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Matters to Be Disclosed on the Internet upon Sending the Notice of Convocation of the 37th Ordinary General Meeting of Shareholders

Notes to the Consolidated Financial Statements
Notes to the Financial Statements

(March 1, 2017, through February 28, 2018)

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, associates, and joint ventures (together, the Group) are prepared in accordance with International Financial Reporting Standards ("IFRSs"), pursuant to Article 120, Paragraph 1 of the Rules of Corporate Accounting. Certain disclosure items required by IFRSs are omitted pursuant to the latter part of said paragraph.

2. Scope of Consolidation

Subsidiaries: 38 companies

Major subsidiaries: FamilyMart Co., Ltd.; UNY Co., Ltd.; Taiwan FamilyMart Co., Ltd.; famima Retail Service Co., Ltd.; UFI FUTECH Co., Ltd.; UCS CO., LTD.; Kanemi Co., Ltd.; Sun Sougou Maintenance Co., Ltd.; and UNY (HK) CO., LIMITED

In the fiscal year ended February 28, 2018, the Company acquired additional shares in Kanemi Co., Ltd., which was an associate and became it a subsidiary of the Company.

In addition to the above, two subsidiaries have been included in the scope of consolidation due to the establishment of a new company and other reasons.

Meanwhile, seven subsidiaries have been excluded from the scope of consolidation due to their liquidation and other reasons.

3. Application of the Equity Method

Associates and joint ventures: 27 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.; and POCKET CARD CO., LTD.

In the fiscal year ended February 28, 2018, the Company excluded Kanemi Co., Ltd. from the scope of the application of the equity method since the Company acquired additional shares in Kanemi Co., Ltd., which was an associate and became a subsidiary of the company.

In addition to the above, one associate was sold and therefore has been excluded from the scope of the application of the equity method.

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, to 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, to 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 or loss.

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

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

It is also noted that the additional acquisition of non-controlling interests after the acquisition of control is accounted for as a capital transaction, 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

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

1) Financial assets

(i) Initial recognition and measurement

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

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

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

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

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

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

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

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

(ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

(b) Financial assets measured at fair value

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

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

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

(iii) Impairment of financial assets

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

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

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

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

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

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

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

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

(iv) Derecognition of financial assets

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

2) Financial liabilities

(i) Initial recognition and measurement

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

All financial liabilities are initially measured at fair value, except for financial 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 leases are classified as finance leases and the other leases are classified as operating leases.

Determining whether an arrangement is, or contains, a lease is based 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 groups, and whether the arrangement conveys a right to the use of the asset.

1) Lessee

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

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

2) Lessor

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

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

(11) Impairment losses of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that non-financial assets, other than inventories and deferred tax assets, may be impaired. If such indication exists, the Group estimates the recoverable amount of the asset or its cash-generating unit (“CGU”). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill and intangible assets with indefinite useful lives are tested for impairment at the same time every year and whenever there is an indication that the asset may be impaired. 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 prior period may no longer exist or may have decreased. If there has been a change in the estimates used to determine a recoverable amount of the asset other than goodwill, the related impairment loss is reversed. Reversing an impairment loss for an asset other than goodwill is limited to the amount that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortization or depreciation) had 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 asset) 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.

1) Asset retirement obligations

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

2) Provisions for loss on interest repayment

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

(14) Financial guarantee contracts

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

(15) Revenues

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

1) Revenues from franchisees

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

2) Sale of goods

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

3) Other revenues

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

4) Presentation of revenues

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

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

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

(16) Income taxes

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

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

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

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

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

- Arising from the initial recognition of goodwill,
- Arising from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit, and
- Associated with investments in subsidiaries, associates, and joint ventures 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

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

(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 Estimates

During the fiscal year ended February 28, 2018, as part of the establishment of next-generation store systems, FamilyMart Co., Ltd. entered into an agreement to replace assets such as point-of-sale (POS) systems. Accordingly, for tools, furniture, and fixtures held by the Company that are expected to be retired, their useful lives have been shortened and the change is applied prospectively.

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

Notes to the Consolidated Statement of Financial Position

1. Assets pledged as collateral and related assets

Assets pledged as collateral:	
Land	¥822 million
Buildings and structures	¥327 million
Leasehold and guarantee deposits receivable	¥122,917 million
Other financial assets	¥21 million
Total	¥124,087 million
Corresponding liabilities:	
Other financial liabilities	¥1,502 million

2. Allowance for doubtful receivables directly deducted from assets

(1) Current assets	
Trade and other receivables	¥701 million
Other financial assets	¥6 million
(2) Non-current assets	
Leasehold and guarantee deposits receivable	¥98 million
Other financial assets	¥2,893 million
Other non-current assets	¥28 million

3. Accumulated depreciation of property, plant and equipment	¥185,839 million
4. Accumulated depreciation of investment property	¥11,935 million

5. Contingent liabilities

(1) 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.	¥3,255 million
Franchised convenience stores	¥626 million
Total	¥3,880 million

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

JAPAN FOOD SUPPLY Co., Ltd.	¥1,234 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.

Fuji Delica Co., Ltd. and 37 other companies	¥19,530 million

(2) Loan commitments

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

Total amount of loan commitments	¥566,462 million
Loans executed	¥9,127 million
Undrawn loan balance	¥557,335 million

Notes to the Consolidated Statement of Changes in Equity

1. Class and total number of issued shares as of February 28, 2018

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, 2017 Board of Directors	Common stock	7,094	56.00	February 28, 2017	May 8, 2017
October 11, 2017 Board of Directors	Common stock	7,094	56.00	August 31, 2017	November 10, 2017

(2) Dividends for which the record date is in the fiscal year ended February 28, 2018, 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 11, 2018.

Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
7,086	Retained earnings	56.00	February 28, 2018	May 7, 2018

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 counter parties defaulting on contractual obligations, causing financial losses to the Group. The Group's maximum value of credit risk is the total of trade and other receivables, leasehold deposits receivable, other financial assets excluding equity financial assets, the undrawn balance of loan commitments, and the balance of guarantee obligations.

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

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

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

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 position of counterparties as well as taking collaterals and guarantees as necessary.

Regarding derivative assets to which impairment requirements in IFRS 9 are not applicable, the credit risk is immaterial as the Group enters into derivative contracts only with financial institutions with high credit ratings. The Group is not exposed to credit risks that are over-concentrated in an individual party or group to which the party belongs.

The Group measures allowance for doubtful receivables on a collective basis by 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 of financial liabilities on the settlement date.

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

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

(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 value of financial instruments

The following table indicates carrying amounts and fair values as of February 28, 2018:

(Millions of yen)

	Carrying amount	Fair value
Financial assets		
Leasehold deposits receivable	122,917	119,719
Stocks	41,437	41,437
Derivative assets	1,372	1,372
Other financial assets	111,667	116,521
Financial liabilities		
Bonds and borrowings	332,282	332,396
Lease obligations	93,843	92,669
Derivative liabilities	655	655
Other financial liabilities	53,133	53,486

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 the discount cash flow method, by comparable peer company analysis using financial indicators as inputs, or by valuation models based on net assets. Thus, unobservable inputs, such as a discount rate and 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 assets and 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 hold commercial facilities and stores for rent, including land in Aichi Prefecture and other areas.

2. Fair value of investment property

Carrying amount	Fair value
¥137,004 million	¥150,073 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: ¥4,293.16
2. Basic earnings per share: ¥265.82

Significant Subsequent Events

None applicable.

Other Notes

Impairment losses

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

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

The Group recognized impairment losses of ¥23,562 million for the fiscal year ended February 28, 2018, which are included in "Other expenses" in the consolidated statement of profit or loss. The major components include stores' assets whose profitability declined significantly (buildings and structures; tools, furniture, and fixtures; and others), and their carrying amounts are reduced to recoverable amounts.

The recoverable amount of an asset is the higher of its value in use and its fair value less costs of disposal. The discount rate used in measuring the value in use is calculated based on a pre-tax weighted-average cost of capital (5.1% to 5.2%). The fair value is calculated based mainly on evaluations by independent, external real estate appraisers in accordance with appraisal standards in the respective country where the real estate is located.

(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 is based on an upcoming five-year business plan approved by management, to their present value using a pre-tax weighted-average cost of capital for the CGU (5.2% to 6.8%). 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 ¥9,827 million for the fiscal year ended February 28, 2018, which are included in "Other expenses" in the consolidated statement of profit or loss.

Business Combination

Finalization of provisional accounting treatment for the business combination

The Company acquired UNY Group Holdings Co., Ltd. through an absorption-type merger in September 2016, which was accounted for on a provisional basis in the previous fiscal year. The accounting treatment of the merger was finalized in the fiscal year ended February 28, 2018.

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

	Provisional amount	Retrospective adjustment	Finalized amount
	Millions of yen	Millions of yen	Millions of yen
Fair value of consideration paid:			
Equity interests of the acquirer	¥235,533	¥—	¥235,533
Total	235,533	—	235,533
Recognized amounts of assets acquired and liabilities assumed:			
Current assets:			
Cash and cash equivalents	31,893	—	31,893
Trade and other receivables	156,585	—	156,585
Other financial assets	12,011	—	12,011
Inventories	36,440	—	36,440
Other current assets	16,979	(56)	16,923
Assets held for sale	27,398	248	27,646
Total current assets	281,306	192	281,498
Non-current assets:			
Property, plant and equipment	211,073	(38,720)	172,353
Investment property	171,445	(28,346)	143,099
Intangible assets	54,209	(2,418)	51,790
Investments accounted for using the equity method	9,141	—	9,141
Leasehold deposits receivable	72,239	—	72,239
Other financial assets	17,899	(382)	17,517
Deferred tax assets	68,130	(40,840)	27,291
Other non-current assets	2,786	419	3,206
Total non-current assets	606,924	(110,287)	496,636
Total assets	¥888,230	¥(110,096)	¥778,134
Current liabilities:			
Trade and other payables	¥(157,461)	¥(225)	¥(157,686)
Deposits received	(47,853)	—	(47,853)
Bonds and borrowings	(146,421)	—	(146,421)
Lease obligations	(6,707)	—	(6,707)
Income taxes payable	(4,802)	—	(4,802)

	Provisional amount	Retrospective adjustment	Finalized amount
Other current liabilities	(36,947)	(933)	(37,880)
Liabilities directly related to assets held for sale	(13,525)	−	(13,525)
Total current liabilities	(413,715)	(1,158)	(414,873)
Non-current liabilities:			
Bonds and borrowings	(170,506)	−	(170,506)
Lease obligations	(18,583)	−	(18,583)
Other financial liabilities	(45,169)	−	(45,169)
Liabilities for retirement benefits	(774)	−	(774)
Provisions	(31,435)	−	(31,435)
Other non-current liabilities	(6,813)	(885)	(7,699)
Total non-current liabilities	(273,280)	(885)	(274,166)
Total liabilities	¥(686,995)	¥(2,044)	¥(689,039)
Recognized amounts of assets acquired and liabilities assumed (net)	¥201,234	¥(112,139)	¥89,095
Non-controlling interests (*)	(5,678)	−	(5,678)
Goodwill	¥39,977	¥112,139	¥152,116

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

The major components of goodwill include the effects of synergy with existing businesses and excess profitability expected to arise from the acquisition.

Goodwill recognized is not future-deductible for tax purposes.

Acquisition of Kanemi Co., Ltd. as a subsidiary through purchase of additional shares

The Company resolved at a meeting of its Board of Directors held on June 29, 2017 to acquire shares in an associate, Kanemi Co., Ltd. ("Kanemi"), from ITOCHU Corporation and nine individuals, and make it a subsidiary. The agreement on the share transfer was entered into on July 7, 2017, and Kanemi became a subsidiary on July 20, 2017.

1. Overview of the business combination

(1) Name of the acquiree and its business

Name of the acquiree: Kanemi Co., Ltd.

Outline of the business: Operation of retail stores selling sushi, fried food, and sozai (prepared dishes), and production of convenience store bento (boxed lunches)

(2) Date of the business combination

July 20, 2017

(3) Ratio of voting rights acquired

Ratio of voting rights held immediately before the business combination: 26.05%

Ratio of voting rights additionally acquired at the date of business combination: 26.42%

Ratio of voting rights held after the acquisition: 52.47%

(4) Major reason for the business combination

The business combination is expected to further improve the overall profitability of the Group while striving to expand sales through the following measures:

- Kanemi and UNY Co., Ltd. work together to raise competitiveness across sales floors for food products by reforming Kanemi's sales floors for prepared dishes in the stores of UNY Co., Ltd.
- Kanemi and FamilyMart Co., Ltd. cooperate to raise the quality and expand sales of ready-to-eat products which Kanemi produces for FamilyMart Co., Ltd., by sharing know-how and jointly reviewing the production process.

(5) Background on the acquisition of control of the acquiree

The Company acquired the majority of voting rights through the acquisition of shares with cash as consideration.

2. Fair values of consideration paid and recognized amounts of major classes of assets acquired and liabilities assumed at the date of acquisition

	Amount
	Millions of yen
Fair value of consideration paid (cash)	¥8,733
Fair value of existing interests	8,611
Total	¥17,345
Recognized amounts of assets acquired and liabilities assumed:	
Current assets:	
Cash and cash equivalents	¥9,434
Trade and other receivables	6,211
Inventories	518
Other current assets	281
Total current assets	¥16,443
Non-current assets:	
Property, plant and equipment	¥12,781
Intangible assets	102
Leasehold deposits receivable	295
Other financial assets	2,397
Assets for retirement benefits	488
Deferred tax assets	1,512
Other non-current assets	102
Total non-current assets	17,678
Total assets	¥34,121
Current liabilities:	
Trade and other payables	¥(5,734)
Deposits received	(175)
Income taxes payable	(80)
Other current liabilities	(2,691)
Total current liabilities	¥(8,680)
Non-current liabilities:	
Other financial liabilities	¥(130)
Provisions	(59)
Total non-current liabilities	(189)
Total liabilities	¥(8,869)
Recognized amounts of assets acquired and liabilities assumed (net)	¥25,252
Non-controlling interests (*)	(12,002)
Goodwill	¥4,095

*Non-controlling interests were measured at the proportionate share of the non-controlling interest in the recognized amounts of the identifiable net assets.

Acquisition-related costs of the business combination were ¥16 million and all the costs were recognized as “Selling, general, and administrative expenses.”

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

Goodwill recognized is not future-deductible for tax purposes.

3. Gain on step acquisition
The Company held 26.05% equity interests in Kanemi at the date of acquisition and remeasured them at the fair value as of the acquisition date. As a result, gain on step acquisition of ¥62 million is recognized due to the business combination. This gain is included in “Other income” on the consolidated statement of profit or loss.

4. Cash flows from the acquisition

	Amount
	Millions of yen
Cash and cash equivalents paid for acquisition	¥(8,733)
Cash and cash equivalents held by the acquiree at the time of acquisition	9,434
Cash inflows from acquisition of subsidiary	¥700

5. Impact on business results
Operating revenues of ¥52,065 million and loss for the year attributable to owners of the parent of ¥270 million arising from Kanemi on or after the date of acquisition are included in the Group’s consolidated statement of profit or loss.

Additional Information

Application of the consolidated taxation system in Japan

The Company resolved at a Board of Directors’ meeting held on October 11, 2017 to apply for the consolidated taxation system in Japan effective from the fiscal year ending February 28, 2019, and filed the application form to relevant authorities in November 2017. As a result of the application, deferred tax assets of ¥15,718 million were recognized for the fiscal year ended February 28, 2018.

[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

Intangible assets (excluding leased property)

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.

5. Changes in presentation

Statement of income

Dividend income from subsidiaries and associates, consulting fees from subsidiaries and associates, and commissions from subsidiaries and associates, which were included in other operating revenues under operating revenues for the fiscal year ended February 28, 2017, are now presented as separate items for the fiscal year ended February 28, 2018, because of the increased materiality.

The amount of reversal of allowance for doubtful receivables, which was included in other under other expenses for the fiscal year ended February 28, 2017, is now presented as a separate item for the fiscal year ended February 28, 2018, because of the increased materiality.

6. Additional information

The Company adopted the "Application Guidelines Regarding Recoverability of Deferred Tax Assets" (Corporate Accounting Standard Application Guideline No. 26, amended on March 28, 2016) in the fiscal year ended February 28, 2018.

Notes to the Balance Sheet

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

Short-term monetary receivables	¥6,219 million
Short-term monetary payables	¥48,603 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	¥14 million
Operating expenses	¥245 million
Nonoperating transactions with subsidiaries and associates	
Interest income	¥1,519 million
Purchase of assets	¥3,359 million
Receipt of non-cash dividends	¥3,112 million
Other	¥17 million

Note to the Statement of Changes in Equity

Class and total number of treasury shares as of February 28, 2018

Common stock	177,428 shares

Tax-Effect Accounting

Breakdown by cause of deferred tax assets and liabilities

Deferred tax assets (current):	
Valuation difference associated with the absorption-type merger	¥461 million
Tax loss carryforwards	¥374 million
Others	¥75 million
Total	¥910 million
Deferred tax liabilities (current):	
Valuation difference associated with the absorption-type merger	¥369 million
Others	¥83 million
Total	¥452 million
Net deferred tax assets (current)	¥457 million
Deferred tax assets (non-current):	
Valuation difference associated with the absorption-type merger	¥771 million
Adjustment of shares of subsidiaries and associates associated with the absorption-type demerger	¥14,256 million
Deferred gains or losses on hedges	¥184 million
Tax loss carryforwards	¥19,554 million
Others	¥41 million
Subtotal	¥34,806 million
Valuation allowance	¥(4,129) million
Total	¥30,677 million
Deferred tax liabilities (non-current):	
Fair market valuation difference due to the absorption-type merger	¥61 million
Others	¥21 million
Total	¥82 million
Net deferred tax assets (non-current)	¥30,595 million

Additional Information

Application of the consolidated taxation system

The Company resolved at the Board of Directors' meeting held on October 11, 2017, to apply for the consolidated taxation system in Japan effective from the fiscal year ending February 28, 2019, and filed the application form to relevant authorities in November 2017. As a result of the application, deferred tax assets of ¥15,718 million were recognized for the fiscal year ended February 28, 2018.

Transactions with Related Parties[1]

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	UNY Co., Ltd.	Inazawa, Aichi	10,000	General merchandise store business	Directly holding (60.00%)	Borrowing and lending of funds[2] and interlocking of directors	Lending of funds Collection of funds Receipt of interest	271,004 398,409 1,411	Short-term and long-term loans receivable from subsidiaries and associates Other receivables	116,160 107
							Receipt of consulting fees and commission[4]	1,055	Other receivables	1,139
Subsidiary	FamilyMart Co., Ltd.	Toshima-ku, Tokyo	8,380	Convenience store business	Directly holding (100.00%)	Receipt of entrusted funds[3] 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]	1,116	Other receivables	1,206
Subsidiary	UCS Co., Ltd.	Inazawa, Aichi	1,610	Credit card business	Indirectly holding (81.35%)	Borrowing and lending of funds[3] and interlocking of directors	Lending of funds Collection of funds Receipt of interest	335,007 332,407 97	Short-term loans receivable from subsidiaries and associates Other receivables	51,000 9

Terms and conditions of transactions and decision policy thereof:

Notes: 1. The transaction amounts above exclude consumption taxes.

2. The amounts of interest on funds lent are determined by taking into account the terms and conditions of borrowings for the subsidiary from other lenders.
3. The amounts of interest on funds lent and funds deposited are reasonably determined by taking into account market interest rates.
4. Consulting fees and commissions are determined by taking into account the details of the services provided with mutual consultation.

Per-share Information

1. Net assets per share ¥4,056.70
2. Earnings per share ¥242.33

Significant Subsequent Events

None applicable.

Company to which the Restriction on Consolidated Dividends is Applied

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

Other Notes

Business Combination

Finalization of provisional accounting treatment for business combinations

The provisional accounting in the previous fiscal year for the absorption-type merger effective September 1, 2016, whereby the Company (formerly FamilyMart Co., Ltd.) was the surviving company, and UNY Group Holdings Co., Ltd. was the absorbed company, was finalized during the fiscal year ended February 28, 2018. No adjustments were made to the amounts and classification of assets acquired and liabilities assumed on the date of the business combination.