

This document is an unofficial translation of the Notice of Convocation of 34th Ordinary General Meeting of Shareholders and for your convenience only, without any warranty as to its accuracy or as to the completeness of the information. The Japanese original version of the document is the sole official version.

## **Matters to Be Disclosed on the Internet upon Sending the Notice of Convocation of the 34th Ordinary General Meeting of Shareholders**

### Notes to the Consolidated Financial Statements

#### Notes to the Financial Statements

(March 1, 2014, through February 28, 2015)

**FamilyMart Co., Ltd.**

The above matters are provided to our shareholders by posting them on our website (<http://www.family.co.jp/>) in accordance with the relevant laws and regulations, as well as Article 15 of the Articles of Incorporations of the Company. This document is involved in the scope of the audit by Corporate Auditors and Independent Auditors in preparing the Reports of Audit.

## **[Notes to the Consolidated Financial Statements]**

### **Notes to the Basis of Presenting the Consolidated Financial Statements**

#### **1. Scope of Consolidation**

##### **(1) Consolidated subsidiaries: 15 companies**

Major consolidated subsidiaries: Taiwan FamilyMart Co., Ltd.; FAMIMA CORPORATION; famima Retail Service Co., Ltd.; famima.com Co., Ltd.; and SENIOR LIFE CREATE Co., Ltd.

JOYOUS FOODS CO., LTD. (hereinafter, the “New JOYOUS”) and another company, in which FamilyMart Co., Ltd. (hereinafter, the “Company” or “FamilyMart”) newly invested for its establishment in the fiscal year ended February 28, 2015, have been included in the scope of consolidation. Another subsidiary also has been included in the scope of consolidation through the acquisition of its shares by the Company.

##### **(2) Major unconsolidated subsidiaries: Taiwan Distribution Center Co., Ltd.**

(Reason for exclusion from consolidation)

The respective sums of total assets, total operating revenues, net income (corresponding to the equity held by the Company), and retained earnings (corresponding to the equity held by the Company) of the 11 unconsolidated subsidiaries have no significant impact on accounts in the consolidated financial statements.

#### **2. Application of the Equity Method**

##### **(1) Unconsolidated subsidiaries accounted for by the equity method: 8 companies**

Major unconsolidated subsidiaries accounted for by the equity method: Taiwan Distribution Center Co., Ltd.

##### **(2) Associated companies accounted for by the equity method: 22 companies**

Major associated companies accounted for by the equity method: Okinawa FamilyMart Co., Ltd.; Minami Kyushu FamilyMart Co., Ltd.; Hokkaido FamilyMart Co., Ltd.; Central FamilyMart Co., Ltd.; Shanghai FamilyMart Co., Ltd.; Guangzhou FamilyMart Co., Ltd.; Suzhou FamilyMart Co., Ltd.; Hangzhou FamilyMart Co., Ltd.; Chengdu FamilyMart Co., Ltd.; Shenzhen FamilyMart Co., Ltd.; Wuxi FamilyMart Co., Ltd.; Beijing FamilyMart Co., Ltd.; DONGGUAN FamilyMart Co., LTD.; Philippine FamilyMart CVS, Inc.; and Pocketcard Co., Ltd.

Wuxi FamilyMart Co., Ltd., Beijing FamilyMart Co., Ltd., and DONGGUAN FamilyMart Co., LTD., in which the Company newly invested for their establishment in the fiscal year ended February 28, 2015, have been included as associated companies accounted for by the equity method. BGFretail Co., Ltd. was excluded from the category of associated companies accounted for by the equity method because the Company sold all the BGFretail shares that the Company held. ASAHI FOOD PROCESSING CO., LTD., an associated company, changed its trade name to JOYOUS FOODS CO., LTD. (hereinafter, the “Former JOYOUS”), then the Former JOYOUS subsequently changed its trade name to Sunrise Co., Ltd. (“Sunrise”). Sunrise was excluded from associated companies accounted for by the equity method due to its decreased importance.

##### **(3) Unconsolidated subsidiaries that are not accounted for by the equity method (FamilyMart HongKong Limited, VIET NAM CONVENIENCE STORES COMPANY LIMITED, and FamilyMart Vietnam Co., Ltd.) are excluded from the application of the equity method because their net income/loss (corresponding to the equity shares held by the Company) and retained earnings (corresponding to the equity shares held by the Company) have no significant impact on accounts in the consolidated financial statements of the Company and they are immaterial on the whole.**

##### **(4) As for the companies accounted for by the equity method, the financial statements for the respective fiscal years are used, whose closing dates differ from the consolidated closing date.**

#### **3. Closing Date of Consolidated Subsidiaries**

In preparing the consolidated financial statements, the financial statements as of December 31 are used with regard to certain companies (Taiwan FamilyMart Co., Ltd.; FAMIMA CORPORATION; and four other companies), in accordance with their original closing dates. The financial statements of the respective consolidated subsidiaries are provided with necessary adjustments for consolidation purposes with regard to material transactions between their respective closing dates or the provisional closing date and the consolidated closing date. SENIOR LIFE CREATE Co., Ltd., a consolidated subsidiary with financial statements based on the provisional closing of accounts as of December 31 in preparing consolidated financial documents up to the 33rd fiscal term, has changed its closing date from March 31 to the end of February effective from the year under review.

As a result of this change, the 14-month period from January 1, 2014, to February 28, 2015, was subject to consolidation with regard to the fiscal year ended February 28, 2015. The impact of this change is immaterial.

#### 4. Summary of Significant Accounting Policies

##### (1) Valuation basis and method for important assets

###### (i) Marketable securities and investment securities

Securities—trading:

Valued at fair value.

Held-to-maturity debt securities:

Valued at amortized cost by the straight-line method.

Other securities:

Available-for-sale securities for which the fair values are readily determinable:

Valued at fair value. Unrealized gain or loss is included directly in total equity. The cost of securities sold is determined by the moving-average method.

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

Mainly valued at cost determined by the moving-average method.

###### (ii) Derivatives

Derivative instruments are valued at fair value.

###### (iii) Inventories

Merchandise:

Mainly valued at cost determined by the retail method (The figures shown in the consolidated balance sheet have been calculated by writing down the book value based on the decline in profitability).

##### (2) Depreciation method of major depreciable assets

###### (i) Property and store facilities (excluding leased property)

The depreciation of property and store facilities at the Company and its domestic consolidated subsidiaries is computed by the declining-balance method using the applicable rates based on the estimated useful lives of the assets, while the straight-line method is adopted at overseas consolidated subsidiaries.

However, buildings (excluding building improvements) acquired on or after April 1, 1998, by the Company and its domestic consolidated subsidiaries are depreciated using the straight-line method.

The range of useful lives is principally 2–50 years for buildings and structures and 2–20 years for furniture and fixtures.

###### (ii) Intangible assets (excluding leased property)

Software:

Capitalized software of the Company and its domestic consolidated subsidiaries is stated at cost, less accumulated amortization, which is calculated by the straight-line method over the estimated useful lives (5 years).

Goodwill attributable to individual stores:

Stated at cost less accumulated amortization, which is calculated by the straight-line method over the duration of amortization (weighted-average years of amortization: 12 years).

###### (iii) Leased property

Leased property related to finance lease transactions other than those where the ownership of the leased property is deemed to be transferred to the lessee is amortized by the straight-line method, assuming the lease period as the useful life and no residual value.

Of finance lease transactions other than those where the ownership of the leased property is deemed to be transferred to the lessee, those of which the commencement day of the lease transaction is prior to February 28, 2009, are accounted for as rental transactions.

###### (iv) Long-term prepaid expenses

Primarily, long-term prepaid expenses are amortized using the straight-line method.

##### (3) Accounting policies for significant reserves and allowances

Allowance for doubtful receivables:

The allowance for doubtful receivables is provided by the Company and its domestic consolidated subsidiaries at the amount of possible losses from uncollectible receivables based on the actual loan loss ratio from bad debt for ordinary receivables and on the estimated recoverability of each doubtful receivable for specific doubtful receivables.

The allowance for doubtful receivables is provided by overseas consolidated subsidiaries for a required amount, taking into account

the collectability of each doubtful receivable.

(4) Accounting procedure for retirement benefits

The liability for retirement benefits is provided for possible payment of employees' postretirement benefits at the amount to be accrued at the balance sheet date and is calculated based on projected benefit obligations and the fair value of plan assets at the balance sheet date.

(i) Method of allocating the projected retirement benefits to periods

In calculating the projected benefit obligation, the benefit formula basis is used to allocate the projected retirement benefits to periods up to the end of the fiscal year under review.

(ii) Amortization method for actuarial gain or loss and past service cost

Past service cost is amortized for the pro rata amount computed by the straight-line method over a certain period (13 years) no longer than the expected average remaining service period of the employees at the time of recognition, from the fiscal year of recognition.

Actuarial gain or loss is amortized for the pro rata amount computed by the straight-line method over a certain period (mainly 13 years) no longer than the expected average remaining service period of the employees at the time of recognition, commencing from the following fiscal year of recognition.

(5) Other important matters as the basis of presenting the consolidated financial statements

(i) Translation of important 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 consolidated closing date, and differences arising from such translation are charged to income. The asset and liability accounts of the overseas subsidiaries are translated into Japanese yen at the spot exchange rate as of each closing date. The revenue and expense accounts of the overseas subsidiaries are translated into Japanese yen at the annual average exchange rate. Differences arising from such translation are included in "Foreign currency translation adjustments" and "Minority interests" as separate components of "Equity."

(ii) Amortization method and period for goodwill

Goodwill is equally amortized using the straight-line method over a period of 5–20 years.

(iii) Accounting for consumption taxes

Transactions subject to the consumption tax and the local consumption tax are recorded at amounts exclusive of the consumption tax.

5. Change in Accounting Policy

(Application of the accounting standards for retirement benefits)

Accounting Standard for Retirement Benefits—On May 27, 2012, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 26 "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25 "Guidance on Accounting Standard for Retirement Benefits." The Company and its domestic consolidated subsidiaries applied the revised accounting standard from the beginning of the fiscal year beginning on March 1, 2014.

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

(2) The revised accounting standard does not change how to recognize actuarial gain and loss and past service cost in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gain and loss and past service cost that arose in the fiscal year ended February 28, 2015 and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gain and loss and past service cost that were recognized in other comprehensive income in the previous fiscal years and then recognized in profit or loss in the fiscal year ended February 28, 2015 shall be treated as reclassification adjustments.

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

This accounting standard and the guidance for (1) and (2) above are effective for the end of fiscal years beginning on or after April 1, 2013, and for (3) above are effective for the beginning of fiscal years beginning on or after April 1, 2014, or for the beginning of fiscal years beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of fiscal years beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company and its domestic consolidated subsidiaries early applied the revised accounting standard and guidance for retirement

benefits for (1), (2) and (3) above effective March 1, 2014, and changed the method of attributing expected benefit to periods from a straight-line basis to a benefit formula basis. The Company recorded the effect of (1) and (2) above as of March 1, 2014, in accumulated other comprehensive income, and the effect of (3) above as of March 1, 2014, in retained earnings.

As a result, at the beginning of the fiscal year under review, accumulated other comprehensive income decreased by ¥124 million and retained earnings decreased by ¥700 million, resulting in an ¥824 million decrease in total net assets. In addition, equity per share decreased by ¥8.69 for the fiscal year under review. The impact of this application on operating income, ordinary income, income before income taxes and minority interests and net income per share is immaterial.

In the consolidated balance sheet and the consolidated statement of changes in equity for the previous fiscal year, unrecognized amounts of actuarial gain or loss at some overseas companies were recorded as “postretirement liability adjustments for foreign consolidated companies (¥(418) million in the fiscal year ended February 28, 2014, ¥(378) million in the fiscal year ended February 28, 2015).” However, such amounts are included in “defined retirement benefit plans”.

## 6. Additional Information

(Impact of the change in the income tax rate, etc.)

Following the promulgation on March 31, 2014, of the “Act on Partial Revision of the Income Tax Act, etc.,” the Special Reconstruction Corporation Tax will not be imposed for the fiscal years beginning on or after April 1, 2014. In accordance with this measure, the effective statutory tax rate, which was used to measure deferred tax assets and deferred tax liabilities for the year ended February 28, 2015, has been reduced to 35.64% from 38.01% for the previous fiscal year for temporary differences that are expected to be eliminated during the fiscal year beginning on March 1, 2015.

The impact of this change is immaterial.

## Notes to the Consolidated Balance Sheet

1. Accumulated depreciation of property and store facilities ¥108,367 million

## 2. Guaranteed obligations

The Company granted guarantees for the execution of agreements regarding loans from financial institutions and the implementation of machinery, which have been contracted by the following companies.

VIET NAM FAMILY CONVENIENCE STORES COMPANY LIMITED	¥699 million
<u>NIPPON ACCESS, INC.</u>	<u>¥1,125 million</u>
Total	¥1,824 million

# Notes to the Consolidated Statement of Changes in Equity

1. Type and total number of issued shares at the end of the year

Common stock 97,683,133 shares

2. Dividends

(1) Dividends paid

Resolution	Type of Shares	Total Amount of Dividends (unit: Millions of yen)	Dividend per Share (Yen)	Record Date	Effective Date
Board of Directors' meeting held on April 18, 2014	Common stock	4,841	51.00	February 28, 2014	May 8, 2014
Board of Directors' meeting held on October 8, 2014	Common stock	5,031	53.00	August 31, 2014	November 10, 2014

(2) Dividends for which the record date is in the year under review, but for which the effective date will be in the next fiscal year

The Company plans to propose the following regarding the dividends of common stock shares at the Board of Directors' meeting to be held on April 16, 2015.

Total Amount of Dividends (unit: Millions of yen)	Source of Funding the Dividends	Dividend per Share (Yen)	Record Date	Effective Date
5,030	Retained earnings	53.00	February 28, 2015	May 7, 2015

## Notes to Financial Instruments

### 1. Matters related to the status of financial instruments

#### (1) Policies on financial instruments

The Company and its consolidated subsidiaries conduct their fund management only with certain limited financial instruments with high financial safety. They utilize derivative instruments to hedge their exposure to the risks described below, but do not enter into such transactions for speculative purposes.

#### (2) Description of financial instruments and related risks

Dues from franchised stores and other receivables, which are trade receivables, are exposed to the credit risk of the respective counterparties.

Held-to-maturity debt securities included in the category of “marketable securities and investment securities” are exposed to insignificant credit risk because the Company and its consolidated subsidiaries trade only those having obtained a rating at or higher than certain levels and regularly monitor the fair value and the financial condition of the respective issuers. Stocks included in the category of investment securities are primarily those issued by corporations that have business relations with the Company and part of such stocks are exposed to the market price fluctuation risk.

Leasehold deposits receivable, which are primarily involved in the leases of store properties, are exposed to the credit risk of the depository facilities.

Accounts and notes payable-trade and due to franchised stores, both of which are trade payables, generally entail the due date for payments, which typically mature within one month.

Lease obligations related to finance lease transactions are mainly intended to finance capital investments for our stores. The redemption date for the lease obligations is therefore a maximum of eight years from the closing date of accounts, with fixed-interest rates for all the obligations.

Leasehold deposits receivable to franchised stores are primarily associated with the subleases of store properties to FamilyMart franchisees.

As derivative transactions are made with forward foreign exchange contracts, which are used to hedge against the adverse impact of fluctuations in foreign currency exchange rates on foreign currency-denominated receivables, the credit risk is insignificant as such derivative transactions are entered into only with highly rated financial institutions.

#### (3) Risk management system for financial instruments

##### (i) Management of credit risk (risk related to the default on agreements with the counterparties)

The Company routinely manages the due date and credit balance of customers for trade receivables to identify at an early stage, and reduce the concerns about debt collection due to the deterioration of their financial condition.

The Company carefully checks the collectability of leasehold deposits receivable including the examination of the depository facilities concerned when entering into lease agreements. In addition, the Property Administration Department works to collect information on the depository facilities, as required, early understanding and reducing uncertainty on debt collection due to the deterioration of their financial condition.

##### (ii) Management of market risk (risk regarding foreign exchange rates and interest rate fluctuations)

The Company uses forward foreign exchange contracts to primarily hedge against the adverse impact of fluctuations in foreign currency exchange rates on foreign currency-denominated receivables toward its subsidiaries and associated companies in view of the foreign exchange rate conditions.

The Company regularly monitors the fair value and financial condition of the issuers (corporate customers) regarding marketable securities and investment securities. Meanwhile, the Company constantly reviews, on an ongoing basis, the holding positions of those other than held-to-maturity debt securities by taking into account the business relations with the issuers.

The Accounting and Finance Department establishes and manages derivative transactions upon approval of the *kessaisha* (final decision maker) in accordance with its internal regulations that set forth trading authority, credit line, and so on.

##### (iii) Management of financing-related liquidity risk (risk of failing to pay on the due date)

The Company and its consolidated subsidiaries appropriately prepare and review their cash management plans at the proper timing and control the liquidity risk with sufficient liquidity in hand and other means.

#### (4) Supplemental explanation on fair value of financial instruments, etc.

The fair value of financial instruments includes not only the value to be determined based on their market prices but also the rationally calculated value if the market price is not quotable. As variable factors are incorporated in the calculation of the fair value thereof, the fair value may vary when different preconditions or the like are adopted.

2. Matters related to the fair value of financial investments, etc.

The following table indicates the carrying value in the consolidated balance sheet, the fair value, and the unrealized gain (loss) as of February 28, 2015. Assets and liabilities for which it is deemed extremely difficult to measure the fair value are not included in the table below (Refer to Note 2.).

(unit: Millions of yen)			
	Carrying Value in the Consolidated Balance Sheet	Fair Value	Unrealized Gain (Loss)
(1) Cash and cash deposits	104,707	104,707	—
(2) Due from franchised stores	25,599	25,599	—
(3) Other receivables	45,036	45,036	—
(4) Marketable securities and investment securities			
Held-to-maturity debt securities	11,299	11,347	48
Other securities	17,251	17,251	—
Investment in stocks of subsidiaries and associates	5,416	6,069	652
(5) Leasehold deposits receivable	149,564		
Allowance for doubtful receivables (*)	(460)		
	149,103	146,863	(2,239)
Total assets	358,414	356,876	(1,538)
(1) Accounts and notes payable—trade	94,757	94,757	—
(2) Due to franchised stores	5,838	5,838	—
(3) Current portion of long-term lease obligations	17,478	17,478	—
(4) Other payables	29,470	29,470	—
(5) Income taxes payable	9,955	9,955	—
(6) Deposits received	90,800	90,800	—
(7) Long-term lease obligations	71,250	71,305	54
(8) Leasehold deposits refundable	11,706	11,100	(606)
Total liabilities	331,260	330,708	(551)
Derivative transactions	—	—	—

\*The allowance for doubtful receivables, which is accounted for as leasehold deposits receivable, is deducted.



Notes:

1. Calculation method of the fair value of financial instruments

Assets

(1) Cash and cash deposits, (2) Due from franchised stores, and (3) Other receivables

As these assets are settled within a short time, the fair value thereof is almost equal to the book value. Accordingly, the calculation of the fair value of these assets is based on the book value.

(4) Marketable securities and investment securities

As for the calculation of the fair value of these assets, stocks are based on the prices traded on the stock exchange, whereas debentures are based on the prices quoted by the correspondent financial institution.

(5) Leasehold deposits receivable

The calculation of the fair value of these assets is based on the present value to be achieved by discounting the rationally projected future cash flows at the rate of yield for governmental bonds, which corresponds to the remaining period.

Liabilities

(1) Accounts and notes payable-trade, (2) Due to franchised stores, (3) Current portion of long-term lease obligations, (4) Other payables, (5) Income taxes payable, and (6) Deposits received

As these liabilities are settled within a short time, the fair value thereof is almost equal to the book value. Accordingly, the calculation of the fair value of these liabilities is based on the book value.

(7) Long-term lease obligations

The calculation of the fair value of these liabilities is based on the present value to be achieved by discounting the total of principal and interest at a discount rate, which is projected based on similar new lease transactions.

(8) Leasehold deposits refundable

The calculation of the fair value of these liabilities is based on the present value to be achieved by discounting the rationally projected future cash flows at the rate of yield for governmental bonds, which corresponds to the remaining period.

Derivative transactions

None applicable

2. Financial instruments for which it is deemed difficult to measure the fair value

Category	Carrying Value in the Consolidated Balance Sheet (unit: Millions of yen)
Unlisted stocks	12,415

Unlisted stocks, which are nonmarketable and for which it is deemed difficult to measure the fair value, are not included in (4) Marketable securities and investment securities.

**Notes to Per-Share Information**

- Equity per share: ¥2,872.40
- Net income per share: ¥270.45

**Other Note**

Loss on impairment of long-lived assets:

As a minimum unit of generating cash flows of the FamilyMart Group, the assets of each store have been grouped as a basic unit. The idle assets and others have been separately grouped.

The book value of the following stores with considerably declining profitability was reduced to the respective recoverable amounts, and the reductions were recorded as a loss on impairment of long-lived assets under extraordinary losses (¥97 million in land, ¥1,913 million in buildings, ¥2,790 million in furniture and fixtures, and ¥1,249 million in other).

Application	Location	Category	Loss on Impairment (unit: Millions of yen)
Stores, etc.	Yokohama, Kanagawa and others	Land, buildings, furniture and fixtures, and others	6,050

The recoverable amount for stores is measured by either the value in use or the net realizable value.

Future cash flows discounted at a rate of 3.06% are used to calculate the value in use, whereas the net realizable value is mainly calculated based on the assessments for inheritance tax purposes. The assets that have been judged as substantially valueless are assessed at zero yen in view of the disposability of the assets concerned.

## **[Notes to the Financial Statements]**

### **Notes to the Summary of Significant Accounting Policies**

#### **1. Valuation basis and method for assets**

##### **(1) Marketable securities and investment securities**

###### **(i) Held-to-maturity debt securities:**

Valued at amortized cost by the straight-line method.

###### **(ii) Investment in stocks of subsidiaries and associates:**

Valued at cost determined by the moving-average method.

###### **(iii) Other securities:**

Available-for-sale securities for which the fair values are readily determinable:

Valued at fair value. Unrealized gain or loss is included directly in equity. The cost of securities sold is determined by the moving-average method.

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

Valued at cost determined by the moving-average method.

##### **(2) Derivatives**

Derivative instruments are valued at fair value.

##### **(3) Inventories**

Merchandise:

Mainly valued at cost determined by the retail method (the figures shown in the balance sheet have been calculated by writing down the book value based on the decline in profitability.)

#### **2. Depreciation method of fixed assets**

##### **(1) Property and store facilities (excluding leased property)**

The depreciation of property and store facilities is computed by the declining-balance method using the applicable rates based on the estimated useful lives of the assets. However, buildings (excluding building improvements) acquired on or after April 1, 1998, are depreciated using the straight-line method.

The range of useful lives is principally 4–50 years for buildings and 2–20 years for furniture and fixtures.

##### **(2) Intangible assets (excluding leased property)**

Software:

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

Goodwill attributable to individual stores:

Stated at cost less accumulated amortization, which is calculated by the straight-line method over the duration of amortization (weighted-average years of amortization: 12 years).

##### **(3) Leased property**

Leased property related to finance lease transactions other than those where the ownership of the leased property is deemed to be transferred to the lessee is amortized by the straight-line method, assuming the lease period as the useful life and no residual value.

Of finance lease transactions other than those where the ownership of the leased property is deemed to be transferred to the lessee, those of which the commencement day of the lease transaction is prior to February 28, 2009, are accounted for as rental transactions.

##### **(4) Long-term prepaid expenses**

Long-term prepaid expenses are amortized using the straight-line method.

#### **3. Accounting policies for significant reserves and allowances**

##### **(1) Allowance for doubtful receivables**

The allowance for doubtful receivables is provided at the amount of possible losses from uncollectible receivables based on the actual loan loss ratio from bad debt for ordinary receivables and on the estimated recoverability of each doubtful receivable for specific doubtful receivables.

##### **(2) Liability for retirement benefits**

The liability for retirement benefits is provided for possible payment of employees' postretirement benefits at the amount to be accrued at the balance sheet date and is calculated based on projected benefit obligations and the fair value of plan assets at the balance sheet date.

(i) Method of allocating the projected retirement benefits to periods

In calculating the projected benefit obligation, the benefit formula basis is used to allocate the projected retirement benefits to periods up to the end of the fiscal year under review.

(ii) Amortization method for actuarial gain or loss and past service cost.

Past service cost is amortized at the pro rata amount computed by the straight-line method over a certain period (13 years) no longer than the expected average remaining service period of the employees at the time of recognition, from the fiscal year of recognition.

Actuarial gain or loss is amortized at the pro rata amount computed by the straight-line method over a certain period (13 and 16 years) no longer than the expected average remaining service period of the employees at the time of recognition, commencing from the following fiscal year of recognition.

(3) Allowance for losses on investment

The allowance for losses on investment is provided for any possible loss that might be caused in relation to investments in subsidiaries, etc., at the amount to be considered necessary in view of the financial circumstances of the companies concerned.

4. Other important 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 differences arising from such translation are charged to income.

(2) Accounting for consumption taxes

Transactions subject to the consumption tax and local consumption taxes are recorded at amounts exclusive of the consumption tax.

(3) Accounting procedure for retirement benefits

The accounting procedures for unrecognized actuarial gain or loss and unrecognized past service cost pertaining to retirement benefits are different from those used in the consolidated financial statements.

5. Change in Accounting Policy

(Application of the accounting standards for retirement benefits)

Accounting Standard for Retirement Benefits—On May 27, 2012, the ASBJ issued ASBJ Statement No. 26 “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25 “Guidance on Accounting Standard for Retirement Benefits.” The Group applied the revised accounting standard from the beginning of the fiscal year beginning on March 1, 2014.

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

This accounting standard and the guidance for (1) above are effective for the beginning of fiscal years beginning on or after April 1, 2014, or for the beginning of fiscal years beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of fiscal years beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company early applied the revised accounting standard and guidance for retirement benefits for (1) above effective March 1, 2014, and changed the method of attributing expected benefit to periods from a straight-line basis to a benefit formula basis. The Company recorded the effect of (1) above as of March 1, 2014, in retained earnings carried forward.

As a result, retained earnings carried forward at the beginning of the fiscal year under review decreased by ¥700 million. In addition, equity per share decreased by ¥7.38 for the fiscal year under review. The impact of this application on operating income, ordinary income, net income before income taxes and net income per share is immaterial.

**Notes to the Balance Sheet**

1. Accumulated depreciation of property and store facilities

¥86,915 million

2. Guaranteed obligations

The Company granted guarantees for the execution of agreements regarding loans from financial institutions and the implementation of machinery, which have been contracted by the following companies.

CLEAR WATER TSUNAN, K.K.

¥2,003 million

VIET NAM FAMILY CONVENIENCE STORES COMPANY LIMITED

¥699 million

NIPPON ACCESS, INC.

¥1,125 million

EVENITIFY, INC.

¥12 million

Total

¥3,840 million

3. Monetary receivables and payables with subsidiaries and associates (excluding those separately presented)	
Short-term monetary receivables	¥10,574 million
Short-term monetary payables	¥20,295 million
4. Monetary payables to directors and corporate auditors	
Long-term monetary payables	¥482 million

#### **Note to the Statement of Income**

Transactions with subsidiaries and associates

Operating transactions:

Operating revenues	¥3,934 million
Operating expenses	¥12,375 million
Nonoperating transactions with subsidiaries and associates	¥3,288 million

#### **Note to the Statement of Changes in Equity**

Type and total number of treasury stock at the end of the year

Common stock	2,758,846 shares
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## Notes to Tax-Effect Accounting

### 1. Breakdown by cause of deferred tax assets and liabilities

Deferred tax assets (current):	
Enterprise tax payable	¥833 million
Asset adjustment account	¥231 million
Loss on disposals of property and store facilities	¥562 million
Others	¥209 million
Total	<u>¥1,836 million</u>
Deferred tax assets (fixed):	
Allowance for doubtful receivables	¥987 million
Allowance for losses on investment	¥2,242 million
Provision for liability for retirement benefits	¥3,160 million
Loss on impairment of long-lived assets	¥3,628 million
Write-down of investment in stocks of subsidiaries and associates	¥736 million
Asset retirement obligations	¥5,890 million
Depreciation	¥112 million
Others	¥641 million
Subtotal	<u>¥17,401 million</u>
Valuation allowance	<u>¥(3,768) million</u>
Total	<u>¥13,632 million</u>
Deferred tax liabilities (fixed):	
Unrealized gain on available-for-sale securities	¥2,878 million
Asset retirement obligations related expenses	¥2,530 million
Total	<u>¥5,409 million</u>
Net deferred tax assets (fixed)	<u>¥8,223 million</u>

### 2. Impact of the change in the income tax rate, etc.

Following the promulgation on March 31, 2014, of the “Act on Partial Revision of the Income Tax Act, etc.,” the Special Reconstruction Corporation Tax will not be imposed for the fiscal years beginning on or after April 1, 2014. In accordance with this measure, the effective statutory tax rate, which was used to measure deferred tax assets and deferred tax liabilities for the year ended February 28, 2015, has been reduced to 35.64% from 38.01% for the previous fiscal year for temporary differences that are expected to be eliminated during the fiscal year beginning on March 1, 2015.

The impact of this change is immaterial.

### 3. Subsequent change in the corporate tax rate, etc.

Following the promulgation on March 31, 2015, of the “Act on Partial Revision of the Income Tax Act, etc.” (Act No. 9, 2015), the income tax rate will be reduced effective from the fiscal year beginning on and after April 1, 2015. In addition, the enterprise tax rate (income-based levy) will be reduced gradually effective from the fiscal year beginning on and after April 1, 2015. In accordance with these measures, the effective statutory tax rate, which is used to measure deferred tax assets and deferred tax liabilities, will be reduced to 33.10% from 35.64% for temporary differences that are expected to be eliminated during the fiscal year beginning on March 1, 2016, and to 32.34% from 35.64% for temporary differences that are expected to be eliminated during and after the fiscal year beginning on March 1, 2017.

The impact of the deferred tax assets and deferred tax liabilities, which were recalculated based on temporary differences as of February 28, 2015, due to the change in the effective statutory tax rate, was a ¥646 million decrease in net deferred tax assets (the amount after deducting deferred tax liabilities) and a ¥912 million increase in income taxes—deferred (debit side).

## Notes to Transactions with Related Parties

### 1. Subsidiaries and associated companies

(unit: Millions of yen)

Attribute	Company Name	Location	Capital	Business	Ratio of Voting Rights	Relationship with the Related Party	Description of Transactions	Transaction Amount <sup>1</sup>	Account Name	Year-End Balance
Subsidiary	famima.com Co., Ltd.	Toshima-ku, Tokyo	400	EC-related business	Directly holding (54.25%)	Support of the operating function of the EC-related business and interlocking of directors	Purchases of merchandise <sup>2</sup>	4,598	Accounts payable—trade <sup>3</sup>	11,535

Transaction conditions and decision policy thereof:

Notes: 1. The transaction amount above does not include consumption taxes.

2. Purchases of merchandise are decided by taking into account market prices under similar terms and conditions.

3. Accounts payable—trade includes “Due to franchised stores.”

### 2. Fellow subsidiaries

(unit: Millions of yen)

Attribute	Company Name	Location	Capital	Business	Ratio of Voting Rights	Relationship with the Related Party	Description of Transactions	Transaction Amount <sup>1</sup>	Account Name	Year-End Balance
Subsidiary of any other associated company	NIPPON ACCESS, INC.	Shinagawa-ku, Tokyo	2,620	Sales of foods, liquors, sundries, etc.	Indirectly held (0.06%)	Supplier of merchandise	Purchases merchandise <sup>2</sup>	14,353	Accounts payable—trade <sup>3</sup>	18,999
Subsidiary of any other associated company	DOLCE CO., LTD.	Shinagawa-ku, Tokyo	100	Sales of sweets and foods	Indirectly held (0.01%)	Supplier of merchandise	Purchases merchandise <sup>2</sup>	4,365	Accounts payable—trade <sup>3</sup>	6,828

Transaction conditions and decision policy thereof:

Notes: 1. The transaction amount above does not include consumption taxes.

2. Purchases of merchandise are decided by taking into account market prices under similar terms and conditions.

3. Accounts payable—trade includes “Due to franchised stores.”

## Notes to Per-Share Information

1. Equity per share ¥2,758.27

2. Net income per share ¥302.32

## Note to the Company to which the Restriction on Consolidated Dividends is Applied

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

**Other Note**

Loss on impairment of long-lived assets:

As a minimum unit of generating cash flows of the Company, the assets of each store have been grouped as a basic unit. The idle assets and others have been separately grouped.

The book value of the following stores with considerably declining profitability was reduced to the respective recoverable amounts, and the reductions were recorded as a loss on impairment of long-lived assets under extraordinary losses (¥97 million in land, ¥1,829 million in buildings, ¥2,755 million in furniture and fixtures, and ¥1,189 million in other).

Application	Location	Category	Loss on Impairment (unit: Millions of yen)
Stores	Yokohama, Kanagawa and others	Land, buildings, furniture and fixtures, and others	5,870

The recoverable amount for stores is measured either by the value in use or by the net realizable value.

Future cash flows discounted at a rate of 3.06% are used to calculate the value in use, whereas the net realizable value is mainly calculated based on the assessments for inheritance tax purposes. The assets that have been judged as substantially valueless are assessed at zero yen in view of the disposability of the assets concerned.