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Matters to Be Disclosed on the Internet upon Sending the Notice of Convocation of the 38th Ordinary General Meeting of Shareholders

Notes to the Consolidated Financial Statements
Notes to the Financial Statements
(March 1, 2018 through February 28, 2019)

FamilyMart UNY Holdings Co., Ltd.

The matters above are posted on FamilyMart UNY Holdings Co., Ltd. (the "Company")'s website (http://www.fu-hd.com/) for its shareholders to obtain the information in accordance with the relevant laws and regulations, as well as the provision of Article 15 of the Articles of Incorporations of the Company. This document is included in the scope of the audit by the Corporate Auditors and Independent Auditors in preparing audit reports.

[Notes to the Consolidated Financial Statements]

The Basis of Presentation of the Consolidated Financial Statements

1. Standards Applied for Preparation of the Consolidated Financial Statements

The consolidated financial statements of the Company and its subsidiaries (together, the "Group") are prepared in accordance with International Financial Reporting Standards ("IFRSs"), pursuant to the provisions of the first paragraph of Article 120 of the Ordinance on Company Accounting. Certain disclosure items required by IFRSs are omitted pursuant to the provisions of the second sentence of said paragraph.

2. Scope of Consolidation

Number of subsidiaries: 27 companies

Major subsidiaries: FamilyMart Co., Ltd.; Taiwan FamilyMart Co., Ltd.; famima Retail Service Co., Ltd.; UFI FUTECH Co., Ltd.; SENIOR LIFE CREATE Co., Ltd., EVENTIFY INC.; and Kanemi Co., Ltd.

In the fiscal year ended February 28, 2019, two subsidiaries were newly established and included in the scope of consolidation.

In the fiscal year ended February 28, 2019, UNY Co., Ltd., and its subsidiaries, namely UCS CO., LTD., Sun Sougou Maintenance Co., Ltd. , and six other companies were excluded from the scope of consolidation due to the transfer of all shares of UNY Co., Ltd. held by the Company. As a result of this transfer of shares, the businesses of UNY Co., Ltd. and its subsidiaries are classified as discontinued operations, and their profit or loss until the date control was lost is presented as "Discontinued operations."

In addition to the above, UNY (HK) CO., LIMITED and three other subsidiaries were excluded from the scope of consolidation due to the transfer of their shares and other reasons.

3. Application of the Equity Method

Number of associates and joint ventures: 19 companies

Major associates and joint ventures: Okinawa FamilyMart Co., Ltd.; Minami Kyushu FamilyMart Co., Ltd.; Central FamilyMart Co., Ltd.; Shanghai FamilyMart Co., Ltd.; Guangzhou FamilyMart Co., Ltd.; Suzhou FamilyMart Co., Ltd.; POCKET CARD CO., LTD.; and LIVE VIEWING JAPAN Inc.

In the fiscal year ended February 28, 2019, five associates of UNY Co., Ltd. were excluded from the scope of application of the equity method due to the transfer of all shares of UNY Co., Ltd. held by the Company.

In addition to the above, three other associates and joint ventures were excluded from the scope of application of the equity method due to the transfer of shares and other reasons.

4. 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 director positions 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 are reflected, as needed, in the financial statements of the subsidiary. Intragroup balances and transactions and unrealized gains and losses which have resulted from intragroup transactions are 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 is recognized directly in equity as equity interests attributable to owners of the parent.

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

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

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

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

3) Joint arrangements
Joint arrangements are referred to as contractual arrangements over 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 are recognized, while investments in joint ventures are 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 of 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.

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

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

It is also noted that the additional acquisition of non-controlling interests after the acquisition of control is accounted for as a capital transaction, where 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 International Accounting Standards 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 is recognized in profit or loss in the period in which the foreign operations are disposed of.

(4) Financial instruments

1) Financial assets

(i) Initial recognition and measurement

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

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

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

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

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

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

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

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

(ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

(b) Financial assets measured at fair value

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

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

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

(iii) Impairment of financial assets

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

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

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

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

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

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

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

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

(iv) Derecognition of financial assets

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

2) Financial liabilities

(i) Initial recognition and measurement

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

All financial liabilities are initially measured at fair value, except for financial liabilities 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 likely to be effective in the future.

If a hedging relationship ceases to meet the hedge effectiveness requirements 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. The ineffective portion is immediately recognized in profit or loss in the consolidated statement of profit or loss.

The amount of a hedging instrument that is included in equity through 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 periodically 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, and are identifiable, and their fair value is reliably measured.

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

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

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

(10) Lease

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

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

1) Lessee

Finance leases are initially recognized as assets at the fair value of the leased property or, if lower, the present value of the minimum lease payments determined at the inception of the lease. Such assets are depreciated using the straight-line method over the shorter of the estimated useful life or the lease term based on the accounting policy applicable to the assets. The lease payments are apportioned between the finance charge and 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 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. Goodwill allocation to a CGU or CGUs is determined based on the level within the Group at which the goodwill is monitored for internal management purposes.

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 the reporting period whether there is any indication that an impairment loss for an asset other than goodwill recognized in a prior period may no longer exist or may have decreased. If there has been a change in the estimates used to determine the recoverable amount of an 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 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 its 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.

Remeasurements of the net defined benefit liabilities (or assets) are recognized in other comprehensive income in the period in which they are incurred 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 is incurred.

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

2) Short-term employee benefits

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

(13) Provisions

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

Asset retirement obligations

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

(14) Financial guarantee contracts

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

(15) Revenues

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

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

The Group operates chains of convenience and general retailer stores.

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

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

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

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

When the Group is acting as a principal, transaction prices are presented at the gross amount of consideration received from customers. When the Group is acting as an agent for third parties, transaction prices are presented at the net amount of consideration by deducting the amounts collected on behalf of third parties from the gross amount of consideration received from customers.

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

If the Group grants customers an option to acquire additional goods or services and provides them with a material right, the transaction price is allocated to that right as a separate performance obligation, and recognizes revenue when those future goods or services are transferred or the option is expired.

(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, unused tax loss, and tax credit carryforwards to the extent that it is probable that taxable profit will be available against the deductible temporary differences that 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 for which the Group is able to control the timing of the

reversal of the temporary difference, and 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) Assets held for sale and discontinued operations

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

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

(19) 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.

(20) 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.

(21) 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 charges collected are recognized as payables to public service providers and are included in "Deposits received" in the consolidated statement of financial position.

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

5. Changes in Accounting Policy

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

IFRS		Outline of new standards or amendments
IFRS 15	Revenue from Contracts with Customers	Amendment to accounting treatment for revenue recognition

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

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

As a result of adoption of IFRS 15, with regard to contracts with customers, the Group recognizes revenue by applying the following steps (except for interest and dividend revenue, etc. , under IFRS 9 and lease payments receivable under IAS 17).
Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group operates chains of convenience and general retailer stores.

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

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

When identifying the performance obligations, the Group considers the following criteria in judging whether the Group is acting as a principal or as an agent:
- Whether the Group has the primary responsibility for providing the goods or services to the customer or for fulfilling the order;
- Whether the Group has inventory risks before and after the customer order, during shipping or return of goods; and
- Whether the Group has latitude in establishing prices, either directly or indirectly.

When the Group is acting as a principal, trading prices are presented at the total amount of consideration received from customers. When the Group is acting as an agent for third parties, trading prices are presented at as a commission fee by deducting the amounts collected on behalf of third parties from the total amount of consideration received from customers.

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

If the Group grants customers an option to acquire additional goods or services and provides them with a material right, the transaction price is allocated with this provision deemed as a separate performance obligation, and revenue is recognized when the future goods or services are transferred or the option is extinguished.

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

6. Changes in Accounting Estimates

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

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

7. Changes in Presentation

"Operating profit" was presented as an amount after adding or subtracting cost of sales; selling, general and administrative expenses; equity in earnings of associates and joint ventures; other income; and other expenses from operating revenue until the previous fiscal year. This presentation, however, is no longer effective from the fiscal year ended February 28, 2019. This change was made because the Group determined that the new presentation would provide more relevant information for users of the consolidated financial statements, considering the common practice regarding presentation of the consolidated statement of profit or loss in the industry to which the Group belongs.

Notes to the Consolidated Statement of Financial Position

1. Assets pledged as collateral and related liabilities

Assets pledged as collateral:

Leasehold and guarantee deposits receivable	¥89,813 million
Other financial assets	¥21 million
Total	¥89,833 million

2. Allowance for doubtful receivables directly deducted from assets

(1) Current assets	
Trade and other receivables	¥102 million
Other financial assets	¥10 million
Other current assets	¥0 million
(2) Non-current assets	
Leasehold and guarantee deposits receivable	¥57 million
Other financial assets and accumulated impairment losses	¥1,743 million
Other non-current assets and accumulated impairment losses	¥251 million

3. Accumulated depreciation of property, plant and equipment	¥260,264 million
4. Accumulated depreciation of investment property	¥7,026 million

5. Guarantee obligations

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

(1) Guarantee obligations for borrowings from financial institutions

Central FamilyMart Co., Ltd. ¥3,678 million

(2) Guarantee obligations for the fulfillment of performance obligations in contracts related to machinery installation

JAPAN FOOD SUPPLY Co., Ltd. ¥934 million

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

SHINOBU FOODS PRODUCTS CO., LTD. and 31 other companies ¥19,875 million

Notes to the Consolidated Statement of Changes in Equity

1. Class and total number of issued shares as of February 28, 2019

Common stock 126,712,313 shares

2. Dividends

(1) Dividends paid

Date of resolution	Class of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
April 11, 2018 Board of Directors	Common stock	7,086	56.00	February 28, 2018	May 7, 2018
October 11, 2018 Board of Directors	Common stock	8,035	63.50	August 31, 2018	November 9, 2018

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

(2) Dividends for which the record date is in the fiscal year ended February 28, 2019, but for which the effective date will be in the following fiscal year

The Company plans to propose the following dividends of common stock shares at the Board of Directors’ meeting to be held on April 10, 2019.

Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
10,186	Retained earnings	80.50	February 28, 2019	May 7, 2019

Note: The Company effected a 4-for-1 share split of its common stock with the effective date of March 1, 2019. “Dividends per share” above represents the actual amount of dividend per share before the share split.

Financial Instruments

1. 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.

(1) Credit risk management

Credit risk is the risk of counterparties 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, leasehold deposits receivable, other financial assets excluding equity financial assets, and the balance of guarantee obligations.

With regard to trade receivables, including receivables due from franchised stores and accounts receivable—other, the Group monitors delinquency and outstanding balances by each counterparty, aiming to promptly identify and reduce risk of uncollectibility due to deterioration of financial positions of counterparties and other reasons.

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

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

With respect to other items, including leasehold deposits receivable, construction assistance fund receivables, and advances paid, the Company aims to promptly identify and reduce the risk related to uncollectibility by collecting and evaluating information concerning the financial positions of counterparties as well as taking collateral 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 grouping certain receivables based on the status of delinquency and the nature of transactions from which receivables were recognized.

(2) Liquidity risk management

Liquidity risk is the risk that the Group is unable to perform its repayment obligations regarding 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 funding channels. Each Group company prepares and updates its funding plans in a timely manner, and maintains sufficient short-term liquidity. The Group also reduces the liquidity risk by entering into commitment line agreements with financial institutions.

(3) Foreign currency exchange rate risk management

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

(4) 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.

(5) 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 positions 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.

2. Matters related to the fair values of financial instruments

The following table indicates carrying amounts and fair values as of February 28, 2019.

The following table includes financial assets classified as held for sale to which the measurement requirements of IFRS 5 do not apply, and these financial assets are included in "Assets held for sale" in the consolidated statement of financial position:

(Millions of yen)

	Carrying amount	Fair value
Financial assets		
Leasehold deposits receivable	90,101	89,040
Stocks	27,228	27,228
Other financial assets	102,499	106,792
Financial liabilities		
Bonds and borrowings	173,152	171,767
Lease obligations	82,831	81,916
Derivative liabilities	74	74
Other financial liabilities	14,446	14,433

The measurement methods of fair values are as follows:

Stocks

Fair values of listed stocks are measured based on the prices transacted at stock exchanges. Unlisted stocks are measured by comparable peer company analysis using financial indicators as inputs, or by valuation models based on net assets. Thus, unobservable inputs, such as earnings before interest, tax, depreciation, and amortization ("EBITDA") multiples, are used.

Financial instruments and lease obligations measured at amortized cost

Fair values of bonds, included in bonds and borrowings, are measured based on published prices in markets that are not active. Fair values of other financial assets and liabilities are determined based on the present value of reasonably estimated future cash flows discounted using an appropriate discount rate. 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 as a discount rate an interest rate that reflects credit risk at appropriate benchmark rates, such as the yield on government bonds corresponding to the remaining period of the financial instruments.

The table above 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.

Derivative liabilities

Fair values of derivative assets and liabilities are measured based only on observable input determined by financial institutions.

Investment Property

1. Status of investment property

Some of the Company's subsidiaries own distribution centers for leasing, including land in Saitama Prefecture and other areas.

2. Fair value of investment property

Carrying amount	Fair value
¥12,105 million	¥15,541 million

Notes: 1. The carrying amount represents the cost less any accumulated depreciation and impairment losses.
2. The fair value of investment property is calculated based mainly on evaluations by independent, external real estate appraisers.

Per-share Information

1. Equity per share attributable to owners of the parent:	¥1,123.78
2. Basic earnings per share:	
Continuing operations	¥43.42
Discontinued operations	¥46.22
Total	¥89.64

Note: The Company effected a 4-for-1 share split of its common stock with the effective date of March 1, 2019. Equity per share attributable to owners of the parent and basic earnings per share are calculated based on an assumption that the share split was effected at the beginning of the fiscal year ended February 28, 2019.

Significant Subsequent Events

Share split

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

(1) Purpose of share split

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

(2) Method of share split

1) Method of split

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

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

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

3) Schedule for share split

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

(3) Impact on per-share information

Per-share information based on the assumption that the share split was effected at the beginning of the fiscal year ended February 28, 2019 is provided in "Per-share Information."

Additional Information

Tax loss carryforwards and recognizing deferred tax assets

The Company transferred all its shares of UNY Co., Ltd. to Pan Pacific International Holdings Corporation (formerly Don Quijote Holdings Co., Ltd.) on January 4, 2019.

As a result of this transfer of shares, the company recognized ¥20,298 million in income tax expenses (creditor) by recognizing deferred tax assets on the tax loss carryforwards resulting from tax losses on share sales and other items.

Partial transfer of shares of Kanemi Co., Ltd.

(1) Overview of transaction

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

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

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

Note: The Company will lose its control over Kanemi Co., Ltd. due to this share transfer.

(3) Effects of the share transfer on future performance

The effects of this share transfer on the Company's consolidated financial statements is currently being assessed.

Other Notes

Impairment losses

(1) Property, plant and equipment, intangible assets, and investments accounted for using the equity method

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 ¥25,601 million for the fiscal year ended February 28, 2019, 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), investments accounted for using the equity method, and the carrying amounts of stores' assets are reduced to recoverable amounts.

The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal. The discount rate used in measuring the value in use is calculated based on a pre-tax weighted-average cost of capital (5.0%). 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.

(2) Goodwill

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

The value in use is calculated, in principle, by discounting the estimated future cash flows, which are based on an upcoming five-year business plan approved by management, to their present values using a pre-tax weighted-average cost of capital for the CGU (5.0% to 8.8%). The growth rate used for forecasting cash flows after the term 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 Group recognized impairment losses of ¥9,139 million for the fiscal year ended February 28, 2019, which are included in "Other expenses" in the consolidated statement of profit or loss.

Loss of Control

(Sale of subsidiary)

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

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

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

The Company resolved at the meeting of its Board of Directors held on October 11, 2018, to transfer all of its shares of UNY Co., Ltd.

to Pan Pacific International Holdings Corporation (formerly Don Quijote Holdings Co., Ltd.), and completed the transfer on January 4, 2019. As a result of this transfer of shares, the Company lost control over UNY Co., Ltd. and its subsidiaries, effective the same date.

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

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

Other non-current liabilities	8,462
Total non-current liabilities	133,735
Total liabilities	487,768

2) Gains on loss of control

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

[Notes to the Financial Statements]

Summary of Significant Accounting Policies

1. Valuation basis and method for assets

(1) Marketable securities and investment securities

(i) Shares of subsidiaries and associates:

Measured at cost determined by the moving-average method.

(ii) Available-for-sale securities:

Available-for-sale securities whose fair values are readily determinable:

Measured at fair value at the end of the fiscal year. Unrealized gain or loss is directly included in net assets. Cost of securities sold is determined by the moving-average method.

Available-for-sale securities whose fair values are not readily determinable:

Measured at cost determined by the moving-average method.

(2) Derivatives

Measured at fair value.

(3) Inventories

Measured at cost (i.e., the carrying amount is written down to the net selling value to reflect the declined profitability).

2. Depreciation and amortization of non-current assets

(1) Property, plant and equipment

Property, plant and equipment are depreciated by the straight-line method.

The useful life is as follows:

Furniture and fixtures: 5 years

(2) Intangible assets

Software:

Software for internal use is amortized by the straight-line method over an expected useful life of five years.

3. Recognition of allowances

(1) Allowance for doubtful receivables

To prepare for potential credit losses on receivables, an allowance for doubtful receivables is provided at an amount based on the actual ratio of bad debts in the past for general receivables and on the individual collectability for specific doubtful receivables.

(2) Accrued employees' bonuses

To prepare for the future payment of bonuses to employees, accrued bonuses are provided at the projected amount for the fiscal year to which such bonuses are attributable.

(3) Accrued directors' bonuses

To prepare for the future payment of bonuses to directors, accrued bonuses are provided at the projected amount for the fiscal year to which such bonuses are attributable.

4. Other significant matters in preparing the financial statements

(1) Translation of assets and liabilities denominated in foreign currencies

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates at the closing date and exchange differences arising from such translation are recognized in profit or loss.

(2) Hedge accounting method

(i) Hedge accounting method

In principle, hedging transactions are accounted for under a deferral method. The special hedge accounting treatment is applied to interest rate swaps that qualify for such treatment. The integrated accounting treatment (for both designated hedge accounting and special hedge accounting treatments) is applied to cross-currency interest rate swaps that are qualified for such treatment.

(ii) Hedging instruments and hedged items

Hedging instruments: Interest rate swaps and cross-currency interest swaps

Hedged items: Borrowings

(iii) Hedging policy

The Company uses currency swaps for the purpose of avoiding losses associated with future fluctuations in exchange rates.

The Company uses interest rate swaps for the purpose of avoiding losses associated with fluctuations in interest rates.

(iv) Method for assessing hedge effectiveness

The effectiveness of hedging is assessed based on a comparison of cumulative fluctuations in the market value or cash flows between a hedged item and the related hedging instrument for the period from the commencement of the hedge to the date of judging its effectiveness. As to foreign exchange forward contracts to which the designated hedge accounting treatment is applied, the assessment of hedge effectiveness is omitted.

(3) Accounting for consumption taxes

Income and expenses are presented exclusive of consumption taxes and similar local taxes.

Notes to the Balance Sheet

1. Monetary receivables and payables from/to subsidiaries and associates, excluding those separately presented

Short-term monetary receivables	¥5,749 million
Short-term monetary payables	¥45,197 million

2. Monetary payables to directors and corporate auditors ¥3 million

Note to the Statement of Income

Transactions with subsidiaries and associates

Operating transactions, excluding the amounts separately presented	
Operating revenues	¥433 million
Operating expenses	¥183 million
Nonoperating transactions with subsidiaries and associates	¥1,197 million

Note to the Statement of Changes in Net Assets

Class and total number of treasury shares as of February 28, 2019

Common stock	183,999 shares

Tax-effect Accounting

Breakdown by cause of deferred tax assets and liabilities

Deferred tax assets (current):	
Tax loss carryforwards	¥1,324 million
Enterprise tax payable	¥70 million
Others	¥35 million
Subtotal	¥1,429 million
Valuation allowance	¥(25) million
Total	¥1,404 million
Deferred tax liabilities (current):	
Shares of subsidiaries and associates	¥315 million
Others	¥3 million
Total	¥318 million
Net deferred tax assets (current)	¥1,086 million
Deferred tax assets (non-current):	
Tax loss carryforwards	¥44,745 million
Adjustment of shares of subsidiaries and associates associated with the absorption-type demerger	¥14,256 million
Valuation difference associated with the absorption-type merger	¥417 million
Software	¥77 million
Others	¥50 million
Subtotal	¥59,544 million
Valuation allowance	¥(9,925) million
Total	¥49,619 million
Deferred tax liabilities (non-current):	
Adjustments	¥3 million
Total	¥3 million
Net deferred tax assets (non-current)	¥49,616 million

Transactions with Related Parties[1]

Subsidiaries and associates

Attribute	Company name	Location	Capital (Millions of yen)	Business	Ratio of voting rights	Relationship with the related party	Description of transactions	Transaction amount (Millions of yen)	Account name	Ending balance (Millions of yen)
Subsidiary	FamilyMart Co., Ltd.	Minato-ku, Tokyo	8,380	Convenience store business	Directly holding 100.00%	Receipt of entrusted funds[2] and interlocking of directors	Receipt of deposited funds Refund of deposited funds Payment of interest	– – 9	Deposits received	45,000
							Receipt of consulting fees and commission[4]	1,100	Other receivables	99
Subsidiary[5]	UNY Co., Ltd.	Inazawa, Aichi	10,000	General merchandise store business	–%	Borrowing and lending of funds[3]	Lending of funds Collection of funds Receipt of interest	253,500 369,660 1,099	Long-term loans receivable from subsidiaries and associates Other receivables	– –
							Receipt of consulting fees and commission[4]	823	Other receivables	–
Subsidiary[5]	UCS Co., Ltd.	Inazawa, Aichi	1,610	Credit card business	–%	Borrowing and lending of funds[3]	Lending of funds Collection of funds Receipt of interest	320,000 371,000 87	Short-term loans receivable from subsidiaries and associates Other receivables	– –

Terms and conditions of transactions and decision policy thereof:

Notes:
1. The transaction amounts above exclude consumption taxes.
2. Interest on funds lent and funds deposited is reasonably determined by taking into account market interest rates.
3. Interest on funds lent is determined by taking into account the terms and conditions of borrowings of the subsidiary from other lenders.
4. Consulting fees and commissions are determined by taking into account the details of the services provided with mutual consultation.
5. UNY Co., Ltd. and UCS Co., Ltd. ceased to be related parties due to the sale of all shares of UNY Co., Ltd. held by the Company on January 4, 2019. The transaction amounts are those during the period in which they were related parties.

Sister companies

Attribute	Company name	Location	Capital (Millions of yen)	Business	Ratio of voting rights	Relationship with the related party	Description of transactions	Transaction amount (Millions of yen)	Account name	Ending balance (Millions of yen)
Subsidiary of the parent company	ITOCHU Treasury Corp.	Minato-ku, Tokyo	4,250	Financial services	(- %)	Entrusting of funds	Entrusting of funds	150,000	Deposits paid	150,000
							Receipt of interest (Note)	6	Other receivables	6

Terms and conditions of transactions and decision policy thereof:

Note: Interest rates for contracts on entrusting of funds are reasonably determined by taking into account market interest rates.

Per-share Information

1. Net assets per share ¥1,102.77
2. Earnings per share ¥117.92

Note: The Company effected a 4-for-1 share split of its common stock with the effective date of March 1, 2019. Net assets per share and earning per share are calculated on the assumption that the share split was effected at the beginning of the fiscal year ended February 28, 2019.

Significant Subsequent Events

Share split

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

For details, see Notes to the Consolidated Financial Statements (Significant Subsequent Events).

Additional Information

Sale of shares of UNY Co., Ltd.

As mentioned in the notes to Consolidated Financial Statements (Other Notes): Loss of Control, the Company transferred all its shares of UNY Co., Ltd. to Pan Pacific International Holdings Corporation (formerly Don Quijote Holdings Co., Ltd.) on January 4, 2019.

As a result of this transfer of shares, the Company recognized a gain of ¥13,252 million on sales of shares of subsidiaries and associates. In relation to this transaction, the Company also recognized ¥19,800 million in extraordinary dividend income from subsidiaries and associates, received from UNY Co., Ltd.

Moreover, the Company recognized ¥20,298 million in income tax expenses (creditor) by recognizing deferred tax assets on the tax loss carryforwards resulting from tax losses on share sales and other items.

Partial transfer of shares of Kanemi Co., Ltd.

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

For details, see Notes to the Consolidated Financial Statements (Additional Information).

Company to which the Restriction on Consolidated Dividends is Applied

The Company has decided to apply the restriction on consolidated dividends.