional concept of a convenience store.

In addition to being convenient in terms of proximity and availability, convenience stores have evolved as the quality of their products and services improved to address the needs of customers. Nowadays, people have adopted more diverse kinds of lifestyles amid a declining birthrate, the rising number of elderly people, the increase in people living by themselves, the increase in working women, and other changes in the fabric of society. From conspicuous purchasing patterns, consumption is projected to move toward small retail areas encompassing a 500-meter radius. This is because the number of households is on the rise, despite a decline in the population of Japan. People's lifestyles follow different paths, such as people living alone, both spouses working, and the elderly living independently. The issues faced by each household also vary widely, such as people tending to stay at home, having no time for housework, or being unable to go shopping with a car. We believe convenience stores are social infrastructure that play the important role of providing solutions to these problems faced by consumers living in small retail areas. This is the concept of the next-generation convenience store that we are moving toward.

FamilyMart has completed the installation of eat-in spaces at roughly 4,000 stores throughout Japan (as of April 30, 2016) ahead of other convenience store chains. These spaces will play a central role toward the realization of this concept. FamilyMart has traced the contours of the next-generation convenience store, continuing to add new functions not found at traditional convenience stores that enhance its role as lifestyle infrastructure in small retail areas, such as through the development of ready-to-eat products that look as if they were freshly made in a kitchen at home, and the provision of new services such as door-to-door home delivery and sales. However, the broader the role played by convenience stores, the more important it becomes to have network density (i.e., quantity), because larger scale results in better efficiency and the provision of services in an equitable manner. FamilyMart will maintain its policy of opening around 1,000 stores annually in order to ensure the sound growth of a chain store network that exceeds 10,000 stores, while duly considering location and profitability. This policy encompasses scrap and build, as well as store integration with other retail formats such as drugstores, supermarkets, and bookstores.

We are also moving quickly to collaborate with other retail formats within the context of realizing our vision for next-generation convenience stores. In April 2016, FamilyMart reached a basic agreement for a business partnership with Japan Post Holdings Co., Ltd. Looking ahead, we will be rolling out new initiatives with Japan Post Co., Ltd. and Japan Post Bank Co., Ltd. that take advantage of our respective business resources. We will work closely with these two companies, which operate a nationwide network of bases in their postal and financial service businesses, to provide cross-border e-commerce services for delivering packages between FamilyMart stores inside and outside Japan, as well as installing more Japan Post Bank ATMs in our domestic stores. By aiming to improve convenience for customers in these ways, we hope to contribute more to local communities.

Question

What details can you provide about the merger with UNY Group Holdings?

Answer

As a new retail group that combines both companies' business resources, we expect the merger to lead to further growth.

On September 1, 2016, FamilyMart will merge with UNY Group Holdings and start a new chapter as FamilyMart UNY Holdings Co., Ltd. As a holding company, the new entity will oversee the core convenience store business and general merchandise store business. The business resources of both companies will be combined through the merger, positioning us for further growth as a new retail group that offers unique value to customers and prospers in a retail sector characterized by intensifying competition within the industry and across business models.

In the convenience store business, Circle K and Sunkus stores operated by the UNY Group will be converted to the FamilyMart brand from December 2016 to the end of February 2019. This will bring our total number of convenience stores in Japan to more than 18,000 stores, giving FamilyMart a top share of locations in 16 prefectures including the three largest metropolitan areas. We will become the largest convenience store chain in Japan. By expanding scale through brand integration, we anticipate synergies in our supply chain, including in production and logistics, greater earnings potential from cost reductions, and faster improvements in the quality of our original products, centered on ready-to-eat items.

In order to quickly realize these benefits from the merger, FamilyMart will push to accelerate brand conversions with a sense of urgency. Based on our successful experience integrating am/pm convenience stores in 2011, we have been converting stores that belonged to Cocostore Corporation to the FamilyMart brand since December 2015. These integrations and mergers have created a platform for us to realize our vision of the next-generation convenience store. During this phase where organizations with different corporate cultures are brought together, it is essential that everyone involved—employees, franchise owners, store staff, and suppliers—focuses on the same objectives, acting in unison as a member of the new FamilyMart entity. With all eyes on the merger, I have taken every opportunity inside and outside the company to stress the importance of staying focused on improving quality for our customers. I want our employees to always think of how they can make every store visit an enjoyable experience for each and every customer. As with the other mergers to date, management will take the initiative and communicate directly to stakeholders with the aim of maximizing synergies through deeper mutual understanding at both companies.

Question

How is the overseas convenience store business doing?

Answer

FamilyMart is building on its presence in Asia in order to expand Japanese-style convenience store chains there.

As a convenience store that originated in Japan, FamilyMart has operated Japanese-style convenience stores in Asia with a focus on emerging countries, since opening its first store in 1988 in Taiwan. Instead of pursuing a simple horizontal transfer of our business expertise accumulated in Japan, our basic template is to partner with leading local companies and leverage their local knowledge to optimize our operations and steadily enhance our presence. We have expanded our store networks in primarily Taiwan, China, and Thailand, and decided in August 2015 to discontinue operations in the United States in order to concentrate management resources in Asia, which has stronger growth potential. As a result, the number of stores overseas totaled 5,846 stores in six countries and regions as of the end of February 2016. Combined with our store network in Japan, we have grown into a global convenience store chain with more than 15 million customers visiting our stores every day around the world.

FamilyMart plans to accelerate overseas business development with a continued focus on Asia. We see considerable potential for growth in China, where we have been profitable since fiscal 2014 with an increasing ratio of franchise stores. FamilyMart has made inroads into Asian countries with a combined population of roughly two billion people, a hugely promising frontier, including emerging countries such as Vietnam, the Philippines, and Indonesia still in the forward-looking investment phase at this juncture. FamilyMart aims to continue expanding its network of convenience stores with plans to enter Malaysia in fiscal 2016. Moreover, as we move quickly to establish next-generation convenience stores in Japan, this trend will ripple over to Asia as it enters a new stage of growth.

For products, we are already developing the FamilyMart collection private brand into a global brand, and the next step will be to develop common services and consider other joint initiatives in the countries and regions where we have a presence. Through these measures, we are keen to enhance the value of the FamilyMart brand worldwide and expand to more than 10,000 convenience stores in overseas locations by fiscal 2020.

Question

What are your views on improving enterprise value?

Answer

FamilyMart strives to meet the expectations of its stakeholders in its aim of being number one in the industry in both quality and quantity.

Convenience stores have become an indispensable part of people's lifestyles. As the industry as a whole enters a new stage of growth, our core mission is to provide products and services that customers find appetizing and convenient. We must also continue to hone our skills at providing a lifestyle infrastructure in small retail areas, by offering reliable, trustworthy services that solve everyday problems. I believe our ongoing efforts to provide a better lifestyle for consumers translates directly into an increase in enterprise value.

In realizing our mission, we hold dearly the family values embodied in our corporate name. In addition to fostering a closer affinity with the feelings of our customers, we will endeavor to grow in tandem with franchise owners and business partners.

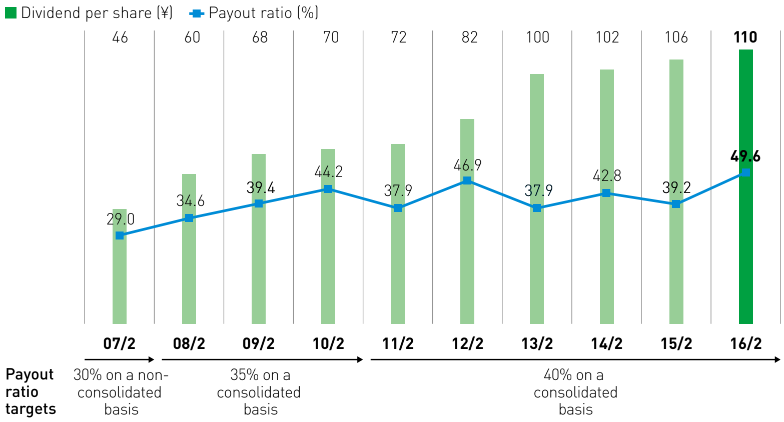
FamilyMart strives to fulfill the expectations of its shareholders and investors, and positions the return of profits to them as a management policy of vital importance. Our basic policy is to distribute profits to shareholders on a stable and continuous basis commensurate with business performance. We plan to pay

an annual dividend of ¥112 per share, an increase of ¥2 per share, in fiscal 2016. This represents the 12th consecutive fiscal period of higher dividends.

In September, our merger with UNY Group Holdings Co., Ltd. will add approximately 6,300 Circle K and Sunkus stores to the convenience store business of the new FamilyMart entity. As a result, FamilyMart will become one of the largest convenience store operators in Japan in terms of store numbers and a third dominant force in the domestic distribution market. However, the environment surrounding convenience store operations continues to become ever more competitive. This brand integration project will certainly encounter difficulties along the way. Nevertheless, we will unite together to finish this project, one likely to be remembered in the annals of FamilyMart's history as a pivotal event, in our ambition to become a convenience store chain that leads the industry in both quality and quantity.

As we work toward accomplishing these goals, we kindly request the continued support and understanding of all our stakeholders.

Dividend per Share and Payout Ratio



June 2016

President

SPECIAL FEATURE 01

To Thrive in a Competitive Environment, to Offer Unique Value

FamilyMart UNY Holdings Co., Ltd.

Convenience Store (CVS) Business	■ Brand unification ■ Enhancement of product procurement capabilities ■ Enhancement of product development capabilities	■ Consolidation of infrastructure, such as distribution centers ■ IT systems integration
General Merchandise Store (GMS) Business	■ Focus on Tokai and Kanto areas ■ Leveraging of CVS business procurement capabilities/services	■ Development of new store formats ■ Collaboration with e-commerce
Other Group Businesses	■ Utilization of both companies' operating platforms, construction of new business models	

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株式会社ファミリーマート

UGHD

FamilyMart Co., Ltd. plans to integrate its management with UNY Group Holdings Co., Ltd., effective September 1, 2016. The integrated company will make a new departure as a holding company with a convenience store (CVS) business and general merchandise store (GMS) business as its main linchpins.

The retail sector is experiencing major changes. In Japan, in addition to an ongoing contraction in the scale of the market due to a declining population, there is competition from CVS openings and also competition that is intensifying and transcending business boundaries, for example between drugstores and restaurant chains. In addition, consumer needs are diversifying and demanding the creation of products and services through new ideas.

Under such circumstances, FamilyMart and UNY Group Holdings had reached the conclusion that it had become necessary to explore the opportunities for growth by integrating the management resources of both companies and offering unique value to thrive in this competitive environment.

Overview of UNY Group Holdings

Company name:	UNY Group Holdings Co., Ltd.
Location:	Inazawa, Aichi Prefecture
Representative:	Norio Sako, President
Shares of common stock issued:	234,100,821 shares (as at February 29, 2016)
Main businesses:	GMS business (UNY CO., LTD.) CVS business (Circle K Sunkus Co., Ltd.) Other businesses (specialty stores, credit card service business, etc.)

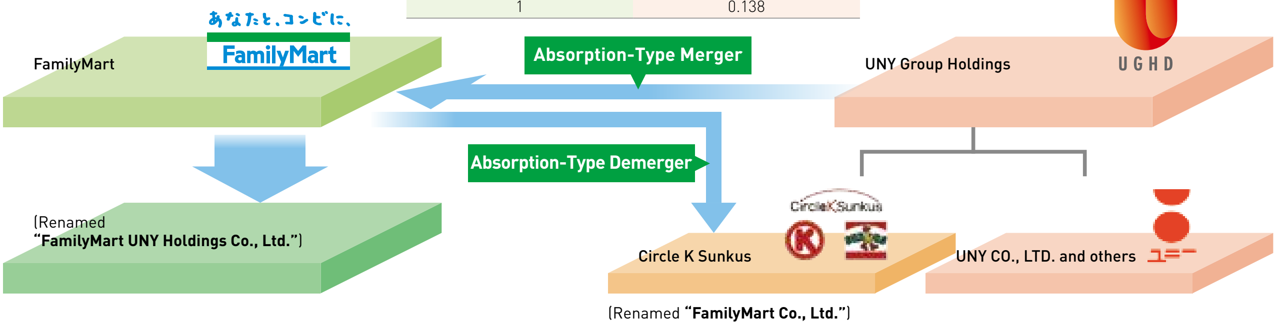
Operating Results and Financial Position (Consolidated) (Fiscal 2016)

Operating revenue	¥1,038,733 million
Operating income	¥22,367 million
Total net assets	¥285,018 million
Total assets	¥973,233 million

Management Integration Structure

Allotment of Shares Relating to the Absorption-Type Merger

FamilyMart (Surviving Company)	UNY Group Holdings (Absorbed Company)
1	0.138



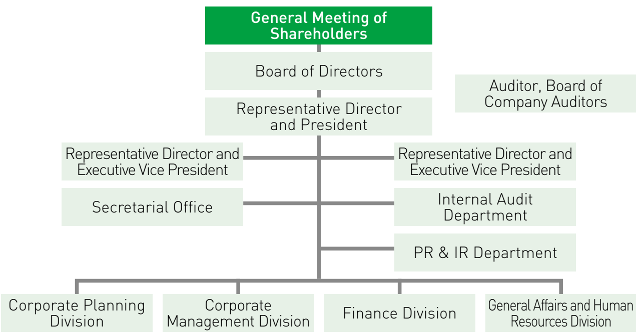
It was decided that an absorption-type merger would be conducted, by which FamilyMart will be the surviving company of the absorption-type merger and UNY Group Holdings will be the company absorbed by the merger. The plan calls for the surviving company FamilyMart ("the Integrated Company") to change its registered name to FamilyMart UNY Holdings Co., Ltd.

As a condition of the effective consummation of the absorption-type merger, the convenience store business of the Integrated Company shall be transferred to Circle K Sunkus by implementing an absorption-type demerger that will deem Circle K Sunkus, a UNY Group Holdings wholly owned subsidiary, to be the absorption-type demerger succeeding company. The plan calls for Circle K Sunkus, the succeeding company, to change its company name to FamilyMart Co., Ltd.

Overview of the Integrated Company

Company name:	FamilyMart UNY Holdings Co., Ltd. (FUHD)
Location:	Toshima-ku, Tokyo (the current FamilyMart Co., Ltd. location)

Company Organizational Structure



New Holding Company's Principle

Everyday Fun & Fresh

Representative Directors

Integrated Company

Representative Director and President	Junji Ueda
Representative Director and Executive Vice President	Norio Sako
Representative Director and Executive Vice President	Isamu Nakayama

CVS Business Company (FamilyMart Co., Ltd.)

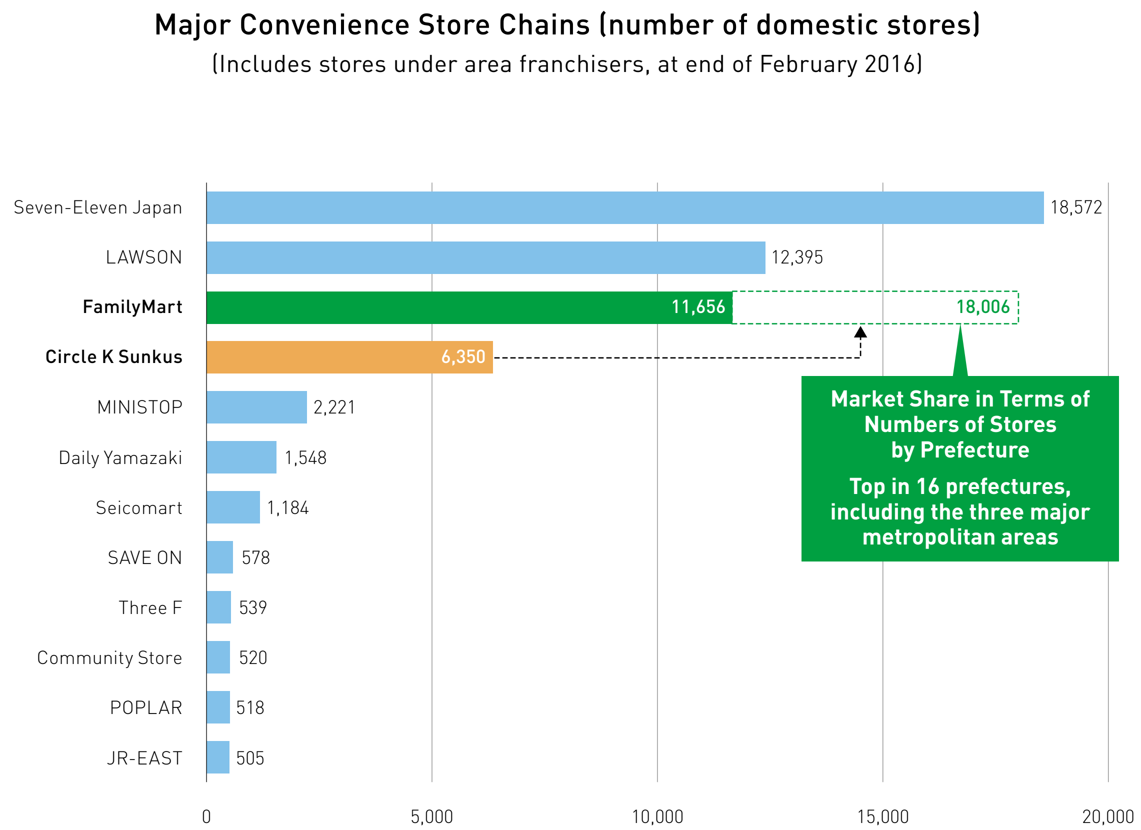
Representative Director and Chairman	Isamu Nakayama
Representative Director and President	Takashi Sawada

GMS Business Company (UNY CO., LTD.)

Representative Director and President	Norio Sako

SPECIAL FEATURE 02

Mutually Utilizing Tangible / Intangible Business Resources



Following the recent management integration, the CVS business will control Japan's largest store network. It is expected the top-class operating platform will create benefits of scale and synergies across all aspects of the CVS business. Furthermore, the business will be able to devise plans to strengthen business in emerging markets, focusing on Asia.

It is thought that the GMS business will also make progress with the development of new products and store formats by organically combining the commercial distribution systems that have been constructed by both companies and through previously acquired business know-how.

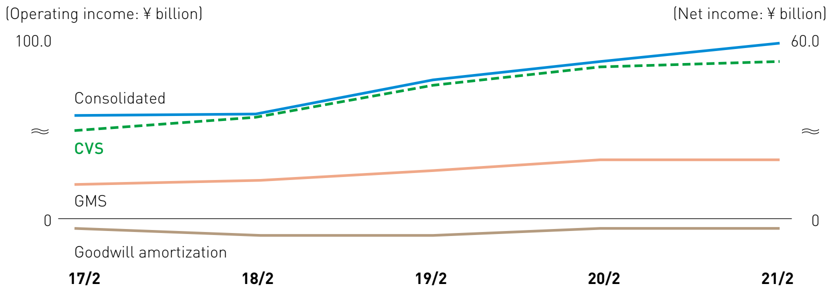
Numerical Targets

	16/2			21/2
	FamilyMart	UNY Group HD	Total	Integrated Company
Group revenues in Japan (¥ trillion)	2.0	1.8	3.9	5.0 or more
Consolidated operating income (¥ billion)	48.7	22.3	71.1	100.0 or more
Consolidated net income (loss) (¥ billion)	21.0	(2.8)	18.1	60.0 or more
Consolidated ROE (%)	7.6	–	–	12.0% or more
Total number of chain CVS/GMS/SM* in Japan	11,656	6,671	18,327	more than 20,000
Total number of chain CVS/GMS overseas	5,846	4	5,850	more than 10,000

*SM: Supermarket

By producing the synergistic effects of the management integration to the fullest, conducting reviews of unprofitable stores and businesses, and establishing a robust earnings platform, in Japan the new Group is targeting revenues of ¥5.0 trillion or more and consolidated net income of ¥60.0 billion or more within five years of the merger.

Graphic Estimate of Post-Merger Profit Growth



CVS Business Brand Integration

In the CVS business, we will unify the brand as FamilyMart. Following the management integration, we will begin the brand integration of Circle K and Sunkus stores with a plan to complete the brand integration of Circle K Sunkus stores during the period from December 2016 to February 2019.

We will introduce new franchise contracts, under which franchisees will be able to make sustained efforts to improve the level of store management and maintain their competitive edge as a chain.

We will use the opportunity presented by the brand integration to advance the introduction of a new visual identity (VI). We will introduce new VI signage sequentially at newly opening stores, stores that are being rebranded, and then at current FamilyMart stores.

New CVS Company's Principle

FamilyMart, Where You Are One of the Family

You can find "Fun & Fresh" products and services every time you visit FamilyMart. We will be your best partner to support your everyday life, offering convenient and highly qualified products and services.

New Visual Identity (VI)

FamilyMart

FamilyMart

SPECIAL FEATURE 03

Generating Synergies through Brand Conversion

Following its acquisition of Cocostore Corporation, FamilyMart has continued to undertake a project to convert stores operated by Cocostore to the FamilyMart brand. We plan to convert around 350–400 stores to the FamilyMart format out of the roughly 650 Cocostore and Everyone convenience stores within the short timeframe of one year. Benefits have already materialized, such as converted stores seeing a strong increase in average daily sales. FamilyMart has fine-tuned its expertise in brand integration, having successfully converted am/pm convenience stores to its brand in the past. We aim to realize synergies in addition to expanding our network of stores.

Business Integration

October 2015	Acquired all shares in Cocostore Corporation, turning it into a wholly owned subsidiary
December 2015	FamilyMart merged with Cocostore
December 2015	FamilyMart established the Cocostore Business Unification Division
December 2015	FamilyMart opened the first converted brand store in Aichi and Kumamoto prefectures
During 2016	FamilyMart plans to convert all stores to the FamilyMart brand

Coco! Convenience & Comfort ココストア

エブリ ワン
every one

Increase in daily sales of
20% or more
after brand conversion

Growth in daily sales at the high rate of 20% or more following brand conversion

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FamilyMart

Significance and Objective of Integration

Cocostore Corporation operated convenience stores in mainly the Kita-Kanto, Chubu, and Kyushu regions. FamilyMart has finished converting 181 stores to its own brand format as of the end of April 2016, marking steady progress in brand conversion while collaborating with area franchise store operators in Japan.

These store conversions are enhancing our dominant presence in the service areas of our franchise store operators in Japan. We also anticipate greater efficiency in management to emerge through supply chain integration (i.e., procurement, production, and logistics) and the unification of head office functions including the systems platforms and back-office departments of the two companies. Expanding our store network through brand conversion is an appropriate way to expand the scale of our business while improving quality.

Advanced Integration Know-How

Converted stores have seen their average daily sales increase by around 20% or more, and franchise store revenues have also increased strongly. Although the merger is quite complex, with three companies operating a mix of different brands (i.e., Cocostore, Everyone, TAC-MATE, and RIC) and service areas widely dispersed across the country including stores on remote islands, FamilyMart aims to create synergies from the merger by lending its know-how to sales space creation, product selection, and store management, while adding its own unique services such as the T Card and Famiport Multimedia Terminals as well as ATMs.

In 2009, FamilyMart turned am/pm Japan Co., Ltd. into a wholly owned subsidiary, and converted the am/pm brand into FamilyMart stores at 733 locations in less than two years. Back then, it took about four months to convert the first am/pm convenience store after it became a wholly owned subsidiary. Now, however, it has taken only two months to accomplish the first brand conversion. This quicker pace of conversions is made possible by the experience management gained from converting am/pm stores, refining its expertise at brand integration.

A Family in Both Name and Practice

The "Family" in our store name signifies our desire to forge family-like relationships between the head office and our partners, such as franchise stores. Achieving this sense of family among our partners based on a set of shared principles is in fact more important than unifying management methods and store management know-how. In similar fashion to the conversion of am/pm stores to the FamilyMart brand, top management worked closely together. We held events to deepen mutual understanding among employees of both companies and also held numerous training seminars for franchisees and store staff.

Confronted by the brand conversion process, Cocostore employees participated in these events and interacted with FamilyMart employees, giving them an opportunity to understand FamilyMart's principles while fostering a sense of unity among all those involved. We believe these measures were key to the success of the brand conversion, shortening the amount of time to achieve the integration while taking the necessary time to bring our organizational cultures together as one.

Employees from both companies attending a seminar

Product Strategy

Constant Product Innovation

In fiscal 2015, we introduced our slogan "number one in the industry in terms of quality" and proactively launched compelling new products while continuing to upgrade our standard fare of ready-to-eat items with care paid to ingredients, preparation methods, and appearance.

FamilyMart concentrated on measures to promote sales, such as through product-centered TV commercials, discount campaigns, and four Famima Festa campaigns a year where customers who spend more than ¥700 win a chance to receive a coupon for a popular item.

Efforts to Draw Customers into Stores with Improved Products

2015

March

Boxed Lunches
Upgraded *makunouchi*-type boxed lunches based on the concept of "not only delicious but also visually appealing"

April

Famima Spring Festa

Coffee
Adopted a new roasting method using coffee beans produced in Guatemala, which are prized for their distinctive aroma and acidity, in an effort to maximize overall appeal and taste

May

Soba
Reviewed the type of buckwheat flour used and introduced refined buckwheat noodles that offer a silky and chewy texture

Matcha Frappe, a major hit

September

Bargain sale of top 100 items

Oden
Rolled out five separate menus that match the tastes of each region using a broth made from a mixture of kelp and marinated bonito soup

October

Famima Fall Festa

Ramen (soy, miso, and pork-based ramen)
Rolled out an authentic ramen using the same *cha-shu* (pork used in ramen dishes) as stores that specialize in ramen and noodles using 100% flour from Hokkaido

November

Bargain sale of top 100 items

Pasta
Produced an authentic al dente quality pasta and an exquisite noodle and sauce mix

FamilyMart will continue to release high-quality products that meet the diversifying needs of its customers. We will expand our lineup of small-portion delicatessen items that add color to tables, with the aim of supporting both single-person and dual-working households. For counter coffee FAMIMA CAFÉ, we will create a new series of frappe milk-based drinks, while expanding counter products that go well with coffee.

FamiDelica (delicatessen items)

Frappe drinks (Strawberry, Milk Tea, Peach)

Famima Summer Festa

June

Sandwiches
Improved the freshness of vegetables while also introducing a premium roast pork sandwich

July

Rice Balls
Increased the amount of ingredients while enhancing the soft and puffy texture of the rice as well as the toasted, crispy texture of the seaweed wrapping

August

Salads
Enhanced ingredients used solely in salads and included selected seasonal vegetables

Famima Winter Festa

December

Lunch Plates
Launched three lunch plates—combination meals with miso soup

2016
January

Ramen (salt-flavored ramen)
Produced an authentic ramen with a rich butter aroma that rivals the best ramen restaurants

February

Ehomaki
Selected ingredients including tuna with the greatest care while seeking to improve the taste and flavor

Structural Reform of Ready-to-Eat Products

While working to develop and encourage sales of appealing products, FamilyMart continues to implement measures to further streamline and increase efficiency in manufacturing and logistics. In addition to switching from integrated plants that produced ready-to-eat items with different temperature zones to plants aligned to the temperature zones of products, FamilyMart is making it possible to aim for further improvements in quality and efficiency by reorganizing its logistics bases.

FamilyMart views fiscal 2016 as the year to complete its structural reforms, make new investments such as through producers of ready-to-eat products to establish new plants and food preparation facilities, and offer products that are fresher and of higher quality. In addition, FamilyMart continues to transform its ingredient procurement structure with a focus on improving not only product quality but also profit margins, by advancing supply chain management.

Store Operations

Initiatives to Become No. 1 in Service, Quality, and Cleanliness

FamilyMart is working to further improve its level of SQC (service, quality, and cleanliness), the basics of store operation. To give our customers a pleasant shopping experience, we must provide cheerful, prompt customer service in sales spaces that have the products customers want, when they want them, and in the volume they desire. These efforts encourage customers to visit our stores more frequently.

With the aim of creating stores preferred by our customers, we performed multi-point assessments of the level of store operations through independent organizations and internal inspections, and put in place a system for making rapid improvements. As our highest priorities, we are improving the efficiency of sales floor creation, broadening the product lineup, and increasing volume. To this end, FamilyMart introduced a next-generation store management system for the dual purpose of increasing the efficiency of the order placement process and rightsizing store inventories.

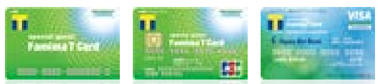
With regard to in-store systems, we also have a framework whereby aspiring store staff can participate in store management. FamilyMart has enhanced the organizational capabilities of its stores and its store management capabilities for the entire chain through the Store Staff Total (SST) system, a unique personnel training system, and Store Staff Excellence Awards, which recognize excellent store staff. FamilyMart has bolstered efforts to secure personnel by listing help wanted ads in various media, including on its own FamiJOB website, to help stores recruit new staff. Also, our Staff Hiring Center fields job applications.

The basics of store operation (our SQ&C campaign)

S	Service	Giving the customer prompt, friendly, and caring attention
Q	Quality	Ensuring our shelves always stock the products and lineups people want, when they want them
C	Cleanliness	Cleaning and sanitation management that reaches every corner

Famima T Card Helps Us Attract More Customers

Since 2007, FamilyMart has issued the Famima T Card, which is based on the T-POINT Loyalty Program, the largest shared loyalty point program in Japan. We provide customers who are members with valuable services including members-only discounts on certain products and coupons in tune with their needs. In 2014, we began offering a point card that can be immediately issued to customers in stores; launched the Famirank system that aligns the rate applied to shopping points; and expanded the number of customers by offering easy-to-use services that quickly accrue T-POINTS. In 2015, FamilyMart launched the e-money service T MONEY and newly issued the Famima T Card (a Visa debit cash card) in collaboration with The Japan Net Bank, Limited, diversifying the ways customers can make purchases and increasing convenience. As of the end of February 2016, the number of card members totaled 9.34 million, an increase of 2.35 million from the end of the previous fiscal year. We are also expanding on cooperative efforts to share customers with T-POINT partner companies through our newly launched partnerships with Softbank Corporation and Yahoo Japan Corporation. We are improving services further by collating and analyzing data on customer purchases, such as their profiles and shopping times, and using this data as a reference for product development and product selection at each store.



The T-POINT Loyalty Program to which the Famima T Card belongs is administered by Culture Convenience Club (CCC) Co., Ltd. and is one of the largest shared loyalty programs in Japan. As of the end of February 2016, approximately 500,000 stores operated by 132 companies participated in the T-POINT Loyalty Program, which has more than 57 million members.

Store Opening Strategy in Japan

Expanding Our High-Quality Store Network

Our fundamental policy is to open around 1,000 stores annually in order to ensure the sound growth of a chain store network that exceeds 10,000 locations. We aim to improve our system for opening stores by accelerating decision-making on whether to open a particular store, while seeking to increase not only the number of store openings (i.e., volume) but also individual store profitability (i.e., quality).

We are focusing on the opening of stores in Japan's three major metropolitan areas and leading provincial cities with large-scale markets with an eye on strengthening our area dominance. At the same time, we are advancing a scrap-and-build policy while improving store conditions by creating eat-in spaces.

As unique store formats that provide new value, we are working to develop stores that integrate the convenience and strengths of convenience stores with the expertise and advantages of other retail formats. FamilyMart is accelerating the opening of stores integrated with drugstores, pharmacies, supermarkets, National Federation of Agricultural Cooperative Associations, and bookstores.

FamilyMart is actively opening stores in new locations including railway stations, hospitals, and office buildings. In doing so, the Company is expanding beyond its traditional markets. Within these new locations, FamilyMart has been especially aggressive in building relationships with railway operators. As a result, the Company has a particularly high share of this market within the industry. As of the end of February 2016, FamilyMart had formed tie-ups with 15 railway operators and established a network of 486 stores.

Diversified Store Openings

New markets (railway stations)

Collaborating with drugstores

Collaborating with bookstores

Eat-in Spaces

Installed in about **4,000** stores as of end-April 2016

Growing with Franchisees

As a part of its support for franchisees that manage multiple stores, FamilyMart was the first convenience store operator to establish an incentive management system that pays a certain percentage of gross profits as a sales incentive. Multiple-store management benefits both franchisees and the FamilyMart Head Office, as it not only fosters the expansion of local market share, as neighboring stores are under joint management, but also has the advantage of dispersing management risk and improving efficiency. As of the end of February 2016, about 70% of the total number of stores in Japan were a part of the multiple-store management system.

Starting in September 2016, FamilyMart will further promote strategic store openings by introducing a new franchise contract that provides support to franchisees for improving their store management abilities, whereby the Head Office pays for a portion of utility bills and losses on food waste at its stores.

Area Franchisers in Japan

The FamilyMart Group's store development operations in certain areas of Japan are handled by area franchisers. This arrangement allows us to tailor store layouts and product lineups to the particular requirements of each region, without compromising the time taken when introducing services to a particular region or service quality when expanding our store network.

Okinawa

Okinawa FamilyMart Co., Ltd.

Jointly established in 1987 with RYUBO CO., LTD.
269 stores (as of end-February 2016)
No. 1 in the number of stores in Okinawa Prefecture

Kagoshima and Miyazaki

Minami Kyushu FamilyMart Co., Ltd.

Jointly established in 1993 with Homboshoten Co., Ltd.
353 stores (as of end-February 2016)
No. 1 in the number of stores in Kagoshima Prefecture

Kyushu (Fukuoka, Nagasaki, Kumamoto, Saga, and Oita)

JR KYUSHU RETAIL, INC.

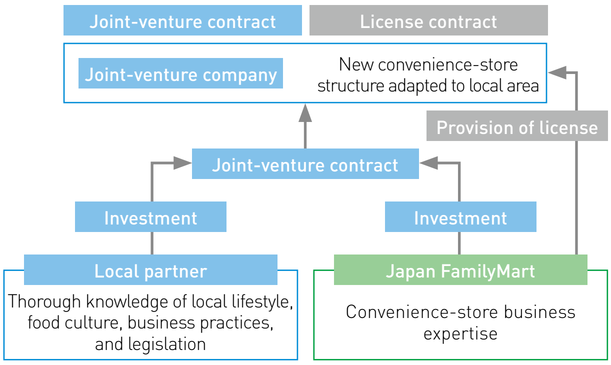
Joint area franchise agreement signed in 2010
153 stores (as of end-February 2016)

Overseas Convenience Store Business

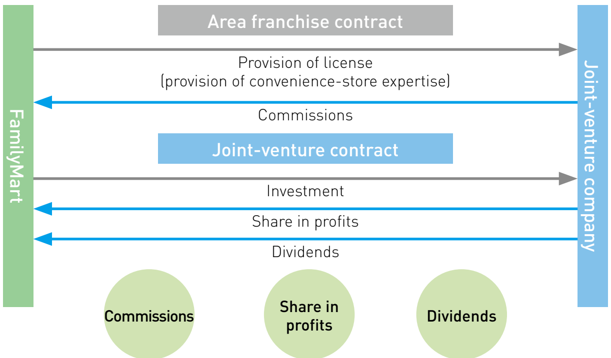
Expansion of Operating Areas via Joint Ventures

As its basic template for overseas operations, FamilyMart enters into joint ventures with local companies as partners. By combining the local networks and expert knowledge on local food culture, business customs, and regulations of local partners with the convenience store operating know-how of FamilyMart in Japan, we aim to maximize earnings by creating business models optimized for each region of operations.

Entering into Joint Ventures with Local Partners



Ensuring a Balanced Earnings Structure



Well-balanced earnings structure with three profit sources

Moving in Tandem with Economic Growth in Asia

FamilyMart has mainly made inroads into Asia, especially emerging countries. In regions expected to see economic expansion and growth in consumer spending, FamilyMart has expanded business scale by creating optimal business models tuned to the level of development in local retail sectors.

In Taiwan, our strongest contributor to earnings, we plan to increase the ratio of stores designed for ready-to-eat items with eat-in spaces, which is currently around 80% of the total. We also aim to enhance earnings potential further by expanding point card and e-commerce services.

In China, where we have been profitable since fiscal 2014 with more than 1,500 stores, we are focusing on improving the quality of ready-to-eat items while aiming to increase the franchise ratio even further.

In Thailand, FamilyMart aims to improve earnings by undertaking sweeping measures to reform management, such as by reinvigorating the business execution structure.

In Vietnam, Indonesia, and the Philippines, relatively new countries of operation for FamilyMart, we are improving operational efficiency by upgrading infrastructure while expanding our store networks.

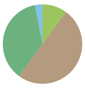
In fiscal 2016, FamilyMart is establishing a new presence in Malaysia with plans to open its first store within the year, and has entered into a licensing agreement with QL Resources Berhad, a local livestock and seafood processor. Going forward, FamilyMart will accelerate business development with a focus on Asia.

Overseas Network

Taiwan

1st store opened	1988
Number of stores	2,985

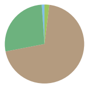
Equity interest	47.44%
Market share	29% (No. 2 market position)
Franchise stores	86%
Sales by product category	



Thailand

1st store opened	1993
Number of stores	1,109

Equity interest	48.20%
Local partner	Central Group
Market share	9% (No. 3 market position)
Franchise stores	16%
Sales by product category	

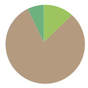


China

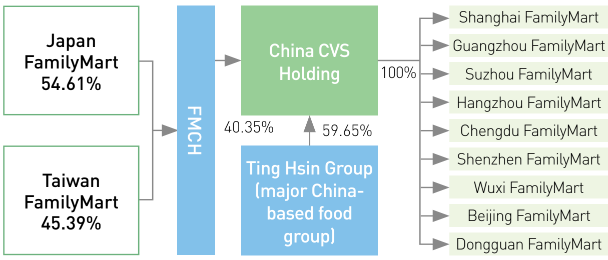
1st store opened	2004
Number of stores	1,530

Local partner	Ting Hsin Group
Franchise stores	69%

Sales by product category



Business structure in China



FMCH: FamilyMart China Holding
Japan FamilyMart's stake: 30.72%

	1st store opened	Number of stores
Shanghai	2004	980
Guangzhou	2006	185
Suzhou	2007	135
Hangzhou	2011	76
Chengdu	2012	53
Shenzhen	2013	32
Wuxi	2014	44
Beijing	2014	14
Dongguan	2014	11

Vietnam

1st store opened	2009
Number of stores	87

Indonesia

1st store opened	2012
Number of stores	27

Local partner	Wings Group

The Philippines

1st store opened	2013
Number of stores	108

Equity interest	37.00%
Local partners	Ayala Group, Rustan Group

(As of February 29, 2016)

New Businesses

Leveraging Store Network as Infrastructure

Leveraging convenience stores' greatest strength—a network of stores with roots in local communities—FamilyMart is creating businesses and nurturing them into new business pillars. FamilyMart is developing businesses around the three fields of nursing, healthcare, and wellness; finance; and online shopping, areas that offer growth potential and can take advantage of its store network as infrastructure. In addition, FamilyMart is promoting businesses that target the increasing number of foreign tourists visiting Japan, as well as a home delivery business for small retail zones using its actual stores.

Initiatives in Each Field

In the nursing, healthcare, and wellness field, FamilyMart increased sales of medical foods to customers that need to watch what they eat, such as people dealing with diabetes and kidney disease. Through SENIOR LIFE CREATE Co., Ltd., which operates the boxed lunch home delivery business for senior citizens, FamilyMart began an ingredient supply business for healthcare facilities and started offering nursing care products.

In the finance field, FamilyMart furthered efforts to draw in more customers with better convenience, such as introducing T MONEY, an electronic money system based on the Famima T Card, and starting to accept credit cards issued by overseas financial institutions at its stores in Japan, to address diversifying payment schemes.

In the online shopping field, as part of its open channel strategy, FamilyMart expanded services for having products delivered to its stores for customers who ordered items online at major shopping sites. FamilyMart also launched new services via its Famiport Multimedia Terminals installed in stores. In these ways, FamilyMart strived to expand business by creating points of contact with customers.

Famiport

Looking ahead, FamilyMart aims to expand its presence in each field with businesses that complement the services of other business categories, such as the distribution of digital content via Famiport Multimedia Terminals.

Home delivery business for senior citizens

New Initiatives

In April 2016, FamilyMart signed a basic agreement for a business partnership with Japan Post Holdings Co., Ltd. Under this agreement, we will increase the number of Japan Post Bank ATMs in our stores. Moreover, we will work with Japan Post Co., Ltd. to jointly use bases and logistics networks, such as cross-border e-commerce for delivering packages between FamilyMart stores inside and outside Japan, as well as installing HAKO POST delivery lockers in our domestic stores.

We are also enhancing services for foreign tourists visiting Japan. FamilyMart has already launched measures to expand the number of its stores inside and outside Japan that feature multilingual staff, in-store duty-free services, and foreign currency exchange machines. In addition, FamilyMart is examining the introduction of common products and services across countries and regions, an initiative that only FamilyMart can undertake thanks to its store network in both Japan and Asia. We aim to raise awareness of FamilyMart products and services by utilizing "FamilyMart collection," a private brand which is already available in certain countries and regions. We also aim to expand earnings globally by bringing in new customers, in addition to foreign tourists visiting Japan.

Creating Value for Future Generations

As social and lifestyle infrastructure, convenience stores have become an indispensable part of people's lives. While responding to social change and meeting the ever-diversifying needs of its customers, FamilyMart is advancing a range of initiatives to evolve and become a chain that proposes better lifestyles to its customers by providing better products and services.

At the same time, as a chain that is deeply rooted in local communities, FamilyMart also considers it both its mission and its responsibility to contribute to finding solutions to social issues to help create better futures for those local communities. FamilyMart is conducting ongoing programs—particularly support for the children who will be responsible for the next generation and the reduction of environmental impact to realize sustainable business activities—that keep in mind the creation of value for future generations.

Supporting the Next Generation, Creating Better Local Communities ▸▸P32

WEB http://www.family.co.jp/company/eco

Supporting the Development of the Next Generation


"FamilyMart Thank You Letter Contest"


Child Store Manager initiative

Creating Better Local Communities


Watch-over activities

Fund-raising Activities


Assistance at times of natural disasters


Development of the next generation (Global Children's Fund)

Stakeholders for FamilyMart

- Shareholders and other investors
- Business partners
- Customers
- Franchisees
- Employees
- Local communities
- The environment
- Students
- NGOs and NPOs
- Future generations
- Store staff

Reduction of Environmental Impact to Realize Sustainable Business Activities ▸▸P34

WEB http://www.family.co.jp/company/eco/action/index.html

Addressing Environmental Issues


Solar power


Hand soap made from recycled edible oil


Rapid-charging equipment for electric cars

Harmonious Coexistence with Local Communities

As Focal Points of Local Communities

Having deployed approximately 12,000 stores across Japan, FamilyMart performs a variety of functions in the making of better local communities, where the stores themselves serve as focal points.

Supporting the Development of the Next Generation through Fund-raising Activities at Stores

The collection of in-store monetary donations began in 1993. FamilyMart is also donating to NGOs and NPOs engaged in activities that are either of benefit to the generations who will be responsible for the future or to the future of the earth through its Connecting Dreams Foundation Donation, an initiative that began in 2006. Each year in April, the Company has continued to promote the FamilyMart Global Children's Fund from fiscal 2014. Donations are applied specifically to promote education about disaster prevention including disaster risk mitigation in the countries and regions in which FamilyMart operates. The FamilyMart store network in Japan serves not only as collection bases but is also being utilized to publicize the activities of the donation recipients and the collection of monetary donations.

Donations collected at FamilyMart stores and current cumulative total of relief money
(including donations via Famiport Multimedia Terminals)

¥4,711,032,824

(As of May 31, 2016)

FamilyMart's Unique Development of the Next Generation

As a corporate entity within the local community, FamilyMart engages in supporting and developing the children that will be responsible for the next generation in a number of formats. In addition to having held "FamilyMart Thank You Letter Contest" since 2009, by which children are helped to fully appreciate the importance of handwritten letters and of the spoken word in conveying their feelings of gratitude, FamilyMart is implementing programs that provide opportunities for children to gain experience from social interactions. These include the Child Store Manager initiative at local community stores and off-site workshops, for which employees leverage their range of abilities and expertise and visit schools as teachers.

"FamilyMart Thank You Letter Contest"

FamilyMart Connecting Dreams Foundation Donation

Matching Gift* (prescribed percentage of donations collected at stores)

Donations

- Save the Children Japan
- National Land Afforestation Promotion Organization (Midori Donations, Network for Coexistence with Nature, Hometown Forest Revitalization)
- Japan Association for the World Food Programme
- U.S.–Japan Council, The TOMODACHI Initiative

For the future of the earth
For children
For local communities

Money received

FamilyMart stores across Japan

In-store fund-raising

Customers

In-store Famiport Multimedia Terminal

Collecting donations for designated charities

* Matching Gift: System by which FamilyMart Co., Ltd. makes a donation by adding a prescribed percentage of the amount collected from its customers.

Collaboration with Local Authorities and Regions

As a convenience store chain with deep regional roots, FamilyMart collaborates with local communities and local authorities and leverages its store and logistics networks to engage in regional contribution activities.

In addition to making preparations for the provision of all forms of assistance in the event of a natural disaster and cooperating in various aspects of disaster relief, FamilyMart has recently been encouraging the concluding of agreements with municipalities covering watch-over activities that in particular confirm the health and well-being of the elderly or those requiring assistance.

Examples of Main Initiatives

- Comprehensive partnership agreements: 44 prefectures, five cities
- Agreements covering the supply of goods in the event of a natural disaster: 46 prefectures, 23 cities, five organizations
- Agreements to assist those unable to return home following a natural disaster: 40 prefectures, 10 cities
- Promoting the installation of firefighting equipment, AEDs, etc.

(Number of local authorities as of May 31, 2016)

SPECIAL REPORT

Response to 2016 Kumamoto Earthquakes

Everyone at FamilyMart would like to extend their heartfelt sympathy to all those affected by the Kumamoto earthquakes.

Status Report on Restart of Operations

Under a slogan that means "let's persevere" in the local dialect, the approximately 1,000-strong Kumamoto FamilyMart Support Team was dispatched from Head Office. While cooperating with all franchisees, the team provided operational support and assistance in the restarting of store operations. Of the 164 stores in Kumamoto Prefecture, a maximum of around 80 were forced to temporarily cease operations after the main tremors had occurred on April 16. The following day, 132 stores were back in operation; at the end of April the number had risen to 163. Positive steps were taken to support the social and lifestyle infrastructure of disaster-affected areas and to assist local communities.

Selling products in front of a store

Assistance Based on Disaster Relief Agreements

Based on agreements with local authorities, from the day the earthquakes struck to the end of April, FamilyMart provided emergency relief supplies including such beverages as water and tea as well as supplies including bread and rice balls on a total of eight occasions. Every effort is being made to support the social and lifestyle infrastructure of disaster-affected areas.

Donations of Relief Money Collected at Stores in Japan and Overseas

In the 47 days from April 15 to May 31, FamilyMart and area franchisers* in Japan collected donations of relief money via in-store fund-raising at approximately 12,000 FamilyMart, Cocostore, and Everyone stores. The relief money that was collected was then donated to people affected by the disaster in Kumamoto Prefecture.

* Okinawa FamilyMart Co., Ltd., Minami Kyushu FamilyMart Co., Ltd., and JR KYUSHU RETAIL, INC.

■ Donations of relief money collected at stores:	¥142,867,989	Donated to Kumamoto Prefecture (Donated to people affected by the disaster)
■ Connecting Dreams Foundation:	¥23,716,029	(Transferred as donations to the Japan Association for the United Nations World Food Programme specifically for the purpose of Kumamoto emergency assistance)
■ Famiport fund-raising:	¥15,144,000	(Japanese Red Cross Society) April 21, 2016 to May 31, 2016

Complimentary Messages from Customers

Two days after the earthquake disaster, FamilyMart stores resumed operations. I was so happy to be able to purchase boxed lunches, bread, water, tea, and other products that it almost brought tears to my eyes. I could sense the heartfelt concerns of the Company especially with respect to its affinity with customers. I was really impressed. Thank you, FamilyMart!

I was keenly aware of my sense of gratitude for your convenience store in the aftermath of the Kumamoto Earthquakes. The way your staff always served me cheerfully was no different from normal, and I felt as if I had been energized.

Message from a Franchised Store

The speed at which the expressions of sympathy, the support of so many employees, and the products that were sent was simply stunning. We derived great encouragement and confidence from continuing to operate the store.

Being able to restart operations so soon was of definite assistance to those in the disaster-affected areas. We have been implementing store operational recovery measures in a unified, Companywide manner, based on the policies of safety first and prioritizing the provision of assistance to those most in need.

My own experiences in two natural disasters, in the Kobe and Tohoku earthquakes, stood me in good stead. Franchisers and employees themselves became victims, beset with difficulties, even mental distress, but with the rapid supply of products and the assistance of the support team from Head Office, despite a maximum of around 80 stores having been temporarily closed directly after the main earthquakes, we were able to recommence store sales two days later.

I feel that the rapid recovery from this natural disaster provides proof positive of FamilyMart's resilience.

Yoshiki Sakazaki
General Manager, Kyushu I District, FamilyMart

Addressing Environmental Issues

Environmental Management System

FamilyMart promotes an Environmental Management System and works on ongoing environmental improvements at all its stores and all Company offices.

Apart from receiving environmental inspections by external institutions, internal environmental audits are conducted by qualified employees. Operations undergo a rigorous environmental assessment under this system.

In fiscal 2015, internal environmental audits were conducted at the Ikebukuro Head Office (all divisions), all regional offices, and all stores. From an external organization, we also received an "ongoing certification" assessment for compliance with ISO 14001 standards.

FamilyMart's Environmental Policy (Overview)

Established November 16, 1998, revised March 1, 2007

I. Caring for the environment through our business activities
II. Respecting environmental laws and regulations
III. Organizations and awareness-raising
IV. Publicizing our Environmental Policy

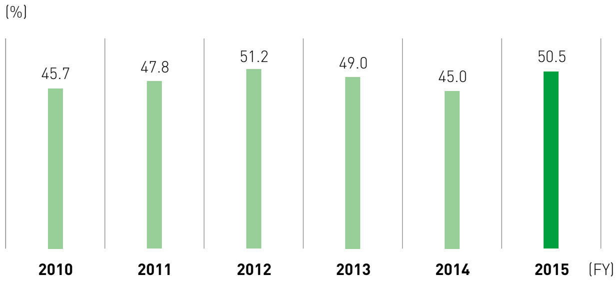
ISO 14001

JQA-EM6975

Reduction of Waste

Regarding the curbing of waste generation and the use of recycling as important issues, FamilyMart works to improve the precision of the orders placed by its stores to reduce pointless waste from food production. As far as is possible, the waste generated from stores is passed on for proper recycling.

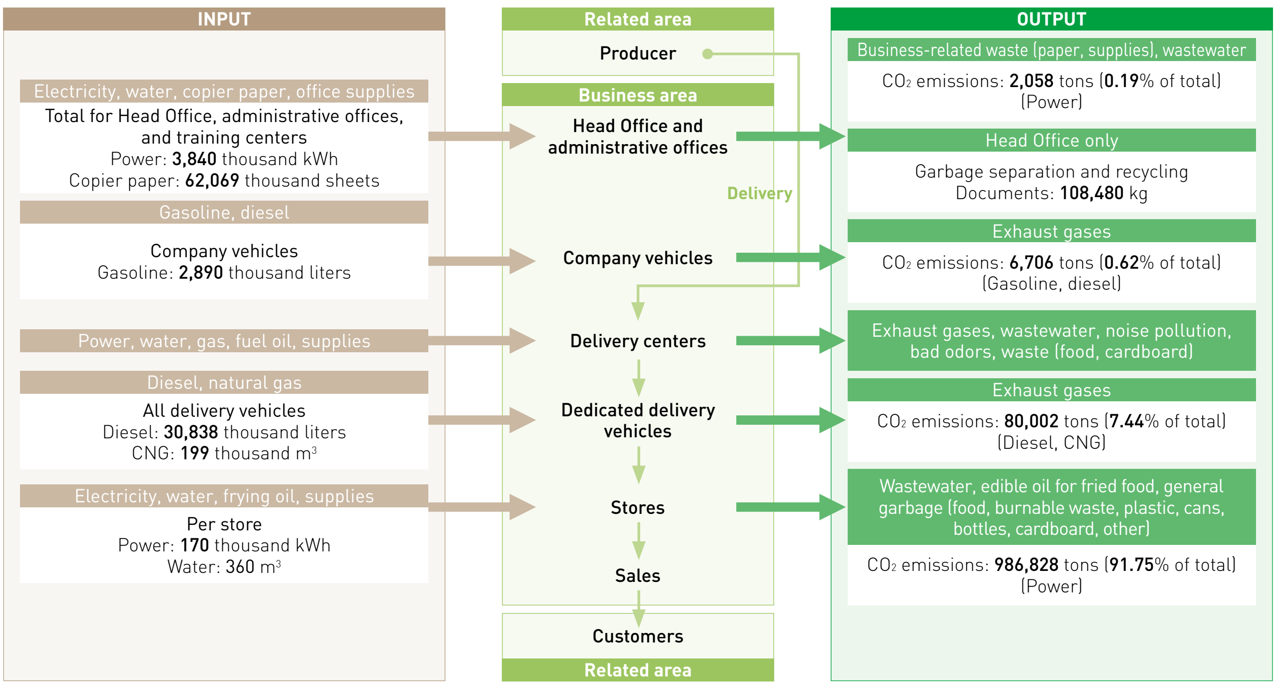
Ratio of Recycled Food



FamilyMart Material Flow

The materials mainly used and disposed of in the course of FamilyMart's business activities are as shown below. As 90% of the environmental impact generated by business operations are from the operations and management of its stores, FamilyMart is aware of its important social responsibility to address a reduction in environmental impact from this source.

(March 2015–February 2016)



Note on calculation of CO_2 emission volumes

Details of power usage at our stores are collated in the bills sent to the Company every month by our electricity providers. In cases where in-house transformers are used at leased premises, our figures and calculations are based on power usage volumes recorded in the owner's electricity bills, but power usage at some stores is not always clear from this information. In such cases, we have used average values. Delivery of products from delivery centers to stores is outsourced. Hence, CO_2 emission volumes associated with diesel and CNG usage by dedicated delivery vehicles are based on data provided by the contractor companies.

Fiscal 2015 ISO 14001 Environmental Accounting

FamilyMart collates, monitors, and controls the costs and effects relating to the environment in its business operations. When collating the costs, they are broadly divided into active costs, which achieve a reduction in environmental impact, and the preservation costs needed to build and maintain the Environmental Management System.

(¥ thousand)

Environmental Preservation Cost Classification			Investment	Expenses	Main Effect (Result)	Related Items
Broad categories	Middle categories	Specific activities				
1. Active costs toward environmental objectives/achievement of environmental targets based on our Environmental Policy	① Store-related environmental preservation costs	Costs of reducing electricity and water usage	290,732	396,186	Energy conservation	Store initiatives
		Cost of the proper handling of building materials			Ozone layer protection	
		Cost of protecting the ozone layer				
		Cost of preserving the environment around stores			Proper handling of waste	
	② Cost of environmental preservation related to store management and operations	Cost of the proper handling and recycling of waste, etc.	0	3,597,816	Proper handling/ recycling of waste	Store operation initiatives
	③ Cost of environmental preservation related to administrative offices	Cost of the proper handling and recycling of waste, etc.	0	10,364	Proper handling/ recycling of waste	Administrative office initiatives
	Subtotal		290,732	4,004,366		
2. Preservation costs of the Environmental Management System	① Personnel expenses associated with environmental preservation activities	Personnel expenses related to environmental training/activities/ organizations	0	129,529	Implementation of environmental activities	Environmental Management System
	② Cost of producing environmental training materials	Costs of employee training and manager/store staff orientation training	0	6,266	Implementation of environmental training	Environmental Management System
	③ Expenses related to environmental audits	Costs for internal environmental audits/regular inspections	0	2,930	Implementation of environmental audits	Environmental Management System
	④ Costs incurred in response to environmental legal and regulatory requirements	Recycling expenses based on Containers and Packaging Recycling Law	0	520,337	Recycling	Store operation initiatives
		Expenses incurred in producing local authority global warming reports, etc.				
	⑤ Environmental preservation costs in social activities	Donations to organizations conducting environmental preservation	0	11,694	Enhancement of external communications	Environmental communications
		Publicizing of environmental information and environmental publications				
	Subtotal		0	670,756		
3. Environmental loss compensation expenses	① Costs of soil pollution, natural habitat destruction, etc.	Compensation, fines, etc., related to environmental preservation	0	0		
Total			**290,732**	**4,675,122**		

Corporate Governance and Internal Control System

Based on our belief that strong corporate governance builds enterprise value, we are working to construct a transparent and effective management system. To this end, we are working to establish a system to ensure legal compliance and the accurate performance of administrative work. In addition, to ensure proper corporate governance, it is essential to fulfill our duty of accountability through regular disclosure of corporate information.

Corporate Governance

About Corporate Governance

As of June 1, 2016, the Company's Board of Directors comprises 11 directors (all current directors are male and one is an outside director) who make decisions regarding important matters affecting the Company's business operations at the monthly (in principle) meetings of the Board of Directors and perform supervisory duties. FamilyMart has adopted the executive officer system to speed up the making of decisions concerning operations and their execution. We have also set up the Risk Management & Compliance Committee to coordinate risk management systems and strengthen our mechanisms for the observance of all laws and ethical norms, and a specialist department to establish a fully effective internal control system and entrench corporate governance at FamilyMart. The term of office of directors is one year.

The Company's internal auditing unit, the Audit Office, examines efficiency of performance, risk management, and compliance and reports directly to the Company's president. The office also conducts thorough checks on progress in the implementation of Audit Office directives and proposals.

FamilyMart has adopted the corporate auditor system. As of June 1, 2016, the Board of Corporate Auditors consists of three members (two are male and one is female; all current Board of Corporate Auditors members are outside corporate auditors). The corporate auditors attend meetings of the Board of Directors and other high-level managerial meetings and monitor the state of the Company's business operations and financial position by reading documents on important management decisions and hearing reports from the Audit Office and accounting auditors. In addition, a regular liaison meeting is held with corporate auditors from Group companies and effort is made to ensure Group governance. The term of office of corporate auditors is four years.

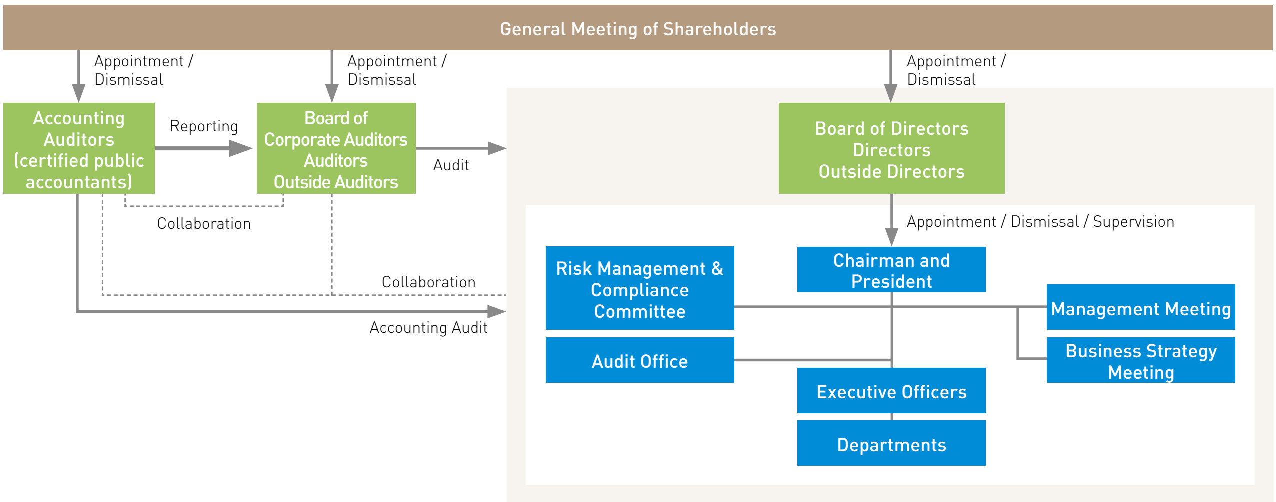
For accounting auditors, the Company has entered into an agreement with Deloitte Touche Tohmatsu LLC and is subject to audits under the Companies Act and the Financial Instruments and Exchange Law. Accounting auditors audit the financial statements from the position of an independent third party, and the Company discusses the result of the audit after receiving it.

Reasons for Adopting Current System

As a company that has adopted a company-with-corporate-auditors system, the Company ensures the effective working of the supervisory and monitoring functions and the transparency of decision-making through effective management supervision by corporate auditors including outside corporate auditors. In addition to its corporate governance structure, which relies on this management supervision by corporate auditors, the Company selects a highly independent outside director with the goal of reinforcing and improving the effectiveness of management oversight by the Board of Directors and the transparency of decision-making. The Company's corporate governance structure in its present state, based on the Board of Directors including the outside director and the Board of Corporate Auditors in which outside corporate auditors comprise a majority, is fully consistent with the building of a highly transparent system that we believe should be established.

Corporate Governance System

(As of June 1, 2016)



Functions of Each Meeting Format

		Fiscal 2015
Management Meeting	At each Management Meeting, the representative director seeks advice on matters relating to business operations that require determination. In addition, this meeting is a forum to deliberate on implementation policies and plans for management in general, based on policies approved by the Board of Directors. As for matters to be resolved by the Board of Directors, the representative director decides what measures will be submitted to the Board of Directors.	29 times
Business Strategy Meeting	The Business Strategy Meeting allows the representative director to seek advice before approving important matters relating to business, product, and development activities. Moreover, this meeting provides the opportunity to discuss implementation policies and plans for business activities in general, based on policies approved by the Board of Directors.	20 times

Major Issues Addressed and Decisions Made in Fiscal 2015

April 2015	Decided to liquidate FAMIMA CORPORATION in the United States
August 2015	Decided to take an equity interest in Tpoint Japan Co., Ltd.
September 2015	Decided to acquire Cocostore Corporation, making it a wholly owned subsidiary
October 2015	Decided to conclude a basic agreement concerning management integration with UNY Group Holdings Co., Ltd.
January 2016	Decided to integrate operations in Hokkaido

Status of the Outside Director and Outside Corporate Auditors

The Company has one outside director and three outside corporate auditors.

From the position of an outsider with specialized knowledge, the outside director makes decisions regarding important matters affecting the Company's business operations and monitors directors' performance of their duties by attending Board of Directors' meetings. The outside director also fulfills a certain role to improve corporate governance and raise enterprise value.

From their position as outsiders with specialized knowledge, outside corporate auditors monitor directors' performance of their duties by attending Board of Directors' meetings. Outside corporate auditors also play a role in raising the effectiveness of management oversight and in improving the Company's corporate governance and raising enterprise value.

Of the one outside director and three outside corporate auditors, outside director Akihiro Watanabe, and outside corporate auditors Mika Takaoka and Shuji Iwamura fulfill the requirements for independent officers as defined by the Tokyo Stock Exchange and have been registered as such by said exchange.

Criteria Concerning the Independence of Outside Officers

With the goal of defining the criteria for certifying outside directors and outside corporate auditors as independent officers of the Company, the Company has established "Criteria Concerning the Independence of Outside Officers" with the approval of the Board of Directors. When considering candidates for outside director and outside corporate auditor, their independence based on said criteria is a prerequisite for the position.

Reasons for Appointing the Outside Director and Outside Corporate Auditors

Outside Director

Name	Reason for appointment
Akihiro Watanabe	Akihiro Watanabe has abundant experience acquired through his involvement in various M&A transactions, such as integrating the management of domestic and foreign companies as well as through his years of experience as an outside director of domestic and foreign companies. We have determined that Mr. Watanabe can be expected to provide valuable opinions and advice based on these experiences and his deep knowledge as an M&A and accounting professional (i.e., a certified public accountant in Japan and the United States) and in public company management. Also, as Mr. Watanabe fulfills the conditions for being an independent director and there is no possibility of a conflict of interest arising with general shareholders, he has been selected as an independent director.

Outside Corporate Auditors

Name	Reason for appointment	Attendance rate at fiscal 2015 Board of Directors' meetings	Attendance rate at fiscal 2015 Board of Corporate Auditors' meetings
Mika Takaoka	Mika Takaoka was appointed to apply her long experience and wisdom from many years in the academic community. Also, as she fulfills the conditions for being an independent director and there is no possibility of a conflict of interest arising with general shareholders, she was selected as an independent director.	100% (23/23)	100% (12/12)
Shuji Iwamura	Shuji Iwamura was appointed to apply his long experience and wisdom from many years in the legal community. Also, as he fulfills the conditions for being an independent director and there is no possibility of a conflict of interest arising with general shareholders, he was selected as an independent director.	95% (22/23)	91% (11/12)
Yasuhiro Baba	Yasuhiro Baba has been engaged in accounting and finance tasks with another company over many years. We have determined that Mr. Baba can be expected to undertake strict audits of the Company based on his experience and deep knowledge of the accounting and finance fields.	—*	—*

* Yasuhiro Baba was elected to the Board of Corporate Auditors at the 35th Ordinary General Meeting of Shareholders on May 26, 2016.

Message from Outside Director

Welcoming the Challenge of Improving Long-Term Enterprise Value

Outside Director
Akihiro Watanabe

My name is Akihiro Watanabe. I was appointed outside director at the General Meeting of Shareholders held on May 26, 2016. I have been involved in corporate management as either a manager or an outside director in a diverse range of industries in Japan and overseas. I also have direct experience as an advisor for a large number of corporate M&As, and I believe this knowledge can be leveraged by FamilyMart as it undertakes the historic step toward management integration and begins operations from September.

The role of outside directors is to monitor whether the decisions made by management conflict with the interests of shareholders and other stakeholders. When a conflict of interest is deemed to have arisen, it is our duty to seek a constructive resolution. From an independent viewpoint, I will focus on whether a company is taking appropriate risks and challenges in order to grow, and whether these challenges will lead to long-term improvement in enterprise value and ultimately shareholder value.

Convenience store chains have become key infrastructure in people's lives today. It has become even more important to make the necessary investments for continuing to provide value to customers in order to improve value over the longer term. I hope that FamilyMart will create new products and services that have not been seen or heard of before while leveraging the synergies from the management integration. I look forward to playing my part in facilitating the growth of FamilyMart into a leading convenience store chain that is able to win the overwhelming support of its customers in Japan and around the world.

Remuneration for Directors, Corporate Auditors, and Independent Auditors

Remuneration for directors and corporate auditors is approved at a General Meeting of Shareholders, within predetermined monetary limits.

Remuneration for directors comprises two elements: a basic monthly salary and a fund-based cumulative payment made at the time of retirement. The basic monthly salary comprises a fixed sum and an element based on consolidated net earnings for the term in question—in other words, a performance-linked payment. Part of this basic monthly salary is paid to executive employees under a management stock ownership plan. Remuneration of part-time directors comprises a fixed sum only, which is a basic monthly salary.

Remuneration for standing corporate auditors also comprises two elements: a fixed monthly payment of a basic salary and a fund-based cumulative payment made at the time of retirement.

Compensation for part-time corporate auditors is a fixed payment only, comprising the monthly basic salary.

Remuneration for Executives

	Total paid (¥ million)	Total paid in various forms (¥ million)				No. of payment recipients
		Basic salary	Stock options	Bonuses	Retirement benefits	
Directors (except outside directors)	420	420	—	—	—	9
Corporate auditor (except outside corporate auditors)	23	23	—	—	—	1
Outside director	6	6	—	—	—	1
Outside corporate auditors	37	37	—	—	—	3

Compensation for Corporate Auditors

	Fiscal 2014		Fiscal 2015	
	Compensation based on audit and attestation (¥ million)	Compensation for non-audit services (¥ million)	Compensation based on audit and attestation (¥ million)	Compensation for non-audit services (¥ million)
FamilyMart	80	9	106	—
Consolidated subsidiaries	9	—	9	—
Total	90	9	116	—

Note: Non-audit services consist of advisory and other duties regarding international financial reporting standards.

Names of the certified public accountants that executed duties:
Masahiro Ishizuka and Haruko Nagayama, Deloitte Touche Tohmatsu LLC

Internal Control Initiatives

Structure of the Internal Control System

FamilyMart set up the CSR & Compliance Department, based on its Board-approved basic policy on the creation of a more effective internal control system, to oversee the work of constructing a fully effective internal control system. At the same time, the Risk Management & Compliance Committee is responsible for reviewing the adequacy and operational status of the Company's internal controls.

Business Continuity Plan (BCP)

We developed the BCP so that in the event of a major natural disaster or other emergency situation occurring, we will be able to fulfill our mission to customers as a convenience store by continuing the convenience-store business or at least restoring the operation of stores as quickly as possible. The executive officers and employees will respond to major natural disasters and other emergency situations based on this plan, with the aims of minimizing damage and shortening the restoration time.

FamilyMart set up an emergency headquarters in the immediate wake of the Kumamoto earthquakes in 2016. The Company's BCP was an effective tool in quickly confirming the well-being of employees, store staff, and franchisees, and in gathering information on the status of store damage and the operations of the Group as a whole. Thanks to its BCP, FamilyMart was well positioned to implement a wide range of support measures and to bring about the early resumption of operations.

Risk Management and Compliance

Risk Management and Compliance System

Corporate activities have been subject to increasingly severe public scrutiny, and the target domains of risk and compliance have changed in line with the expansion and change in the scale and domain of business at each company.

FamilyMart has responded to a variety of conceivable business risks based on the system described below and is building the necessary compliance system.

Risk Management & Compliance Committee

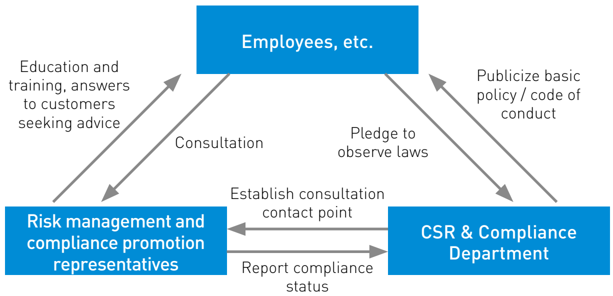
To better coordinate risk management and compliance functions, FamilyMart has established the Risk Management & Compliance Committee as an advisory body to the president. The committee is a horizontal organization that extends across the Company, with general managers in each division. The Risk Management & Compliance Committee reviews the operational status of the Company's internal controls in line with the basic policy of creating a more effective internal control system. In addition, the Company holds RC subcommittee meetings when necessary and examines individual cases.

Risk Management and Compliance Promotion Representative

As a system for the practice of risk management and compliance promotion, the heads of each department have been made responsible for compliance promotion, and the promotion of risk management and compliance for each division is carried out within day-to-day operations.

Compliance Activities

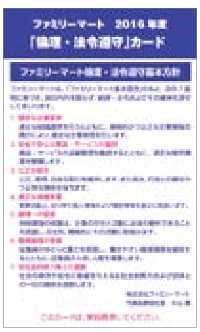
FamilyMart promotes the following compliance activities in order that employees, when they conduct business, take appropriate action to observe all laws and ethical norms. The risk management and compliance promotion representatives raise the precision of FamilyMart's compliance, such as identifying important laws and maintaining company regulations that accommodate those laws.



FamilyMart Ethics and Compliance Basic Guidelines

The Company has established the FamilyMart Ethics and Compliance Basic Guidelines, the Three-Point Compliance Action Guidelines, and the Compliance Code of Conduct. The introduction of an internal reporting system, through which ethical and legal issues may be flagged up, has enabled us to strengthen our ethical and legal compliance.

The franchise and chain headquarters is also working hard to ensure fair trading and the provision of safe and reliable products and services by undertaking employee education and conducting store training and inspections in compliance with the Antimonopoly Act, the Act against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors, the Tobacco Business Act, the Act Prohibiting Smoking and Drinking by Minors, the Labor Standards Act, and other applicable laws.



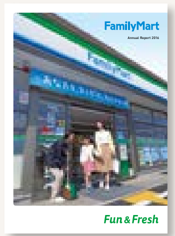
IR Activities

Basic Guidelines for IR Activities

Under the firm leadership of its top management, FamilyMart is committed to ensuring that its investor relations activities respect its policy of simple and forthright disclosure characterized by accuracy, promptness, and impartiality.

Fiscal 2015 IR Activities Report

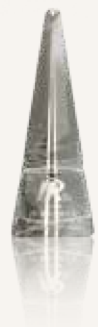
Meetings for analysts and institutional investors	Twice (interim and year-end results) Explanation of business results and management strategies
Briefing sessions	Twice (product strategies, etc.)
Other meetings	About 300 times
Domestic and international conferences hosted by securities companies	About 10 times
Overseas IR activities	Visits to important investors in the U.S., Europe, and Asia for briefing sessions Explanation of business results and management strategies
Briefings for individual investors	Seminars given by senior IR executives to sales staff at securities companies
Major communication tools	· Annual report · Semi-annual reports for individual shareholders (published after the second quarter and fiscal year-end)

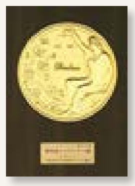


Annual Report

Major External Appraisals

Japan Investor Relations Association	Fiscal 2006	11th Best IR Award
	Fiscal 2010	15th Best IR Award
	Fiscal 2011	16th IR Grand Prix (first retail company to receive the award)
Securities Analysts Association of Japan	Fiscal 2008	FamilyMart was sole recipient in retail sector of certificate of merit for fiscal 2008, as a "company that maintains a consistently high level of disclosure" in the disclosure rankings by the Securities Analysts Association of Japan
	Fiscal 2011	FamilyMart came first among all 17 companies competing in the "Retailing" category in the Excellence in Corporate Disclosure Awards for fiscal 2011
NIKKEI Annual Report Awards organized by Nikkei Inc.	Fiscal 2009	Honorable mention
	Fiscal 2010	Awarded a prize
	Fiscal 2011	Honorable mention
	Fiscal 2012	Honorable mention
	Fiscal 2015	Awarded a prize
International ARC Awards	Fiscal 2013	Traditional Annual Report, Convenience & Dept. category, Gold prize
Institutional Investor, All-Japan Executive Team Ranking	Fiscal 2012	Sell-side analysts' assessment, No. 1; Buy-side analysts' assessment, No. 3
	Fiscal 2013	Sell-side analysts' assessment, No. 3





Board of Directors, Executive Officers, and Corporate Auditors

(As of June 1, 2016)

Chairman and Chief Executive Officer

Junji Ueda

Apr	1970	Joined ITOCHU Corporation
May	1999	Assistant General Manager of Foods Division and General Manager of CVS Division of ITOCHU Corporation
Sep	2000	Executive Officer of the Company
May	2001	Managing Director and Managing Executive Officer of the Company
Mar	2002	President and Chief Executive Officer of the Company
Jan	2013	Chairman and Chief Executive Officer of the Company (current)
Sep	2016	Representative Director and President of FamilyMart UNY Holdings Co., Ltd. (planned)

President

Isamu Nakayama

Apr	1981	Joined ITOCHU Corporation
Apr	2004	General Manager of Oilseeds, Oils & Fats Department of ITOCHU Corporation
Apr	2010	Executive Officer and Senior Vice President of Food Company of ITOCHU Corporation
Apr	2012	Managing Executive Officer and Executive Vice President of Food Company and Chief Operating Officer of Provisions Division of ITOCHU Corporation
Jan	2013	President and Executive Officer of the Company
May	2013	President of the Company (current)
Sep	2016	Representative Director and Executive Vice President of FamilyMart UNY Holdings Co., Ltd. (planned)

Directors and Senior Managing Executive Officers

Toshio Kato

General Manager of Store Operation Division, General Manager of Information Systems Division, and Supervisor of Customer Service Office and Franchisee Relations Office

Toshinori Honda

General Manager of Merchandising Division, General Manager of Logistics & Quality Control Division, General Manager of Oversea Area Franchising Merchandising Department, Chairman of Ready-to-Eat Products Structural Reform Committee, President and Representative Director of Clear Water Tsunan, Co., Ltd.

Takashi Sawada

Assistant to President

Directors and Managing Executive Officers

Masaaki Kosaka

General Manager of International Business Division, General Manager of International Business Department, and President and Chief Executive Officer of FamilyMart China Holdings Co., Ltd.

Akinori Wada

General Manager of Store Development Division

Yukihiko Komatsuzaki

General Manager of Corporate Planning Division, General Manager of Project Promotion Department, and Chairman of Cost Structure Reform Committee

Hiroaki Tamamaki

General Manager of New Business Development Division

Kunihiro Nakade

General Manager of Management Division, Chairman of Risk Management & Compliance Committee, Chairman of Business Process Improvement Committee, and Chairman of Corporate Social Responsibility Committee

Outside Director

Akihiro Watanabe

Representative Director of GCA Savvian Corporation

Visiting Professor, Graduate School of Business Administration, KOBE UNIVERSITY

Outside Director of Qualicaps Co., Ltd.

Outside Director of Maruho Co., Ltd.

Standing Corporate Auditor

Yasuhiro Baba

Corporate Auditors

Mika Takaoka

Professor of the College of Business, Rikkyo University
Outside Director of TSI HOLDINGS CO., LTD.
Outside Director of MOS FOOD SERVICES, INC.
Outside Director of Kyodo Printing Co., Ltd.

Shuji Iwamura

Advisor to NAGASHIMA, OHNO & TSUNEMATSU
Outside Corporate Auditor of Riken Corporation
Outside Corporate Auditor of CANON ELECTRONICS INC.
Outside Corporate Auditor of Hokkaido Bank, Ltd.

Managing Executive Officers

Kazushige Ueno
Mitsuji Hirata
Yoshihito Nakahira

Senior Executive Officers

Kimichika Iwakiri
Minoru Aoki
Teruo Kuramata
Makoto Sugiura
Kiyoshi Kikuchi
Junichi Yamashita
Atsushi Inoue
Eiji Morita
Kenji Misawa
Hiroshi Sawada
Hidenari Sato

Executive Officers

Noboru Takebayashi
Takehiko Kigure
Masanori Sugiura
Toru Ichikawa
Tomoaki Ikeda
Takashi Iizuka
Yoshiaki Uematsu
Yoshiki Sakazaki
Junichi Maenishi
Toshiya Yoshida
Katsuhisa Nozaki
Tatsuya Akaogi
Tatsuhiko Asakawa
Toshiyuki Asahi
Rei Takashima
Yukitaka Adachi
Yoshiharu Kanoda
Tsuneo Murai
Kazutaka Hiramatsu

Directors of the Integrated Company (planned)

Norio Sako

Mar	1980	Joined UNY CO., LTD. (currently UNY Group Holdings)
May	2008	Director, Executive Officer
May	2011	Managing Director, Managing Executive Officer
May	2012	Senior Managing Director, Senior Executive Officer
Feb	2013	Director, Representative Director and President of UNY CO., LTD. (current)
Mar	2015	Representative Director and President of UNY Group Holdings (current)
Sep	2016	Representative Director and Executive Vice President of FamilyMart UNY Holdings Co., Ltd. (planned)

Takashi Sawada

Apr	1981	Joined ITOCHU Corporation
Nov	1998	Executive Vice President of FAST RETAILING CO., LTD.
Oct	2005	President and Chief Executive Officer of Revamp Corporation
May	2016	Chairman of Revamp Corporation (current)
May	2016	Director and Senior Managing Executive Officer of the Company (current)
Sep	2016	President of the Company (planned)

Fact Sheets

FamilyMart plans to merge with UNY Group Holdings Co., Ltd., on September 1, 2016. Our earnings forecasts, however, do not reflect this merger.

Retail Sector Data

Sales of Retail Sector

(¥ billion)

	10/3	11/3	12/3	13/3	14/3	15/3	16/3
Entire retail sector	134,097	135,564	136,709	137,184	141,136	139,466	140,550
Department stores	7,054	6,727	6,723	6,649	6,892	6,702	6,792
Supermarkets	12,513	12,852	12,978	12,905	13,251	13,293	13,148
Convenience stores	7,938	8,266	8,976	9,542	10,018	10,545	11,128

Principal Indicators of Convenience-Store Industry

Major Convenience Store Chains (number of domestic stores)

	10/2	11/2	12/2	13/2	14/2	15/2	16/2	YoY difference
Seven-Eleven Japan	12,753	13,232	14,005	15,072	16,319	17,491	18,572	1,081
LAWSON	9,761	9,994	10,457	11,130	11,606	12,276	12,395	119
FamilyMart	7,688	8,248	8,834	9,481	10,547	11,328	11,656	328
am/pm	1,104	469						
Cocostore	847	813	772	731	693	656	405	(251)
Circle K Sunkus	6,219	6,274	6,169	6,242	6,359	6,353	6,350	(3)
MINISTOP	2,021	2,042	2,105	2,192	2,218	2,151	2,221	70
Daily Yamazaki	1,626	1,624	1,644	1,617	1,571	1,574	1,548	(26)
Seicomart	1,071	1,100	1,132	1,154	1,160	1,161	1,184	23
SAVE ON	568	567	577	582	600	605	578	(27)
Three F	710	704	710	679	641	558	539	(19)
Community Store	282	285	303	313	448	594	520	(74)
POPLAR	705	700	700	713	655	525	518	(7)
JR-EAST	416	431	454	502	506	506	505	(1)
JR-WEST	166	165	163	179	179	85	30	(55)
Total	45,937	46,648	48,025	50,587	53,502	55,863	57,021	1,158

Note: FamilyMart merged with am/pm in March 2010 and with Cocostore in December 2015.

Total Store Sales (non-consolidated)

(¥ billion)

	10/2	11/2	12/2	13/2	14/2	15/2	16/2
FamilyMart	1,274	1,440	1,535	1,585	1,722	1,860	2,006
Seven-Eleven Japan	2,785	2,948	3,281	3,508	3,781	4,008	4,291
LAWSON	1,472	1,503	1,621	1,693	1,759	1,933	1,960
Circle K Sunkus	852	855	896	879	895	928	937

Growth Rate of Average Daily Sales of Existing Stores (non-consolidated)

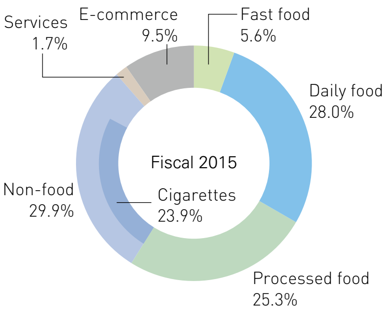
(%)

	10/2	11/2	12/2	13/2	14/2	15/2	16/2
FamilyMart	(2.4)	(0.2)	4.4	(1.6)	(0.4)	(2.2)	1.3
Seven-Eleven Japan	(2.1)	2.2	6.7	1.3	2.3	2.4	2.9
LAWSON	(4.1)	0.8	5.4	0.0	(0.2)	(1.0)	1.4
Circle K Sunkus	(5.6)	(1.4)	3.1	(4.8)	(3.1)	(3.6)	(0.9)

Sources: Convenience Store Sokuho, Ryutsu Sangyo Shinbunsha for number of stores; Retail Statistical Yearbook, Ministry of Economy, Trade and Industry; and documents released by each company

Products (non-consolidated)

Sales by Product Category



Category	Products
Fast food	Fried chickens, steamed meat buns, *oden*, french fries and counter coffee, etc. made and sold over the counter
Daily food	Lunch boxes, noodles, sandwiches, delicatessen, desserts, etc.
Processed food	Beverages, liquor, instant noodles, confectionery, seasonings, etc.
Non-food	Magazines, daily goods, cigarettes, etc.
Services	Copy service, express service, etc.
E-commerce	Ticket and pre-paid cards sales by Famiport (multimedia terminals)

Breakdown of Sales by Product Category

(¥ millions)

	13/2			14/2			15/2			16/2		
		YoY (%)	Share (%)		YoY (%)	Share (%)		YoY (%)	Share (%)		YoY (%)	Share (%)
Fast food	59,850	13.1	3.8	78,602	31.3	4.6	102,696	30.7	5.5	112,276	9.3	5.6
Daily food	448,593	4.7	28.4	482,115	7.5	28.0	519,425	7.7	27.9	557,559	7.3	28.0
Processed food	417,404	4.5	26.3	444,414	6.5	25.8	471,668	6.1	25.4	505,179	7.1	25.3
Liquor (License goods)	67,753	3.6	4.3	72,886	7.6	4.2	79,016	8.4	4.2	84,697	7.2	4.2
Food sub-total	925,847	5.1	58.5	1,005,131	8.6	58.4	1,093,790	8.8	58.8	1,175,014	7.4	58.9
Non-food	526,742	3.0	33.2	547,386	3.9	31.8	573,092	4.7	30.8	596,266	4.0	29.9
Cigarettes (License goods)	412,414	3.1	26.0	432,280	4.8	25.1	454,891	5.2	24.5	477,368	4.9	23.9
Services	33,119	1.2	2.1	33,511	1.2	1.9	38,798	0.9	1.8	33,060	(2.2)	1.7
E-commerce	98,654	14.1	6.2	135,677	37.5	7.9	159,228	17.4	8.6	189,528	19.0	9.5
Total	1,584,362	4.8	100.0	1,721,705	8.7	100.0	1,859,910	8.0	100.0	1,993,867	7.2	100.0

Note: The figures above do not reflect the performance results of ASD machines and Cocostore before conversion to FamilyMart stores.

Gross Profit Ratio

(%)

	13/2		14/2		15/2		16/2		17/2 (Est.)	
		YoY difference		YoY difference		YoY difference		YoY difference		YoY difference
Fast food	52.74	0.49	54.82	2.08	44.27	(10.55)	45.39	1.12		
Daily food	36.35	0.16	35.71	(0.64)	36.28	0.57	35.98	(0.30)		
Processed food	37.82	0.53	37.68	(0.14)	38.34	0.66	38.25	(0.09)		
Liquor (License goods)	24.80	0.21	24.78	(0.02)	24.86	0.08	24.65	(0.21)		
Food sub-total	38.07	0.41	38.08	0.01	37.92	(0.16)	37.86	(0.06)		
Non-food	15.60	0.15	15.62	0.02	15.87	0.25	15.71	(0.16)		
Cigarettes (License goods)	10.50	0.02	10.50	—	10.78	0.28	10.80	0.02		
Services	9.83	(0.06)	10.29	0.46	10.41	0.12	9.48	(0.93)		
E-commerce	3.69	0.32	4.07	0.38	4.79	0.72	5.32	0.53		
Total	27.89	0.30	27.73	(0.16)	27.80	0.07	27.68	(0.12)	28.30	0.62

Notes: 1. The figures above do not reflect the performance results of the TOMONY and ASD machines.
2. In fiscal 2014, FamilyMart changed its accounting method for the procurement of fast food packing materials. This change does not affect the gross profit ratio.

Business Performance (non-consolidated)

Business Performance

		13/2		14/2		15/2		16/2		17/2 (Est.)	
			YoY difference		YoY difference		YoY difference		YoY difference		YoY difference
Average daily sales (thousands of yen)	Total stores	523	(8)	521	(2)	508	(13)	**516**	**8**	525	9
	Existing stores	527	(4)	525	(2)	512	(13)	**517**	**5**	526	9
	New stores	429	(92)	440	11	424	(16)	**480**	**56**	490	10
Number of customers	Total stores	950	(11)	932	(18)	914	(18)	**914**	**—**	915	1
	Existing stores	956	—	940	(16)	921	(19)	**916**	**(5)**	918	2
Spend per customer (yen)	Total stores	551	(1)	559	8	556	(3)	**565**	**9**	574	9
	Existing stores	551	(5)	559	8	556	(3)	**565**	**9**	573	8
Growth rate of average daily sales of existing stores (%)		(1.6)		(0.4)		(2.2)		**1.3**		1.5	
Average inventory (thousands of yen)		6,221	224	6,531	310	6,798	267	**6,743**	**(55)**	6,738	(5)
Turnover of goods (times)		29.7	(1.7)	27.8	(1.9)	26.4	(1.4)	**27.5**	**1.1**	27.8	0.3

Note: The figures above do not reflect the performance results of TOMONY and Cocostore before conversion to FamilyMart stores.

Bill Settlement Service

	13/2		14/2		15/2		16/2	
		YoY (%)		YoY (%)		YoY (%)		YoY (%)
Transaction volume (millions of yen)	1,791,706	6.6	1,896,979	5.9	2,065,351	8.9	**2,163,520**	**4.8**
Number of transactions (thousands)	186,852	5.1	195,783	4.8	208,531	6.5	**221,249**	**6.1**

Note: The figures above do not reflect the performance results of Cocostore before conversion to FamilyMart stores.

Stores

Number of Stores by Region

FamilyMart stores
Area franchising stores

Total: 17,502 stores

As of February 29, 2016

Region	FamilyMart stores	Area franchising stores
Taiwan		2,985
Thailand		1,109
China		1,530
Vietnam		87
Indonesia		27
The Philippines		108
Hokkaido		47
Aomori	63	
Iwate	109	
Akita	78	
Miyagi	260	
Yamagata	110	
Fukushima	162	
Tochigi	175	
Ibaraki	265	
Tokyo	2,002	
Chiba	533	
Niigata	86	
Gunma	114	
Saitama	620	
Kanagawa	777	
Toyama	95	
Nagano	145	
Yamanashi	89	
Shizuoka	254	
Ishikawa	96	
Fukui	106	
Shiga	114	
Gifu	114	
Aichi	583	
Mie	174	
Kyoto	247	
Hyogo	418	
Osaka	1,104	
Nara	102	
Wakayama	94	
Tottori	68	
Okayama	130	
Shimane	65	
Hiroshima	219	
Yamaguchi	94	
Ehime	128	
Kagawa	115	
Kochi	53	
Tokushima	72	
Nagasaki	151	5
Fukuoka	378	95
Saga	72	6
Oita	76	21
Kumamoto	124	26
Miyazaki		108
Kagoshima		245
Okinawa		269

Number of Stores

	13/2		14/2		15/2		16/2		17/2 (Est.)	
	Number of stores	YoY difference	Number of stores	YoY difference	Number of stores	YoY difference	Number of stores	YoY difference	Number of stores	YoY difference
Company-owned stores	397	10	386	(11)	416	30	**347**	**(69)**	325	(22)
Type 1	5,475	462	6,071	596	6,360	289	**6,424**	**64**		
Type 2	2,900	136	3,323	423	3,738	415	**4,063**	**325**		
Franchised stores	8,375	598	9,394	1,019	10,098	704	**10,487**	**389**	11,106	619
FamilyMart stores	8,772	608	9,780	1,008	10,514	734	**10,834**	**320**	11,431	597
Okinawa FamilyMart Co., Ltd.	220	8	232	12	251	19	**269**	**18**		
Minami Kyushu FamilyMart Co., Ltd.	304	13	333	29	337	4	**353**	**16**		
Hokkaido FamilyMart Co., Ltd.	58	6	68	10	75	7	**47**	**(28)**		
JR KYUSHU RETAIL, INC.	127	12	134	7	151	17	**153**	**2**		
Domestic area franchising stores	709	39	767	58	814	47	**822**	**8**	966	144
Domestic chain stores	9,481	647	10,547	1,066	11,328	781	**11,656**	**328**	12,397	741
Taiwan	2,851	42	2,897	46	2,952	55	**2,985**	**33**	3,035	50
South Korea	8,001	1,091	7,925	(76)	—	(7,925)	**—**	**—**	—	—
Thailand	806	119	1,070	264	1,193	123	**1,109**	**(84)**	1,122	13
Shanghai	741	102	792	51	893	101	**980**	**87**	1,074	94
Guangzhou	146	25	142	(4)	161	19	**185**	**24**	213	28
Suzhou	70	22	93	23	106	13	**135**	**29**	155	20
Hangzhou	17	12	34	17	55	21	**76**	**21**	104	28
Chengdu	15	15	26	11	36	10	**53**	**17**	84	31
Shenzhen			6	6	22	16	**32**	**10**	54	22
Wuxi			2	2	25	23	**44**	**19**	64	20
Beijing					5	5	**14**	**9**	33	19
Dongguan					3	3	**11**	**8**	22	11
China sub-total	989	176	1,095	106	1,306	211	**1,530**	**224**	1,803	273
United States	9	1	9	—	8	(1)	**—**	**(8)**	—	—
Vietnam	39	21	28	(11)	71	43	**87**	**16**	150	63
Indonesia	5	5	12	7	21	9	**27**	**6**	82	55
The Philippines			39	39	91	52	**108**	**17**	121	13
Overseas area franchising stores	12,700	1,455	13,075	375	5,642	(7,433)	**5,846**	**204**	6,313	467
Total area franchising stores	13,409	1,494	13,842	433	6,456	(7,386)	**6,668**	**212**	7,279	611
Total chain stores	22,181	2,102	23,622	1,441	16,970	(6,652)	**17,502**	**532**	18,710	1,208

Notes: 1. Hokkaido FamilyMart integrated with the Company on March 1, 2016.
2. Total of Cocostore as of February 29, 2016 is 405.

Number of Store Openings and Closures (non-consolidated)

	13/2			14/2			15/2			16/2			17/2 (Est.)		
	Opening	Closure	Net increase	Opening	Closure	Net increase	Opening	Closure	Net increase	Opening	Closure	Net increase	Opening	Closure	Net increase
Domestic chain stores (including domestic area franchising stores)	959	312	647	1,355	289	1,066	1,120	339	781	765	437	328	1,200	459	741
FamilyMart (non-consolidated)	900	292	608	1,284	276	1,008	1,061	327	734	703	383	320	1,000	450	550

Note: Stores that have converted their brand from Cocostore to FamilyMart are included in the above.
(FY2015: 83 non-consolidated stores, 22 domestic area franchising stores; FY2016 (est.): 123 non-consolidated stores, 119 domestic area franchising stores).

Capital Expenditure

Non-Consolidated

(¥ million)

	13/2	YoY (%)	14/2	YoY (%)	15/2	YoY (%)	16/2	YoY (%)	17/2 (Est.)	YoY (%)
Leasehold deposits	20,761	57.7	31,299	50.8	27,633	(11.7)	17,552	(36.5)	22,719	29.4
New stores	9,523	52.7	15,918	67.2	15,868	(0.3)	9,751	(38.5)	16,311	67.3
Existing stores	2,190	(13.3)	3,004	37.2	8,194	172.8	5,902	(28.0)	5,937	0.6
For stores	11,713	33.7	18,922	61.5	24,062	27.2	15,653	(34.9)	22,248	42.1
Head office investment	351	(25.0)	727	107.1	675	(7.0)	983	45.6	921	(6.4)
System investment (Note)	3,439	20.3	4,571	32.9	3,442	(24.7)	5,009	45.5	9,270	85.1
For head office	3,789	13.9	5,297	39.8	4,118	(22.3)	5,993	45.5	10,191	70.1
Lease	15,190	12.3	28,027	84.5	38,054	35.8	18,056	(52.6)	22,443	24.3
Total capital expenditure	51,454	32.7	83,546	62.4	93,867	12.4	57,254	(39.0)	77,601	35.5
Depreciation and amortization expense	15,463	18.8	20,205	30.7	25,730	27.3	26,244	2.0	30,343	15.6

Note: For the depreciation of property, store and equipment, in previous years the Company principally used the declining-balance method, but from fiscal 2015 the Company has adopted the straight-line method. This change resulted in an increase in both operating income and ordinary income by 3.5 billion yen in fiscal 2015.

Consolidated

(¥ million)

	13/2	YoY (%)	14/2	YoY (%)	15/2	YoY (%)	16/2	YoY (%)	17/2 (Est.)	YoY (%)
Total capital expenditure	60,481	30.6	93,256	54.2	111,718	19.8	68,534	(38.7)	88,633	29.3
Depreciation and amortization expense	19,006	17.4	24,460	28.7	30,918	26.4	32,835	6.2	37,042	12.8

Consolidated Subsidiaries

Main Consolidated Subsidiaries

(¥ million)

		14/2			15/2			16/2		
	Shares	Operating revenues	Operating income	Net income	Operating revenues	Operating income	Net income	Operating revenues	Operating income	Net income
Taiwan FamilyMart Co., Ltd.	47.44%	38,474	3,842	3,614	44,264	4,728	4,532	54,455	5,556	4,878
famima.com Co., Ltd.	54.25%	7,645	1,704	930	8,640	1,622	979	8,935	1,026	555
FAMIMA CORPORATION	100.00%	1,292	(250)	(261)	1,426	(244)	(389)	766	(120)	(106)
SENIOR LIFE CREATE	82.83%	6,257	498	292	8,420	985	586	7,915	707	363

Notes: 1. The figures for earnings contributions (shares) by affiliates and subsidiaries are as of February 29, 2016.
2. FAMIMA CORPORATION ceased to be a consolidated subsidiary following resolution to wind up and dissolve in August 2015.
3. For fiscal 2014, figures for SENIOR LIFE CREATE are for a period of 14 months due to a change in the fiscal year-end.

Main Associated Companies Accounted for by the Equity Method

(¥ million)

		14/2	15/2	16/2
	Shares	Net income	Net income	Net income
Okinawa FamilyMart Co., Ltd.	48.98%	822	863	923
Minami Kyushu FamilyMart Co., Ltd.	49.00%	31	32	127
Central FamilyMart Co., Ltd.	48.20%	(80)	(1,663)	(3,103)
Shanghai FamilyMart Co., Ltd.	30.72%	745	1,213	1,506

Note: The figures for earnings contributions (shares) by affiliates and subsidiaries are as of February 29, 2016.

New Franchise Contracts

Types of FamilyMart Franchise Contracts (From September 2016)

(Contract details differ according to area franchisers)
○ = Provided by the franchisee

Contract type		1FC-A	1FC-B	1FC-C	2FC-N Note2
Contract period		10 years from store opening			
Funds	Required at contract date	¥3,000,000 at contract date (excluding consumption tax) Affiliation fee: ¥500,000 (excluding consumption tax) Store preparation commission: ¥1,000,000 (excluding consumption tax) Initial stocking fee: ¥1,500,000 (including cash for making change and a portion of merchandise procurement costs)			
	Land / building	○	○	Provided by FamilyMart	Provided by FamilyMart
	Interior facility construction expense	○	○ FamilyMart funds part of expense	○	Provided by FamilyMart
	Sales fixtures Information devices	○ (In principle, FamilyMart funds necessary expenses.)			
	Staff hiring Application for approval	About ¥500,000 (In the case of 2FC-N contracts, franchisees are required to fund their own living expenses for 2 to 3 months.)			
Franchise commission		Percentage of monthly gross margin* Up to ¥2.5 million: 49% From ¥2.5 million: 39% Over ¥3.5 million: 36%	Percentage of monthly gross margin* Up to ¥2.5 million: 52% From ¥2.5 million: 42% Over ¥3.5 million: 39%	Percentage of monthly gross margin* Up to ¥3.0 million: 59% From ¥3.0 million: 52% Over ¥4.5 million: 49%	Percentage of monthly gross margin* Up to ¥3.0 million: 59% From ¥3.0 million: 63% Over ¥5.5 million: 69%
Rent		Note 1		Provided by FamilyMart	Provided by FamilyMart
Minimum operating revenue guaranteed (for stores open 24 hrs/day)		¥20 million per year			
Incentive for opening 24 hrs/day		¥1.2 million per year			
Support for losses from food waste		1) 10% of monthly losses from food waste for amounts between ¥100,000 and ¥300,000 2) 50% for amounts between ¥300,000 and ¥500,000 3) 15% for amounts exceeding ¥500,000			
Support for utilities		90% for amounts below ¥3.6 million per year			
Store management support		¥1.2 million per year			

* Net sales less cost of sales

Notes: 1. In the case of rental store space, the franchisee shall pay the rent, a leasehold deposit, and guarantee money.
2. A loan system is available for part of the franchisee's initial payments in the case of 2FC-N contracts.

FamilyMart's Franchise System

FamilyMart Co., Ltd., as the franchiser, collaborates closely with all of its franchisees to foster mutual trust and a collaborative relationship so that both parties may achieve business growth. Our franchisees are responsible for store management, including the ordering of their own inventories, the arranging of their product displays, and the hiring and training of their staff. For our part, we supply not only our brand name and logo but also full store management support services, including store operation know-how and the shared use of data management and logistics systems. In return for this support, the Company receives royalty income consisting of a certain percentage of each franchisee's gross margin. The rate differs according to the type of franchise contract.

Major Store Operation Systems

Multiple-Store Promotion System (1FC Contracts)	Multiple-Store Promotion System (2FC Contracts)	Step-Up Program for Franchisees on 2FC Contracts
This incentive-based support system encourages franchisees operating one store to take on multiple stores.	Under this system, which is geared toward expanding franchise store operations, FamilyMart's Head Office provides all store infrastructure, thereby allowing franchisees to hold down the outlay of funds. Irrespective of the initial type of operating contract, franchisees can take on the management of multiple stores.	This program enables franchisees on 2FC contracts to step up to 1FC-B or 1FC-C contracts after completing five years of management of a new store and fulfilling their contracts.

Major Support Systems for Franchisee

Family Membership Promotion System	Newly Independent Franchisee Support System Intern Employee Independence System	Senior Citizen Franchisee System	2FC-N Contract Funds Partial Loan System	FamilyMart Store Staff Independent Franchisee Support System

Note: Not applicable to certain stores

Consolidated Balance Sheet

FamilyMart Co., Ltd. and Consolidated Subsidiaries February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
ASSETS			
Current assets:			
Cash and cash equivalents (Note 16)	¥ 131,057	¥ 112,627	$ 1,149,623
Time deposits (Note 16)	80	80	702
Marketable securities (Notes 7 and 16)	2,774	1,700	24,333
Receivables:			
Due from franchised stores (Notes 6 and 16)	20,479	25,599	179,640
Other (Note 16)	55,064	47,878	483,018
Allowance for doubtful receivables	(1,361)	(171)	(11,939)
Merchandise	10,761	10,167	94,395
Deferred tax assets (Note 14)	3,751	2,220	32,904
Prepaid expenses and other current assets	43,173	35,754	378,710
Total current assets	265,778	235,854	2,331,386
Property and store facilities (Notes 3, 8 and 12)**:**			
Land	16,991	19,456	149,044
Buildings and structures	117,266	108,526	1,028,649
Machinery and equipment	19,160	17,105	168,070
Furniture and fixtures	171,880	156,452	1,507,719
Other	848	391	7,439
Total	326,145	301,930	2,860,921
Accumulated depreciation	(128,467)	(108,368)	(1,126,903)
Net property and store facilities	197,678	193,562	1,734,018
Investments and other assets:			
Investment securities (Notes 7 and 16)	20,319	19,613	178,237
Investments in and advances to unconsolidated subsidiaries and associated companies (Notes 4 and 16)	29,251	17,786	256,587
Software	12,116	10,187	106,281
Goodwill (Note 9)	16,472	9,395	144,491
Goodwill attributable to individual stores	2,625	3,067	23,026
Leasehold deposits receivable (Note 16)	154,218	149,564	1,352,789
Deferred tax assets (Note 14)	9,791	9,084	85,886
Other assets (Note 8)	22,048	18,133	193,404
Total investments and other assets	266,840	236,829	2,340,701
Total	¥ 730,296	¥ 666,245	$ 6,406,105

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
LIABILITIES AND EQUITY			
Current liabilities:			
Payables:			
Accounts and note payable—trade (Notes 4 and 16)	¥106,154	¥ 94,758	$ 931,175
Due to franchised stores (Notes 6 and 16)	7,638	5,839	67,000
Other (Notes 4 and 16)	34,802	29,471	305,281
Current portion of long-term lease obligations (Notes 10 and 16)	18,657	17,479	163,658
Income taxes payable (Notes 14 and 16)	3,626	9,955	31,807
Deposit received (Notes 6 and 16)	105,744	90,800	927,579
Accrued expenses	6,183	6,994	54,237
Other current liabilities (Notes 10 and 12)	14,789	8,261	129,728
Total current liabilities	297,593	263,557	2,610,465
Long-term liabilities:			
Long-term bank loans (Notes 10 and 16)	17,989	5,165	157,798
Long-term lease obligations (Notes 10 and 16)	71,942	71,251	631,070
Liability for retirement benefits (Note 11)	14,110	11,300	123,772
Leasehold deposits refundable (Note 16)	11,650	11,707	102,193
Asset retirement obligations (Note 12)	18,173	16,625	159,412
Other long-term liabilities	3,609	1,810	31,658
Total long-term liabilities	137,473	117,858	1,205,903
Commitments and contingent liabilities (Note 18)			
Equity (Notes 13 and 21)**:**			
Common stock—authorized, 250,000,000 shares; issued, 97,683,133 shares in 2016 and 2015	16,659	16,659	146,132
Capital surplus	17,389	17,389	152,535
Retained earnings	252,140	241,324	2,211,754
Treasury stock—at cost, 2,761,078 shares in 2016 and 2,758,846 shares in 2015	(8,784)	(8,772)	(77,053)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities (Note 7)	7,751	5,316	67,991
Foreign currency translation adjustments	590	1,227	5,176
Defined retirement benefit plans	(2,180)	(481)	(19,123)
Total	283,565	272,662	2,487,412
Minority interests	11,665	12,168	102,325
Total equity	295,230	284,830	2,589,737
Total	¥730,296	¥666,245	$6,406,105

See notes to consolidated financial statements.

Consolidated Statement of Income

FamilyMart Co., Ltd. and Consolidated Subsidiaries   Year Ended February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Operating revenues:			
Commission from franchised stores (Note 6)	¥254,246	¥234,074	$2,230,228
Net sales	136,886	105,647	1,200,754
Other operating revenues (Notes 4 and 6)	36,545	34,710	320,570
Total operating revenues	427,677	374,431	3,751,552
Operating expenses:			
Cost of sales (Note 4)	91,160	70,031	799,649
Selling, general and administrative expenses (Notes 3, 9 and 11)	287,782	263,982	2,524,403
Total operating expenses	378,942	334,013	3,324,052
Operating income	48,735	40,418	427,500
Other income (expenses):			
Interest and dividend income	2,079	2,019	18,237
Equity in earnings of unconsolidated subsidiaries and associated companies	1,436	396	12,596
Gain on sales of investment securities—net (Note 7)	456	143	4,000
Gain on sales of investments in subsidiaries and associated companies	45	15,368	395
Gain on transfer of business	200		1,754
Loss on disposals/sales of property and store facilities—net	(2,959)	(4,298)	(25,956)
Loss on impairment of long-lived assets (Note 8)	(7,742)	(6,051)	(67,912)
Loss on cancellations of land and building lease contracts	(2,033)	(2,349)	(17,833)
Other—net	(1,455)	(1,511)	(12,763)
Other (expenses) income—net	(9,973)	3,717	(87,482)
Income before income taxes and minority interests	38,762	44,135	340,018
Income taxes (Note 14)**:**			
Current	10,688	19,736	93,755
Deferred	4,016	(4,051)	35,228
Total income taxes	14,704	15,685	128,983
Net income before minority interests	24,058	28,450	211,035
Minority interests in net income	2,990	2,778	26,228
Net income	¥ 21,068	¥ 25,672	$ 184,807

	Yen		U.S. dollars
	2016	2015	2016
Per share of common stock (Notes 2.t and 20)**:**			
Basic net income	¥221.9	¥270.5	$1.95
Cash dividends applicable to the year	110.0	106.0	0.96

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

FamilyMart Co., Ltd. and Consolidated Subsidiaries Year Ended February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net income before minority interests	¥24,058	¥28,450	$211,035
Other comprehensive (loss) income (Note 19)**:**			
Unrealized gain on available-for-sale securities	2,351	3,165	20,623
Foreign currency translation adjustments	(756)	1,518	(6,632)
Defined retirement benefit plans	(1,873)	(109)	(16,430)
Share of other comprehensive income in associates	(140)	(1,176)	(1,228)
Total other comprehensive (loss) income	(418)	3,398	(3,667)
Comprehensive income	¥23,640	¥31,848	$207,368
Total comprehensive income attributable to:			
Owners of the parent	¥21,168	¥28,361	$185,684
Minority interests	2,472	3,487	21,684

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

FamilyMart Co., Ltd. and Consolidated Subsidiaries Year February 29, 2016

	Thousands	Millions of yen									
						Accumulated other comprehensive income					
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
Balance, February 28, 2014 (as previously reported)	94,926	¥16,659	¥17,389	¥226,224	¥(8,762)	¥2,222	¥1,693	¥ (418)	¥255,007	¥10,451	¥265,458
Cumulative effect of accounting change				(700)				(124)	(824)		(824)
Balance, March 1, 2014 (as restated)		16,659	17,389	225,524	(8,762)	2,222	1,693	(542)	254,183	10,451	264,634
Net income				25,672					25,672		25,672
Cash dividends, ¥104.0 per share				(9,872)					(9,872)		(9,872)
Purchase of treasury stock	(2)				(10)				(10)		(10)
Disposal of treasury stock											
Net change in the year						3,094	(466)	61	2,689	1,717	4,406
Balance, February 28, 2015	94,924	16,659	17,389	241,324	(8,772)	5,316	1,227	(481)	272,662	12,168	284,830
Net income				21,068					21,068		21,068
Cash dividends, ¥108.0 per share				(10,252)					(10,252)		(10,252)
Purchase of treasury stock	(2)				(13)				(13)		(13)
Disposal of treasury stock					1				1		1
Net change in the year						2,435	(637)	(1,699)	99	(503)	(404)
Balance, February 29, 2016	94,922	¥16,659	¥17,389	¥252,140	¥(8,784)	¥7,751	¥ 590	¥(2,180)	¥283,565	¥11,665	¥295,230

	Thousands of U.S. dollars (Note 1)									
					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans	Total	Minority interests	Total equity
Balance, February 28, 2015	$146,132	$152,535	$2,116,877	$(76,947)	$46,631	$10,763	$ (4,219)	$2,391,772	$106,737	$2,498,509
Net income			184,807					184,807		184,807
Cash dividends, $0.95 per share			(89,930)					(89,930)		(89,930)
Purchase of treasury stock				(114)				(114)		(114)
Disposal of treasury stock				8				8		8
Net change in the year					21,360	(5,587)	(14,904)	869	(4,412)	(3,543)
Balance, February 29, 2016	$146,132	$152,535	$2,211,754	$(77,053)	$67,991	$ 5,176	$(19,123)	$2,487,412	$102,325	$2,589,737

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

FamilyMart Co., Ltd. and Consolidated Subsidiaries Year Ended February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Operating activities:			
Income before income taxes and minority interests	¥ 38,762	¥ 44,135	$ 340,018
Adjustments for:			
Income taxes—paid	(16,813)	(18,296)	(147,482)
Depreciation and amortization	34,626	32,014	303,737
Reversal of allowance for doubtful receivables	(2,478)	(129)	(21,737)
Equity in earnings of unconsolidated subsidiaries and associated companies	(1,436)	(396)	(12,596)
Gain on sales/valuation of marketable and investment securities—net	(267)	(121)	(2,342)
Gain on sales of investments in subsidiaries and associated companies	(45)	(15,368)	(395)
Loss on disposals/sales of property and store facilities—net	2,959	4,298	25,956
Gain on transfer of business	(200)		(1,754)
Loss on impairment of long-lived assets	7,742	6,051	67,912
Loss on cancellations of land and building lease contracts	2,033	2,349	17,833
Changes in assets and liabilities:			
Decrease (increase) in due from/to franchised stores—net	7,385	(6,144)	64,781
Decrease (increase) in merchandise and supplies	818	(863)	7,175
Increase in payables—trade	6,096	7,338	53,474
Increase in deposit received	13,653	4,487	119,763
(Decrease) increase in liability for retirement benefits	(453)	485	(3,974)
Other—net	5,604	11,998	49,158
Total adjustments	59,224	27,703	519,509
Net cash provided by operating activities	97,986	71,838	859,527
Investing activities:			
Proceeds from sales of property and store facilities, software and other intangible assets	1,285	778	11,272
Purchases of property and store facilities, software and other intangible assets	(33,653)	(44,098)	(295,202)
Refunds of leasehold deposits receivable	4,383	2,163	38,447
Payments of leasehold deposits receivable	(18,930)	(28,806)	(166,053)
Receipts of leasehold deposits refundable	2,049	1,990	17,974
Refunds of leasehold deposits refundable	(2,294)	(1,969)	(20,123)
Increase in time deposits		(6,010)	
Decrease (increase) in short-term loans—net	781	(447)	6,851
Proceeds from collection of long-term loans receivable	5,070		44,474
Proceeds from sales and redemption at maturity of marketable and investment securities	2,844	2,541	24,947
Purchases of marketable and investment securities	(1,584)	(2,036)	(13,895)
Proceeds from sales of investments in associated companies		24,911	
Purchases of investments in subsidiaries and associated companies	(10,400)	(956)	(91,228)
Proceeds from sale of investments in subsidiaries with change in scope	(1,792)		(15,719)
Purchases of investments in subsidiaries with change in scope (Note 15.a)	(11,644)		(102,140)
Proceeds from business split (Note 15.b)	3,072		26,947
Other	(753)	(1,736)	(6,605)
Net cash used in investing activities	(61,566)	(53,675)	(540,053)
Financing activities:			
Increase (decrease) in short-term bank loans—net	749	(550)	6,570
Proceeds from long-term bank loans	15,000	6,990	131,579
Repayments of long-term bank loans	(2,086)	(487)	(18,298)
Repayments for lease obligations	(18,476)	(15,673)	(162,070)
Dividends paid	(10,252)	(9,872)	(89,930)
Dividends paid to minority interest shareholders	(2,317)	(1,811)	(20,325)
Other	(12)	28	(105)
Net cash used in financing activities	(17,394)	(21,375)	(152,579)
Foreign currency translation adjustments on cash and cash equivalents	(454)	1,303	(3,982)
Net increase (decrease) in cash and cash equivalents	18,572	(1,909)	162,913
Decrease in cash and cash equivalents due to exclusion of subsidiaries from consolidation	(142)		(1,246)
Cash and cash equivalents, beginning of year	112,627	114,536	987,956
Cash and cash equivalents, end of year	¥131,057	¥112,627	$1,149,623

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

FamilyMart Co., Ltd. and Consolidated Subsidiaries Year Ended February 29, 2016

1 Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which FamilyMart Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥114 to $1, the approximate rate of exchange at February 29, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2 Summary of Significant Accounting Policies

a. Consolidation—The consolidated financial statements as of February 29, 2016, include the accounts of the Company and its 13 (15 in 2015) significant subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 9 (8 in 2015) unconsolidated subsidiaries and 22 (22 in 2015) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiaries and associated companies at the date of acquisition is included in goodwill and is amortized on a straight-line basis from 5 to 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements—In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. Unification of accounting policies applied to foreign associated companies for the equity method—In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if contained in net income.

d. Business combination—In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling-of-interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. This revised standard was applicable to business combinations undertaken on or after April 1, 2010.

e. Cash equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper, bond funds and short-term government securities, all of which mature or become due within three months of the date of acquisition.

f. Merchandise—Most merchandise is stated at the lower of cost, mostly determined by the retail method or net selling value.

g. Marketable and investment securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, which are expected to be held-to-maturity with the positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

h. Property and store facilities—Property and store facilities are stated at cost. Depreciation of property and store facilities is computed by the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 2 to 50 years for buildings and structures and from 2 to 20 years for furniture and fixtures. Store equipment held for lease is depreciated by the straight-line method. The useful lives for leased assets are the terms of the respective leases.

i. Long-lived assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset or asset group exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

j. Software—Capitalized software is stated at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives (5 years).

k. Goodwill—Goodwill is stated at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives (from 5 to 20 years).

l. Goodwill attributable to individual stores—Goodwill attributable to individual stores is stated at cost less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives of stores (weighted average 12 years).

m. Retirement and pension plans—The Company and certain consolidated subsidiaries have contributory funded defined benefit pension plans and/or unfunded retirement defined benefit plans for employees. One consolidated subsidiary has a defined benefit pension plan and a defined contribution pension plan.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over a certain period (mainly 13 years) within the average remaining service period. Past service costs are amortized on a straight-line basis over a certain period (mainly 13 years) within the average remaining service period.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after March 1, 2014, and for (c) above are effective for the beginning of annual periods beginning on or after March 1, 2015, or for the beginning of annual periods beginning on or after March 1, 2016, subject to certain disclosure in February 2016, both with earlier application being permitted from the beginning of annual periods beginning on or after March 1, 2014. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company early applied the revised accounting standard and guidance for retirement benefits for (a), (b) and (c) above, effective March 1, 2014.

With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight line basis to a benefit formula basis and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using different discount rates according to the estimated timing of benefit payment, and recorded the effect of (c) above as of March 1, 2014, in retained earnings. The Company recorded the effect of (a) and (b) above as of March 1, 2014, in accumulated other comprehensive income, and the effect of (c) above as of March 1, 2014, in retained earnings. As a result, accumulated other comprehensive income decreased by ¥124 million and retained earnings decreased by ¥700 million, resulting in an ¥824 million decrease in equity.

n. Asset retirement obligations—In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. In addition, the accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective March 1, 2009. In addition, the Company continues to account for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

p. Income taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

q. Foreign currency transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

r. Foreign currency financial statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the annual average exchange rate.

s. Derivatives—The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts are utilized by the Company to reduce foreign currency exchange risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income.

t. Per share information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not presented as there are no potential common shares that could result in the potential dilution.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

u. Accounting changes and error corrections—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) Changes in accounting policies
When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in presentation
When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in accounting estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of prior-period errors
When an error in prior-period financial statements is discovered, those statements are restated.

v. New accounting pronouncements

Accounting Standards for Business Combinations and Consolidated Financial Statements—On September 13, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements."

Major accounting changes are as follows:

(a) Transactions with noncontrolling interest
A parent's ownership interest in a subsidiary might change if the parent acquires or disposes of ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet
In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "noncontrolling interest" under the revised accounting standard.

(c) Presentation of the consolidated statement of income
In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) Provisional accounting treatments for a business combination
If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisioned amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) Acquisition-related costs
Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for "transactions with noncontrolling interest," "acquisition-related costs" and "presentation changes in the consolidated financial statements" are effective for the beginning of annual periods beginning on or after March 1, 2016. Earlier application is permitted from the beginning of annual periods beginning on or after March 1, 2015, except for the presentation changes in the consolidated financial statements. In case of earlier application, all accounting standards and guidance above, except for the presentation changes, should be applied simultaneously. Either retrospective or prospective application of the revised accounting standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" is permitted. In retrospective application of the revised standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs," accumulated effects of retrospective adjustments for all "transactions with noncontrolling interest" and "acquisition-related costs" which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application.

In prospective application, the new standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" shall be applied prospectively from the beginning of the year of the first-time application. The changes in presentation shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for "provisional accounting treatments for a business combination" are effective for a business combination which will occur on or after the beginning of annual periods beginning on or after March 1, 2016. Earlier application is permitted for a business combination which will occur on or after the beginning of annual periods beginning on or after March 1, 2015.

The Company expects to apply the revised accounting standards and guidance from the beginning of the annual period beginning on March 1, 2016, and the effect of this application as of March 1, 2016, will be a ¥4,142 million ($36,333 thousand) decrease in goodwill, a ¥3,679 million ($32,272 thousand) decrease in capital surplus, and a ¥58 million ($509 thousand) decrease in retained earnings.

Tax Effect Accounting—On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary difference, etc.

The new guidance does not change such basic framework, however, in limited cases, allows companies to recognize deferred tax assets even for deductible temporary differences for which it was specifically prohibited to recognize deferred tax assets under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in future periods.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective March 1, 2017, and is in process of measuring the effects of applying the new guidance in future applicable periods.

(Foreign Subsidiaries)

International Financial Reporting Standards ("IFRS") 16 "Leases"— On January 13, 2016, the International Accounting Standards Board issued a new accounting standard for lease, IFRS 16 "Leases."

IFRS 16 brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained.

The new standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities if IFRS 15 "Revenue from Contracts with Customers" has also been applied.

The Company expects to apply the new standard from the annual period beginning on March 1, 2019, and is in the process of measuring the effects of applying the new standard in future applicable periods.

3 Changes in Accounting Policies

Change in Accounting Policy That Is Not Easily Distinguished from a Change in Accounting Estimate

Change in depreciation method of property and store facilities

Prior to March 1, 2015, the Company and its domestic consolidated subsidiaries primarily used the declining balance method for computing the depreciation of property and store facilities, excluding leased property. Effective March 1, 2015, the Company and its domestic subsidiaries changed their method for computing the depreciation to the straight line method because the straight line method better reflects the depreciation pattern of the store facilities.

The Company has been aggressively developing new stores, constructing high quality store networks, and strengthening the competitiveness of each store through large scale reforming of sale floors led by aggressive investment in existing stores in recent years. Furthermore, the Company has continued such aggressive investments in existing stores as part of its mid term business plan starting from the year ended February 29, 2016.

In these circumstances, the Company reconsidered its depreciation method for such property and store facilities, and decided to change the method to the straight line method because the Company concluded that allocating the depreciation cost equally over the useful lives more appropriately reflects the consumption pattern of the store facilities, which accounts for a large portion of property and store facilities held by the Company and its consolidated subsidiaries, relative to the number of customer visits, and these assets are expected to be consumed equally over their useful lives through a stable level of customer visits through such aggressive investments in existing stores.

As a result of this change, depreciation expense decreased by ¥3,585 million ($31,447 thousand), resulting in an increase in operating income and income before income taxes and minority interests of ¥3,585 million ($31,447 thousand) for the year ended February 29, 2016.

4 Related Parties and Organization

The Company's primary shareholder is ITOCHU Corporation ("ITOCHU"), which owns 38.92%, of the total outstanding shares of the Company.

The Company is a franchiser of "FamilyMart" stores for retail sales of daily necessities to consumers. The Company allows each independent franchisee to operate convenience stores using the specific designs and name of "FamilyMart" and provides them with related managerial and technical know-how under a franchise agreement. Under the agreement, each franchisee is provided with a variety of services and advice on the operation of convenience stores from the Company. In return, the franchisee is required to pay continuing franchise commissions to the Company based on certain percentages of the respective franchised store's gross margin (net sales less cost of sales).

The Company allows area franchised companies to be franchisers of "FamilyMart" stores in each area, including outside Japan. Area franchised companies are required to pay continuing royalty fees to the Company and the Company records this as "Other operating revenues." Area franchised companies as of February 29, 2016, are as follows:

Name of area franchiser	Area	The company's ownership in area franchiser
Subsidiaries:		
Hokkaido FamilyMart Co., Ltd.	Hokkaido, Japan	100.00%
Taiwan FamilyMart Co., Ltd.	Taiwan	47.44
Associated companies:		
Okinawa FamilyMart Co., Ltd.	Okinawa, Japan	48.98
Minami Kyushu FamilyMart Co., Ltd.	Kagoshima and Miyazaki, Japan	49.00
Central FamilyMart Co., Ltd.	Thailand	48.20
Philippine FamilyMart CVS, Inc.	Philippines	37.45
Shanghai FamilyMart Co., Ltd.	Shanghai, China	40.35
Guangzhou FamilyMart Co., Ltd.	Guangzhou, China	40.35
Suzhou FamilyMart Co., Ltd.	Suzhou, China	40.35
Hangzhou FamilyMart Co., Ltd.	Hangzhou, China	40.35
Chengdu FamilyMart Co., Ltd.	Chengdu, China	40.35
Shenzhen FamilyMart Co., Ltd.	Shenzhen, China	40.35
Wuxi FamilyMart Co., Ltd.	Wuxi, China	40.35
Beijing FamilyMart Co., Ltd.	Beijing, China	40.35
Dongguan FamilyMart Co., Ltd.	Dongguan, China	40.35

FamilyMart China Holding Co., Ltd., a 100.00% owned subsidiary, is a holding company of China CVS (Cayman Islands) Holding Corp. ("CCH"). CCH, a 40.35% owned associated company, is a holding company of Shanghai FamilyMart Co., Ltd., Guangzhou FamilyMart Co., Ltd., Suzhou FamilyMart Co., Ltd., Hangzhou FamilyMart Co., Ltd., Chengdu FamilyMart Co., Ltd., Shenzhen FamilyMart Co., Ltd., Wuxi FamilyMart Co., Ltd., Beijing FamilyMart Co., Ltd., and Dongguan FamilyMart Co., Ltd.

In addition, there are a number of subsidiaries and associated companies whose principal businesses are other than operating convenience stores.

famima.com Co., Ltd., a 54.25% owned subsidiary, supports E-commerce operations.

POCKET CARD CO., LTD., a 15.02% owned associated company, provides financial services, such as credit card settlement and related services for its customers.

famima Retail Service Co., Ltd., a wholly owned subsidiary, provides accounting and stocktaking services to "FamilyMart" stores in Japan.

SENIOR LIFE CREATE Co., Ltd., an 82.83% owned subsidiary, provides catering and home delivery services of the Company's merchandise by utilizing its delivery network.

Tpoint Japan Co., Ltd., a 15.00% owned associated company, operates T point programs.

Transactions of the Company with related parties for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
NIPPON ACCESS, INC. (a subsidiary of ITOCHU):			
Purchase	¥10,192	¥14,354	$ 89,404
Accounts and note payable—trade	20,223	18,999	177,395
Dolce Co., Ltd. (a subsidiary of ITOCHU):			
Purchase	2,901	4,365	25,447
Accounts and note payable—trade	7,105	6,829	62,325

Transactions of the Company's subsidiaries with related parties for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Taiwan Distribution Center Co., Ltd. (an unconsolidated subsidiary which is accounted for by equity method):			
Purchase	¥14,128	¥10,397	$123,930
Accounts and note payable—trade	15,688	13,860	137,614
CONEXIO Corporation (a subsidiary of ITOCHU):			
Commission received	47	42	412
Payables—other	9,775	7,658	85,746

5 Business Combinations

(1) Business Combination due to Acquisitions

On October 1, 2015, the Company acquired all of the shares of Cocostore Corporation (hereinafter, "Cocostore"), a wholly owned subsidiary of Morita Enterprise Co., Ltd. Cocostore engages in the management of franchise stores and directly operated stores, primarily the "Cocostore" and "every one" convenience store chain, store consulting, etc. The business combination aims to enhance the business value of the Company through realization of scale resulting from strengthening store platforms mainly in the Northern Kanto, Chubu, and Kyushu regions, and further benefit from operational efficiency via integration of infrastructures.

Subsequent to the acquisition, Cocostore transferred a certain part of its business to the Company's associated companies and Cocostore was merged into the Company on December 1, 2015 (refer to "(2) Business split" and "(3) Merger of consolidated subsidiary"). The results of operations for Cocostore are included in the Company's consolidated statement of income from the date of acquisition.

The Company accounted for this acquisition by the purchase method of accounting.

The consideration of acquisition was ¥13,000 million ($114,035 thousand) in cash with acquiring 26,000,000 shares newly issued by Cocostore through third party allotment and Cocostore acquired all Cocostore shares held by Morita Enterprise Co., Ltd. in accordance with an agreement dated September 8, 2015. The total cost of acquisition, ¥13,489 million ($118,325 thousand), which includes directly attributable costs, has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill and other intangibles recorded in connection with the acquisition totaled ¥19,145 million ($167,939 thousand) and ¥4,068 million ($35,684 thousand), respectively, which includes contractual related intangible assets of ¥2,603 million ($22,833 thousand) and customer related intangible assets of ¥1,465 million ($12,851 thousand). The amortization period of goodwill, contractual related intangible assets and customer related intangible assets is 20 years, 6 years and 20 years, respectively.

The estimated fair values of the assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 6,715	$ 58,904
Property and store facilities, and investments and other assets	10,834	95,035
Total assets acquired	¥17,549	$153,939
Current liabilities	¥18,797	$164,886
Long-term liabilities	4,408	38,667
Total liabilities assumed	¥23,205	$203,553

If this business combination had been completed as of March 1, 2015, the beginning of the current fiscal year, the unaudited estimated impact on the consolidated statement of income for the year ended February 29, 2016, would be as follows:

	Millions of yen	Thousands of U.S. dollars
Net sales	¥31,514	$276,439
Total operating revenues	41,102	360,544
Operating income	¥ (588)	$ (5,158)

The amounts of the estimated impact have been computed based on the difference between (a) net sales and operating results from March 1, 2015 to September 30, 2015, of Cocostore and two main companies as if the business combination had been completed on March 1, 2015, and (b) net sales and operating results of the acquiring company's consolidated statement of income.

(2) Business Split

On December 1, 2015, the Company consummated business splits, transferring certain stores of Cocostore, a wholly owned subsidiary of the Company, in the form of an absorption-type demerger where Cocostore was the absorbed company, and its associated companies Okinawa FamilyMart Co., Ltd. (hereinafter, "Okinawa FamilyMart") and Minami Kyushu FamilyMart Co., Ltd. (hereinafter, "Minami Kyushu FamilyMart") were the succeeding companies. This business split was made to increase competitiveness of both the Company's franchisees and Cocostore's franchisees in the Okinawa and the Minami Kyushu regions through improvement in operational infrastructure, where some "Cocostore" stores in Okinawa and Minami Kyushu are operated by Cocostore.

Considerations, which were received from Okinawa FamilyMart and Minami Kyushu FamilyMart, consisted solely of cash and cash equivalents. No gain was recognized by this business split.

The reportable segment of transferred business is the domestic business.

The estimated fair values and major breakdown of the transferred assets and liabilities at the transfer are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 338	$ 2,965
Fixed assets	1,542	13,526
Total assets	¥1,880	$16,491
Current liabilities	¥ 231	$ 2,026
Fixed liabilities	272	2,386
Total liabilities	¥ 503	$ 4,412

Given the business split followed the acquisition of Cocostore (refer to "(1) Business combination due to acquisitions"), the difference between the fair value of net assets, which the Company received in association with the transfer, and deemed shareholders' equity of the transferred business (i.e., ¥1,643 million ($14,412 thousand)) was deducted from the amount of goodwill.

Approximate profit or loss of transferred business recognized in the consolidated statement of income for the year ended February 29, 2016, is as follows:

	Millions of yen	Thousands of U.S. dollars
Total operating revenues	¥1,354	$11,877
Operating income	122	1,070

(3) Merger of Consolidated Subsidiary

On December 1, 2015, the Company merged Cocostore in the form of an absorption type merger where the Company is the surviving company and Cocostore is merged into the Company. This merger was made to increase the competitiveness of the Company's headquarters, existing franchisees and Cocostore's franchisees by proceeding with a brand conversion, strengthening the store platform especially in Northern Kanto, Chubu, and certain parts of Kyushu, and improving the operational infrastructure including integration of purchasing, logistics operations, and IT infrastructure and other administrative operations.

The transaction was processed as a transaction under common control pursuant to ASBJ Statement No. 21, "Accounting Standard for Business Combinations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

6 Transactions with Franchised Stores

As discussed in Note 4, under the franchise agreement, each franchisee is provided with a variety of services and advice on the operation of convenience stores by the Company, and, in return, the franchisee is required to pay continuing franchise commissions to the Company based on certain percentages of the respective franchised store's gross margin. As the franchiser, the Company accounts for such franchise commissions on an accrual basis.

The term of a franchise agreement is generally 10 years and may be extended or renewed upon expiration subject to renegotiation of contract terms between the Company and the franchisee. The franchise agreement currently in use provides that, at the commencement of the agreement, the franchisee shall make a cash payment to the Company in the amount of ¥1,500,000 which is credited to income of the Company as "Other operating revenues" for the lump-sum franchise fee and which shall be spent for services such as research, training and preparation of store openings provided by the Company. In addition, the franchisee shall advance another ¥1,500,000 to the Company as a deposit for purchases which is credited to "Payables—Due to franchised stores," accordingly.

Under the franchise agreement, each franchised store shall order merchandise and the store is supplied by suppliers using the centralized buy-order system maintained by the Company. The Company then accumulates such purchase orders by the franchised stores and pays the purchase amounts to suppliers on a monthly basis on behalf of the franchised stores. The Company records accounts receivable due from franchised stores for such purchases.

Each franchised store shall make a remittance of cash from sales to the Company on a daily basis. Furthermore, the franchised stores collect utility payments from customers on behalf of utility service providers, such as electric power companies and telecommunication companies, which are remitted to the Company on a daily basis. The receipts of such charges are recorded as a liability due to utility service suppliers and included in "Deposits received" in the accompanying consolidated balance sheet.

The monthly payments to purchase merchandise and other goods on behalf of each franchised store and the daily receipts of cash from the franchised stores are accumulated and offset against each other to present the net balance due to or from each franchised store.

The balances of "Receivables—Due from franchised stores" and "Payables—Due to franchised stores" in the accompanying consolidated balance sheet represent such net balances between the Company and franchised stores at the balance sheet date.

7 Marketable and Investment Securities

Marketable and investment securities as of February 29, 2016 and February 28, 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current:			
Government and corporate bonds	¥ 2,700	¥ 1,700	$ 23,684
Trading securities	74		649
Total	¥ 2,774	¥ 1,700	$ 24,333
Non-current:			
Marketable equity securities	¥14,476	¥11,872	$126,983
Government and corporate bonds	4,262	6,980	37,386
Nonmarketable equity securities	1,581	761	13,868
Total	¥20,319	¥19,613	$178,237

The cost and aggregate fair values of marketable and investment securities at February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen			
February 29, 2016	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading securities	¥ 74	¥ 1		¥ 75
Available-for-sale—equity securities	3,087	11,436	¥47	14,476
Available-for-sale—debt securities	343	19		362
Held-to-maturity	6,600	31		6,631

	Millions of yen			
February 28, 2015	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale—equity securities	¥3,505	¥8,367		¥11,872
Available-for-sale—debt securities	343	37		380
Held-to-maturity	8,300	48		8,348

	Thousands of U.S. dollars			
February 29, 2016	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Trading securities	$ 649	$ 9		$ 658
Available-for-sale—equity securities	27,079	100,315	$412	126,982
Available-for-sale—debt securities	3,009	167		3,176
Held-to-maturity	57,895	272		58,167

Available for sale securities whose fair value is not readily determinable as of February 29, 2016 and February 28, 2015, were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Available-for-sale—equity securities	¥1,581	¥761	$13,868

The carrying values of debt securities by contractual maturities for securities classified as held-to-maturity at February 29, 2016, are as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥2,700	$23,684
Due after one year through five years	3,900	34,211

The proceeds, realized gains and realized losses of the available-for-sale securities that were sold during the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		
February 29, 2016	Proceeds	Realized gains	Realized losses
Marketable equity securities	¥ 961	¥435	¥2
Non-marketable equity securities	42	23	
Total	¥1,003	¥458	¥2

	Millions of yen		
February 28, 2015	Proceeds	Realized gains	Realized losses
Marketable equity securities	¥ 45	¥ 3	
Non-marketable equity securities	622	140	
Total	¥667	¥143	

	Thousands of U.S. Dollars		
February 29, 2016	Proceeds	Realized gains	Realized losses
Marketable equity securities	$8,430	$3,816	$18
Non-marketable equity securities	368	202	
Total	$8,798	$4,018	$18

8 Long-lived Assets

The Group reviewed its long lived assets for impairment as of February 29, 2016 and February 28, 2015, and, as a result, recognized impairment losses of ¥7,742 million ($67,912 thousand) and ¥6,051 million, respectively. These losses are presented as other expense for each store due mainly to continuous operating losses, and the carrying amount of those assets was written down to the recoverable amount.

The Group recognized impairment losses on the following fixed assets, leased property and other assets for the years ended February 29, 2016 and February 28, 2015:

	Millions of yen		Thousands of U.S. dollars
Fixed Assets, Leased Property and Other Assets	2016	2015	2016
Land	¥ 246	¥ 97	$ 2,158
Buildings and structures	2,991	1,914	26,237
Furniture and fixtures	3,550	2,790	31,140
Others	955	1,250	8,377
Total	¥7,742	¥6,051	$67,912

The recoverable amounts of the stores to be disposed were measured at their net selling price, while those not to be disposed were measured at their value in use, where the discount rates used for computation of present value of future cash flows were 1.99% and 3.06% for the years ended February 29, 2016 and February 28, 2015, respectively.

9 Goodwill

Goodwill as of February 29, 2016 and February 28, 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Consolidation goodwill	¥16,472	¥8,133	$144,491
Goodwill on purchase of a specific business		1,262	
Total	¥16,472	¥9,395	$144,491

Amortization charged to selling, general and administrative expenses for the years ended February 29, 2016 and February 28, 2015, was ¥1,344 million ($11,789 thousand) and ¥864 million, respectively.

10 Bank Loans and Lease Obligations

Annual maturities of long term bank loans at February 29, 2016, were as follows:

Year ending February 28 (or 29)	Millions of yen	Thousands of U.S. dollars
2017	¥ 2,064	$ 18,105
2018	1,605	14,079
2019	224	1,965
2020	15,225	133,552
2021	224	1,965
2022 and thereafter	711	6,237
Total	¥20,053	$175,903

Current portion of long term debt was included in the other liabilities in the current liabilities section of the consolidated balance sheet.

The annual interest rates applicable to the long term bank loans ranged from 0.1% to 1.3% and 0.2% to 1.3% at February 29, 2016 and February 28, 2015, respectively. There is no collateral for long term bank loans.

Annual maturities of lease obligations at February 29, 2016, were as follows:

Year ending February 28 (or 29)	Millions of yen	Thousands of U.S. dollars
2017	¥18,657	$163,658
2018	17,247	151,290
2019	15,718	137,877
2020	13,547	118,833
2021	9,745	85,482
2022 and thereafter	15,685	137,588
Total	¥90,599	$794,728

11 Retirement and Pension Plans

The Company and certain consolidated subsidiaries have severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The Company and certain domestic consolidated subsidiaries have contributory funded defined benefit pension plans and/or unfunded retirement defined benefit plans. One consolidated subsidiary has both a defined benefit pension plan and a defined contribution pension plan.

a. Defined benefit pension plans

(a) The changes in defined benefit obligation for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥25,350	¥21,380	$222,368
Effect of accounting change		1,088	
Balance at beginning of year (as restated)	25,350	22,468	222,368
Current service cost	1,601	1,152	14,044
Interest cost	321	328	2,815
Actuarial losses	2,235	1,211	19,605
Benefits paid	(998)	(494)	(8,754)
Past service cost	(144)		(1,263)
Effect of combination of plans	(424)		(3,719)
Increase from the changes in the scope of consolidation	836	481	7,333
Others	205	204	1,799
Balance at end of year	¥28,982	¥25,350	$254,228

(b) The changes in plan assets for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥14,050	¥11,877	$123,246
Expected return on plan assets	678	79	5,947
Actuarial (losses) gains	(717)	815	(6,290)
Contributions from the employer	1,750	1,707	15,351
Benefits paid	(626)	(481)	(5,491)
Effect of combination of plans	(240)		(2,105)
Others	(23)	53	(202)
Balance at end of year	¥14,872	¥14,050	$130,456

(c) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded defined benefit obligation	¥ 28,786	¥ 25,187	$ 252,509
Plan assets	(14,872)	(14,050)	(130,456)
	13,914	11,137	122,053
Unfunded defined benefit obligation	196	163	1,719
Net liability arising from defined benefit obligation	¥ 14,110	¥ 11,300	$ 123,772

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Liability for retirement benefits	¥14,110	¥11,300	$123,772
Net liability arising from defined benefit obligation	¥14,110	¥11,300	$123,772

(d) The components of net periodic benefit costs for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥1,601	¥1,152	$14,044
Interest cost	321	328	2,816
Expected return on plan assets	(678)	(79)	(5,947)
Recognized actuarial losses	286	446	2,509
Amortization of prior service cost	(125)	(118)	(1,097)
Others	12	1	105
Net periodic benefit costs	¥1,417	¥1,730	$12,430

(e) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Prior service cost	¥ (31)	¥(118)	$ (272)
Actuarial losses	(2,632)	(13)	(23,088)
Total	¥(2,663)	¥(131)	$(23,360)

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized prior service cost	¥ 1,039	¥ 1,070	$ (9,114)
Unrecognized actuarial losses	(4,939)	(2,306)	(43,325)
Total	¥(3,900)	¥(1,236)	$(34,211)

(g) Plan assets

(1) Components of Plan Assets

Plan assets as of February 29, 2016 and February 28, 2015, consisted of the following:

	2016	2015
Debt securities	52.96%	51.83%
Equity securities	13.48	15.54
General account	8.93	8.53
Alternative investments	10.90	19.64
Short-term funds and other	13.73	4.46
Total	100.00%	100.00%

Note: Alternative investments mainly consist of investments in hedge funds.

(2) Method of Determining the Expected Rate of Return on Plan Assets

The expected rate of return on plan assets is determined considering the current and projected asset allocations, as well as the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(h) Assumptions used for the years ended February 29, 2016 and February 28, 2015, which were presented at the weighted-average figure, are set forth as follows:

	2016	2015
Discount rate	Primarily 0.86%	Primarily 1.26%
Expected rate of return on plan assets	Primarily 2.95%	Primarily 0.00%
Estimated rate of increase in salary	Primarily 6.40%	Primarily 6.40%

b. Defined contribution pension plans

The amount paid to defined contribution pension plans by a certain consolidated subsidiary for the years ended February 29, 2016 and February 28, 2015, was ¥497 million ($4,360 thousand) and ¥350 million, respectively.

12 Asset Retirement Obligations

The changes in asset retirement obligations for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥16,941	¥14,610	$148,605
Additional provisions associated with the acquisition of property and store facilities	1,886	2,820	16,544
Reconciliation associated with passage of time	157	124	1,377
Reduction associated with settlement of asset retirement obligations	(976)	(625)	(8,561)
Increase from the changes in the scope of consolidation	423		3,711
Other	40	12	350
Total	18,471	16,941	162,026
Less current portion	(298)	(316)	(2,614)
Balance at end of year, less current portion	¥18,173	¥16,625	$159,412

13 Equity

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends—Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, such as (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/decreases and transfer of common stock, reserve and surplus—The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury stock and treasury stock acquisition rights—The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

14 Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 35.64% and 38.01% for the years ended February 29, 2016 and February 28, 2015, respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of February 29, 2016 and February 28, 2015, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Provision for doubtful receivables	¥ 1,639	¥ 868	$ 14,377
Provision for retirement benefits	4,308	3,399	37,789
Loss on devaluation of investments in associated companies	1,845	1,143	16,184
Loss on impairment of long-lived assets	5,561	4,173	48,781
Enterprise tax payable	238	872	2,088
Tax loss carryforwards	274	3,510	2,404
Accounts payable	391	348	3,430
Asset retirement obligations	5,834	5,920	51,175
Asset adjustment account	215	884	1,886
Loss on disposal of property and store facilities and cancellation of lease contracts	2,199	562	19,289
Long-term unearned revenue	470	50	4,123
Other	1,457	1,221	12,781
Less valuation allowance	(2,875)	(5,690)	(25,219)
Total	21,556	17,260	189,088
Deferred tax liabilities:			
Undistributed earnings of associated companies	506	492	4,439
Unrealized gain on available-for-sale securities	3,695	2,879	32,412
Asset retirement obligations related expenses	2,408	2,550	21,123
Intangible assets	1,248		10,947
Other	157	35	1,377
Total	8,014	5,956	70,298
Net deferred tax assets	¥13,542	¥11,304	$118,790

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended February 29, 2016 and February 28, 2015, is as follows:

	2016	2015
Normal effective statutory tax rate	35.64 %	38.01 %
Inhabitant tax on per capita basis	0.91	0.64
Valuation allowance	(2.67)	(1.17)
Lower income tax rates applicable to income in certain foreign countries	(2.82)	(2.56)
Amortization of goodwill	1.23	0.74
Gain on transfer of business	1.35	
Effect of changes in income tax rates on deferred tax assets	3.54	0.78
Other—net	0.75	(0.90)
Actual effective tax rate	37.93 %	35.54 %

Impact of the Change in the Income Tax Rate, Etc.

In 2015, tax reform laws enacted in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after March 1, 2016, to approximately 33.06% and for the fiscal year beginning on or after March 1, 2017, to approximately 32.26%. The effect of these changes was to decrease deferred tax assets, net of deferred tax liabilities by ¥1,065 million ($9,342 thousand) and other comprehensive income for defined retirement benefit plans by ¥82 million ($719 thousand), and to increase accumulated other comprehensive income for unrealized gain on available for sale securities by ¥387 million ($3,395 thousand) in the consolidated balance sheet as of February 29, 2016, and income taxes—deferred in the consolidated statement of income for the year then ended by ¥1,371 million ($12,026 thousand).

Subsequent Change in the Corporate Tax Rate, Etc.

On March 31, 2016, a new tax reform law enacted in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after March 1, 2017, to approximately 30.86% and for the fiscal year beginning on or after March 1, 2018, to approximately 30.62%. The effect of these changes, which were recalculated based on temporary differences as of February 29, 2016, was to decrease deferred tax assets, net of deferred tax liabilities, by ¥423 million ($3,711 thousand) and other comprehensive income for defined retirement benefit plans by ¥40 million ($351 thousand), and to increase accumulated other comprehensive income for unrealized gain on available for sale securities by ¥188 million ($1,649 thousand) and income taxes—deferred by ¥571 million ($5,009 thousand) in the consolidated statement of income for the year ended February 29, 2016.

Tax Loss Carryforwards

As of February 29, 2016, certain subsidiaries have tax loss carryforwards aggregating approximately ¥825 million ($7,237 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year ending February 28 (or 29)	Millions of yen	Thousands of U.S. dollars
2019	¥ 25	$ 219
2020	224	1,965
2021	164	1,439
2022 and thereafter	412	3,614
Total	¥825	$7,237

15 Supplemental Information for Cash Flows

a. Details of assets acquired and liabilities assumed of new subsidiaries

Assets acquired and liabilities assumed at the start of consolidation, acquisition cost, and net payments for the stock acquisition of Cocostore are summarized as follows. Cocostore was dissolved by an absorption-type merger where the Company was the surviving company.

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 6,715	$ 58,904
Noncurrent assets	10,834	95,035
Goodwill	19,145	167,939
Current liabilities	(18,797)	(164,886)
Long-term liabilities	(4,408)	(38,667)
Acquisition cost	13,489	118,325
Cash and cash equivalents held by Cocostore	(1,718)	(15,071)
Net payments for the acquisition	¥ 11,771	$ 103,254

b. Details of Assets and Liabilities Transferred by Business Split

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 338	$ 2,965
Noncurrent assets	3,185	27,939
Current liabilities	(230)	(2,018)
Long-term liabilities	(272)	(2,386)
Deposit received	51	447
Net receipts of business split	¥3,072	$26,947

c. Noncash Transactions

Finance lease assets and finance lease obligations regarded as noncash transactions incurred for the years ended February 29, 2016 and February 28, 2015, amounted to ¥18,400 million ($161,404 thousand) and ¥38,856 million, respectively.

16 Financial Instruments and Related Disclosures

a. Status of financial instruments

(a) Group policy for financial instruments

The Group invests its cash surplus only in low risk financial assets.

Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (b) below.

(b) Nature and extent of risks arising from financial instruments

Receivables—due from franchised stores and other are exposed to customers' credit risk.

Debt securities included in marketable securities and investment securities mainly consist of held to maturity securities with certain high credit rating.

The Group monitors its market values and the financial positions of issuers on a regular basis to minimize their credit risk.

Certain equity securities included in investment securities are exposed to the risk of market price fluctuations, which consist mainly of equity instruments issued by customers and suppliers of the Group.

Leasehold deposits receivable are exposed to counterparty credit risk, which is mainly related to rent agreements on stores.

Payment terms of payables, such as accounts and note payable—trade, due to franchised stores and other, and deposit received, are less than one month.

Maturities of lease obligations related to finance lease transactions are less than eight years after the balance sheet date with fixed interest rates, mainly for the purpose of financing capital investments of stores.

Long term bank loans are mainly related to finance store investments to acquired stores with changes to the Company's brand.

Leasehold deposits refundable are mainly related to sublease arrangements of stores to the franchisees.

Derivatives mainly include forward foreign currency contracts, which are used to manage exposure to market risks from fluctuations in foreign currency exchange rates of receivables. Please see Note 17 for more details about derivatives.

(c) Risk management for financial instruments

Credit Risk Management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms.

The Group manages its credit risk from receivables by monitoring payment terms and balances of major customers and identifying the default risk of counterparties in the early stages.

For leasehold deposits receivable, the Group scrutinizes the collectability by identifying the credit conditions of counterparties at the time of concluding the rental agreements, and also identifying the default risk of counterparties in the early stages by collecting information about the counterparties via the Property Administration Department.

Market Risk Management

(Foreign Exchange Risk and Interest Rate Risk)

Foreign currency receivables due from affiliates are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts.

Marketable and investment securities are managed by monitoring market values and financial position of issuers on a regular basis, and securities other than held-to-maturity debt securities are managed by reviewing the holding status continuously by taking into consideration the relationship with the counterparties.

Derivative transactions are executed and controlled based on the internal guidelines which prescribe the authority and the limit for each transaction. The Accounting and Finance Department executes derivative transactions by obtaining authorization from the responsible management.

Liquidity Risk Management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates.

The Group manages its liquidity risk by holding adequate volumes of liquid assets, along with preparing and updating the financial plan by each Group company.

(d) Supplementary information on fair values

Fair values of financial instruments include market prices and values calculated reasonably when there is no market price. Since variable factors are incorporated into the calculation of the relevant fair values, they may change depending on different assumptions.

b. Fair values of financial instruments

The carrying amount, fair value, and net unrealized gains/losses as of February 29, 2016 and February 28, 2015, are summarized as follows:

Note that the following table does not include financial instruments for which fair value is difficult to determine (see Note (2)).

	Millions of yen		
February 29, 2016	Carrying amount	Fair value	Net unrealized gains/losses
Cash and cash equivalents	¥131,057	¥131,057	
Time deposits	80	80	
Receivables:			
Due from franchised stores	20,479	20,479	
Other	55,064	55,064	
Marketable and investment securities:			
Trading securities	74	74	
Held-to-maturity securities	6,600	6,631	¥ 31
Available-for-sale securities	14,838	14,838	
Investments in and advances to unconsolidated subsidiaries and associated companies	8,764	6,090	(2,674)
Leasehold deposits receivable	154,218		
Allowance for doubtful receivables*	(142)		
	154,076	157,777	3,701
Total assets	¥391,032	¥392,090	¥1,058
Payables:			
Accounts and notes payable—trade	¥106,154	¥106,154	
Due to franchised stores	7,638	7,638	
Other	34,802	34,802	
Current portion of long-term lease obligations	18,657	18,657	
Income taxes payable	3,626	3,626	
Deposit received	105,744	105,744	
Long-term bank loans	17,989	17,999	¥ 10
Long-term lease obligations	71,942	72,695	753
Leasehold deposits refundable	11,650	11,616	(34)
Total liabilities	¥378,202	¥378,931	¥ 729

	Millions of yen		
February 28, 2015	Carrying amount	Fair value	Net unrealized gains/losses
Cash and cash equivalents	¥112,627	¥112,627	
Time deposits	80	80	
Receivables:			
Due from franchised stores	25,599	25,599	
Other	47,878	47,878	
Marketable and investment securities:			
Held-to-maturity securities	8,300	8,348	¥ 48
Available-for-sale securities	12,252	12,252	
Investments in and advances to unconsolidated subsidiaries and associated companies	5,417	6,069	652
Leasehold deposits receivable	149,564		
Allowance for doubtful receivables*	(461)		
	149,103	146,864	(2,239)
Total assets	¥361,256	¥359,717	¥(1,539)
Payables:			
Accounts and notes payable—trade	¥ 94,758	¥ 94,758	
Due to franchised stores	5,839	5,839	
Other	29,471	29,471	
Current portion of long-term lease obligations	17,479	17,479	
Income taxes payable	9,955	9,955	
Deposit received	90,800	90,800	
Long-term bank loans	5,165	5,165	
Long-term lease obligations	71,251	71,305	¥ 54
Leasehold deposits refundable	11,707	11,101	(606)
Total liabilities	¥336,425	¥335,873	¥ (552)

February 29, 2016	Thousands of U.S. dollars Carrying amount	Fair value	Net unrealized gains/losses
Cash and cash equivalents	$1,149,623	$1,149,623	
Time deposits	702	702	
Receivables:			
Due from franchised stores	179,640	179,640	
Other	483,018	483,018	
Marketable and investment securities:			
Trading securities	649	649	
Held-to-maturity securities	57,895	58,167	$ 272
Available-for-sale securities	130,158	130,158	
Investments in and advances to unconsolidated subsidiaries and associated companies	76,877	53,421	(23,456)
Leasehold deposits receivable	1,352,789		
Allowance for doubtful receivables*	(1,246)		
	1,351,543	1,384,008	32,465
Total assets	$3,430,105	$3,439,386	$ 9,281
Payables:			
Accounts and notes payable—trade	$ 931,175	$ 931,175	
Due to franchised stores	67,000	67,000	
Other	305,281	305,281	
Current portion of long-term lease obligations	163,658	163,658	
Income taxes payable	31,807	31,807	
Deposit received	927,579	927,579	
Long-term bank loans	157,798	157,886	$ 88
Long-term lease obligations	631,070	637,675	6,605
Leasehold deposits refundable	102,193	101,895	(298)
Total liabilities	$3,317,561	$3,323,956	$ 6,395

* Allowance for doubtful receivables on leasehold deposits is excluded.

Notes:
(1) Measurement method to determine fair values of financial instruments

Assets

Cash and cash equivalents, receivables—due from franchised stores and other

The fair values of cash and cash equivalents, receivables—due from franchised stores and other approximate their carrying amounts because of their short maturities.

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for equity securities and at the quoted price obtained from financial institutions for debt securities. Information on the fair value of marketable and investment securities by classification is included in Note 7.

Leasehold deposits receivable

The fair values of leasehold deposits receivable are measured at the discounted present value of reasonably expected future cash flows using the yields of national government bonds corresponding to the remaining period.

Liabilities

Payables—accounts and note payable—trade, due to franchised stores and other, current portion of long-term lease obligations, income taxes payable, and deposit received

The fair values of payables—accounts and note payable—trade, due to franchised stores and other, current portion of long-term lease obligations, income taxes payable, and deposits received approximate their carrying amounts because of their short maturities.

Long-term bank loans

The fair values of long-term bank loans are measured at the discounted present value of aggregated amounts of principal and interest payable using the interest rate that would be applied to bank debt transactions which would be arranged as of February 29, 2016 and February 28, 2015.

Long-term lease obligations

The fair values of long-term lease obligations are measured at the discounted present value of aggregated amounts of principal and interest payable using the interest rate that would be applied to similar lease transactions which would be arranged as of February 29, 2016 and February 28, 2015.

Leasehold deposits refundable

The fair values of leasehold deposits refundable are measured at the discounted present value of reasonably expected future cash flows using the yields of national government bonds corresponding to the remaining period.

(2) Financial instruments whose fair value cannot be reliably determined

	Carrying amount Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investments in equity instruments that do not have a quoted market price in an active market	¥22,068	¥12,415	$193,579

c. Maturity analysis for financial assets and securities with contractual maturities

February 29, 2016	Millions of yen Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	¥131,057			
Time deposits	80			
Receivables:				
Due from franchised stores	20,479			
Other	55,064			
Marketable and investment securities—Held-to-maturity securities	2,700	¥ 3,900		
Leasehold deposits receivable	4,304	43,089	¥41,757	¥65,068
Total	¥213,684	¥46,989	¥41,757	¥65,068

February 29, 2016	Thousands of U.S. dollars Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and cash equivalents	$1,149,623			
Time deposits	702			
Receivables:				
Due from franchised stores	179,640			
Other	483,018			
Marketable and investment securities—Held-to-maturity securities	23,684	$ 34,211		
Leasehold deposits receivable	37,754	377,974	$366,289	$570,772
Total	$1,874,421	$412,185	$366,289	$570,772

d. Maturity analysis for bank loans and lease obligations

Please see Note 10 for annual maturities of bank loans and lease obligations.

17 Derivatives

The Company enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Company does not hold or issue derivatives for trading or speculative purposes.

Derivatives are subject to market risk. Market risk is the exposure created by potential fluctuations in market conditions, including foreign exchange rates. Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

The execution and control of derivatives are managed by the Accounting and Finance Department of the Company in accordance with the Company's internal regulations.

The Company had no derivative contracts outstanding as of February 29, 2016 and February 28, 2015.

18 Contingent Liabilities

As of February 29, 2016, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantee of financial institution loan borrowed by—VIET NAM FAMILY CONVENIENCE STORES COMPANY LIMITED	¥1,704	$14,947
Philippine FamilyMart CVS, Inc.	72	632
Guarantee of contract concerning introduction of machinery performed by—NIPPON ACCESS, INC.	1,040	9,123
Total	¥2,816	$24,702

19 Comprehensive Income

The components of other comprehensive income for the years ended February 29, 2016 and February 28, 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥ 3,559	¥ 4,862	$ 31,219
Reclassification adjustments to profit or loss	(433)	(4)	(3,798)
Amount before income tax effect	3,126	4,858	27,421
Income tax effect	(775)	(1,693)	(6,798)
Unrealized gain on available-for-sale securities	2,351	3,165	20,623
Foreign currency translation adjustments:			
(Loss) gains arising during the year	(575)	1,518	(5,044)
Reclassification adjustments to profit or loss	(181)		(1,588)
Foreign currency translation adjustments	(756)	1,518	(6,632)
Defined retirement benefit plans:			
Adjustments arising during the year	(2,808)	(459)	(24,632)
Reclassification adjustments to profit or loss	145	327	1,272
Amount before income tax effect	(2,663)	(132)	(23,360)
Income tax effect	790	23	6,930
Defined retirement benefit plans	(1,873)	(109)	(16,430)
Share of other comprehensive income in associates:			
Loss incurred during the year	(139)	(256)	(1,219)
Reclassification adjustments to profit or loss	(1)	(920)	(9)
Share of other comprehensive income in associates	(140)	(1,176)	(1,228)
Total other comprehensive income	¥ (418)	¥ 3,398	$ (3,667)

20 Net Income per Share

The basis of computation of basic net income per share ("EPS") for the years ended February 29, 2016 and February 28, 2015, is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
Year ended February 29, 2016	Net income	Weighted-average shares	EPS	
EPS:				
Net income	¥21,068			
Net income available to common shareholders	¥21,068	94,923	¥221.9	$1.95

	Millions of yen	Thousands of shares	Yen
Year ended February 28, 2015	Net income	Weighted-average shares	EPS
EPS:			
Net income	¥25,672		
Net income available to common shareholders	¥25,672	94,925	¥270.5

21 Subsequent Events

(1) Cash Dividends

On April 8, 2016, the following appropriation of retained earnings at February 29, 2016, was resolved by the Board of Directors:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥55.0 ($0.48) per share	¥5,221	$45,798

(2) Business Combination

On October 15, 2015, the Company and UNY Group Holdings Co., Ltd. (hereinafter, "UNY") (collectively, "Both Companies") entered into a basic agreement concerning the management integration of Both Companies (hereinafter, the "Management Integration"), where UNY will be merged into the Company, and at the same time Circle K Sunkus Co., Ltd. ("CKS"), a wholly owned subsidiary of UNY, will absorb the Company's convenience store business, and further discussed the Management Integration. Subsequently, on February 3, 2016, the respective Boards of Directors approved the execution of the merger agreement between Both Companies and the convenience store business transfer agreement between the Company and CKS. The merger agreement was approved at the 35th ordinary annual general shareholders' meeting of the Company and the 45th ordinary annual general shareholders' meeting of UNY, both held on May 26, 2016, and the business transfer agreement was also approved at the 35th ordinary annual general shareholders' meeting of the Company and the 15th ordinary annual general shareholders' meeting of CKS held on May 24, 2016.

a. Overview of business combination

(a) Name and Business Description of Merged Company and Succeeding Company

a) UNY: Management of business group consisting of general merchandise stores, convenience stores, specialty stores, financial services businesses and other businesses (holding company)

b) CKS: Management of both franchise and directly operated convenience stores, primarily "Circle K" and "Sunkus"

(b) Reason for Business Combination

The Management Integration aims to integrate the management resources and establish a new retail group to thrive in a competitive environment and to be a company that provides value to customers, franchisees, business partners, shareholders, and employees.

(c) Effective Date for Business Combination (Date for Transfer of Shares) and for Business Split

September 1, 2016 (Scheduled)

(d) Legal Form of Business Combination

The business combination involves the Absorption Type Merger where the Company is the surviving company, and the Absorption Type Demerger where CKS is the succeeding company. However, subject to discussions and agreements between Both Companies, the transaction structure may be amended due to the procedural needs of the Absorption Type Merger and the Absorption Type Demerger or other reasons.

(e) Name of Combined Company

The Company, the surviving company in the Absorption Type Merger, will change its name to "FamilyMart UNY Holdings Co., Ltd." on the effective date of the Absorption Type Merger (scheduled on September 1, 2016). CKS, the succeeding company of the Absorption Type Demerger, will change its company name to "FamilyMart Co., Ltd." on the effective date of the Absorption Type Demerger (scheduled on September 1, 2016).

b. Merger ratio and allotment shares by each share type regarding the absorption type merger and its basis

(a) Merger Ratio (Scheduled)

	The Company	UNY
Merger ratio	1 share of common stock	0.138 shares of common stock

(b) Basis for the Calculation of the Merger Ratio

The Company employed Citigroup Global Markets Japan Inc. and KPMG FAS Co., Ltd., and UNY employed Nomura Securities Co., Ltd. and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. as the third party financial advisors. The Company and UNY evaluated the analyses conducted by third party financial advisors, each company's financial condition, share price on the market and future prospects, among other factors, on a comprehensive basis. Upon prudent and thorough discussions, Both Companies have come to an agreement that the merger ratio is fair and appropriate.

(c) Allotment of Shares

Common shares: 31,754,417 shares, including the Company's 2,761,063 treasury shares to be allotted

c. Overview of the absorption type demerger

(a) Consideration in the Absorption Type Demerger

CKS will issue 100 common shares to the Integrated Company as consideration for the Absorption Type Demerger.

(3) Debt Guarantees

On March 31, 2016, the Board of Directors provided approval for the Company to enter into an agreement with NIPPON ACCESS, INC. (hereinafter, "NIPPON ACCESS") and JAPAN FOOD SUPPLY Co., Ltd. (wholly owned subsidiary of NIPPON ACCESS, hereinafter, "JAPAN FOOD SUPPLY") aiming to improve the quality of ready to eat products, to reduce costs of procurement, and to control and strengthen the supply chain of service for ready to eat products and executed such agreement. Following the execution of this agreement, the Company will guarantee trade payables which certain suppliers of the Company will owe to JAPAN FOOD SUPPLY (estimated maximum guaranteed amount would be ¥24,000 million ($210,526 thousand) based on the transaction volume during the year ended February 29, 2016).

22 Segment Information

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

The principal business of the Group is the convenience store business. The Company and domestic and foreign area franchisers are mainly developing "FamilyMart" chain stores. Each area franchiser is an independent management unit, designing comprehensive strategies on the respective area authorized to develop chain stores by the area franchise system and deploying operating activities.

Accordingly, the Group consists of area segments based on the business development system for convenience store business and its related business, such as logistics and food production. Therefore, the Group has two reportable segments, namely, "Domestic" business and "Overseas" business.

(2) Methods of Measurement for the Amounts of Operating Revenues, Profit (Loss), Assets, Liabilities, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those described in Note 2, "Summary of Significant Accounting Policies."

Segment profit corresponds to the figure based on the net income.

(3) Information about Operating Revenues, Profit (Loss), Assets and Other Items for the Years Ended February 29, 2016 and February 28, 2015

	Millions of yen				
	2016				
	Reportable segment				
	Domestic	Overseas	Total	Reconciliations	Consolidated
Operating revenues from outside the Group	¥370,963	¥56,714	¥427,677		¥427,677
Intersegment operating revenues or transfers					
Total	¥370,963	¥56,714	¥427,677		¥427,677
Segment profit	¥ 20,350	¥ 718	¥ 21,068		¥ 21,068
Segment assets	642,335	87,961	730,296		730,296
Other:					
Depreciation and amortization	28,369	6,257	34,626		34,626
Equity in earnings of unconsolidated subsidiaries and associated companies	3,278	(1,842)	1,436		1,436
Gain on sales of investment securities—net	456		456		456
Gain on sales of investments in subsidiaries and associated companies	45		45		45
Loss on impairment of long-lived assets	7,727	15	7,742		7,742
Income taxes	13,672	1,032	14,704		14,704
Minority interests in net income	453	2,537	2,990		2,990
Investments in associated companies accounted for by the equity method	24,224	4,552	28,776		28,776
Increase in property and store facilities and intangible assets	48,184	8,446	56,630		56,630

	Millions of yen				
	2015				
	Reportable segment				
	Domestic	Overseas	Total	Reconciliations	Consolidated
Operating revenues from outside the Group	¥327,342	¥47,089	¥374,431		¥374,431
Intersegment operating revenues or transfers					
Total	¥327,342	¥47,089	¥374,431		¥374,431
Segment profit	¥ 14,886	¥10,786	¥ 25,672		¥ 25,672
Segment assets	576,444	89,801	666,245		666,245
Other:					
Depreciation and amortization	26,908	5,106	32,014		32,014
Equity in earnings of unconsolidated subsidiaries and associated companies	505	(109)	396		396
Gain on sales of investment securities	143		143		143
Gain on sales of investments in subsidiaries and associated companies		15,368	15,368		15,368
Loss on impairment of long-lived assets	5,930	121	6,051		6,051
Income taxes	8,201	7,484	15,685		15,685
Minority interests in net income	394	2,384	2,778		2,778
Investments in associated companies accounted for by the equity method	9,725	7,038	16,763		16,763
Increase in property and store facilities and intangible assets	71,677	9,436	81,113		81,113

	Thousands of U.S. dollars				
	2016				
	Reportable segment				
	Domestic	Overseas	Total	Reconciliations	Consolidated
Operating revenues from outside the Group	$3,254,061	$497,491	$3,751,552		$3,751,552
Intersegment operating revenues or transfers					
Total	$3,254,061	$497,491	$3,751,552		$3,751,552
Segment profit	$ 178,509	$ 6,298	$ 184,807		$ 184,807
Segment assets	5,634,517	771,588	6,406,105		6,406,105
Other:					
Depreciation and amortization	248,851	54,886	303,737		303,737
Equity in earnings of unconsolidated subsidiaries and associated companies	28,754	(16,158)	12,596		12,596
Gain on sales of investment securities—net	4,000		4,000		4,000
Gain on sales of investments in subsidiaries and associated companies	395		395		395
Loss on impairment of long-lived assets	67,781	131	67,912		67,912
Income taxes	119,930	9,053	128,983		128,983
Minority interests in net income	3,974	22,254	26,228		26,228
Investments in associated companies accounted for by the equity method	212,491	39,930	252,421		252,421
Increase in property and store facilities and intangible assets	422,666	74,088	496,754		496,754

Note: "Overseas" business includes business activities in Taiwan, the United States of America, South Korea, Thailand, China and others.
The depreciation method for property and store facilities (excluding lease assets) was changed from the current fiscal year described in Note 3, "Changes in Accounting Policies." As a result, segment profit in the domestic business for the year ended February 29, 2016, increased by ¥2,308 million ($20,246 thousand) compared to the previous method.

(4) Information Regarding Property, Plant and Equipment by Geographical Areas

	Millions of yen		
	2016		
	Reportable segment		
	Domestic	Overseas	Total
Property, plant and equipment	¥160,989	¥36,689	¥197,678

	Millions of yen		
	2015		
	Reportable segment		
	Domestic	Overseas	Total
Property, plant and equipment	¥157,549	¥36,013	¥193,562

	Thousands of U.S. dollars		
	2016		
	Reportable segment		
	Domestic	Overseas	Total
Property, plant and equipment	$1,412,184	$321,834	$1,734,018

(5) Information Regarding Amortization of Goodwill and Carrying Amount of Reportable Segments

	Millions of yen				
	2016				
	Reportable segment				
	Domestic	Overseas	Total	Reconciliations	Consolidated
Amortization of goodwill	¥ 1,131	¥ 213	¥ 1,344		¥ 1,344
Goodwill at February 29, 2016	12,830	3,642	16,472		16,472

	Millions of yen				
	2015				
	Reportable segment				
	Domestic	Overseas	Total	Reconciliations	Consolidated
Amortization of goodwill	¥ 669	¥ 195	¥ 864		¥ 864
Goodwill at February 28, 2015	5,434	3,961	9,395		9,395

	Thousands of U.S. dollars				
	2016				
	Reportable segment				
	Domestic	Overseas	Total	Reconciliations	Consolidated
Amortization of goodwill	$ 9,921	$ 1,868	$ 11,789		$ 11,789
Goodwill at February 29, 2016	112,544	31,947	144,491		144,491

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of FamilyMart Co., Ltd. and its consolidated subsidiaries (the "Company") as of February 29, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, 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 accounting principles generally accepted in Japan, 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 Co., Ltd. and its consolidated subsidiaries as of February 29, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Member of
Deloitte Touche Tohmatsu Limited

Emphasis of Matters

1. As discussed in Note 21(2) to the consolidated financial statements, as of May 26, 2016, the merger agreement between the Company and UNY Group Holdings Co., Ltd., and the business transfer agreement between the Company and Circle K Sunkus Co., Ltd. have been approved at the general meetings of shareholders of the respective companies.
2. As discussed in Note 3 to the consolidated financial statements, the Company and its domestic consolidated subsidiaries changed their depreciation method for property and store equipment (excluding lease assets) from the declining-balance method to the straight-line method.

Our opinion is not modified in respect of these matters.

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 1 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 26, 2016

Operational and Other Risks

The following section outlines some of the main risks relating to the FamilyMart Group's operations that could potentially have a significant impact on investors' decisions.

Statements contained within this section that refer to matters in the future have been determined to the best of our knowledge as of the end of the reporting term.

(1) Economic Trends

The FamilyMart Group is mainly engaged in the operation of convenience stores. The Group's business performance and financial position could be adversely affected by various factors, including extreme weather, changing economic and consumption trends, and competition with convenience stores and other retail formats, in its markets in Japan and overseas (Taiwan, Thailand, China, Vietnam, Indonesia, and the Philippines).

(2) Natural Disasters

The FamilyMart Group's business performance and financial position could be adversely affected by man-made disasters, such as fires, acts of terror, and wars, and natural disasters, such as earthquakes, epidemics, and extreme weather events, in Japan and overseas, leading to the destruction of stores, supply stoppages, and other circumstances disrupting the regular operation of FamilyMart stores.

(3) Franchise System

In its mainstay convenience-store business, the Group engages franchisees to operate its stores under its proprietary "FamilyMart System." The Group's business performance and financial position could be adversely affected by any acts that disrupt the operation of the FamilyMart System or by illegal or scandalous behavior involving franchisees and business partners that causes the suspension of business transactions or undermines public confidence in the chain.

The FamilyMart Group's business performance and financial position could be adversely affected by the mass termination of franchise contracts with franchisees following a breakdown in relations of trust between the Group and its franchisees.

(4) Food Safety

As an operator of convenience stores, the Group is mainly engaged in the marketing of food products to consumers. The FamilyMart Group's business performance and financial position could be adversely affected by any major food safety incident (poisoning, contamination, illegal mislabeling, and so on) arising despite its best preventive efforts.

The Group is committed to supplying safe food products through rigorous quality management standards and an integrated quality management system from production to marketing created jointly with business partners.

(5) Legal and Regulatory Changes

As an operator of convenience stores in Japan and overseas, the Group is subject to legal and regulatory requirements and has acquired official licensing in such areas as food safety, fair trade and environmental protection. The Group's business performance and financial position could be adversely affected by unforeseen changes in legal and regulatory regimes or licensing requirements for the operation of convenience stores, or by differences of opinion with regulators, leading to increased costs and operational restrictions. At the present time, FamilyMart is not involved in any litigation that has the potential to significantly impact the Group's performance. The Group's business performance and financial position could, however, be adversely affected by litigation that has a major impact on operations or the Group's social standing or by a decision that negatively affects the Group or its business.

(6) Handling of Personal Information

In its business processes, the FamilyMart Group collects and stores personal information relating to its customers. The Group's business performance and financial position could be adversely affected by any incidents of leakage of personal information, despite its best preventive efforts.

To ensure that no unauthorized access or leakage of personal information occurs, the Group conducts due compulsory supervision of employees who handle personal information, using organizational, human, physical, and technological safety management resources of proven reliability. In November 2006, FamilyMart became the first convenience-store operator in Japan to be permitted to use the Privacy Mark, awarded by Japan Information Processing Development Corporation.

(7) IT Systems

In its convenience-store operations, the Group has set up IT systems linking the Group's member companies, business partners of the Group, and its franchised stores. The FamilyMart Group's business performance and financial position could be adversely affected by failure, misuse, or other unauthorized use of IT systems, leading to disruption of services and operations, such as the making and receiving of orders, delivery, marketing, and bill settlement service.

The Group has established various standards for IT systems and has set up IT system safety mechanisms from planning to operation in partnership with specially engaged outside experts. In addition, we have taken measures, such as the duplication of all systems and data backup, to deal with unexpected problems.

Corporate History

1972	Sept.	The Planning Office of The Seiyu Stores, Ltd., sets up a Small Store Section.
1973	Sept.	The first convenience store opens on a trial basis in Sayama, Saitama Prefecture.
1978	Mar.	The Seiyu Stores establishes FamilyMart Department; four stores operating.
1981	Sept.	The Seiyu Stores establishes FamilyMart Co., Ltd., and transfers business and property; 89 stores operating.
1987	Oct.	FamilyMart and RYUBO CO., LTD., in Naha, Okinawa Prefecture, jointly establish Okinawa FamilyMart Co., Ltd.
	Dec.	The Tokyo Stock Exchange lists FamilyMart stock on the Second Section.
1988	Aug.	FamilyMart and partner companies in Taiwan jointly establish Taiwan FamilyMart Co., Ltd.
1989	Aug.	The Tokyo Stock Exchange lists FamilyMart stock on the First Section.
1992	Sept.	FamilyMart jointly establishes Siam FamilyMart Co., Ltd., with Robinson Department Store Public Co., Ltd.; Saha Pathanapibul Public Co., Ltd.; and ITOCHU (THAILAND) LTD. (currently Central FamilyMart Co., Ltd.)
1993	Apr.	FamilyMart and Homboshoten Co., Ltd., in Kagoshima jointly establish Minami Kyushu FamilyMart Co., Ltd.
1998	Feb.	The ITOCHU Group buys the stock of FamilyMart from The Seiyu, Ltd., and other companies, becoming the largest shareholder.
1999	Mar.	All offices and stores of FamilyMart receive blanket certification under ISO 14001, the international standard for environmental management systems.
	Sept.	FamilyMart and 25 other companies (including 4 convenience store chains and 10 financial institutions) jointly establish E-net Co., Ltd., to install ATM machines in stores.
2000	May	To promote electronic commerce, FamilyMart and top companies in each industry — including ITOCHU Corporation, NTT DATA Corporation, and Toyota Motor Corporation — jointly establish famima.com Co., Ltd.
	Oct.	FamilyMart experimentally introduces Famiport Multimedia Terminals in some stores (full-scale introduction in Feb. 2001).
2002	Feb.	Taiwan FamilyMart is listed on the GreTai Securities Market, an over-the-counter stock market in Taiwan.
	May	FamilyMart introduces an IC card (JUPI card).
2004	May	FamilyMart jointly establishes Shanghai FamilyMart Co., Ltd., with TingHsin (Cayman Islands) Holding Corporation and Taiwan FamilyMart Co., Ltd., in Shanghai, China.
	Oct.	FamilyMart introduces its Famima Card.
	Oct.	FamilyMart jointly establishes FAMIMA CORPORATION (U.S.A.) in cooperation with two partners — ITOCHU Corporation and ITOCHU International Inc. (U.S.A.).
2006	Feb.	FamilyMart and Sapporo-based company Maruyo Nishio Co., Ltd. (currently Seico Fresh Foods Co., Ltd.) jointly establish Hokkaido FamilyMart Co., Ltd. (former)
2006	July	Hokkaido FamilyMart Co., Ltd. (former) begins the development of FamilyMart stores in Hokkaido. With this, FamilyMart finally extends its store network to every one of Japan's 47 prefectures.
	Sept.	FamilyMart establishes Guangzhou FamilyMart Co., Ltd., in Guangzhou, China.
2007	July	FamilyMart establishes Suzhou FamilyMart Co., Ltd., in Suzhou, China.
	Nov.	FamilyMart introduces its Famima T Card.
2009	Dec.	FamilyMart acquires am/pm Japan Co., Ltd. and makes it a wholly owned subsidiary.
2010	Mar.	Integration with am/pm Japan Co., Ltd. is completed.
	July	FamilyMart concludes a joint-area franchise agreement with JR KYUSHU RETAIL, INC.
2011	Apr.	Integration with am/pm Kansai Co., Ltd. is completed.
	Nov.	FamilyMart establishes Hangzhou FamilyMart Co., Ltd., in Hangzhou, China.
	Dec.	FamilyMart establishes Chengdu FamilyMart Co., Ltd., in Chengdu, China.
2012	Apr.	FamilyMart acquires SENIOR LIFE CREATE Co., Ltd.
	Nov.	FamilyMart jointly establishes Philippine FamilyMart CVS, Inc. (the Philippines), in cooperation with two partners — SIAL CVS RETAILERS INC., a joint venture between the Ayala Group and the Rustan Group, and ITOCHU Corporation.
	Nov.	FamilyMart establishes Shenzhen FamilyMart Co., Ltd., in Shenzhen, China.
2013	Oct.	FamilyMart achieves a network of 10,000 stores in Japan.
2014	Jan.	FamilyMart establishes Wuxi FamilyMart Co., Ltd., in Wuxi, China.
	May	FamilyMart sells all of the shares of BGFretail Co., Ltd., and excludes BGFretail from the application of the equity method.
	May	FamilyMart establishes Beijing FamilyMart Co., Ltd., in Beijing, China.
	July	FamilyMart establishes DONGGUAN FamilyMart Co., LTD., in Dongguan, China.
2015	July	FamilyMart establishes Hokkaido FamilyMart Co., Ltd. (current), in Hokkaido.
	Aug.	FamilyMart acquires shares in Tpoint Japan Co., Ltd.
	Oct.	FamilyMart acquires all shares in Cocostore Corporation, making it a wholly owned subsidiary.
	Dec.	Integration with Cocostore Corporation is completed.
2016	Feb.	FamilyMart dissolves FAMIMA CORPORATION in the U.S.A.

Investor Information

Corporate Data (non-consolidated)

(As of February 29, 2016)

Corporate name:	FamilyMart Co., Ltd.
Head office:	1-1, Higashi-Ikebukuro 3-chome, Toshima-ku, Tokyo 170-6017, Japan Telephone: (81) 3-3989-6600
Incorporated:	September 1, 1981
Paid-in capital:	¥16,659 million
Fiscal year:	March 1st to the last day of February
Number of full-time employees:	4,304
Authorized shares:	250,000,000
Issued shares:	97,683,133 (Treasury stock: 2,761,063 shares)
Number of shareholders:	9,742
Stock exchange listing:	Tokyo Stock Exchange, First Section
Securities code:	8028
Trading unit of shares:	100 shares
Transfer agent:	Sumitomo Mitsui Trust Bank, Limited
Independent auditors:	Deloitte Touche Tohmatsu LLC
Ordinary general meeting of shareholders:	May each year

Principal Shareholders

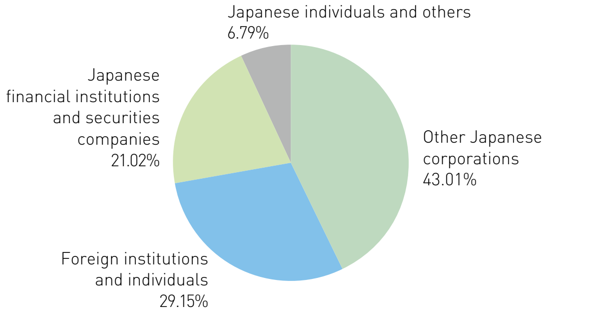
(As of February 29, 2016)

Name of Shareholders	Number of Shares (thousands)	Shareholdings (%)
ITOCHU Corporation	36,793	37.66
The Master Trust Bank of Japan, Ltd. (Trust account)	3,263	3.34
JP MORGAN CHASE BANK 385632	3,087	3.16
NTT DOCOMO, INC.	2,930	3.00
Japan Trustee Services Bank, Ltd. (Trust account)	2,124	2.17
Mizuho Bank, Ltd.	2,085	2.13
Nippon Life Insurance Company	1,571	1.60
JP MORGAN CHASE BANK 385174	1,457	1.49
STATE STREET BANK WEST CLIENT - TREATY 505234	1,373	1.40
STATE STREET BANK AND TRUST COMPANY 505025	1,002	1.02
Total	55,690	57.01

Notes: 1. In addition to the above, the Company holds 2,761 thousand shares in treasury stock.
2. Figures under the shareholdings represent shares as a percentage of total number of issued shares.

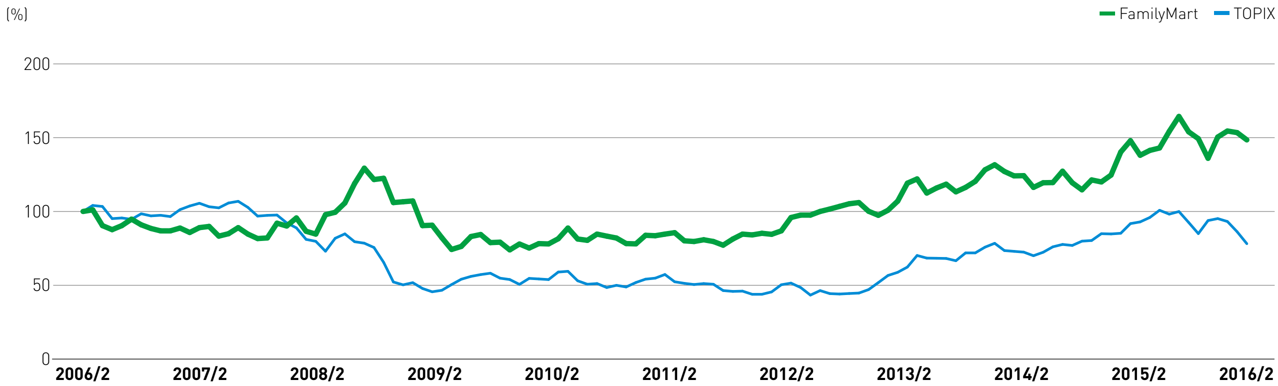
Distribution of the Shares

(As of February 29, 2016)



Note: Excluding shares of less than one trading unit

Share Price (2006/2 = 100)



Organization

(As of June 1, 2016)

- Board of Directors
- Chairman
- President
  - Risk Management & Compliance Committee
  - BPR Committee
  - Corporate Social Responsibility Committee
  - Cost Structure Reform Committee
  - Ready-to-Eat Products Structural Reform Committee
  - Secretarial Office
  - Corporate Planning Division
    - Corporate Planning Department
    - Project Promotion Department
    - Marketing Department
    - Corporate Communications Department
  - Franchisee Relations Office
  - Customer Service Office
  - Audit Office
  - New Business Development Division
    - Medical Care and Nursing Department
    - Corporate Finance Department
    - Internet Business Department
    - Group Companies and Affiliates Management Department
  - Information Systems Division
    - Information Systems Supervision Department
    - Information Systems Development Department
    - Information Systems Operating Department
  - Merchandising Division
    - Product Administration Department
    - Product & Marketing Department
    - Ready-to-Eat Products Structural Reform and Development Department
    - Delicatessen Department
    - Life & Daily Food Department
    - Fast Food Department
    - Processed Food & Beverages Department
    - Non-Food & Healthcare Department
    - Service & Magazine Department
    - Cocostore Merchandising Department
    - Oversea Area Franchising Merchandising Department
  - Logistics & Quality Control Division
    - Logistics Planning Department
    - Logistics Traffic Department
    - Quality Control Department
  - Store Operation Division
    - Store Operation Administration Department
    - Store Operation Department
    - Store Operation Administration Department
    - Property Administration Department
    - Domestic Area Franchising Business Department
    - Train Line Store Operation Business Department
  - Store Development Division
    - Store Development Planning & Administration Department
    - Store Development Department
    - Integrated Store Development Department
    - Corporate Store Development Department
    - Store Construction Department
    - Brand Conversion Department
  - Management Division
    - CSR & Compliance Department
    - General Affairs & Personnel Department
    - Legal Department
    - Finance & Investors Relations Department
    - Accounting & Finance Department
    - Franchisee Accounting Department
  - International Business Division
    - International Business Administration Department
    - International Business Department
  - Cocostore Business Division
    - Business Management Department
    - Kanto Business Department
    - Kyushu Business Department
    - Okinawa & Minami-Kyushu Business Department
    - VC Support Department
  - Hokkaido District
  - Tohoku I District
  - Tohoku II District
  - Kita-kanto District
  - Saitama District
  - Chiba District
  - Tokyo I District
  - Tokyo II District
  - Tama and Koshin District
  - Kanagawa District
  - Shonan and Shizuoka District
  - Tokai I District
  - Tokai II District
  - Hokuriku District
  - Kansai I District
  - Kansai II District
  - Kansai III District
  - Hyogo & Okayama District
  - Chugoku District
  - Shikoku District
  - Kyushu I District
  - Kyushu II District
- Board of Corporate Auditors

FamilyMart

FamilyMart Co., Ltd.

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Telephone: (81) 3-3989-6600

SUPPORTING COMPANY
FamilyMart is Supporting Company of Japan National Team

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