FINANCIAL SECTION 2017

For the year ended February 28, 2017

FamilyMart UNY Holdings Co., Ltd.

FamilyMart UNY Holdings Co., Ltd. and its Subsidiaries

Consolidated Statement of Financial Position
As of March 1, 2015 (the Date of Transition), February 29, 2016 and February 28, 2017

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
ASSETS	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)	2017 (February 28, 2017)
CURRENT ASSETS:				
Cash and cash equivalents (Note 8)	¥ 126,752	¥ 139,036	¥ 188,289	$ 1,681,152
Trade and other receivables (Notes 9 and 35)	78,521	86,399	258,729	2,310,080
Other financial assets (Notes 10 and 35)	12,082	13,656	27,254	243,339
Inventories (Note 11)	15,956	16,898	53,401	476,795
Other current assets (Note 12)	16,645	17,094	27,417	244,795
Subtotal	249,956	273,084	555,089	4,956,152
Assets held for sale (Note 13)			3,343	29,848
Total current assets	249,956	273,084	558,432	4,986,000
NON-CURRENT ASSETS:				
Property, plant and equipment (Notes 14 and 17)	180,038	182,584	410,371	3,664,027
Investment property (Note 15)	9,746	8,820	180,160	1,608,571
Goodwill (Notes 16 and 17)	6,526	11,483	49,356	440,679
Intangible assets (Notes 16 and 17)	14,921	21,253	73,895	659,777
Investments accounted for using the equity method (Note 18)	13,522	13,653	23,563	210,384
Leasehold deposits receivable (Note 35)	65,108	67,801	140,226	1,252,018
Other financial assets (Notes 10 and 35)	110,243	122,278	138,528	1,236,857
Assets for retirement benefits (Note 23)			927	8,277
Deferred tax assets (Note 19)	13,823	15,999	73,762	658,589
Other non-current assets (Note 12)	12,127	12,021	13,672	122,071
Total non-current assets	426,054	455,892	1,104,460	9,861,250
TOTAL ASSETS	¥ 676,009	¥728,976	¥1,662,892	$14,847,250

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and its Subsidiaries

Consolidated Statement of Financial Position
As of March 1, 2015 (the Date of Transition), February 29, 2016 and February 28, 2017

	Millions of Yen			Thousands of U.S. Dollars (Note 2)
LIABILITIES AND EQUITY	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)	2017 (February 28, 2017)
CURRENT LIABILITIES:				
Trade and other payables (Notes 22 and 35)	¥130,366	¥ 144,562	¥ 279,074	$2,491,732
Deposits received (Note 35)	100,412	113,326	159,957	1,428,188
Bonds and borrowings (Notes 20 and 35)	4,162	4,370	117,147	1,045,955
Lease obligations (Notes 20, 21, and 35)	17,479	18,657	20,240	180,714
Income taxes payable	10,037	3,632	4,579	40,884
Other current liabilities (Notes 24 and 25)	17,759	22,389	56,519	504,634
Total current liabilities	280,215	306,937	637,517	5,692,116
NON-CURRENT LIABILITIES:				
Bonds and borrowings (Notes 20 and 35)	5,174	17,887	276,682	2,470,375
Lease obligations (Notes 20, 21, and 35)	71,251	71,942	83,812	748,321
Other financial liabilities (Notes 20 and 35)	12,256	11,852	55,873	498,866
Liabilities for retirement benefits (Note 23)	12,024	14,643	15,245	136,116
Provisions (Note 24)	16,625	18,173	51,994	464,232
Other non-current liabilities (Notes 19 and 25)	1,776	4,019	11,390	101,696
Total non-current liabilities	119,106	138,517	494,997	4,419,616
TOTAL LIABILITIES	399,322	445,454	1,132,514	10,111,732
EQUITY:				
Common stock (Note 26)	16,659	16,659	16,659	148,741
Capital surplus (Note 26)	13,706	13,705	237,160	2,117,500
Treasury shares (Note 26)	(8,772)	(8,784)	(441)	(3,938)
Other components of equity	3,981	5,408	8,267	73,813
Retained earnings (Note 26)	238,632	244,889	253,179	2,260,527
Total equity attributable to owners of the parent	264,206	271,876	514,823	4,596,634
Non-controlling interests	12,482	11,646	15,555	138,884
TOTAL EQUITY	276,688	283,522	530,378	4,735,518
TOTAL LIABILITIES AND EQUITY	¥ 676,009	¥ 728,976	¥1,662,892	$14,847,250

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and its Subsidiaries

Consolidated Statement of Profit or Loss
For the Years Ended February 29, 2016 and February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)	2017 (From March 1, 2016 to February 28, 2017)
Operating revenues (Notes 6, 15, and 28)	¥ 424,435	¥ 843,815	$7,534,063
Cost of sales (Notes 14, 16, 23, and 29)	(79,687)	(314,584)	(2,808,786)
Gross profit	344,748	529,231	4,725,277
Selling, general, and administrative expenses (Notes 14, 15, 16, 23, and 29)	(294,467)	(473,936)	(4,231,571)
Equity in earnings of associates and joint ventures (Notes 6 and 18)	(397)	1,009	9,009
Other income (Note 30)	1,728	3,880	34,643
Other expenses (Notes 17, and 30)	(16,259)	(27,420)	(244,821)
Operating profit	35,354	32,764	292,536
Finance income (Notes 31 and 35)	2,375	3,301	29,473
Finance costs (Notes 31 and 35)	(1,900)	(2,582)	(23,054)
Profit before income taxes	35,830	33,483	298,955
Income taxes (Note 19)	(14,847)	(12,416)	(110,857)
Profit for the year	¥ 20,983	¥ 21,067	$188,098
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the parent (Note 6)	¥ 17,763	¥ 18,350	$ 163,839
Non-controlling interests	3,220	2,717	24,259
Profit for the year	¥ 20,983	¥ 21,067	$ 188,098
EARNINGS PER SHARE (YEN):			
Basic earnings per share (Note 33)	¥ 187.13	¥ 165.83	$1.48

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and its Subsidiaries

Consolidated Statement of Comprehensive Income
For the Years Ended February 29, 2016 and February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)	2017 (From March 1, 2016 to February 28, 2017)
PROFIT FOR THE YEAR	¥ 20,983	¥ 21,067	$188,098
OTHER COMPREHENSIVE INCOME:			
Items that will not be reclassified subsequently to profit or loss			
Financial assets measured at fair value through other comprehensive income (Notes 32 and 35)	2,500	1,918	17,125
Remeasurements of defined benefit plans (Notes 23 and 32)	(1,752)	398	3,554
Share of other comprehensive income of investments accounted for using the equity method (Notes 18 and 32)	(26)	40	357
Total of items that will not be reclassified subsequently to profit or loss	722	2,356	21,036
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges (Notes 32 and 35)		401	3,580
Exchange difference on translating foreign operations (Note 32)	(1,554)	1,350	12,054
Share of other comprehensive income of investments accounted for using the equity method (Notes 18 and 32)	(547)	(133)	(1,188)
Total of items that may be reclassified subsequently to profit or loss	(2,102)	1,619	14,455
Total other comprehensive income, net of tax	(1,379)	3,975	35,491
COMPREHENSIVE INCOME	¥ 19,603	¥ 25,042	$ 223,589
COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 17,935	¥ 21,812	$ 194,750
Non-controlling interests	1,668	3,230	28,839
Comprehensive income	¥ 19,603	¥ 25,042	$ 223,589

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and its Subsidiaries

Consolidated Statement of Changes in Equity
For the Years Ended February 29, 2016 and February 28, 2017

Millions of Yen

	Equity attributable to owners of the parent											
				Other components of equity								
	Common stock	Capital surplus	Treasury shares	Exchange difference on translating foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
BALANCE, MARCH 1, 2015	¥ 16,659	¥ 13,706	¥ (8,772)	¥	¥	¥ 3,981	¥	¥ 3,981	¥ 238,632	¥264,206	¥ 12,482	¥ 276,688
Profit for the year									17,763	17,763	3,220	20,983
Other comprehensive income				(959)		2,679	(1,547)	173		173	(1,552)	(1,379)
Total comprehensive income				(959)		2,679	(1,547)	173	17,763	17,935	1,668	19,603
Purchase of treasury shares (Note 26)			(13)							(13)		(13)
Disposal of treasury shares (Note 26)		0	0							1		1
Cash dividends (Note 27)									(10,252)	(10,252)	(2,460)	(12,712)
Changes in ownership interests in subsidiaries that do not result in a loss of control (Note 26)		(1)								(1)	(43)	(44)
Transfer from other components of equity to retained earnings						(293)	1,547	1,254	(1,254)			
Total transactions with owners		(1)	(12)			(293)	1,547	1,254	(11,506)	(10,265)	(2,504)	(12,769)
BALANCE, FEBRUARY 29, 2016	16,659	13,705	(8,784)	(959)		6,366		5,408	244,889	271,876	11,646	283,522
Profit for the year									18,350	18,350	2,717	21,067
Other comprehensive income				661	401	1,993	407	3,462		3,462	513	3,975
Total comprehensive income				661	401	1,993	407	3,462	18,350	21,812	3,230	25,042
Purchase of treasury shares (Note 26)			(211)							(211)		(211)
Disposal of treasury shares (Note 26)		0	1							1		1
Cash dividends (Note 27)									(10,536)	(10,536)	(1,652)	(12,188)
Increase due to business combinations(Note 7 and 26)		226,761	8,553							235,313	5,678	240,991
Changes in ownership interests in subsidiaries that do not result in a loss of control (Note 26)		(3,306)								(3,306)	(1,901)	(5,207)
Changes in ownership interests in subsidiaries that result in a loss of control											(1,446)	(1,446)
Others									(61)	(61)		(61)
Transfer from other components of equity to retained earnings						(131)	(407)	(538)	538			
Transfer from other components of equity to non-financial assets (Note 35)					(65)			(65)		(65)		(65)
Total transactions with owners		223,455	8,343		(65)	(131)	(407)	(603)	(10,060)	221,135	679	221,814
BALANCE, FEBRUARY 28, 2017	¥ 16,659	¥237,160	¥ (441)	¥ (298)	¥ 336	¥ 8,228	¥	¥8,267	¥253,179	¥514,823	¥ 15,555	¥ 530,378

Thousands of U.S. Dollars (Note 2)

	Equity attributable to owners of the parent											
				Other components of equity								
	Common stock	Capital surplus	Treasury shares	Exchange difference on translating foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Retained earnings	Total equity attributable to owners of the parent	Non-controlling interests	Total equity
BALANCE, FEBRUARY 29, 2016	$148,741	$ 122,366	$ (78,429)	$ (8,563)	$	$56,839	$	$48,286	$2,186,509	$2,427,464	$103,982	$2,531,446
Profit for the year									163,839	163,839	24,259	188,098
Other comprehensive income				5,902	3,580	17,795	3,634	30,911		30,911	4,580	35,491
Total comprehensive income				5,902	3,580	17,795	3,634	30,911	163,839	194,750	28,839	223,589
Purchase of treasury shares (Note 26)			(1,884)							(1,884)		(1,884)
Disposal of treasury shares (Note 26)		0	9							9		9
Cash dividends (Note 27)									(94,071)	(94,071)	(14,750)	(108,821)
Increase due to business combinations		2,024,652	76,366							2,101,009	50,696	2,151,705
Changes in ownership interests in subsidiaries that do not result in a loss of control		(29,518)								(29,518)	(16,973)	(46,491)
Changes in ownership interests in subsidiaries that result in a loss of control											(12,911)	(12,911)
Others									(545)	(545)		(545)
Transfer from other components of equity to retained earnings						(1,170)	(3,634)	(4,804)	4,804			
Transfer from other components of equity to non-financial assets (Note 35)					(580)			(580)		(580)		(580)
Total transactions with owners		1,995,134	74,491		(580)	(1,170)	(3,634)	(5,384)	(89,821)	1,974,420	6,063	1,980,482
BALANCE, FEBRUARY 28, 2017	$ 148,741	$2,117,500	$ (3,938)	$ (2,661)	$ 3,000	$73,464	$	$73,813	$2,260,527	$4,596,634	$ 138,884	$ 4,735,518

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and its Subsidiaries

Consolidated Statement of Cash Flows
For the Years Ended February 29, 2016 and February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)	2017 (From March 1, 2016 to February 28, 2017)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit before income taxes	¥ 35,830	¥ 33,483	$298,955
Depreciation and amortization	34,227	47,969	428,295
Impairment losses	8,752	14,671	130,991
Equity in earnings of associates and joint ventures	397	(1,009)	(9,009)
Decrease (increase) in trade and other receivables	(3,975)	(5,672)	(50,643)
Decrease (increase) in inventories	(1,462)	1,068	9,536
Increase (decrease) in trade and other payables	6,657	(21,925)	(195,759)
Increase (decrease) in deposits received	12,687	(3,481)	(31,080)
Increase (decrease) in assets and liabilities for retirement benefits	(49)	(563)	(5,027)
Other	17,078	30,005	267,902
Subtotal	110,141	94,547	844,170
Interests and dividends received	2,335	2,520	22,500
Interests paid	(1,905)	(2,464)	(22,000)
Income taxes paid	(16,794)	(11,251)	(100,455)
Net cash generated by operating activities—(Forward)	¥ 93,776	¥ 83,351	$ 744,205

See notes to consolidated financial statements.

FamilyMart UNY Holdings Co., Ltd. and its Subsidiaries

Consolidated Statement of Cash Flows
For the years ended February 29, 2016 and February 28, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)	2017 (From March 1, 2016 to February 28, 2017)
Net cash provided by operating activities—(Forward)	¥ 93,776	¥83,351	$744,205
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment and investment property	(28,474)	(49,370)	(440,804)
Proceeds from sales of property, plant and equipment and investment property	1,503	2,060	18,393
Purchases of intangible assets	(6,392)	(7,052)	(62,964)
Payments of leasehold deposits receivable and construction assistance fund receivables	(18,875)	(27,391)	(244,563)
Collection of leasehold deposits receivable and construction assistance fund receivables	4,081	10,981	98,045
Purchases of investments	(11,553)	(1,522)	(13,589)
Proceeds from sales and redemption of investments	3,057	3,164	28,250
Proceeds from acquisition of business (Note 7)		36,339	324,455
Payments of acquisition of business	(11,689)	(0)	(0)
Proceeds from disposal of business	2,388	905	8,080
Payments for disposal of business (Note 7)	(1,935)	(2,481)	(22,152)
Other	5,133	3,709	33,116
Net cash used in investing activities	(62,756)	(30,657)	(273,723)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from bonds and borrowings	41,956	129,235	1,153,884
Repayments of bonds and borrowings	(28,404)	(65,326)	(583,268)
Repayments of lease obligations	(18,476)	(40,299)	(359,813)
Purchases of treasury shares	(13)	(211)	(1,884)
Purchases of interests in subsidiaries from non-controlling shareholders		(6,585)	(58,795)
Cash dividends paid (Note 27)	(10,251)	(10,536)	(94,071)
Cash dividends paid to non-controlling shareholders	(2,317)	(1,846)	(16,482)
Increase (decrease) in commercial paper		(10,000)	(89,286)
Other	681	652	5,821
Net cash used in financing activities	(16,824)	(4,916)	(43,893)
EFFECTS OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(1,911)	1,474	13,161
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,285	49,253	439,759
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	126,752	139,036	1,241,393
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 8)	¥139,036	¥188,289	$1,681,152

1. REPORTING ENTITY

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

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

The consolidated financial statements were approved by the Board of Directors at the meeting held on May 25, 2017.

2. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

(1) Statement of Compliance with IFRSs and Matters Pertinent to First-time Adoption

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

The consolidated financial statements of the Group were previously prepared in accordance with accounting principles generally accepted in Japan. The Company adopted IFRSs for the first time in the fiscal year ended February 28, 2017, and the date of the transition to IFRSs was March 1, 2015. The effects of the transition to IFRSs on the financial position, the operating results, and the cash flows of the Group at the date of the transition to IFRSs, and on the comparative financial information for the fiscal year ended February 29, 2016, are described in Note 41. "FIRST-TIME ADOPTION OF IFRSs."

Except for IFRSs which have not been adopted early and exceptions and exempt provisions provided in IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), the accounting policies of the Group are in accordance with IFRSs effective at February 28, 2017.

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside of Japan and have been made at the rate of ¥112 to $1, the approximate rate of exchange at February 28, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be translated into U.S. dollars at that or any other rate.

(4) Early Application of New Standards

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

3. SIGNIFICANT ACCOUNTING POLICIES

(1) Basis of Consolidation

1) Subsidiaries

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

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

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

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

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

2) Associates

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

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

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

3) *Joint Arrangements*

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

(2) Business Combinations

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

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

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

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

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

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

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

(3) Foreign Currency Translation

1) Foreign Currency Transactions

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

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

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

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

2) Financial Statements of Foreign Operations

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

(4) Financial Instruments

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

1) Financial Assets

(i) Initial recognition and measurement

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

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

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

- The financial asset is held to collect contractual cash flows; and,

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

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

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

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

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

(ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

(b) Financial assets measured at fair value

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

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

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

(iii) Impairment of financial assets

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

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

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

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

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

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

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

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

(iv) Derecognition of financial assets

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

2) Financial Liabilities

(i) Initial recognition and measurement

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

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

(ii) Subsequent measurement

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

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

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

(b) Financial liabilities measured at amortized cost

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

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

(iii) Derecognition of financial liabilities

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

3) Presentation of Financial Assets and Financial Liabilities

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

4) Derivatives and Hedge Accounting

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

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

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

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

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

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

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

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

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

(5) Cash and Cash Equivalents

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

(6) Inventories

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

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

(7) Property, Plant and Equipment

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

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

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

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

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

(8) Investment Property

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

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

(9) Goodwill and Intangible Assets

1) Goodwill

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

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

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

2) Intangible assets

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

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

- Software:	5 years
- Customer-related:	6 to 20 years

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

(10) Lease

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

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

1) Lessee

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

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

2) Lessor

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

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

(11) Impairment Losses of Non-Financial Assets

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

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

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

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

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

(12) Employee Benefits

1) Postemployment Benefits

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

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

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

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

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

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

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

2) *Short-Term Employee Benefits*

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

(13) Provisions

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

1) *Asset Retirement Obligations*

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

2) *Provisions for Loss on Interest Repayment*

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

(14) Financial Guarantee Contracts

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

(15) Revenues

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

1) *Revenues from Franchisees*

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

2) *Sale of Goods*

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

3) Other Revenues

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

4) Presentation of Revenues

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

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

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

(16) Income Taxes

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

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

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

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

However, deferred tax assets and liabilities are not recognized for the following temporary differences:

- arising from the initial recognition of goodwill,
- arising from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit, and
- associated with investments in subsidiaries, associates and joint ventures that the Group is able to control the timing of the reversal of the temporary difference, and that it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

(17) Earnings per Share

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

(18) Segment Information

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

(19) Assets Held for Sale

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

(20) Treasury Shares

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

(21) Fair Value Measurement

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

- Level 1
Quoted prices (unadjusted) in active markets for identical assets or liabilities with sufficient frequency and volume of transaction on an ongoing basis that the Group can access at the measurement date

- Level 2
Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs calculated or corroborated primarily by formula and valuation techniques or observable market data

- Level 3
Unobservable inputs reflecting the Group’s assumptions that market participants would use when pricing the asset or liability since relevant observable inputs are not available. The Group develops unobservable inputs using the best information available in the circumstances, which might include the Group’s own data

(22) Franchise Agreement

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

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

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

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

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

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

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

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

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

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

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

3) Recoverability of deferred tax assets

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

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

The detail of and amounts related to income taxes are stated in Note 19. “INCOME TAXES.”

4) Measurement of provisions

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

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

The details and amounts related to provisions are stated in Note 24. “PROVISIONS.”

5) *Measurement of defined benefit obligations*

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

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

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

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

6) *Fair values of financial instruments*

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

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

7) *Impairment of financial assets measured at amortized cost*

For financial assets measured at amortized cost, the Group assesses whether the credit risk on each financial asset has increased significantly since initial recognition at the end of each reporting period and estimates expected credit losses for 12 months or for lifetime. Estimates of expected credit losses are conducted based on a number of assumptions and estimates, such as possibility of default, timing of recovery of a credit situation, future projections on amount of losses to be incurred and discount rates. Such estimates might cause significant changes in the amount of impairment losses as a result of uncertain future changes in economic conditions and other factors.
Details and amounts related to impairment of financial assets measured at amortized cost are stated in Note 35. "FINANCIAL INSTRUMENTS."

5. NEW STANDARDS NOT YET APPLIED

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

The potential impacts that the application of these standards and interpretations have are currently under review and thus cannot be estimated at this time.

IFRSs		Mandatory application (Fiscal years beginning on or after)	Group application	Outline of new/amended standards
IAS 7	*Statement of Cash Flows*	January 1, 2017	Fiscal year ending February 28, 2018	Additional disclosure of changes in liabilities arising from financing activities
IFRS 15	*Revenue from Contracts with Customers*	January 1, 2018	Fiscal year ending February 28, 2019	Amendment to accounting treatment for revenue recognition
IFRS 16	*Leases*	January 1, 2019	Fiscal year ending February 29, 2020	Amendment to accounting treatment for lease contracts

6. SEGMENT INFORMATION

(1) Operating segment information

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

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

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

After the absorption-type merger with UNY Group Holdings Co., Ltd., during the fiscal year ended February 28, 2017, the Group has changed its reportable segments from the previous two segments, namely, “Domestic” business and “Overseas” business to “Convenience Store” business and “General Merchandise Store” business.

The segment information for the fiscal year ended February 29, 2016, is prepared based on the new segment categories.

Segment revenues and results

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

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

Fiscal Year Ended February 29, 2016 (From March 1, 2015 to February 29, 2016)

	Reportable segment				
	Convenience store	General merchandise store	Total	Reconciliations	Consolidated
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Operating revenues:					
External revenue	¥424,435		¥424,435		¥424,435
Intersegment revenue					
Total	¥424,435		¥424,435		¥424,435
Segment profit (loss)	¥17,763		¥17,763		¥17,763
Other items					
Depreciation and amortization	¥(34,227)		¥(34,227)		¥(34,227)
Finance income	2,375		2,375		2,375
Finance costs	(1,900)		(1,900)		(1,900)
Equity in earnings of associates and joint ventures	(397)		(397)		(397)
Impairment losses (*)	(8,752)		(8,752)		(8,752)
Income taxes	(14,847)		(14,847)		(14,847)
Segment assets	728,976		728,976		728,976
Investments accounted for using the equity method	13,653		13,653		13,653
Capital expenditures (**)	57,380		57,380		57,380

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

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

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

	Reportable segment				
	Convenience store	General merchandise store	Total	Reconciliations (*)	Consolidated
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Operating revenues:					
External revenue	¥484,225	¥359,590	¥843,815		¥843,815
Intersegment revenue	236	1,148	1,384	(1,384)	
Total	¥484,461	¥360,739	¥845,200	¥ (1,384)	¥843,815
Segment profit (loss)	¥11,106	¥6,892	¥17,998	¥352	¥18,350
Other items					
Depreciation and amortization	¥(42,158)	¥(5,818)	¥(47,977)	¥7	¥(47,969)
Finance income	3,114	167	3,281	20	3,301
Finance costs	(2,164)	(622)	(2,786)	204	(2,582)
Equity in earnings of associates and joint ventures	736	273	1,009		1,009
Impairment losses (**)	(13,936)	(735)	(14,671)		(14,671)
Income taxes	(8,666)	(4,132)	(12,797)	381	(12,416)
Segment assets	962,991	634,544	1,597,536	65,357	1,662,892
Investments accounted for using the equity method	14,429	9,134	23,563		23,563
Capital expenditures (***)	72,266	4,456	76,721		76,721

* Reconciliations in segment profit of ¥352 million are corporate expenses which consist mainly of general and administrative expenses that are not attributable to any reportable segment. Reconciliations in segment assets of ¥65,357 million include unallocated corporate assets and intersegment eliminations, amounting to ¥117,559 million and ¥52,202 million, respectively. Corporate assets are mainly cash and cash equivalents and goodwill arising from business combination with UNY Group Holdings Co., Ltd., which was recognized at a provisional amount. For more details, please refer to Note 7. "BUSINESS COMBINATIONS AND LOSS OF CONTROL."

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

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

(2) Geographic information

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

Operating revenues from outside of the Group

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Japan	¥364,843	¥776,161
Taiwan	58,826	55,232
Others	766	12,422
Total	¥424,435	¥843,815

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

Non-current assets

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Japan	¥182,265	¥197,348	¥677,576
Taiwan	41,027	38,813	46,649
Others	66		3,228
Total	¥223,358	¥236,161	¥727,454

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

(3) Information on major customers

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

7. BUSINESS COMBINATIONS AND LOSS OF CONTROL

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

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

FamilyMart Co., Ltd. changed its company name to FamilyMart UNY Holdings Co., Ltd. and Circle K Sunkus Co., Ltd. to FamilyMart Co., Ltd.

(1) Overview of the business combination

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

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

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

3) Major reason for determining the acquiring company
Since the Company acquired the shares in UNY Group Holdings Co., Ltd. by issuing its ordinary shares and its treasury stock as consideration.

(2) Merger ratio by class of stock and its calculation method, and the number of shares delivered for the Absorption-Type Merger
1) Merger ratio by class of stock
0.138 shares of common stock of the Company for one share of common stock of UNY Group Holdings Co., Ltd.

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

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

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

	Amount
	Millions of Yen
Fair value of consideration paid:	
Equity interests of the acquirer	¥235,533
Total	235,533
Recognized amounts of assets acquired and liabilities assumed:	
Current assets:	
Cash and cash equivalents	31,893
Trade and other receivables	156,585
Other financial assets	12,011
Inventories	36,440
Other current assets	16,979
Assets held for sale	27,398
Total current assets	281,306
Non-current assets	
Property, plant and equipment	211,073
Investment property	171,445
Intangible assets	54,209
Investments accounted for using the equity method	9,141
Leasehold deposits receivable	72,239
Other financial assets	17,899
Deferred tax assets	68,130
Other non-current assets	2,786
Total non-current assets	606,924
Total assets	¥888,230
Current liabilities:	
Trade and other payables	¥ (157,461)
Deposits received	(47,853)
Bonds and borrowings	(146,421)
Lease obligations	(6,707)
Income taxes payable	(4,802)
Other current liabilities	(36,223)
Liabilities directly related to assets held for sale	(13,525)
Total current liabilities	(412,991)
Non-current liabilities	
Bonds and borrowings	(170,506)
Lease obligations	(18,583)
Other financial liabilities	(45,169)
Liabilities for retirement benefits	(774)
Provisions	(32,159)
Other non-current liabilities	(6,813)
Total non-current liabilities	(274,004)
Total liabilities	¥ (686,995)
Recognized amounts of assets acquired and liabilities assumed (net)	¥201,234
Non-controlling interests(*)	(5,678)
Goodwill	¥39,977

*Non-controlling interests are associated with subsidiaries of UNY Group Holdings Co., Ltd., and were measured at the proportionate share in the recognized amounts of the subsidiaries' identifiable net assets.

Acquisition-related costs of the business combination were ¥439 million and all the costs were recognized as "selling, general, and administrative expenses" on the consolidated statement of profit or loss.

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

Goodwill recognized is not future-deductible for tax purposes.

(4) Cash flows due to acquisition

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

(5) Fair value of receivables

The fair value of receivables acquired is as follows:

	Trade and other receivables	Receivables included in other financial assets
	Millions of Yen	Millions of Yen
Total contractual amounts receivable	¥157,317	¥25,346
Best estimates of contractual cash flows expected to be uncollectible	(732)	(321)
Fair value of receivables	¥156,585	¥25,025

(6) Impact on business results

Operating revenues of ¥432,667 million and profit for the year attributable to owners of the Company of ¥4,045 million arising from the former UNY Group Holdings Co., Ltd. and its subsidiaries and associates on or after the date of acquisition are included in the Group’s consolidated statement of profit or loss. Operating revenues and profit for the year of the Group for the fiscal year ended February 28, 2017 would have been ¥1,267,329 million and ¥25,431 million, respectively, had the business combination been executed at the beginning of the year (unaudited information).

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

(1) Disposal of SAGAMI Co., Ltd.

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

(2) Disposal of Palemo Co., Ltd.

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

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

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

8. CASH AND CASH EQUIVALENTS

The breakdown of cash and cash equivalents is as follows:

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Cash and cash equivalents:			
Cash and deposits	¥118,752	¥113,038	¥188,289
Short-term investments (*)	7,999	25,998	
Total	¥126,752	¥139,036	¥188,289

* Short-term investments comprise commercial paper and negotiable deposits.

9. TRADE AND OTHER RECEIVABLES

The breakdown of trade and other receivables is as follows:

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Receivables due from franchised stores	¥25,599	¥19,526	¥39,816
Accounts receivable—other	43,970	51,323	81,938
Credit card receivables			115,537
Advances paid	7,667	14,157	16,331
Others	1,422	1,595	5,531
Allowance for doubtful receivables	(138)	(202)	(424)
Total	¥78,521	¥86,399	¥258,729

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

10. OTHER FINANCIAL ASSETS

(1) Breakdown of other financial assets

The breakdown of other financial assets is as follows:

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Financial assets measured at fair value through other comprehensive income:			
Listed stocks	¥11,874	¥14,454	¥16,219
Unlisted stocks	1,027	11,642	14,687
Financial assets measured at amortized cost:			
Time deposits	6,080	6,080	3,071
Debt securities	8,679	7,030	4,899
Loans	1,818	2,938	1,641
Construction assistance fund receivables	92,668	95,122	118,090
Others	2,055	347	5,221
Allowance for doubtful receivables	(1,876)	(1,680)	(1,307)
Derivative assets			3,262
Total	¥122,325	¥135,934	¥165,782
Current assets	¥12,082	¥13,656	¥27,254
Non-current assets	110,243	122,278	138,528
Total	¥122,325	¥135,934	¥165,782

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

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

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

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Ryohin Keikaku Co., Ltd.	¥8,755	¥12,911	¥13,338
Tpoint Japan Co., Ltd.		9,865	11,540
SEIBU HOLDINGS INC.	1,659	1,208	1,046
Kagome Co., Ltd.	9		655
Joyous Foods Co., Ltd.		760	524

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

The Company disposed of certain equity instruments measured at fair value through other comprehensive income during the fiscal years ended February 29, 2016 and February 28, 2017 as a result of reconsideration of business relationships and other reasons. The fair values and accumulated gains or losses recognized in other comprehensive income at the time of sale in the respective fiscal years were as follows:

2016 (From March 1, 2015 to February 29, 2016)			2017 (From March 1, 2016 to February 28, 2017)		
Fair value at the time of derecognition	Accumulated gains (losses)	Dividends received	Fair value at the time of derecognition	Accumulated gains (losses)	Dividends received
Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
¥1,003	¥456	¥15	¥792	¥137	¥1

Accumulated gains (losses) (net of income taxes) reclassified from other comprehensive income to retained earnings were ¥293 million and ¥131 million for the fiscal years ended February 29, 2016 and February 28, 2017, respectively.

11. INVENTORIES

The breakdown of inventories is as follows:

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Merchandise	¥14,956	¥16,566	¥52,843
Others	1,000	332	558
Total	¥15,956	¥16,898	¥53,401

The valuation loss on inventories that was recognized as expense was ¥115 million and ¥104 million for the fiscal years ended February 29, 2016 and February 28, 2017, respectively.

12. OTHER ASSETS

The breakdown of other assets is as follows:

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Prepaid expenses	¥12,637	¥12,782	¥19,354
Long-term prepaid expenses	10,784	10,541	12,929
Others	5,350	5,793	8,805
Total	¥28,771	¥29,115	¥41,089
Other current assets	¥16,645	¥17,094	¥27,417
Other non-current assets	12,127	12,021	13,672
Total	¥28,771	¥29,115	¥41,089

13. ASSETS HELD FOR SALE

Assets held for sale at February 28, 2017 were land for distribution centers and stores that were originally planned to be developed in the general merchandise store business, and later classified as held for sale as the Company decided to sell the land.

For the assets held for sale, impairment losses were not recognized for the fiscal year ended February 28, 2017, and they are scheduled to be sold within one year from the end of the fiscal year.

14. PROPERTY, PLANT AND EQUIPMENT

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

Cost

	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
March 1, 2015	¥9,142	¥110,171	¥18,402	¥165,242	¥459	¥303,416
Acquisition	42	14,894	3,525	24,820	2,500	45,780
Acquisition through business combinations	17	3,333	5	66		3,420
Sale or disposal	(2,429)	(8,367)	(2,100)	(5,566)	(154)	(18,616)
Reclassification	20	545	989	284	(1,862)	(25)
Exchange difference on translating foreign operations and others	(426)	(1,806)	(27)	(3,253)	(31)	△5,543
February 29, 2016	6,365	118,771	20,793	181,592	912	328,433
Acquisition	1	23,960	4,639	38,246	6,039	72,886
Acquisition through business combinations (*)	84,478	101,686	7,017	14,594	3,299	211,073
Sale or disposal	(445)	(15,683)	(1,354)	(13,619)	(118)	(31,219)
Reclassification		2,835	31	95	(3,979)	(1,018)
Exchange difference on translating foreign operations and others	271	866	(161)	2,242	(21)	3,198
February 28, 2017	¥90,670	¥232,434	¥30,966	¥233,151	¥6,132	¥583,353

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

Accumulated depreciation and accumulated impairment losses

	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
March 1, 2015	¥(440)	¥(45,981)	¥(5,825)	¥(71,132)		¥(123,378)
Depreciation (*)		(6,384)	(1,846)	(20,671)		(28,902)
Impairment losses (**)		(3,398)	(379)	(3,548)		(7,325)
Sale or disposal	375	5,556	616	4,873		11,420
Exchange difference on translating foreign operations and others		684	26	1,626		2,336
February 29, 2016	(66)	(49,523)	(7,409)	(88,851)		(145,849)
Depreciation (*)		(9,694)	(2,591)	(25,113)		(37,398)
Impairment losses (**)		(5,125)	(492)	(5,512)	¥ (573)	(11,702)
Sale or disposal		11,510	682	10,722		22,914
Exchange difference on translating foreign operations and others		(405)	32	(575)		(947)
February 28, 2017	¥(66)	¥(53,238)	¥(9,777)	¥(109,329)	¥(573)	¥(172,982)

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

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

Carrying amount

	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Balance, March 1, 2015	¥8,701	¥64,191	¥12,576	¥94,110	¥459	¥180,038
Balance, February 29, 2016	6,299	69,248	13,384	92,741	912	182,584
Balance, February 28, 2017	90,604	179,197	21,189	113,822	5,559	410,371

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

Lease assets

	Land	Buildings and structures	Machinery, equipment, and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Balance, March 1, 2015		¥156	¥8,575	¥68,719		¥77,450
Balance, February 29, 2016			9,277	66,758		76,036
Balance, February 28, 2017			10,183	81,579		91,761

15. INVESTMENT PROPERTY

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

Cost

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥13,719	¥12,454
Acquisition	40	603
Acquisition through business combinations (*)		171,445
Sale or disposal	(509)	
Reclassification		971
Exchange difference on translating foreign operations and others	(796)	747
Balance at the end of year	¥12,454	¥186,221

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

Accumulated depreciation and accumulated impairment losses

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥(3,973)	¥(3,634)
Depreciation (*)	(190)	(2,358)
Sale or disposal	441	
Exchange difference on translating foreign operations and others	88	(69)
Balance at the end of year	¥(3,634)	¥(6,061)

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

Carrying amount and fair value

	Date of Transition (March 1, 2015)		2016 (February 29, 2016)		2017 (February 28, 2017)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Investment property	¥9,746	¥13,846	¥8,820	¥12,257	¥180,160	¥183,070

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

Revenues and expenses from investment property were as follows:

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Lease income	¥836	¥21,991
Direct operating cost	433	12,722

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

16. GOODWILL AND INTANGIBLE ASSETS

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

Cost

		Intangible assets			
	Goodwill	Software	Customer related	Other	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
March 1, 2015	¥6,526	¥32,245	1,943	¥8,137	¥42,324
Acquisition		6,036	452	175	6,663
Acquisition through business combinations	7,530		¥1,465	4,400	5,865
Sale or disposal	(1,262)	(411)	(402)	(681)	(1,494)
Exchange difference on translating foreign operations and others	(41)	(69)	351	(476)	(194)
February 29, 2016	12,753	37,801	3,808	11,555	53,164
Acquisition		5,290	1,491	482	7,263
Acquisition through business combinations (*)	39,977	3,197	50,906	106	54,209
Sale or disposal	(35)	(6,866)	(1,279)	(751)	(8,896)
Exchange difference on translating foreign operations and others	27	243	(148)	69	163
February 28, 2017	¥52,722	¥39,665	¥54,778	¥11,461	¥105,904

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

Accumulated amortization and accumulated impairment losses

		Intangible assets			
	Goodwill	Software	Customer related	Other	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
March 1, 2015		¥(21,786)	¥(1,339)	¥(4,278)	¥(27,403)
Amortization (*)		(4,211)	(477)	(448)	(5,135)
Impairment losses (**)	¥ (1,270)	(3)	(73)	(29)	(104)
Sale or disposal		319	8	157	483
Exchange difference on translating foreign operations and others		247		1	248
February 29, 2016	(1,270)	(25,435)	(1,880)	(4,596)	(31,912)
Amortization (*)		(5,689)	(1,685)	(840)	(8,214)
Impairment losses (**)	(2,096)	(2)	(149)	(441)	(592)
Sale or disposal		7,181	1,133	143	8,457
Exchange difference on translating foreign operations		161		89	251
February 28, 2017	¥(3,366)	¥(23,784)	¥(2,581)	¥(5,645)	¥(32,009)

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

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

Carrying amount

		Intangible assets(**)			
	Goodwill(*)	Software	Customer related	Other	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Balance, March 1, 2015	¥6,526	¥10,458	¥604	¥3,859	¥14,921
Balance, February 29, 2016	11,483	12,366	¥1,928	6,959	21,253
Balance, February 28, 2017	49,356	15,881	52,197	5,817	73,895

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

** The major components of the above intangible assets include relationships with customers of the former Circle K Sunkus Co., Ltd. recognized in the business combination with UNY Group Holdings Co., Ltd., amounting to ¥49,633 million as of February 28, 2017 which is determined provisionally (the amortization period is provisionally determined to be 20 years).

17. IMPAIRMENT LOSSES

(1) Property, plant and equipment, intangible assets and others

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

The Group recognized impairment losses of ¥7,482 million and ¥12,575 million for the fiscal years ended February 29, 2016 and February 28, 2017, respectively, which are included in “Other expenses” in the consolidated statement of profit or loss. The major components include stores’ assets whose profitability declined significantly (buildings and structures; tools, furniture, and fixtures and others), and their carrying amounts are reduced to recoverable amounts.

The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal. The discount rate used in measuring the value in use is calculated based on a pre-tax weighted-average cost of capital (2.0% to 4.9%). The fair value is calculated based mainly on evaluations by independent external real estate appraisers in accordance with appraisal standards in the respective country where the real estate is located and categorized within Level 3 of the fair value hierarchy.

(2) Goodwill impairment test

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

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

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

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Convenience store business	¥6,526	¥11,483	¥9,379
General merchandise store business			
Others			39,977
Total	¥6,526	¥11,483	¥49,356

The major components of the above include those related to SENIOR LIFE CREATE Co., Ltd. (convenience store business), the former Cocostore Corporation (convenience store business that was merged into the Company in December 2015 with the Company as the surviving company), and the former UNY Group Holdings Co., Ltd. (the goodwill was recognized at an amount determined provisionally and allocation of goodwill was incomplete, which was merged into the Company in September 2016 with the Company as the surviving company).

The carrying amounts of goodwill related to SENIOR LIFE CREATE Co., Ltd. were ¥4,866 million, ¥3,596 million and ¥1,500 million at March 1, 2015, February 29, 2016 and February 28, 2017, respectively.

Impairment losses of ¥1,270 million and ¥2,096 million were recognized for the fiscal years ended February 29, 2016 and February 28, 2017, respectively, on the above goodwill, as the recoverable amount fell below the carrying amount as a result of the reconsideration of the business plan in light of recent changes in business environment and results.

The carrying amount of goodwill related to the former Cocostore Corporation was ¥7,390 million and ¥7,355 million at February 29, 2016 and February 28, 2017, respectively.

Impairment losses on the above goodwill were not recognized for the fiscal years ended February 29, 2016 and February 28, 2017.

The provisional amount of goodwill related to the former UNY Group Holdings Co., Ltd. at February 28, 2017 was ¥39,977 million, which was included in “Others” in the table above.

Impairment losses of goodwill were not recognized on the above goodwill for the fiscal year ended February 28, 2017, since the fair value measurement of property, plant and equipment and intangible assets is incomplete and thus, allocation of the related goodwill to CGUs is incomplete.

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

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

(1) Investments in Associates

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

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Total carrying amounts	¥10,891	¥12,012	¥22,513

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

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Share of profit for the year	¥1,667	¥2,256
Share of other comprehensive income	(445)	46
Share of comprehensive income	¥1,222	¥2,302

(2) Investments in Joint Ventures

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

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Total carrying amounts	¥2,632	¥1,641	¥1,050

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

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Share of profit for the year	¥(2,064)	¥(1,247)
Share of other comprehensive income	(128)	(139)
Share of comprehensive income	¥(2,192)	¥(1,386)

19. INCOME TAXES

(1) Deferred Tax Assets and Deferred Tax Liabilities

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

Fiscal year ended February 29, 2016 (From March 1, 2015 to February 29, 2016)

	March 1, 2015	Recognized through profit or loss	Recognized in other comprehensive income	Business combinations	February 29, 2016
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Deferred tax assets					
Accounts payable-other and accrued expenses	¥1,103	¥59			¥1,162
Unearned revenue	74	535			610
Provisions	3,483	(82)		¥111	3,512
Liabilities for retirement benefits	3,662	(293)	¥628	394	4,391
Property, plant and equipment, investment property and intangible assets	6,149	488		913	7,550
Financial assets measured at amortized cost	871	(585)		1,413	1,699
Tax loss carryforwards		(3,185)		3,222	38
Other	2,635	(1,156)	(34)	1,729	3,174
Total	¥17,976	¥(4,218)	¥594	¥7,783	¥22,136
Deferred tax liabilities					
Financial assets measured at fair value through other comprehensive income	¥(3,032)		¥(770)		¥(3,803)
Property, plant and equipment, investment property and intangible assets		45		(1,293)	(1,248)
Investments in subsidiaries and associates	(1,121)	(31)	224		(928)
Other		(48)		(109)	(158)
Total	¥(4,153)	¥(34)	¥(546)	¥(1,403)	¥(6,137)

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

	March 1, 2016	Recognized through profit or loss	Recognized in other comprehensive income	Business combinations	February 28, 2017
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Deferred tax assets					
Accounts payable-other and accrued expenses	¥1,162	¥(250)		¥7,004	¥7,916
Unearned revenue	610	(95)		1,120	1,635
Provisions	3,512	230		8,910	12,652
Liabilities for retirement benefits	4,391	(30)	¥116	29	4,506
Property, plant and equipment, investment property and intangible assets	7,550	(6,017)		70,475	72,008
Financial assets measured at amortized cost	1,699	(2,187)		3,460	2,972
Financial liabilities measured at amortized cost		(411)		1,870	1,458
Tax loss carryforwards	38	633		546	1,217
Other	3,174	(1,827)	(857)	7,497	7,986
Total	¥22,136	¥(9,954)	¥(741)	¥100,909	¥112,350
Deferred tax liabilities					
Financial assets measured at fair value through other comprehensive income	¥(3,803)		¥(422)	¥(440)	¥(4,665)
Property, plant and equipment, investment property and intangible assets	(1,248)	¥728		(27,158)	(27,678)
Derivative assets			(462)	(268)	(730)
Investments in subsidiaries and associates	(928)	(101)	(157)	(896)	(2,082)
Other	(158)	(112)	686	(3,876)	(3,460)
Total	¥(6,137)	¥516	¥(355)	¥(32,639)	¥(38,615)

Deferred tax assets are recognized for deductible temporary differences, tax loss carryforwards or tax credit carryforwards to the extent that it is probable that such deferred tax assets will be recovered based on the estimation of taxable profit for each taxpayer. Tax loss carryforwards and deductible temporary differences for which deferred tax assets were not recognized were as follows:

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Tax loss carryforwards	¥8,755	¥894	¥8,083
Deductible temporary differences	11,585	10,385	98,922
Total	¥20,340	¥11,279	¥107,005

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

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
1st year			¥32
2nd year			336
3rd year		¥25	1,119
4th year	¥54	224	1,676
5th year and after	8,701	645	4,921
Total	¥8,755	¥894	¥8,083

Total taxable temporary differences associated with investments in subsidiaries, associates and joint ventures for which deferred tax liabilities had not been recognized at March 1, 2015, February 29, 2016 and February 28, 2017 was ¥5,455 million, ¥6,511 million, and ¥14,754 million, respectively. Deferred tax liabilities were not recognized because the Group was able to control the timing of the reversal of the temporary differences and it was probable that the temporary differences would not reverse in the foreseeable future.

(2) Income Taxes

The breakdown of income taxes is as follows:

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Current tax expense	¥10,595	¥2,978
Deferred tax expense	4,252	9,438
Total	¥14,847	¥12,416

The Company is subject to corporate tax, corporate inhabitant tax, and enterprise tax that are deductible for income tax purposes, and the applicable tax rates for the fiscal years ended February 29, 2016 and February 28, 2017, which are calculated based on these taxes, were 35.64% and 33.06%, respectively. For overseas subsidiaries, corporate taxes are imposed in accordance with their local tax laws.

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

In Japan, the “Act on Partial Revision of the Income Tax Act, etc.” and the “Act on Partial Revision of the Local Tax Act, etc.” were enacted on March 31, 2015, to reduce the corporate tax rates effective from the fiscal year beginning on or after April 1, 2015. As a result, the statutory effective tax rate, which is used to measure deferred tax assets and deferred tax liabilities were reduced from 35.64% to 33.06% for temporary differences that are expected to reverse during the fiscal year beginning on March 1, 2016, and to 32.26% for temporary differences that are expected to reverse during the fiscal years beginning on or after March 1, 2017.

As a result of this change in the tax rates, deferred tax expense for the fiscal year ended February 29, 2016 increased by ¥1,612 million.

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

As a result of this change in tax rate, deferred tax expense for the fiscal year ended February 28, 2017 increased by ¥1,782 million.

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

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	%	%
Statutory effective tax rate	35.64	33.06
(Adjustments)		
Expense not deducted for income tax purpose	1.55	1.75
Foreign tax credit	2.14	1.17
Unrecognized deferred tax assets	(2.72)	(4.11)
Effect from the tax rate change	4.50	5.32
Tax gain on business transfer	1.46	
Impairment loss on goodwill	1.26	2.07
Differences from applicable tax rates for overseas subsidiaries	(3.28)	(2.96)
Others	0.90	0.79
Average actual effective tax rate	41.44	37.08

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

(1) Breakdown of financial liabilities

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

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)	Average interest rate(*)	Repayment period (**)
	Millions of Yen	Millions of Yen	Millions of Yen	%	
Financial liabilities measured at amortized cost					
Commercial paper			¥96,000	0.00	
Short-term borrowings	¥2,102	¥2,441	8,269	0.70	
Current portion of long-term borrowings	2,060	1,929	12,878	0.37	
Short-term lease obligations	17,479	18,657	20,240	1.27	
Bonds			39,820	0.25	From 2022 to 2024
Long-term borrowings	5,174	17,887	236,862	0.34	From 2018 to 2025
Long-term lease obligations	71,251	71,942	83,812	1.26	From 2018 to 2025
Leasehold deposits refundable	5,582	5,460	44,937		
Others	6,674	6,391	10,030		
Derivative liabilities			906		
Total	¥110,323	¥124,709	¥553,754		
Current liabilities	¥21,641	¥23,027	¥137,387		
Non-current liabilities	88,681	101,681	416,367		
Total	¥110,323	¥124,709	¥553,754		

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

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

The summary of terms of bonds is as follows:

Company name	Trading name	Issuance Date	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)	Interest rate	Collateral	Maturity period
			Millions of Yen	Millions of Yen	Millions of Yen	%		
FamilyMart UNY Holdings Co., Ltd.	1st Non-collateralized Bond	February 22 2017	¥	¥	¥30,000 (-)	0.14	None	February 22, 2022
FamilyMart UNY Holdings Co., Ltd.	2nd Non-collateralized Bond	February 22 2017			10,000 (-)	0.24	None	February 22, 2024
Total			¥	¥	¥40,000 (-)	-	-	-

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

(2) Assets Pledged as Collateral

Assets pledged as collateral were as follows:

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Land			¥1,684
Buildings and structures			748
Leasehold deposits receivable	¥65,108	¥67,801	140,226
Other financial assets	54	48	52
Total	¥65,161	¥67,849	¥142,710

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

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

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Other financial liabilities			¥1,560

21. LEASE

(1) Lessee

1) Finance Lease

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

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

	Minimum lease payments		
	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Within 1 year	¥18,665	¥19,887	¥21,390
1 - 5 years	57,472	58,602	69,213
Over 5 years	16,678	16,132	17,257
Total	92,815	94,620	107,861
Future financial cost	(4,085)	(4,021)	(3,809)
Present value of lease obligations	¥88,730	¥90,600	¥104,052

	Present value of minimum lease payments		
	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Within 1 year	¥17,479	¥18,657	¥20,240
1 - 5 years	55,028	56,258	66,956
Over 5 years	16,223	15,685	16,856
Total	88,730	90,600	104,052
Future financial cost			
Present value of lease obligations	¥88,730	¥90,600	¥104,052

The aggregate amount of minimum sublease fees expected to be received in the future under non-cancelable sublease contracts at March 1, 2015, February 29, 2016 and February 28, 2017 was ¥147 million, ¥494 million and ¥392 million, respectively.

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

2) Non-cancelable Operating Leases

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

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

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Within 1 year	¥14,573	¥14,534	¥30,539
1- 5 years	43,951	48,531	102,930
Over 5 years	24,114	29,123	48,905
Total	¥82,639	¥92,188	¥182,374

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

	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen
Minimum lease payments	¥127,298	¥165,429
Contingent rents	151	376
Total	¥127,449	¥165,805

The aggregate amount of minimum sublease fees expected to be received in the future under non-cancelable sublease contracts at March 1, 2015, February 29, 2016 and February 28, 2017 was ¥695 million, ¥1,083 million and ¥660 million, respectively.

Received sublease fees recognized as revenue under cancelable or non-cancelable operating leases for the fiscal years ended February 29, 2016 and February 28, 2017 were ¥6,361 million and ¥11,118 million, respectively.

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

(2) Lessor

1) Finance Leases

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

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

	Gross investment in the lease		
	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Within 1 year			¥346
1 - 5 years			720
Over 5 years			4
Total			1,071
Unearned finance income			(116)
Present value of lease receivables			¥955

	Present value of minimum lease payment receivable		
	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Current portion			¥309
Over 1 year within 5 years			642
Over 5 years			4
Total			955
Unearned finance income			
Present value of lease receivables			¥955

2) Operating Leases

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

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

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Within 1 year	¥189	¥413	¥325
1 - 5 years	474	669	336
Over 5 years	32		
Total	¥695	¥1,083	¥660

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

22. TRADE AND OTHER PAYABLES

The breakdown of trade and other payables is as follows:

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Accounts and notes payable—trade	¥94,461	¥103,817	¥213,069
Due to franchised stores	5,843	7,600	10,562
Accounts payable—other	28,654	29,007	49,802
Other	1,408	4,138	5,641
Total	¥130,366	¥144,562	¥279,074

23. EMPLOYEE BENEFITS

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

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

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

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

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

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

(1) Defined Benefit Plan

1) Reconciliation of Defined Benefit Obligations and Plan Assets

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

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Present value of funded defined benefit obligations	¥26,592	¥29,930	¥111,729
Fair value of plan assets	(14,773)	(15,483)	(100,187)
Subtotal	11,819	14,448	11,542
Present value of unfunded defined benefit obligations	205	195	748
Effects from asset ceiling			2,028
Liabilities (assets) for retirement benefits	¥12,024	¥14,643	¥14,318
Amounts presented in the consolidated statement of financial position			
Liability for retirement benefits	¥12,024	¥14,643	¥15,245
Asset for retirement benefits			(927)
Liabilities (assets) for retirement benefits presented in the consolidated statement of financial position (net)	¥12,024	¥14,643	¥14,318

2) Change in Present Value of Defined Benefit Obligations

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

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥26,797	¥30,126
Service cost	1,620	3,391
Interest cost	348	476
Remeasurements		
Actuarial losses (gains) arising from changes in demographic assumptions	27	(465)
Actuarial losses (gains) arising from changes in financial assumptions	1,549	(977)
Actuarial losses(gains) arising from factual inputs	683	124
Past service cost	(144)	(4)
Benefit payment	(1,045)	(3,965)
Integration of plans (*)	(424)	
Changes due to business combinations	836	83,493
Others	(120)	279
Balance at the end of year	¥30,126	¥112,477

* This is the effect of withdrawing from the corporate pension plan in which the Company had previously participated (Palette Corporate Pension Fund, which is the former Saison Group Employees' Pension Fund) and integrating its pension plan into a contract-type defined benefit corporate pension plan in the fiscal year ended February 29, 2016.

The weighted-average duration of the defined benefit obligations was 16.5 years for the fiscal year ended February 29, 2016 and 11.9 years for the fiscal year ended February 28, 2017.

3) Changes in Fair Value of Plan Assets

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

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥14,773	¥15,483
Interest revenue	192	340
Remeasurements		
Income from plan assets	(212)	1,348
Contributions from employer	1,804	3,767
Benefits paid	(676)	(3,620)
Integration of plans	(240)	
Changes due to business combinations		82,752
Others	(156)	116
Balance at the end of year	¥15,483	¥100,187

The Group plans to contribute ¥5,578 million during the fiscal year ending February 28, 2018.

4) Changes in Effects of Asset Ceiling

Changes in the effects of asset ceiling are as follows:

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥	¥
Interest revenue		
Remeasurements		
Changes in effects that assets for retirement benefits are limited to asset ceiling		2,028
Balance at the end of year	¥	¥2,028

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

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

	Date of Transition (March 1, 2015)			2016 (February 29, 2016)			2017 (February 28, 2017)		
	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Equity financial instruments									
Domestic equity securities		¥1,072	¥1,072		¥850	¥850		¥7,391	¥7,391
Foreign equity securities		1,189	1,189		1,213	1,213		7,658	7,658
Debt instruments									
Domestic bonds		5,931	5,931		4,983	4,983		22,744	22,744
Foreign bonds		1,435	1,435		2,969	2,969	¥1,644	5,869	7,514
Life insurance general account (*)		1,198	1,198		1,328	1,328		36,331	36,331
Alternatives (**)		2,760	2,760		1,620	1,620		15,721	15,721
Cash and deposits and others	¥341	847	1,188	¥390	2,130	2,520	541	2,287	2,828
Total	¥341	¥14,432	¥14,773	¥390	¥15,093	¥15,483	¥2,185	¥98,001	¥100,187

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

** Alternatives are investments primarily in hedge funds.

6) Significant Actuarial Assumptions

Significant actuarial assumptions are as follows:

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	%	%	%
Discount rate	1.3	0.9	0.7

7) Sensitivity Analysis

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

	2017 (February 28, 2017)
	Millions of Yen
When the discount rate increases by 0.25%	¥(3,106)
When the discount rate decreases by 0.25%	3,252

(2) Defined Contribution Plans

Amounts recognized as expense related to defined contribution plans for the fiscal years ended February 29, 2016 and February 28, 2017 were ¥684 million and ¥805 million, respectively.

(3) Employee Benefit Expenses

Total employee benefit expenses included in “Cost of sales” and “Selling, general, and administrative expenses” in the consolidated statements of profit or loss for the fiscal years ended February 29, 2016 and February 28, 2017 were ¥66,621 million and ¥128,444 million, respectively.

24. PROVISIONS

The breakdown and changes in provisions is as follows:

	Asset retirement obligations	Provision for loss on interest repayment	Total
	Millions of Yen	Millions of Yen	Millions of Yen
March 1, 2015	¥16,941		¥16,941
Increase during the year	1,886		1,886
Periodic interest costs on discount calculation	157		157
Decrease during the year (used)	(976)		(976)
Decrease during the year (reversal)	(2)		(2)
Others	465		465
February 29, 2016	18,471		18,471
Increase during the year	4,319		4,319
Periodic interest costs on discount calculation	339	¥10	350
Decrease during the year (used)	(2,583)	(359)	(2,942)
Decrease during the year (reversal)	(14)		(14)
Changes due to business combinations (*)	29,363	5,506	34,869
Others	33		33
February 28, 2017	¥49,927	¥5,158	¥55,085
Current liabilities (March 1, 2015)	¥316		¥316
Non-current liabilities (March 1, 2015)	16,625		16,625
Total	¥16,941		¥16,941
Current liabilities (February 29, 2016)	¥298		¥298
Non-current liabilities (February 29, 2016)	18,173		18,173
Total	¥18,471		¥18,471
Current liabilities (February 28, 2017)	¥3,090		¥3,090
Non-current liabilities (February 28, 2017)	46,836	¥5,158	51,994
Total	¥49,927	¥5,158	¥55,085

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

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

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

25. OTHER LIABILITIES

The breakdown of other liabilities is as follows:

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Accrued expenses	¥9,906	¥10,465	¥25,796
Unearned revenue	1,045	2,573	15,342
Provision for bonuses			4,575
Short-term asset retirement obligations	316	298	3,090
Other	8,268	13,074	19,106
Total	¥19,535	¥26,409	¥67,909
Other current liabilities	¥17,759	¥22,389	¥56,519
Other non-current liabilities	1,776	4,019	11,390
Total	¥19,535	¥26,409	¥67,909

26. EQUITY AND OTHER EQUITY COMPONENTS

(1) Common stock and Capital surplus

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

	The number of authorized shares	The number of issued shares(*)	Common stock	Capital surplus
	Shares	Shares	Millions of Yen	Millions of Yen
Date of Transition (March 1, 2015)	250,000,000	97,683,133	¥16,659	¥13,706
Changes during the year				(1)
2016 (February 29, 2016)	250,000,000	97,683,133	16,659	13,705
Changes during the year (**)		29,029,180		223,455
2017 (February 28, 2017)	250,000,000	126,712,313	16,659	237,160

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

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

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

(2) *Treasury Shares*

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

	The number of shares	Amounts
	Shares	Millions of Yen
Date of Transition (March 1, 2015)	2,758,846	¥(8,772)
Changes during the year (*)	2,217	(12)
2016 (February 29, 2016)	2,761,063	(8,784)
Changes during the year (**)	(2,689,211)	8,343
2017 (February 28, 2017)	71,852	(441)

* The change is mainly due to claims for purchase or sales of shares of less than one unit at which the shares are traded.

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

(3) *Retained Earnings*

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

27. DIVIDENDS

Dividends paid are as follows:

Date of resolution	Total dividends	Dividends per share	Record date	Effective date
	Millions of Yen	Yen		
April 16, 2015 Board of Directors	¥5,031	¥53.00	February 28, 2015	May 7, 2015
October 7, 2015 Board of Directors	5,221	55.00	August 31, 2015	November 10, 2015
April 8, 2016 Board of Directors	5,221	55.00	February 29, 2016	May 6, 2016
October 11, 2016 Board of Directors	5,316	56.00	August 31, 2016	November 10, 2016

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

Date of resolution	Total dividends	Dividends per share	Record date	Effective date
	Millions of Yen	Yen		
April 11, 2017 Board of Directors	¥7,094	¥56.00	February 28, 2017	May 8, 2017

28. OPERATING REVENUES

The breakdown of operating revenues is as follows:

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Revenues from franchisees (*)	¥253,734	¥303,427
Sale of goods	132,944	452,096
Real estate lease income (**)	7,366	30,373
Interest income (***)		905
Others	30,392	57,015
Total	¥424,435	¥843,815

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

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

*** Interest income relates to credit card receivables. For further detail, please refer to Note 9. “TRADE AND OTHER RECEIVABLES.”

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

The breakdown of cost of sales is as follows:

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Cost of merchandise purchased	¥64,193	¥302,195
Cost of products manufactured		
Employees' salaries and bonuses	1,700	2,052
Depreciation and amortization (*)	446	431
Raw materials cost	9,288	6,670
Others	4,060	3,235
Total	¥79,687	¥314,584

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

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

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Advertising expenses	¥8,878	¥21,771
Promotion expenses	13,953	15,422
Employees' salaries and bonuses	53,099	101,727
Retirement benefit expenses (*)	2,158	4,160
Leasehold and office rents (**)	124,944	163,622
Repair expenses	5,942	9,473
Depreciation and amortization (***)	33,781	47,341
Utilities expenses	7,177	11,845
Operations consignment expenses	7,192	13,233
Provision of allowance for doubtful receivables	126	477
Others	37,217	84,865
Total	¥294,467	¥473,936

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

30. OTHER INCOME AND EXPENSES

The breakdown of other income is as follows:

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Gain on sales of non-current assets	¥93	¥246
Gain on sales of shares of subsidiaries and associates		232
Compensation income	353	451
Others	1,282	2,951
Total	¥1,728	¥3,880

The breakdown of other expenses is as follows:

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Loss on sales of non-current assets	¥61	¥154
Loss on disposals of non-current assets	2,814	5,149
Impairment losses (*)	8,752	14,671
Loss on cancellation of rental contracts	1,964	2,700
Loss on sales of shares of subsidiaries and associated companies	225	153
Foreign exchange losses	184	52
Others	2,259	4,542
Total	¥16,259	¥27,420

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

31. FINANCE INCOME AND FINANCE COST

The breakdown of finance income is as follows:

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Interest income:		
Financial assets measured at amortized cost (*)	¥1,942	¥2,165
Dividend income:		
Financial assets measured at fair value through other comprehensive income (*)	144	397
Reversal of allowance for doubtful receivables	273	729
Other finance income	15	10
Total	¥2,375	¥3,301

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

The breakdown of finance cost is as follows:

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Interest expenses:		
Financial liabilities measured at amortized cost (*)	¥189	¥939
Lease obligations (**)	1,396	1,161
Others	313	475
Other finance cost	1	7
Total	¥1,900	¥2,582

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

** For more details about lease obligations, please refer to Notes 20. "BONDS, BORROWINGS, LEASE OBLIGATIONS AND OTHER FINANCIAL LIABILITIES" and 21. "LEASE."

32. OTHER COMPREHENSIVE INCOME

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

Year Ended February 29, 2016 (From March 1, 2015 to February 29, 2016)

	Amount recognized	Amount reclassified	Before tax effects	Tax effects	Net of tax
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Items that will not be reclassified subsequently to profit or loss:					
Financial assets measured at fair value through other comprehensive income	¥3,377		¥3,377	¥(877)	¥2,500
Remeasurements of defined benefit plans	(2,472)		(2,472)	720	(1,752)
Share of other comprehensive income of investments accounted for using the equity method	(26)		(26)		(26)
Total of items that will not be reclassified subsequently to profit or loss	879		879	(157)	722
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges					
Exchange difference on translating foreign operations	(1,677)	¥(83)	(1,760)	205	(1,554)
Share of other comprehensive income of investments accounted for using the equity method	(547)		(547)		(547)
Total of items that may be reclassified subsequently to profit or loss	(2,224)	(83)	(2,307)	205	(2,102)
Total	¥(1,345)	¥(83)	¥(1,428)	¥48	¥(1,379)

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

	Amount recognized	Amount reclassified	Before-tax effects	Tax effects	Net of tax
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Items that will not be reclassified subsequently to profit or loss:					
Financial assets measured at fair value through other comprehensive income	¥2,468		¥2,468	¥(550)	¥1,918
Remeasurements of defined benefit plans	638		638	(240)	398
Share of other comprehensive income of investments accounted for using the equity method	40		40		40
Total of items that will not be reclassified subsequently to profit or loss	3,146		3,146	(790)	2,356
Items that may be reclassified subsequently to profit or loss:					
Cash flow hedges	3,101	¥(2,546)	554	(153)	401
Exchange difference on translating foreign operations	1,644	(141)	1,504	(153)	1,350
Share of other comprehensive income of investments accounted for using the equity method	(133)		(133)		(133)
Total of items that may be reclassified subsequently to profit or loss	4,612	(2,687)	1,925	(306)	1,619
Total	¥7,758	¥(2,687)	¥5,071	¥(1,096)	¥3,975

33. EARNINGS PER SHARE

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
Profit for the year attributable to common shareholders of the parent (Millions of Yen)	¥17,763	¥18,350
The average number of common shares for the fiscal year (Shares)	94,923,188	110,653,556
Basic earnings per share (Yen)	¥187.13	¥165.83

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

34. NON-CASH TRANSACTIONS

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

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Property, plant and equipment acquired under finance leases	¥ 18,400	¥ 29,573

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

35. FINANCIAL INSTRUMENTS

(1) Capital management

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

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

No significant capital regulation is applicable to the Group except for the following:

Capital regulation under the Money Lending Business Act
Companies subject to the regulation: UCS CO., LTD. and POCKET CARD CO., LTD.

UCS CO., LTD. and POCKET CARD CO., LTD. are obligated to maintain the amount of net assets (total assets less total liabilities) above a certain level under the Money Lending Business Act, the Installment Sales Act, and other related laws and regulations. Both companies are in compliance with these regulations. Specifically, the following two amounts are the minimum requirements for the amount of net assets.

i) ¥50 million
ii) The amount equivalent to 90% of common stock or capital contribution

(2) Financial risk management

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

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

(3) Credit risk management

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

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

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

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

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

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

1) Receivables and the Undrawn Balance of Loan Commitments related to the Credit Card Business

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

Note that the credit card receivables and the undrawn balance of loan commitments are specifically related to UCS CO., LTD. acquired through a business combination during the fiscal year ended February 28, 2017. There were no related balances as of March 1, 2015 and February 29, 2016.

	Measured at the amount equal to 12-month expected credit losses	Measured at the amount equal to the lifetime expected credit losses		Total
		Financial assets that are not credit-impaired	Credit-impaired financial assets	
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Credit risk exposure:				
Balance at February 28, 2017	¥684,033	¥1,807	¥43	¥685,883
No delinquency	684,033			684,033
Delinquent for a period of 80 days or less		95		95
Delinquent for a period over 80 days		1,711	43	1,755
Reconciliation of allowance for doubtful receivables:				
Balance at February 29, 2016				
Increase (provision)	142	2	44	188
Decrease (write-off)			(1)	(1)
Balance at February 28, 2017	¥ 142	¥ 2	¥ 43	¥ 188

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

2) Receivables and Guarantee Obligations related to Businesses Other than the Credit Card Business

Credit risk associated with receivables and guarantee obligations related to businesses other than the credit card business is evaluated based on one or more factors such as status of delinquency, debtors' intention of and status of repayment after delinquency, the length of the delinquency period or debtors' financial position and capacity of repayment.
The Group adopts simplified approaches prescribed in IFRS 9 regarding expected credit losses associated with trade receivables and allowance for doubtful receivables have been measured at an amount equal to lifetime expected credit losses.

The credit risk exposure and changes in allowance for doubtful receivables are as follows.

	Measured at the amount equal to 12-month expected credit losses	Measured at the amount equal to the lifetime expected credit losses			Total
		Financial assets that are not credit-impaired	Credit-impaired financial assets	Trade receivables	
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Credit risk exposure:					
Balance at March 1, 2015	¥175,682	¥916	¥617	¥71,334	¥248,549
No delinquency	175,192	761		70,385	246,338
Delinquency	490	155	617	950	2,211
Balance at February 29, 2016	177,442	1,584	517	72,861	252,403
No delinquency	177,146	1,466		72,173	250,785
Delinquency	296	117	517	688	1,618
Balance at February 28, 2017	297,169	1,602	382	124,761	423,913
No delinquency	296,804	1,479		124,053	422,336
Delinquency	364	123	382	708	1,577
Changes in allowance for doubtful receivables:					
Balance at March 1, 2015	488	597	617	867	2,569
Increase (provision)	51	66	133	190	439
Decrease (write-off)	(30)		(38)	(270)	(338)
Decrease (reversal)	(310)	(23)	(191)	(62)	(586)
Exchange difference on translating foreign operations			(4)		(4)
Balance at February 29, 2016	199	640	517	725	2,081
Increase (provision)	25	41	12	321	399
Decrease (used)	(26)		(56)	(131)	(214)
Decrease (write-off)	(40)	(192)	(94)	(161)	(487)
Exchange difference on translating foreign operations			3		3
Balance at February 28, 2017	¥158	¥488	¥382	¥755	¥1,782

There were no material expected credit losses arising from guarantee obligations at March 1, 2015, February 29, 2016 and February 28, 2017.

During the fiscal year ended February 29, 2016, there were no significant changes in the carrying amounts of financial instruments that have a material impact on the allowance for doubtful receivables. During the fiscal year ended February 28, 2017, the amount of credit risk exposure increased by ¥811,421 million in total, which included credit card receivables at UCS CO., LTD., because the Group acquired the former UNY Group Holdings Co., Ltd. and its subsidiaries and associates as described in Note 7. "BUSINESS COMBINATIONS AND LOSS OF CONTROL." There were no significant changes in the amount of credit

risk with respect to these financial assets during the period from the business combination to February 28, 2017, causing no material impact on the changes in the allowance for doubtful receivables.
The amount of outstanding financial assets that were written off and are still subject to enforcement activity is not material.

(4) Liquidity risk management

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

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

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

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

Date of Transition (March 1, 2015)

	Carrying amount	Contractual amount	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Non-derivative financial liabilities:								
Trade and other payables	¥130,366	¥130,366	¥130,366					
Deposits received	100,412	100,412	100,412					
Commercial paper								
Short-term borrowings	2,102	2,102	2,102					
Current portion of long-term borrowings	2,060	2,060	2,060					
Short-term lease obligations	17,479	17,479	17,479					
Bonds								
Long-term borrowings	5,174	5,247		¥2,158	¥1,663	¥232	¥231	¥963
Long-term lease obligations	71,251	74,150		16,902	15,555	13,816	11,199	16,678
Others	12,256	12,282	1,501	1,096	1,517	1,685	1,446	5,036
Derivative financial liabilities:								
Currency derivatives								
Interest rate swaps								
Financial guarantee contracts		1,126	1,126					
Total	¥342,100	¥345,223	¥255,046	¥20,156	¥18,735	¥15,734	¥12,876	¥22,676

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

Year Ended February 29, 2016 (February 29, 2016)

	Carrying amount	Contractual amount	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Non-derivative financial liabilities:								
Trade and other payables	¥144,562	¥144,562	¥144,562					
Deposits received	113,326	113,326	113,326					
Commercial paper								
Short-term borrowings	2,441	2,441	2,441					
Current portion of long-term borrowings	1,929	1,929	1,929					
Short-term lease obligations	18,657	18,657	18,657					
Bonds								
Long-term borrowings	17,887	17,987		¥1,537	¥255	¥15,255	¥226	¥714
Long-term lease obligations	71,942	74,733		18,165	16,399	14,015	10,023	16,132
Others	11,852	11,875	1,494	996	1,704	1,029	1,391	5,261
Derivative financial liabilities:								
Currency derivatives								
Interest rate swaps								
Financial guarantee contracts		1,112	1,112					
Total	¥382,597	¥386,623	¥283,522	¥20,697	¥18,358	¥30,299	¥11,639	¥22,107

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

Year Ended February 28, 2017 (February 28, 2017)

	Carrying amount	Contractual amount	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Non-derivative financial liabilities:								
Trade and other payables	¥279,074	¥279,074	¥279,074					
Deposits received	159,957	159,957	159,957					
Commercial paper	96,000	96,000	96,000					
Short-term borrowings	8,269	8,269	8,269					
Current portion of long-term borrowings	12,878	12,878	12,878					
Short-term lease obligations	20,240	20,240	20,240					
Bonds	39,820	40,378	66	¥66	¥66	¥66	¥30,066	¥10,048
Long-term borrowings	236,862	235,384		52,031	46,270	78,195	20,628	38,259
Long-term lease obligations	83,812	86,471		21,212	18,739	15,245	14,017	17,257
Others	54,967	55,286	1,392	9,183	11,354	8,903	8,817	15,638
Derivative financial liabilities:								
Currency derivatives								
Interest rate swaps	906	1,093	290	230	155	140	118	160
Financial guarantee contracts		27,360	27,360					
Total	¥992,786	¥1,022,390	¥605,526	¥82,721	¥76,585	¥102,549	¥73,646	¥81,362

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

Commercial paper facilities and undrawn facilities are as follows:

	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen
Commercial paper facilities		¥200,000
Commercial paper issued		96,000
Undrawn		¥104,000

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

	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen
Commitment line	¥17,289	¥31,849
Commitment line used	2,441	4,314
Undrawn	¥14,848	¥27,535

(5) Foreign currency exchange rate risk management

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

(6) Interest rate risk management

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

(7) Hedge transactions

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

Date of transition (March 1, 2015) and February 29, 2016

No applicable items.

February 28, 2017

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

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

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

Date of transition (March 1, 2015) and the year ended February 29, 2016

No applicable items.

Year Ended February 28, 2017

	Effective portion of the changes in fair value of hedging instruments(**)		
	Foreign exchange rate risk	Interest rate risk	Total
	Millions of Yen	Millions of Yen	Millions of Yen
Balance at February 29, 2016 (after tax)			
Other comprehensive income:			
Amount recognized	¥2,554	¥547	¥3,101
Amount reclassified (*)	(2,479)	(67)	(2,546)
Tax effects	(3)	(150)	(153)
Transfer to non-financial assets, etc.	(65)		(65)
Balance at February 28, 2017 (after tax)	¥7	¥329	¥336

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

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

(8) Market value fluctuation risk management

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

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

If the market value of marketable equity instruments that the Group holds increases by 10%, the effects on other comprehensive income (before-tax effects) as at March 1, 2015, February 29, 2016, and February 28, 2017, were ¥1,187 million, ¥1,445 million, and ¥1,622 million, respectively.

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

(9) Fair values of financial instruments

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

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

1) Financial instruments and lease obligations measured at amortized cost

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

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

	Date of transition (March 1, 2015)		2016 (February 29, 2016)		2017 (February 28, 2017)	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Assets:						
Leasehold deposits receivable	¥65,108	¥59,561	¥67,801	¥65,486	¥140,226	¥135,484
Other financial assets (*)	98,543	101,435	98,631	104,479	105,252	110,533
Total	¥163,650	¥160,996	¥166,432	¥169,965	¥245,478	¥246,017
Liabilities:						
Bonds and borrowings	¥5,174	¥5,174	¥17,887	¥17,897	¥276,682	¥276,867
Lease obligations	71,251	71,305	71,942	72,695	83,812	84,060
Other financial liabilities (**)	12,256	11,567	11,852	11,700	54,967	55,096
Total	¥88,681	¥88,046	¥101,681	¥102,292	¥415,462	¥416,024

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

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

These fair values are determined based on the present value of reasonably estimated future cash flows discounted using an appropriate discount rate and are categorized as Level 3. The Group uses an interest rate that is assumed to be applied for new similar transactions as a discount rate for interest-bearing financial instruments. For non-interest-bearing financial instruments, the Group uses an interest rate, reflecting credit risk to appropriate benchmark rates, such as the yield on government bonds corresponding to the remaining period of the financial instruments as a discount rate.

2) *Financial instruments measured at fair value*

Financial instruments measured at fair value were as follows:

Date of transition (March 1, 2015)

	Level 1	Level 2	Level 3	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Assets:				
Financial assets measured at fair value through other comprehensive income:				
Stocks	¥11,874		¥1,027	¥12,901
Derivative assets				
Total	¥11,874		¥1,027	¥12,901
Liabilities:				
Derivative liabilities				
Total				

February 29, 2016

	Level 1	Level 2	Level 3	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Assets:				
Financial assets measured at fair value through other comprehensive income:				
Stocks	¥14,454		¥11,642	¥26,097
Derivative assets				
Total	¥14,454		¥11,642	¥26,097
Liabilities:				
Derivative liabilities				
Total				

February 28, 2017

	Level 1	Level 2	Level 3	Total
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Assets:				
Financial assets measured at fair value through other comprehensive income:				
Stocks	¥16,219		¥14,687	¥30,906
Derivative assets		¥3,262		3,262
Total	¥16,219	¥3,262	¥14,687	¥34,168
Liabilities:				
Derivative liabilities		¥906		¥906
Total		¥906		¥906

The measurement methods of fair values are as follows:

(Derivative assets and liabilities)

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

(Stocks)

Fair values of listed stocks are measured based on the prices transacted at stock exchanges. Unlisted stocks are measured by the discount cash flow method, by comparable peer company analysis using financial indicators as inputs, or by valuation models based on net assets. Thus, unobservable inputs, such as a discount rate (7.3% to 7.9%) or earnings before interest, tax, depreciation, and amortization (EBITDA) multiples, are used, and accordingly, fair values of unlisted stocks are categorized within Level 3. The fair value of financial instruments categorized within Level 3 is not expected to significantly change even if reasonably possible changes were made to the unobservable inputs.

3) Valuation process

With regard to financial instruments categorized within Level 3, external valuation experts or appropriate personnel responsible for valuation evaluate and analyze the valuation results in accordance with valuation policies and procedures approved by the responsible individual in the management division. The valuation results are reviewed and approved by the responsible individual in the management division.

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

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

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Balance at the beginning of year	¥1,027	¥11,642
Gains and losses:		
Other comprehensive income (*)	(223)	1,811
Acquisition	10,934	37
Disposal	(42)	(413)
Changes due to business combinations (**)		1,569
Other	(55)	39
Balance at the end of year	¥11,642	¥14,687

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

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

(10) Offsetting financial assets and financial liabilities

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

The breakdown of the amounts that are offset and not offset in the consolidated statement of financial position at March 1, 2015, February 29, 2016 and February 28, 2017 is as follows:
Note that financial assets and financial liabilities other than those included in the following table did not include enforceable master netting agreements or similar agreements.

Date of transition (March 1, 2015)

	Gross recognized amount	Gross amounts set off	Carrying amount	Related amounts not set off	Net amount
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Financial assets:					
Trade and other receivables	¥82,747	¥(4,226)	¥78,521	¥(4,170)	¥74,351
Financial liabilities:					
Trade and other payables	¥134,592	¥(4,226)	¥130,366	¥(4,170)	¥126,195

February 29, 2016

	Gross recognized amount	Gross amounts set off	Carrying amount	Related amounts not set off	Net amount
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Financial assets:					
Trade and other receivables	¥90,803	¥(4,405)	¥86,399	¥(3,423)	¥82,976
Financial liabilities:					
Trade and other payables	¥148,967	¥(4,405)	¥144,562	¥(3,423)	¥141,139

February 28, 2017

	Gross recognized amount	Gross amounts set off	Carrying amount	Related amounts not set off	Net amount
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Financial assets:					
Trade and other receivables	¥267,434	¥(8,704)	¥258,729	¥(6,037)	¥252,693
Other financial assets	165,782		165,782	(200)	165,582
Financial liabilities:					
Trade and other payables	¥287,779	¥(8,704)	¥279,074	¥(6,037)	¥273,038
Other financial liabilities	55,873		55,873	(200)	55,673

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

36. SUBSIDIARIES, ASSOCIATES, AND JOINT VENTURES

Major subsidiaries, associates, and joint ventures as of February 28, 2017 were as follows:

1) Subsidiaries

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

* The Group did not hold the majority of voting rights during the previous fiscal year and for a period during this fiscal year. However, the Group determined that it had control throughout the years ended February 29, 2016 and February 28, 2017, taking into consideration the distribution status of voting rights, the right to appoint executives and other factors,.

2) Associates and joint ventures

Name	Location	Reportable segment	Ownership ratio of voting rights (%)
Kanemi Co., Ltd.	Nagoya City, Aichi	General merchandise store business	26.04
Okinawa FamilyMart Co., Ltd.	Naha City, Okinawa	Convenience store business	48.98
Minami Kyushu FamilyMart Co., Ltd.	Kagoshima City, Kagoshima	Convenience store business	49.00
Central FamilyMart Co., Ltd.	Nonthaburi Province, Kingdom of Thailand	Convenience store business	49.00
Shanghai FamilyMart Co., Ltd.	Shanghai, People's Republic of China	Convenience store business	(**)
Guangzhou FamilyMart Co., Ltd.	Guangzhou, Guangdong Province, People's Republic of China	Convenience store business	(**)
Suzhou FamilyMart Co., Ltd.	Suzhou, Jiangsu Province, People's Republic of China	Convenience store business	(**)
POCKET CARD CO., LTD. (*)	Minato-ku, Tokyo	Convenience store business	15.01

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

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

37. RELATED PARTIES

(1) Transactions with related parties

Fiscal year ended February 29, 2016 (From March 1, 2015 to February 29, 2016)

Category	Name	Relationship	Transaction amount	Unsettled amount(***)
			Millions of Yen	Millions of Yen
Other related parties (*)	NIPPON ACCESS, INC.	Supplier of products(**)	¥10,192	¥20,223
Other related parties (*)	Dolce Co., Ltd.	Supplier of products(**)	2,901	7,105
Other related parties (*)	CONEXIO Corporation	Prepaid card agent(**)	47	9,775

* These were subsidiaries of a company that had significant influence over the Company.
** Purchases of merchandise from related parties were made in the same manner as general market transactions in consideration of market prices.
*** The unsettled amount includes accounts payable for purchases on behalf of franchised stores.

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

Category	Name	Relationship	Transaction amount	Unsettled amount(***)
			Millions of Yen	Millions of Yen
Other related parties (*)	NIPPON ACCESS, INC.	Supplier of products(**)	¥17,249	¥30,596

* These were subsidiaries of a company that had significant influence over the Company.
** Purchases of merchandise from related parties were made in the same manner as general market transactions in consideration of market prices.
*** The unsettled amount includes accounts payable for purchases on behalf of franchised stores.

(2) Remunerations for major executives

	2016 (From March 1, 2015 to February 29, 2016)	2017 (From March 1, 2016 to February 28, 2017)
	Millions of Yen	Millions of Yen
Short-term remuneration	¥399	¥313
Long-term remuneration	88	65

38. COMMITMENTS

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

	Date of Transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Purchase of property, plant and equipment	¥401	¥1,425	¥2,768
Purchase of intangible assets	2,682	2,239	3,209
Total	¥3,083	¥3,664	¥5,976

39. CONTINGENT LIABILITIES

(1) Guarantee obligations

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

1) Guarantee obligations for borrowings from financial institutions

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Philippine FamilyMart CVS, Inc.		¥72	¥104
Central FamilyMart Co., Ltd.			2,615
Franchised convenience stores			2,858
Total		¥72	¥5,577

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

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
NIPPON ACCESS, INC.	¥1,126	¥1,040	
JAPAN FOOD SUPPLY Co., Ltd.			¥1,346
Total	¥1,126	¥1,040	¥1,346

As a result of the demerger of a business unit for supplying raw materials to makers of goods sold at convenience stores from NIPPON ACCESS, INC. to JAPAN FOOD SUPPLY Co., Ltd., these obligations were assumed by JAPAN FOOD SUPPLY Co., Ltd.

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

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
SHINOBU FOODS PRODUCTS CO., LTD. and 37 other companies			¥20,436

(2) Loan commitments

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

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of Yen	Millions of Yen	Millions of Yen
Total amount of loan commitments			¥580,044
Loans executed			9,769
Undrawn loan balance			¥570,275

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

40. SUBSEQUENT EVENTS

No material subsequent events have occurred.

41. FIRST-TIME ADOPTION OF IFRSs

Since the fiscal year ended February 28, 2017, the Group discloses its consolidated financial statements in accordance with IFRSs. The most recent consolidated financial statements prepared in accordance with accounting principles generally accepted in Japan ("Japanese GAAP") are those for the fiscal year ended February 28, 2017. The date of transition to IFRSs is March 1, 2015.

Exemptions under IFRS 1

Under IFRSs, a company adopting IFRSs for the first time (the "First-time Adopter") is required to apply, in principle, the standards required by IFRSs retrospectively. However, IFRS 1 provides certain mandatory exceptions and voluntary exemptions from the application of certain requirements under IFRSs. The effects of the application of these requirements are adjusted in retained earnings or other components of equity at the date of transition. The exemptions under IFRS 1 that the Group applies in connection with the transition from Japanese GAAP to IFRSs are as follows:

- Business Combinations

IFRS 1 provides that the First-time Adopter may elect not to apply IFRS 3 Business Combination ("IFRS 3") retrospectively to past business combinations that occurred before the date of transition to IFRSs. The Group adopts this exemption and elects not to apply IFRS 3 retrospectively to the business combinations that occurred before September 11, 2013. As a result, the amount of goodwill that arose from the business combinations that occurred before September 11, 2013 is stated at the carrying amount of the goodwill in accordance with Japanese GAAP as of September 11, 2013. Impairment test on goodwill was performed as of the date of transition regardless of whether there was an indication of impairment or not.

- Deemed Cost

IFRS 1 provides that fair value at the date of transition to IFRSs may be used as deemed cost for property, plant and equipment, investment property, and intangible assets. The Group measures certain property, plant and equipment (including land) at the date of transition at their fair value and uses that fair value as their deemed cost at that date under IFRSs.

- Exchange Difference on Translating Foreign Operations

IFRS 1 provides that the First-time Adopter may elect to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to IFRSs. The Group elects to deem the cumulative translation differences for all foreign operations to be zero at the date of transition.

- Designation of Previously Recognized Financial Instruments

IFRS 1 provides that a company may determine the classification of financial instruments under IFRS 9 on the basis of the facts and circumstances that exist at the date of transition to IFRSs rather than the facts and circumstances that exist on the date when financial instruments were initially recognized. In addition, a company may designate equity instruments as measured at fair value through other comprehensive income on the basis of the facts and circumstances that exist at the date of transition to IFRSs.

The Group determines the classification under IFRS 9 on the basis of the facts and circumstances that existed at the date of transition and designates certain equity instruments as financial instruments measured through other comprehensive income.

Mandatory Exceptions under IFRS 1

IFRS 1 prohibits retrospective application of IFRSs relating to “Estimates,” “Derecognition of financial assets and financial liabilities,” “Hedge accounting,” “Non-controlling interests,” and “Classification and measurement of financial assets.” The Group prospectively applies IFRSs relating to those items from the date of transition to IFRSs.

Reconciliation required to be disclosed in connection with the first-time adoption of IFRSs is as follows:
Note that the financial figures under Japanese GAAP at February 28, 2015 and for the fiscal year ended February 29, 2016 in the reconciliation are transcribed from the consolidated financial statements incorporated in the Annual Securities Report (a report as set forth in Article 24, paragraph (1) of the Financial Instruments and Exchange Act of Japan) for the corresponding fiscal years, which are not completely identical with the consolidated financial statements included in the previous year’s annual report where certain modifications were made in presentation for the convenience of readers outside of Japan. On the other hand, financial figures under Japanese GAAP for the fiscal year ended February 29, 2017 in the reconciliation are transcribed from the consolidated financial statements incorporated in the Notice of Convocation of the 36th Ordinary General Meeting of Shareholders provided in accordance with the Article 444, paragraph (1) of the Companies Act of Japan.
Also, Financial figures in the column “Japanese GAAP” in the reconciliation have been rounded down to the nearest million yen and those in the column “differences in the Scope of Consolidation,” “Reclassification,” “Differences in Recognition and Measurement” and “IFRSs” have been rounded to the nearest million yen.

Reconciliation of Equity at March 1, 2015 (Date of Transition to IFRSs)

Presentation under Japanese GAAP	Japanese GAAP	Differences in the scope of consolidation (Note 1)	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Presentation under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
ASSETS:							ASSETS
CURRENT ASSETS:							CURRENT ASSETS:
Cash and deposits	¥104,707	¥14,125	¥7,919		¥126,752	(2)1)	Cash and cash equivalents
Receivables—Due from franchised stores	25,599		52,922		78,521	(2)2)	Trade and other receivables
Securities	9,699		2,382		12,082	(2)1)	Other financial assets
Merchandise	10,166	4,790	1,000		15,956		Inventories
Prepaid expenses	12,677	318	(12,995)				
Deferred tax assets	2,220		(2,715)	¥494			
Accounts receivables—other	45,036	543	(45,579)				
Other	25,918	(1,485)	(7,788)		16,645		Other current assets
Allowance for doubtful receivables	(171)	(0)	171				
Total current assets	235,853	18,290	(4,682)	494	249,956		Total current assets
FIXED ASSETS:							NONCURRENT ASSETS:
Property and store facilities	193,561	2,350	(9,746)	(6,128)	180,038	(3)2)	Property, plant and equipment
			9,746		9,746	(2)3)	Investment property
Goodwill	9,395	398		(3,267)	6,526	(3)1)	Goodwill
Other intangible assets	13,970	280	671		14,921		Intangible assets
			13,522		13,522	(2)4)	Investments accounted for using the equity method
Investment securities	36,683	(3,332)	76,840	52	110,243	(2)5)	Other financial assets
Leasehold deposits receivable	149,564	(117)	(84,340)		65,108		Leasehold deposits receivable
Deferred tax assets	9,083	150	1,967	2,621	13,823	(3)6)	Deferred tax assets
Other	20,682	330	(8,886)		12,127		Other non-current assets
Allowance for doubtful receivables	(2,550)		2,551				
Total fixed assets	430,391	60	2,325	(6,723)	426,054		Total noncurrent assets
TOTAL	¥666,244	¥18,350	¥(2,357)	¥(6,228)	¥676,009		TOTAL ASSETS

Presentation under Japanese GAAP	Japanese GAAP	Differences in the scope of consolidation (Note1)	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Presentation under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
							LIABILITIES AND EQUITY
LIABILITIES:							LIABILITIES
CURRENT LIABILITIES:							CURRENT LIABILITIES:
Accounts and notes payable—trade	¥94,757	¥1,312	¥34,296		¥130,366	(2)2)	Trade and other payables
Deposits received	90,800	9,612			100,412		Deposits received
			4,162		4,162		Bonds and borrowings
Payables—Due to franchised stores	5,838	4	(5,843)				
Income taxes payable	9,955	82			10,037		Income taxes payable
Current portion of long-term lease obligations	17,478				17,479		Lease obligations
Payables—other	29,470	591	(30,062)				
Accrued expenses	6,994	1,524	(9,906)	¥1,387			
Other	8,260	3,755	5,744		17,759	(3)3),4)	Other current liabilities
Total current liabilities	263,557	16,880	(1,609)	1,387	280,215		Total current liabilities
LONG-TERM LIABILITIES:							NONCURRENT LIABILITIES:
Long-term lease obligations	71,250				71,251		Lease obligations
			12,256		12,256	(2)5)	Other financial liabilities
Long-term bank loans	5,165	9			5,174		Bonds and borrowings
Liability for retirement benefits	11,299	724			12,024		Liabilities for retirement benefits
Asset retirement obligations	16,624				16,625		Provisions
Leasehold deposits refundable	11,706	20	(11,726)				
Other	1,810	496	(1,278)	748	1,776		Other non-current liabilities
Total long-term liabilities	117,857	1,248	(748)	748	119,106		Total non-current liabilities
TOTAL LIABILITIES	381,415	18,128	(2,357)	2,135	399,322		TOTAL LIABILITIES
EQUITY:							EQUITY:
Common stock	16,658				16,659		Common stock
Capital surplus	17,388			(3,683)	13,706		Capital surplus
Treasury stock	(8,771)				(8,772)		Treasury shares
Accumulated other comprehensive income	6,061	193		(2,274)	3,981		Other components of equity
Retained earnings	241,324	(65)		(2,628)	238,632	(3)5)	Retained earnings
	272,660	129		(8,584)	264,206		Total equity attributable to owners of the parent
Minority interests	12,168	93		221	12,482		Non-controlling interests
TOTAL EQUITY	284,829	222		(8,363)	276,688		TOTAL EQUITY
TOTAL	¥666,244	¥18,350	¥(2,357)	¥(6,228)	¥676,009		TOTAL LIABILITIES AND EQUITY

Reconciliation of Equity at February 29, 2016

Presentation under Japanese GAAP	Japanese GAAP	Differences in the scope of consolidation (Note1)	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Presentation under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
ASSETS:							ASSETS:
CURRENT ASSETS:							CURRENT ASSETS:
Cash and deposits	¥105,138	¥7,980	¥25,918		¥139,036	(2)1)	Cash and cash equivalents
Receivables—Due from franchised stores	20,478		65,920		86,399	(2)2)	Trade and other receivables
Securities	28,772	(5)	(15,111)		13,656	(2)1)	Other financial assets
Merchandise	10,761	5,805	332		16,898		Inventories
Prepaid expenses	12,947	177	(13,124)				
Deferred tax assets	3,750		(4,270)	¥519			
Accounts receivable—other	52,887	352	(53,240)				
Other	33,254	(2,060)	(14,101)		17,094		Other current assets
Allowance for doubtful receivables	(1,361)	(14)	1,375				
Total current assets	266,631	12,234	(6,300)	519	273,084		Total current assets
FIXED ASSETS:							NONCURRENT ASSETS:
Property and store facilities	197,678	(456)	(8,820)	(5,819)	182,584	(3)2)	Property, plant and equipment
			8,820		8,820	(2)3)	Investment property
Goodwill	16,471	358		(5,346)	11,483	(3)1)	Goodwill
Other intangible assets	18,907	248	596	1,500	21,253		Intangible assets
			13,653		13,653	(2)4)	Investments accounted for using the equity method
Investment securities	48,715	(3,256)	78,267	(1,449)	122,278	(2)5)	Other financial assets
Leasehold deposits receivable	154,218	(347)	(86,070)		67,801		Leasehold deposits receivable
Deferred tax assets	9,790	90	3,740	2,379	15,999	(3)6)	Deferred tax assets
Other	21,792	243	(10,015)		12,021		Other non-current assets
Allowance for doubtful receivables	(3,911)		3,911				
Total fixed assets	463,664	(3,120)	4,083	(8,735)	455,892		Total non-current assets
TOTAL	¥730,295	¥9,114	¥(2,218)	¥(8,216)	¥728,976		TOTAL ASSETS

Presentation under Japanese GAAP	Japanese GAAP	Differences in the scope of consolidation (Note1)	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Presentation under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
							LIABILITIES AND EQUITY:
LIABILITIES:							LIABILITIES:
CURRENT LIABILITIES:							CURRENT LIABILITIES:
Accounts and note payable—trade	¥106,153	¥(618)	¥39,026		¥144,562	(2)2)	Trade and other payables
Deposit received	105,744	7,582			113,326		Deposits received
			4,370		4,370		Bonds and borrowings
Payables—Due to franchised stores	7,637	(37)	(7,600)				
Income taxes payable	3,625	6			3,632		Income taxes payable
Current portion of long-term lease obligations	18,657				18,657		Lease obligations
Payables—other	34,801	(1,688)	(33,114)				
Accrued expenses	6,182	2,777	(10,465)	¥1,505			
Other	14,789	1,506	6,094		22,389	(3)3),4)	Other current liabilities
Total current liabilities	297,593	9,527	(1,688)	1,505	306,937		Total current liabilities
LONG-TERM LIABILITIES:							NONCURRENT LIABILITIES:
Long-term lease obligations	71,942				71,942		Lease obligations
			11,852		11,852	(2)5)	Other financial liabilities
Long-term bank loans	17,988	(101)			17,887		Bonds and borrowings
Liability for retirement benefits	14,109	533			14,643		Liabilities for retirement benefits
Asset retirement obligations	18,172				18,173		Provisions
Leasehold deposits refundable	11,649	(401)	(11,249)				
Other	3,609	1,013	(1,133)	530	4,019		Other noncurrent liabilities
Total long-term liabilities	137,472	1,044	(530)	530	138,517		Total non-current liabilities
TOTAL LIABILITIES	435,065	10,571	(2,218)	2,035	445,454		TOTAL LIABILITIES
EQUITY:							EQUITY:
Common stock	16,658				16,659		Common stock
Capital surplus	17,388			(3,684)	13,705		Capital surplus
Treasury stock	(8,784)				(8,784)		Treasury shares
Accumulated other comprehensive income	6,161	(659)		(95)	5,408		Other components of equity
Retained earnings	252,139	(812)		(6,439)	244,889	(3)5)	Retained earnings
	283,564	(1,471)		(10,218)	271,876		Total equity attributable to owners of the parent
Minority interests	11,665	15		(33)	11,646		Non-controlling interests
TOTAL EQUITY	295,229	(1,456)		(10,251)	283,522		TOTAL EQUITY
TOTAL	¥730,295	¥9,114	¥(2,218)	¥(8,216)	¥728,976		TOTAL LIABILITIES AND EQUITY

Reconciliation of Equity at February 28, 2017

Presentation under Japanese GAAP	Japanese GAAP	Differences in the scope of consolidation (Note1)	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Presentation under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
ASSETS:							ASSETS:
CURRENT ASSETS:							CURRENT ASSETS:
Cash and deposits	¥178,279	¥13,080	¥(3,071)		¥188,289	(2)1)	Cash and cash equivalents
Notes and accounts receivable—trade	108,661	(498)	150,565		258,729	(2)2)	Trade and other receivables
Receivables—Due from franchised stores	39,816		(39,816)				
Securities	2,569	1	24,683		27,254	(2)1)	Other financial assets
Merchandise	48,068	4,774	558		53,401		Inventories
Prepaid expenses	19,429	229	(19,710)	¥53			
Deferred tax assets	9,589		(12,740)	3,150			
Accounts receivable—other	86,351	1,357	(87,708)				
Other	57,419	(34)	(29,700)	(269)	27,417		Other current assets
			3,343		3,343	(2)3)	Assets held for sale
Allowance for doubtful receivables	(413)	(15)	428				
Total current assets	549,771	18,895	(13,168)	2,934	558,432		Total current assets
FIXED ASSETS:							NONCURRENT ASSETS:
Property and store facilities	593,754	5,609	(183,503)	(5,491)	410,371	(3)2)	Property, plant and equipment
			180,160		180,160	(2)3)	Investment property
Goodwill	88,612	385		(39,641)	49,356	(3)1)	Goodwill
Other intangible assets	70,650	513	1,533	1,198	73,895		Intangible assets
			23,563		23,563	(2)4)	Investments accounted for using the equity method
Investment securities	60,431	(4,468)	81,730	834	138,528	(2)5)	Other financial assets
Leasehold deposits receivable	240,144	57	(99,850)	(125)	140,226		Leasehold deposits receivable
Asset for retirement benefits	2,954			(2,028)	927		Assets for retirement benefits
Deferred tax assets	17,761	148	11,122	44,730	73,762	(3)6)	Deferred tax assets
Other	25,155	451	(11,934)		13,672		Other non-current assets
Allowance for doubtful receivables	(5,313)		5,314				
Total fixed assets	1,094,152	2,696	8,135	(523)	1,104,460		Total non-current assets
TOTAL	¥1,643,923	¥21,591	¥(5,033)	¥2,411	¥1,662,892		TOTAL ASSETS

Presentation under Japanese GAAP	Japanese GAAP	Differences in the scope of consolidation (Note1)	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Presentation under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
							LIABILITIES AND EQUITY:
LIABILITIES:							LIABILITIES:
CURRENT LIABILITIES:							CURRENT LIABILITIES:
Accounts and notes payable—trade	¥215,295	¥377	¥63,403		¥279,074	(2)2)	Trade and other payables
Deposits received	150,435	10,334	(812)		159,957		Deposits received
Short-term borrowings	2,873	5,395	(8,269)				
Current portion of long-term borrowings	12,855	23	(12,878)				
Commercial paper	96,000		(96,000)				
			117,147		117,147		Bonds and borrowings
Payables—Due to franchised stores	10,548	13	(10,562)				
Income taxes payable	4,495	83			4,579		Income taxes payable
Current portion of long-term lease obligations	20,239				20,240		Lease obligations
Payables—other	56,238	(764)	(55,443)	¥ (32)			
Accrued expenses	11,896	3,356	(25,796)	10,544			
Provision for bonuses	4,575		(4,575)				
Other	25,467	1,268	30,371	(588)	56,519	(3)3),4)	Other current liabilities
Total current liabilities	610,922	20,084	(3,415)	9,925	637,517		Total current liabilities
LONG-TERM LIABILITIES:							NONCURRENT LIABILITIES:
Corporate bonds	40,000		236,862	(180)	276,682		Bonds and borrowings
Long-term bank loans	236,862		(236,862)				
Long-term lease obligations	83,812				83,812		Lease obligations
			55,873		55,873	(2)5)	Other financial liabilities
Liability for retirement benefits	14,644	660		(60)	15,245		Liabilities for retirement benefits
Provisions for loss on interest repayment	5,157		(5,158)				
Asset retirement obligations	46,836		5,158		51,994		Provisions
Leasehold deposits refundable	53,281	121	(53,403)				
Other	17,912	(392)	(4,088)	(2,043)	11,390		Other noncurrent liabilities
Total long-term liabilities	498,507	389	(1,618)	(2,282)	494,997		Total non-current liabilities
TOTAL LIABILITIES	1,109,430	20,474	(5,033)	7,642	1,132,514		TOTAL LIABILITIES
EQUITY:							EQUITY
Common stock	16,658				16,659		Common stock
Capital surplus	236,195	969		(4)	237,160		Capital surplus
Treasury stock	(441)				(441)		Treasury shares
Accumulated other comprehensive income	7,413	(83)		936	8,267		Other components of equity
Retained earnings	260,016	(861)		(5,977)	253,179	(3)5)	Retained earnings
	519,843	24		(5,045)	514,823		Total equity attributable to owners of the parent
Minority interests	14,649	1,092		(186)	15,555		Non-controlling interests
TOTAL EQUITY	534,492	1,117		(5,231)	530,378		TOTAL EQUITY
TOTAL	¥1,643,923	¥21,591	¥(5,033)	¥2,411	¥1,662,892		TOTAL LIABILITIES AND EQUITY

Notes to Reconciliation of Equity

(1) Differences in the Scope of Consolidation

Under Japanese GAAP, immaterial subsidiaries are excluded from the scope of consolidation; however, they are included in the scope of consolidation under IFRSs.
If the end of the reporting period of a subsidiary is different from that of the Group, the subsidiary either changes the reporting period or prepares additional financial information as of the same date as that of the Group for inclusion in the Group's consolidated financial statements. Those amounts affected by the change are included.

(2) Reclassification

Reclassification refers to changes in the presentation in the consolidated statement of financial position that do not affect retained earnings. The principal reclassifications are as follows:

1) Cash and cash equivalents

Time deposits with maturities of three months or longer that are included in "Cash and deposits" under Japanese GAAP are reclassified and presented as "Other financial assets" under IFRSs. In addition, short-term investments that are included in "Securities" under Japanese GAAP are reclassified and presented as "Cash and cash equivalents" under IFRSs.

2) Trade receivables and trade payables

"Accounts receivable—other" and "Receivables—Due from franchised stores" that are presented separately as individual line items under Japanese GAAP are both included in "Trade and other receivables" under IFRSs. "Payables-Accounts and notes payable-trade" "Payable—Other," and "Payables—Due to franchised stores" are all included in "Trade and other payables" under IFRSs

3) Investment property and assets held for sale

Pursuant to the presentation requirements under IFRSs, "Property and store facilities" presented under Japanese GAAP is reclassified and presented as "Investment property" and "Assets held for sale" under IFRSs.

4) Investments accounted for using the equity method

"Investments accounted for using the equity method" included in "Investment securities" under Japanese GAAP is presented separately under IFRSs.

5) Leasehold deposits receivable and Leasehold deposits refundable

Construction assistance fund receivables included in "Leasehold deposits receivable" under Japanese GAAP are reclassified and presented as "Other financial assets" under IFRSs. "Leasehold deposits refundable" presented separately under Japanese GAAP is included in "Other financial liabilities" under IFRSs.

(3) Differences in Recognition and Measurement

1) Goodwill

Japanese GAAP provides that goodwill is amortized over a certain period during which its effect exists and an impairment test is performed only when an indication of impairment is identified. On the other hand, IFRSs provide that goodwill is not amortized and that an impairment test is required to be performed at least annually and whenever there is any indication that the asset may be impaired.

At the date of transition to IFRSs and for the fiscal year ended February 29, 2016, there were certain cases where goodwill was recognized as a result of additional acquisitions of non-controlling interests after having obtained control of other companies under Japanese GAAP. However, under IFRSs, goodwill is not recognized as a capital transaction, but is accounted for as an increase or decrease in capital surplus. Note that the Japanese GAAP for the treatment above has been amended, and there is no difference in accounting in the fiscal year ended February 28, 2017, or after.

Regarding UNY Group Holdings Co., Ltd., subsidiaries and associates which the Group acquired during the fiscal year ended February 28, 2017, the provisional amount of goodwill has been changed mainly due to the adjustment on the deferred tax assets as described in 6) below.

2) Property, plant and equipment

In adopting IFRSs for the first time, the Group has elected to apply exemptions under IFRS 1. The Group measures certain property, plant and equipment (including land) at the date of transition at their fair value and uses that fair value as deemed cost at that date under IFRSs. The difference between the amount and the carrying amount under Japanese GAAP is recognized in retained earnings.

The fair value of such property, plant and equivalent at of the date of transition was ¥4,239 million, which is ¥6,128 million less than the carrying amount under Japanese GAAP.

3) Accrued vacation pay

Accrued vacation pay that was not accounted for under Japanese GAAP is recognized as a liability and included in “Other current liabilities” under IFRSs.

4) Levies

Under Japanese GAAP, property taxes levied in Japan were recognized as expenses for the fiscal year in which they are paid under Japanese GAAP. However, under IFRSs, property taxes are recognized as liabilities on the levy date and are presented in “Other current liabilities.”

5) Other components of equity

In adopting IFRSs for the first time, the Group has elected to apply the exemptions under IFRS 1 to reclassify the cumulative translation differences for all foreign operations at the date of transition to IFRSs to retained earnings.

Under Japanese GAAP, remeasurements of defined benefit plans and past service cost are recognized in other comprehensive income when they are incurred and are recycled to profit or loss over a certain period starting from the following year of incurrence. Under IFRSs, remeasurements of defined benefit plans are recognized in other comprehensive income when they are incurred and immediately transferred from other components of equity to retained earnings. Past service cost is recognized in profit or loss for the fiscal year in which it incurred.

Under Japanese GAAP, gains or losses on sales and impairment losses of equity instruments, such as shares, are recognized in profit or loss. Under IFRSs, they are not recognized in profit or loss for financial instruments designated to be measured at fair value through other comprehensive income. When the equity instruments are derecognized, the cumulative gain or loss previously recognized in other comprehensive income is transferred to retained earnings.

6) Deferred tax assets

Under Japanese GAAP, the Group recognized deferred tax assets in accordance with classes of entities prescribed in the Audit Guidelines for Considering Recoverability of Deferred Tax Assets (Japanese Institute of Certified Public Accountants, Audit Committee Report No. 66). After adopting IFRSs, the Group recognizes deferred tax assets to the extent that it is probable that tax loss carryforwards and deductible temporary differences can be utilized against future taxable profit.

(4) Reconciliation of Retained Earnings

	Date of transition (March 1, 2015)	2016 (February 29, 2016)	2017 (February 28, 2017)
	Millions of yen	Millions of yen	Millions of yen
Differences in the scope of consolidation	¥(65)	¥(812)	¥(861)
Property, plant and equipment	(4,316)	(4,313)	(4,263)
Financial assets	1,489	1,644	1,639
Accrued vacation pay	(392)	(422)	(624)
Reconciliation of retained earnings	(501)	(565)	(2,825)
Defined benefit plans	(659)	(2,275)	(2,192)
Goodwill	925	241	2,761
Cumulative translation differences	645	485	485
Other	180	(1,235)	(958)
Total	¥(2,692)	¥(7,251)	¥(6,838)

Reconciliation of Profit and Loss and Comprehensive Income for the Fiscal Year Ended February 29, 2016 (From March 1, 2015 to February 29, 2016):

Presentation under Japanese GAAP	Japanese GAAP	Differences in scope of consolidation (Note1)	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Presentation under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Total operating revenues	¥427,676	¥4,370		¥(7,612)	¥424,435	(3)2)	Operating revenues
Cost of sales	(91,159)	3,860	¥1	7,612	(79,687)		Cost of sales
Operating gross profit	336,517	8,230	1		344,748		Gross profit
Selling, general, and administrative expenses	(287,782)	(7,471)	156	631	(294,467)	(3)1), 3),4), 5)	Selling, general, and administrative expenses
			(397)		(397)	(2)1)	Equity in earnings of associates and joint ventures
			1,728		1,728	(2)1)	Other income
			(16,259)		(16,259)	2)1), (3)8	Other expenses
Operating income	48,734	759	(14,771)	631	35,354		Operating profit
Non-operating income	5,297	(225)	(3,457)	(1,614)			
Non-operating expenses	(2,143)	(1,185)	3,502	(174)			
Extraordinary income	791	(38)	(250)	(503)			
Extraordinary losses	(13,918)	402	14,500	(983)			
			2,375		2,375		Finance income
			(1,900)		(1,900)	(2)4)	Finance costs
Income before income taxes and minority interests	38,761	(287)		(2,644)	35,830		Profit before income taxes
Income taxes—Current	(10,687)	(70)	(4,252)	162	(14,847)	(2)3)	Income taxes
Income taxes—Deferred	(4,015)	(51)	4,252	(185)			
Net income before minority interests	¥24,057	¥(408)	¥	¥(2,667)	¥20,983		Profit for the year

Presentation under Japanese GAAP	Japanese GAAP	Differences in scope of consolidation (Note1)	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Presentation under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Net income before minority interests	¥24,057	¥(408)		¥(2,667)	¥20,983		Profit for the year
Other comprehensive income							Other comprehensive income
						(2)2)	Items that will not be reclassified subsequently to profit or loss
Unrealized gain on available-for-sale securities	2,351	2		146	2,500		Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	(1,873)	(57)		178	(1,752)	(3)5)	Remeasurements of defined benefit plans
			¥(26)		(26)		Share of other comprehensive income of investments accounted for using the equity method
	478	(55)	(26)	324	722		Total of items that will not be reclassified subsequently to profit or loss
						(2)2)	Items that may be reclassified subsequently to profit or loss
Foreign currency translation adjustments	(756)	(1,254)		456	(1,554)	(3)7)	Exchange difference on translating foreign operations
Share of other comprehensive income in associates	(139)	(433)	26		(547)		Share of other comprehensive income of investments accounted for using the equity method
	(896)	(1,688)	26	456	(2,102)		Total of items that may be reclassified subsequently to profit or loss
Total other comprehensive (loss) income	(417)	(1,742)		781	(1,379)		Total other comprehensive income, net of tax
Comprehensive income	¥23,640	¥(2,150)	¥	¥(1,886)	¥19,603		Comprehensive income

Reconciliation of Profit and Loss and Comprehensive Income for the Fiscal Year Ended February 28, 2017 (From March 1, 2016 to February 28, 2017):

Presentation under Japanese GAAP	Japanese GAAP	Differences in scope of consolidation (Note1)	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Presentation under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Total operating revenues	¥894,994	¥15,404		¥(66,584)	¥843,815	(3)2)	Operating revenues
Cost of sales	(380,215)	(1,932)		67,564	(314,584)		Cost of sales
Operating gross profit	514,779	13,473		980	529,231		Gross profit
Selling, general, and administrative expenses	(458,732)	(13,130)	¥ (323)	(1,751)	(473,936)	(3)1), 3),4), 5)	Selling, general, and administrative expenses
			1,009		1,009	(2)1)	Equity in earnings of associates and joint ventures
			3,880		3,880	(2)1)	Other income
			(27,420)		(27,420)	(2)1), (3)8)	Other expenses
Operating income	56,047	343	(22,854)	(771)	32,764		Operating profit
Non-operating income	7,126	(194)	(7,443)	510			
Non-operating expenses	(3,836)	(420)	4,530	(273)			
Extraordinary income	928	(272)	(479)	(178)			
Extraordinary losses	(24,672)	4	24,865	(196)			
			3,301		3,301		Finance income
			(2,582)		(2,582)	(2)4)	Finance costs
Income before income taxes and minority interests	35,592	(539)	(662)	(909)	33,483		Profit before income taxes
Income taxes—Current	(3,633)	(76)	(8,777)	70	(12,416)	(2)3)	Income taxes
Income taxes—Deferred	(9,981)	(67)	9,438	610			
Net income	¥21,978	¥(682)	¥	¥(230)	¥21,067		Profit for the year

Presentation under Japanese GAAP	Japanese GAAP	Differences in scope of consolidation (Note1)	Reclassification	Differences in recognition and measurement	IFRSs	Notes	Presentation under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Net income	¥21,978	¥(682)	¥	¥(230)	¥21,067		Profit for the year
Other comprehensive income	549	47					Other comprehensive income
						(2)2	Items that will not be reclassified subsequently to profit or loss
Unrealized gain on available-for-sale securities				1,322	1,918		Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans	1,470	(70)		(1,002)	398	(3)5	Remeasurements of defined benefit plans
			40		40		Share of other comprehensive income of investments accounted for using the equity method
	2,019	(23)	40	319	2,356		Total of items that will not be reclassified subsequently to profit or loss
						(2)2	Items that may be reclassified subsequently to profit or loss
Deferred gains or losses on hedges	(618)			1,020	401		Cash flow hedges
Foreign currency translation adjustments	(3)	1,507		(153)	1,350	(3)7	Exchange difference on translating foreign operations
Share of other comprehensive income in associates	13	(107)	(40)		(133)		Share of other comprehensive income of investments accounted for using the equity method
	(608)	1,400	(40)	866	1,619		Total of items that may be reclassified subsequently to profit or loss
Total other comprehensive (loss) income	1,411	1,378		1,186	3,975		Total other comprehensive income, net of tax
Comprehensive income	¥23,390	¥696	¥	¥956	¥25,042		Comprehensive income

Notes to Reconciliation of Profit and Loss and Comprehensive Income

(1) Differences in the Scope of Consolidation

Under Japanese GAAP, immaterial subsidiaries are excluded from the scope of consolidation; however, they are included in the scope of consolidation under IFRSs.
If the end of the reporting period of a subsidiary is different from that of the Group, the subsidiary either changes the reporting period or prepares an additional financial information as of the same date as that of the Group for inclusion to the Group's consolidated financial statements. Those amounts affected by the change are included.

(2) Reclassification

Reclassification refers to changes in the presentation of the consolidated statement of profit or loss and consolidated statement of comprehensive income that do not affect profit and comprehensive income. The principal reclassifications are as follows:

1) Non-operating income and expenses and extraordinary income and losses

Items presented as "Non-operating income," "Non-operating expenses," "Extraordinary income," and "Extraordinary losses" under Japanese GAAP are included in either "Finance income" or "Finance costs" with respect to finance-related income and loss. Other items are presented in "Other income," "Other expenses," and "Equity in earnings of associates and joint ventures" as operating items under IFRSs.

2) Other comprehensive income

Pursuant to the presentation requirements under IFRSs, other comprehensive income is broken down into and presented as "Items that will not be reclassified subsequently to profit or loss" and "Items that may be reclassified subsequently to profit or loss."

3) Income taxes

"Income taxes—Current" and "Income taxes—Deferred" that were presented separately under Japanese GAAP are combined and presented as "Income taxes" under IFRSs.

4) Interest expense for discount calculation

Interest expenses on asset retirement obligations arising due to the passage of time that were included in "Selling, general, and administrative expenses" under Japanese GAAP are presented as "Finance costs" in accordance with IFRSs.

(3) Differences in Recognition and Measurement

1) Adjustment to the amount of amortization of goodwill

Japanese GAAP provides that goodwill is amortized over a certain period during which its effect exists and an impairment test is performed only when an indication of impairment is identified. On the other hand, IFRSs provides that goodwill is not amortized and that an impairment test is required to be performed at least annually and whenever there is any indication that the asset may be impairment.

2) Adjustment to Operating Revenues

Under Japanese GAAP, sales transactions such as sales of prepaid cards and merchandise sales based on agreements under which sales revenue and purchase of goods are recorded upon sales were recognized at gross amounts. Under IFRSs, such transactions are recognized at net amounts. Certain options, such as customer loyalty points, granted to the customers that were presented as "Selling, general, and administrative expenses" under Japanese GAAP are deducted from "Operating revenues" under IFRSs.

3) Accrued vacation pay

Accrued vacation pay that was not accounted for under Japanese GAAP is recognized as personnel expenses under IFRSs.

4) Levies

Property taxes levied in Japan were recognized as operating expenses over the fiscal year when they are paid under Japanese GAAP. Meanwhile under IFRSs, property taxes are recognized as an expense on the levy date.

5) Accounting for assets and liabilities for retirement benefits

Under Japanese GAAP, remeasurements of defined benefit plans and past service cost are recognized as other comprehensive income when they are incurred and are recycled to profit or loss over a certain period starting from the following year of incurrence. Under IFRSs, remeasurements of defined benefit plans are recognized in other comprehensive income when they are incurred and immediately transferred from other components of equity to retained earnings. Past service cost is recognized in profit or loss for the fiscal year in which it incurred.
Under Japanese GAAP, interest cost is calculated by multiplying retirement benefit obligations by the discount rate, and expected return on plan assets is calculated by multiplying pension plan by the long term expected return ratio. Under IFRSs, net interest is calculated by multiplying the amount of the present value of defined benefit obligation less fair value of the plan assets by the discount rate.

6) Accounting for equity instruments

Under Japanese GAAP, gains or losses on sales and impairment losses of equity instruments, such as shares, are recognized in profit or loss. Under IFRSs, they are not recognized in profit or loss for financial instruments designated to be measured at fair value through other comprehensive income. When the equity instruments are derecognized, the cumulative gain or loss previously recognized in other comprehensive income is transferred to retained earnings.

7) Exchange difference on translating foreign operations

In adopting IFRSs for the first time, the Group has elected to apply the exemptions under IFRS 1 to reclassify the cumulative exchange differences for all foreign operations at the date of transition to IFRSs to retained earnings. Accordingly, the amount to be recycled to profit or loss changes when the Group disposes all or part of its foreign operations.

8) Deemed cost

In adopting IFRSs for the first time, the Group has elected to apply the exemptions under IFRS 1. The Group measures certain property, plant and equipment at the date of transition tow IFRSs at their fair value and uses that fair value as their deemed cost at that date under IFRSs. Accordingly, the amount of gain or loss on disposal or impairment to be recognized in profit or loss changes when the Group disposes or recognizes impairment losses on all or part of such property, plant and equipment.

Reconciliation of Cash Flows for the Fiscal Year Ended February 29, 2016 (From March 1, 2015 to February 29, 2016), and the Year Ended February 28, 2017 (From March 1, 2016 to February 28, 2017):

There is no significant difference in the consolidated statement of cash flows in accordance with IFRSs and in accordance with Japanese GAAP except for the following:
Due to the change in the end of the reporting period of certain subsidiaries and differences in the scope of consolidation, balance of cash and cash equivalents at March 1, 2015, February 29, 2016 and February 28, 2017 under IFRSs was larger than that under Japanese GAAP by ¥14,125 million, ¥7,980 million and ¥13,080 million, respectively.

The increase in the cash and cash equivalents due to merger amounted ¥36,396 million which was separately presented from “NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS” under Japanese GAAP was included in “INVESTING ACIVITIES” under IFRS.

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3 Konan
Minato-ku, Tokyo 108-6221
Japan

Tel: +81 (3) 6720 8200
Fax: +81 (3) 6720 8205
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statement of financial position of FamilyMart UNY Holdings Co., Ltd. (formerly, FamilyMart Co., Ltd.) and its subsidiaries as of February 28, 2017, and the related consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended, and the related notes to consolidated financial statements, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of FamilyMart UNY Holdings Co., Ltd. and its subsidiaries as of February 28, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

May 29, 2017