Translation

June 28, 2018

Consolidated Financial Results for the First Three Months of the Fiscal Year Ending February 28, 2019 (under IFRS)

Company name: **J. FRONT RETAILING Co., Ltd.**
Listing: First Section of the Tokyo Stock Exchange and Nagoya Stock Exchange
Securities code: 3086
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Scheduled date to file Quarterly Securities Report: July 13, 2018
Scheduled date to commence dividend payments: –
Preparation of supplementary material on quarterly financial results: Yes
Holding of quarterly financial results presentation meeting: None

(Millions of yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated performance for the first three months of the fiscal year ending February 28, 2019 (from March 1, 2018 to May 31, 2018)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Gross sales		Sales revenue		Business profit		Operating profit		Profit before tax	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
May 31, 2018	269,879	(1.9)	111,073	(2.6)	12,295	11.6	12,998	0.0	13,212	(3.3)
May 31, 2017	275,060	(0.0)	114,084	4.0	11,012	2.5	12,992	36.8	13,668	42.3

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
Three months ended	Millions of yen	%	Millions of yen	%	Yen	Yen
May 31, 2018	8,342	(4.3)	9,009	(10.4)	31.89	–
May 31, 2017	8,720	23.1	10,058	25.4	33.34	–

* 1. Of sales revenue, sales from purchase recorded at the time of sale (*shoka shiire*) of the "Department Store Business" and "Other (Daimaru Kogyo)" have been converted into gross amount and the net amount of sales of the "PARCO Business" into tenant transaction volume (gross amount basis) to calculate gross sales.
2. Business profit is obtained by subtracting cost of sales and selling, general and administrative expenses from sales revenue. Operating profit is obtained by adding other operating income to and subtracting other operating expense from business profit.

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets	Equity attributable to owners of parent per share
As of	Millions of yen	Millions of yen	Millions of yen	%	Yen
May 31, 2018	1,021,604	454,981	399,329	39.1	1,526.12
February 28, 2018	1,022,348	450,887	395,519	38.7	1,511.91

2. Cash dividends

	Annual dividends				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2018	–	16.00	–	19.00	35.00
Fiscal year ending February 28, 2019	–				
Fiscal year ending February 28, 2019 (Forecast)		17.00	–	18.00	35.00

Note: Revisions to the forecast of cash dividends most recently announced: None

Dividends for the fiscal year ended February 28, 2018
Ordinary dividends: ¥33.00
Commemorative dividends: ¥2.00

Dividends for the fiscal year ended February 28, 2019
Ordinary dividends: ¥35.00
Commemorative dividends: –

3. Consolidated earnings forecasts for the fiscal year ending February 28, 2019 (from March 1, 2018 to February 28, 2019)

(Percentages indicate year-on-year changes.)

	Gross sales		Sales revenue		Business profit		Operating profit		Profit before tax	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First six months ending August 31, 2018	557,000	(0.2)	234,000	(0.2)	24,300	6.7	24,000	(10.0)	24,700	(4.7)
Fiscal year ending February 28, 2019	1,165,000	2.3	485,000	3.2	49,500	7.0	48,500	(2.1)	49,600	2.8

	Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Yen
First six months ending August 31, 2018	15,300	(6.2)	58.49
Fiscal year ending February 28, 2019	30,500	7.1	116.59

Note: Revisions to the consolidated earnings forecasts most recently announced: Yes
The consolidated earnings forecasts are unchanged from the forecasts for the first six months ending August 31, 2018 and the fiscal year ending February 28, 2019 announced in the consolidated financial results released on April 10, 2018; however, new forecasts for gross sales and business profit were added.

* 1. Of sales revenue, sales from purchase recorded at the time of sale (*shoka shiire*) of the “Department Store Business” and “Other (Daimaru Kogyo)” have been converted into gross amount and the net amount of sales of the “PARCO Business” into tenant transaction volume (gross amount basis) to calculate gross sales.
2. Business profit is obtained by subtracting cost of sales and selling, general and administrative expenses from sales revenue. Operating profit is obtained by adding other operating income to and subtracting other operating expense from business profit.

* **Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates

a. Changes in accounting policies required by IFRS: Yes

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

(3) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

As of May 31, 2018	270,565,764 shares
As of February 28, 2018	270,565,764 shares

b. Number of shares of treasury shares at the end of the period

As of May 31, 2018	9,029,229 shares
As of February 28, 2018	8,963,580 shares

c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

For the three months ended May 31, 2018	261,642,774 shares
For the three months ended May 31, 2017	261,544,769 shares

*** Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.**

*** Proper use of earnings forecasts, and other special matters**

(Caution regarding forward-looking statements)

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable by the Company. These statements do not purport that the Company pledges to realize such statements. Actual business and other results may differ substantially due to various factors. Please refer to "1. Qualitative information regarding results for the first three months (3) Explanation of consolidated earnings forecasts and other forward-looking statements" on page 4 of the material attached to this quarterly financial results report for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof.

(How to obtain supplementary material on quarterly financial results)

Supplementary material on quarterly financial results was disclosed on the same day on TDnet.

[Attached Material]

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1. Qualitative information regarding results for the first three months

(1) Explanation of operating results

In the three months ended May 31, 2018 (from March 1, 2018 to May 31, 2018), despite elements of uncertainty regarding such matters as the actions of the United States government, the Japanese economy followed a gradual track of recovery mainly fueled by the robust growth of the global economy and the robust momentum of corporate earnings due to the effects of various policies of the Japanese government.

In the retail sector, there was a gradual upturn in overall personal spending. This was despite increasingly polarized consumption patterns coupled with a continuing sense of unease as to what lies ahead and intensifying budget-minded consumer behavior, both brought about mainly by the increased burden of social security. The upturn also reflects positive signs such as inbound tourism consumption, which is growing strongly, and a recovery in luxury goods consumption by affluent consumers, amidst improvement in the employment environment and the gradual recovery in income.

Amid this environment, the J. Front Retailing Group (hereinafter the "Group") has worked to further strengthen the competitiveness and profitability of existing businesses while also investing management resources in fields of growth in a focused manner, with the aim of developing as a multifaceted services retailer operating beyond the retail industry framework as it began working on the second year of the "FY 2017–FY 2021 Medium-term Business Plan," which was formulated with the aim to realize its new Group Vision, "Create and Bring to Life 'New Happiness.'"

In the Department Store Business, although clothing sales were affected by changes in temperatures, performance remained strong for such items as cosmetics, luxury brands and luxury watches, which were boosted by overseas visitors to Japan. Amid dramatic changes to the environment surrounding department stores, looking ahead with the times and society, in April we opened the new zone "KiKiYOCOCHO" in the third floor of Daimaru Sapporo store as an initiative to provide new value to customers through new arranging sales areas. This new zone has fused "beauty, food and accessories" to meet the diverse lifestyles and values of women. In addition, we opened "Amuse Beauté" a self-service beauty shop located in KiKiYOCOCHO, and as a result we have now opened four Amuse Beauté stores: in Daimaru Kyoto store, Daimaru Sapporo store, Ikebukuro PARCO store, and Tsudanuma PARCO store.

In April, key Daimaru and Matsuzakaya stores held the "ECOFF Recycle Campaign," an initiative that has been ongoing since August 2016 that involves collecting unused clothing, etc. to contribute to building sustainable society. In the "ECOFF Recycle Campaign," many customers participated this time as well, with a combined total of 299,170 recyclable items being collected at the nine stores that held the campaign. Thanks to the strong support of our customers, the cumulative total items collected since the first recycle campaign was held in 2016 surpassed the million item mark.

In the Real Estate Business, the effects of GINZA SIX and Ueno Frontier Tower, which opened last year, began to be received, and significant progress was made. In addition, under "Kyoto Machiya Project," which is promoted as a part of the Company's "strategy of urban market dominance," the Group has newly opened "Bluebottle Coffee Kyoto Cafe" in March by renovating a *ryokan* (Japanese inn) that was built over 100 years ago in Nanzenji, one of the most popular tourist area in Kyoto, and opened "Kanno Coffee Kyoto Store" on Takakura street, next to Daimaru Kyoto store in May.

In the PARCO Business, the Group will carry out renewal of 136 zones, approximately 13,800 m², across PARCO stores nationwide during the period from spring to early summer in 2018. This renewal work will be conducted on the theme of "create new added value" aimed at meeting the recent growing diversification of consumer needs and it will propose emotionally fulfilling lifestyles to adults seeking sophisticated style. In addition, in March, utilizing the good location of city center, the Group opened Harajuku ZERO GATE as the ZERO GATE business, which carries out efficient operation suited to the scale of business.

The Company aims to grow as a multifaceted services retailer and is taking measures to expand into fields of business extending beyond the retail industry framework. As one step toward this, the Company is participating in the operation of unlicensed infant childcare facilities that fulfill both enrichment of education and provision of extended-hour childcare with the goal of taking away some of the worries and inconveniences that accompany early childhood parenting. After examining various matters, the Company has decided to open “Daimaru Matsuzakaya Kids Duo International Aobadai,” located in Aobadai in Aoba-ku, Yokohama, as the first of such facilities in April 2019.

Despite various measures including those mentioned above, in the three months ended May 31, 2018, consolidated sales revenue was ¥111,073 million, down 2.6% year on year, operating profit was ¥12,998 million, up 0.0% year on year, profit before tax was ¥13,212 million, down 3.3% year on year, and profit attributable to owners of parent was ¥8,342 million, down 4.3% year on year.

Results by segment are as follows.

<Department Store Business>
At the Daimaru Sapporo store, we used the opportunity of the first renovation of the third floor in fifteen years to create a new sales space unlike anything before it. As a result, in April, we opened “KiKiYOCOCHO,” a new-sensation sales arranging zone that fuses “beauty, food and accessories.” Escaping the traditional concept of a department store, we have incorporated women’s tastes and interests into the core of sales space creation to create a space for “trying, discovering, and enjoying” that provides a docking point where the high-class feel of a department store and the lively atmosphere of a side street can co-exist.

As an initiative for the cosmetics market, which is enjoying growing demand, we opened “DEPACO,” a new beauty media, in April. DEPACO is a department store cosmetics (“depacos”) info-media in which familiar cosmetics professionals disseminate information. Contents include information being shared by DEPACO STAFF, cosmetic product buyers of Daimaru and Matsuzakaya, cosmetic brand PR representatives, and beauty advisors, etc. who are knowledgeable on “depacos”; coupons that can be used at cosmetics counters; and five-minute beauty services by video “300-second magic.”

Concerning the inbound (foreigners visiting Japan) and the affluent customer market, sales were driven by continual robust consumption. Sales of cosmetics and luxury goods were strong, owing mostly to inbound customers, and sales of tax-exempted products continued to rise for an 18 month consecutive period up until May. The consumption from the affluent customers was also robust, particularly in the area of art, kimono fabrics, and jewelry.

As a result of various measures including those mentioned above, sales revenue was ¥65,805 million, up 3.9% year on year, while operating profit was ¥6,850 million, down 3.1% year on year.

<PARCO Business>
In the Shopping complex business, in March, we opened Harajuku ZERO GATE, which became the ninth store under the ZERO GATE format. Then in April, the decision was made to open Kawasaki ZERO GATE (provisional name), and steps were taking to expand the value provided in areas where stores have not yet opened in urban areas. At PARCO stores, we introduced tenants to propose new urban lifestyles, and worked to develop events to attract customers with originality.

Despite various measures including those mentioned above, sales revenue was ¥22,026 million, down 6.3% year on year, and operating profit was ¥2,750 million, down 21.4% year on year.

<Real Estate Business>
Continuing our momentum after opening GINZA SIX and Ueno Frontier Tower last year, we have been conducting an initiative aimed at creating spaces that achieve maximum utilization of the charm of the area as one part of the “strategy of urban market dominance” aimed at bringing new value to urban centers.

In March, as the third initiative of “Kyoto Machiya Project,” we opened “Bluebottle Coffee Kyoto Cafe,” which was established by renovating a *ryokan* (Japanese inn) that was built over 100 years ago in the Nanzenji area, a popular tourist area in Kyoto, and by doing so, we realized the first Bluebottle Coffee store opened in the Kansai region. In addition, in May we opened “Kanno Coffee Kyoto Store” on Takakura street, next to Daimaru Kyoto store. This was also the first Kanno Coffee store opened in the Kansai region.

As a result of various measures including those mentioned above and those to liven up existing properties, in the three months ended May 31, 2018, sales revenue was ¥4,143 million, up 67.9% year on year, operating profit was ¥1,607 million, up 267.3% year on year.

<Credit Finance Business>
As a result of increased commission fees due to increased use at external member stores, sales revenue was ¥2,566 million, up 3.3% year on year. However, due to increased costs to renew cards and costs for security measures, operating profit was ¥738 million, down 10.1% year on year.

(2) Explanation of financial position

(Assets, liabilities, and equity as of May 31, 2018)
Total assets as of May 31, 2018 was ¥1,021,604 million, a decrease of ¥744 million compared with February 28, 2018. Total liabilities was ¥566,622 million, a decrease of ¥4,838 million. Total equity was ¥454,981 million, an increase of ¥4,094 million compared with February 28, 2018.

(Cash flow position)
The balance of cash and cash equivalents (hereinafter “cash”) as of May 31, 2018 amounted to ¥21,828 million, down ¥17,055 million compared with February 28, 2018.
Cash flow positions in the three months ended May 31, 2018 and the factors for these were as follows.

A. Net cash flows from (used in) operating activities
Net cash flows from operating activities was ¥5,423 million. In comparison with the three months ended May 31, 2017, cash provided decreased by ¥6,045 million, largely reflecting a decrease in trade payables.

B. Net cash flows from (used in) investing activities
Net cash flows used in investing activities was ¥10,949 million. In comparison with the three months ended May 31, 2017, cash used increased by ¥2,767 million, largely reflecting an increase in purchase of property, plant and equipment.

C. Net cash flows from (used in) financing activities
Net cash flows used in financing activities was ¥11,525 million. In comparison with the three months ended May 31, 2017, cash used decreased by ¥950 million, largely reflecting a decrease in repayments of non-current borrowings.

(3) Explanation of consolidated earnings forecasts and other forward-looking statements
The consolidated earnings forecasts are unchanged from the forecasts for the first six months ending August 31, 2018 and the fiscal year ending February 28, 2019 announced in the consolidated financial results released on April 10, 2018; however, new forecasts for business profit and gross sales were added.

2. Condensed quarterly consolidated financial statements and significant notes thereto

(1) Condensed quarterly consolidated statement of financial position

	As of February 28, 2018	As of May 31, 2018
	Millions of yen	Millions of yen
Assets		
Current assets		
Cash and cash equivalents	38,883	21,828
Trade and other receivables	125,649	135,358
Other financial assets	4,067	4,143
Inventories	33,755	33,750
Other current assets	6,076	7,346
Assets held for sale	6,732	–
Total current assets	215,164	202,428
Non-current assets		
Property, plant and equipment	458,877	468,275
Goodwill	523	523
Investment property	195,608	198,064
Intangible assets	3,588	3,488
Investments accounted for using equity method	16,425	16,656
Other financial assets	100,016	100,238
Deferred tax assets	7,286	7,094
Other non-current assets	24,857	24,834
Total non-current assets	807,183	819,176
Total assets	1,022,348	1,021,604

	As of February 28, 2018	As of May 31, 2018
	Millions of yen	Millions of yen
Liabilities and equity		
Liabilities		
Current liabilities		
Bonds and borrowings	46,230	45,730
Trade and other payables	141,343	150,133
Other financial liabilities	30,811	31,293
Income tax payables	9,202	4,575
Provisions	202	201
Other current liabilities	64,561	61,793
Total current liabilities	292,351	293,728
Non-current liabilities		
Bonds and borrowings	137,972	132,511
Other financial liabilities	34,240	33,852
Retirement benefit liabilities	29,909	29,542
Provisions	4,595	4,567
Deferred tax liabilities	61,161	61,201
Other non-current liabilities	11,231	11,218
Total non-current liabilities	279,109	272,893
Total liabilities	571,460	566,622
Equity		
Capital	31,974	31,974
Share premium	211,864	211,973
Treasury shares	(15,244)	(15,245)
Other components of equity	15,772	15,488
Retained earnings	151,151	155,139
Total equity attributable to owners of parent	395,519	399,329
Non-controlling interests	55,368	55,651
Total equity	450,887	454,981
Total liabilities and equity	1,022,348	1,021,604

(2) Condensed quarterly consolidated statement of profit or loss

	Three months ended May 31, 2017	Three months ended May 31, 2018
	Millions of yen	Millions of yen
Sales revenue	114,084	111,073
Cost of sales	(62,658)	(59,328)
Gross profit	51,426	51,745
Selling, general and administrative expense	(40,413)	(39,449)
Other operating income	2,818	983
Other operating expense	(838)	(280)
Operating profit	12,992	12,998
Finance income	297	320
Finance costs	(299)	(304)
Share of profit (loss) of investments accounted for using equity method	677	197
Profit before tax	13,668	13,212
Income tax expense	(4,007)	(4,101)
Profit	9,661	9,110
Profit attributable to:		
Owners of parent	8,720	8,342
Non-controlling interests	941	768
Profit	9,661	9,110
Earnings per share		
Basic earnings per share (Yen)	33.34	31.89
Diluted earnings per share (Yen)	–	–

(3) Condensed quarterly consolidated statement of comprehensive income

	Three months ended May 31, 2017	Three months ended May 31, 2018
	Millions of yen	Millions of yen
Profit	9,661	9,110
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	447	(118)
Share of other comprehensive income of entities accounted for using equity method	(33)	33
Total items that will not be reclassified to profit or loss	413	(84)
Items that may be reclassified to profit or loss		
Cash flow hedges	29	19
Exchange differences on translation of foreign operations	(22)	(37)
Share of other comprehensive income of entities accounted for using equity method	(22)	1
Total items that may be reclassified to profit or loss	(16)	(16)
Other comprehensive income, net of tax	397	(101)
Comprehensive income	10,058	9,009
Comprehensive income attributable to:		
Owners of parent	9,134	8,205
Non-controlling interests	923	804
Comprehensive income	10,058	9,009

(4) Condensed quarterly consolidated statement of changes in equity

Three months ended May 31, 2017

	Equity attributable to owners of parent					
				Other components of equity		
	Capital	Share premium	Treasury shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at March 1, 2017	30,000	209,551	(11,281)	(154)	(66)	12,832
Profit	–	–	–	–	–	–
Other comprehensive income	–	–	–	(11)	(7)	444
Total comprehensive income	–	–	–	(11)	(7)	444
Purchase of treasury shares	–	–	(2)	–	–	–
Disposal of treasury shares	–	–	–	–	–	–
Dividends	–	–	–	–	–	–
Share-based payment transactions	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	(39)
Other	–	–	–	–	–	–
Total transactions with owners	–	–	(2)	–	–	(39)
Balance at May 31, 2017	30,000	209,551	(11,283)	(165)	(74)	13,236

	Equity attributable to owners of parent					
	Other components of equity					
	Remeasure-ments of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at March 1, 2017	–	12,610	127,690	368,571	52,872	421,444
Profit	–	–	8,720	8,720	941	9,661
Other comprehensive income	(10)	414	–	414	(17)	397
Total comprehensive income	(10)	414	8,720	9,134	923	10,058
Purchase of treasury shares	–	–	–	(2)	–	(2)
Disposal of treasury shares	–	–	–	–	–	–
Dividends	–	–	(3,661)	(3,661)	(533)	(4,194)
Share-based payment transactions	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	10	(28)	28	–	–	–
Other	–	–	–	–	(0)	(0)
Total transactions with owners	10	(28)	(3,632)	(3,664)	(533)	(4,197)
Balance at May 31, 2017	–	12,996	132,778	374,041	53,263	427,304

Three months ended May 31, 2018

	Equity attributable to owners of parent					
				Other components of equity		
	Capital	Share premium	Treasury shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at March 1, 2018	31,974	211,864	(15,244)	(43)	(15)	15,831
Effect of changes in accounting policies	–	–	–	–	–	–
Balance reflecting changes in accounting policies	31,974	211,864	(15,244)	(43)	(15)	15,831
Profit	–	–	–	–	–	–
Other comprehensive income	–	–	–	(35)	20	(156)
Total comprehensive income	–	–	–	(35)	20	(156)
Purchase of treasury shares	–	–	(1)	–	–	–
Disposal of treasury shares	–	0	0	–	–	–
Dividends	–	–	–	–	–	–
Share-based payment transactions	–	108	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	(92)
Other	–	–	–	29	(49)	–
Total transactions with owners	–	108	(1)	29	(49)	(92)
Balance at May 31, 2018	31,974	211,973	(15,245)	(49)	(44)	15,582

	Equity attributable to owners of parent					
	Other components of equity					
	Remeasure-ments of defined benefit plans	Total	Retained earnings	Total	Non-controlling interests	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at March 1, 2018	–	15,772	151,151	395,519	55,368	450,887
Effect of changes in accounting policies	–	–	487	487	–	487
Balance reflecting changes in accounting policies	–	15,772	151,639	396,006	55,368	451,374
Profit	–	–	8,342	8,342	768	9,110
Other comprehensive income	33	(137)	–	(137)	36	(101)
Total comprehensive income	33	(137)	8,342	8,205	804	9,009
Purchase of treasury shares	–	–	–	(1)	–	(1)
Disposal of treasury shares	–	–	–	0	–	0
Dividends	–	–	(4,969)	(4,969)	(520)	(5,489)
Share-based payment transactions	–	–	–	108	–	108
Transfer from other components of equity to retained earnings	(33)	(126)	126	–	–	–
Other	–	(19)	–	(19)	(0)	(20)
Total transactions with owners	(33)	(146)	(4,842)	(4,882)	(520)	(5,403)
Balance at May 31, 2018	–	15,488	155,139	399,329	55,651	454,981

(5) Condensed quarterly consolidated statement of cash flows

	Three months ended May 31, 2017	Three months ended May 31, 2018
	Millions of yen	Millions of yen
Cash flows from (used in) operating activities		
Profit before tax	13,668	13,212
Depreciation and amortization expense	4,552	4,741
Finance income	(297)	(320)
Finance costs	299	304
Share of loss (profit) of investments accounted for using equity method	(677)	(197)
Loss (gain) on sales of non-current assets	(1,474)	(22)
Loss on disposals of non-current assets	409	200
Decrease (increase) in inventories	(2,044)	4
Decrease (increase) in trade and other receivables	(12,781)	(8,422)
Increase (decrease) in trade and other payables	14,030	9,842
Increase (decrease) in retirement benefit liabilities	(419)	(367)
Decrease (increase) in retirement benefit assets	(205)	(129)
Other, net	3,998	(4,033)
Subtotal	19,056	14,811
Interest received	50	39
Dividends received	112	128
Interest paid	(359)	(273)
Income taxes paid	(7,392)	(9,282)
Net cash flows from (used in) operating activities	11,468	5,423
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	(4,530)	(14,454)
Proceeds from sales of property, plant and equipment	16	3
Purchase of investment property	(3,795)	(3,222)
Proceeds from sales of investment property	–	32
Purchase of investment securities	(435)	(501)
Proceeds from sales of investment securities	360	6,942
Other, net	201	251
Net cash flows from (used in) investing activities	(8,182)	(10,949)
Cash flows from (used in) financing activities		
Net increase (decrease) in current borrowings	–	(1,000)
Net increase (decrease) in commercial papers	6,200	999
Proceeds from non-current borrowings	500	–
Repayments of non-current borrowings	(14,750)	(5,970)
Purchase of treasury shares	(2)	(2)
Dividends paid	(3,668)	(4,963)
Dividends paid to non-controlling interests	(533)	(520)
Other, net	(220)	(69)
Net cash flows from (used in) financing activities	(12,475)	(11,525)
Net increase (decrease) in cash and cash equivalents	(9,189)	(17,051)
Cash and cash equivalents at beginning of period	31,867	38,883
Effect of exchange rate changes on cash and cash equivalents	1	(3)
Cash and cash equivalents at end of period	22,679	21,828

(6) Notes to condensed quarterly consolidated financial statements

(Notes on premise of going concern)

No items to report.

(Changes in accounting policies)

Significant accounting policies applied in these quarterly financial statements are consistent with those applied in the financial statements for the fiscal year ended February 28, 2018 except for the following:

Quarterly income tax expense for the three months ended May 31, 2018 is recognized based on the estimated annual effective tax rate.

The Group has applied the following standards from the first quarter of the fiscal year ending February 28, 2019.

IFRS		Description of new and amended standards
IFRS 15	Revenue from Contracts with Customers	Amendments to accounting treatment for revenue recognition

The Group has applied IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (collectively, "IFRS 15") from the first quarter of the fiscal year ending February 28, 2019. In the application of IFRS 15, the Group has adopted a method recognized as a transitional measure under which cumulative effects from the adoption of standards are recognized on the initial application date.

With the application of IFRS 15, based on the following five-step approach, revenue is recognized as the amount of consideration to which the Group expects to be entitled in exchange for the transfer of goods or services promised to customers (not including interests and dividend income based on IFRS 9 "Financial Instruments" and leases payments based on IAS 17 "Leases.")

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group, under a holding company structure, develops business such PARCO Business, Real Estate Business and Credit Finance Business with Department Store Business at its core. The Department Store Business carries out the sale of clothing, general goods, household goods, food products and others. With regard to these sale of goods, since it is determined that performance obligation is satisfied at the time of delivery of goods when customers gain control of such goods, the Group mainly recognizes revenue at the time of delivery of such goods. Furthermore, revenue is measured at the amount of consideration promised in contracts between customers, less any discounts, rebates and sales returns, etc.

Effects of application of standards to the Group

The Group operates a Customer Royalty Program which provides customers point rewards that can be exchanged as discounts for future purchases.

Although under IAS 18 "Revenue," revenue was recognized less the estimated fair value of such point rewards, under IFRS 15, by the above five-step approach, transaction price is allocated to point rewards and goods based on their ratio to stand-alone selling price. When adopting this method, the amount allocated to the goods sold, on the average, is higher than the amount less the fair value of point rewards.

Consequently, in comparison with the case where the previous accounting standard has been applied, at the beginning of the first quarter of the fiscal year ending February 28, 2019, other current liabilities and deferred tax assets decreased by ¥705 million and ¥107 million, respectively, and retained earnings and deferred tax liabilities increased by ¥487 million and ¥111 million, respectively.

(Segment information)

(1) Overview of reportable segments

The reportable segments of the Group are constituent units of the Group for which separate financial information is obtainable. These segments are periodically examined by the Board of Directors for the purpose of deciding the allocation of management resources and evaluating business results.

The Group is comprised, under a holding company structure, of the reportable segments "Department Store Business," "PARCO Business," "Real Estate Business" and "Credit Finance Business," with the Department Store Business at its core.

The Department Store Business carries out the sale of clothing, general goods, household goods, food products and others. The PARCO Business undertakes development, management, supervision and operation of shopping centers. The Real Estate Business carries out development, supervision, operation, etc. of real estate. The Credit Finance Business undertakes issuance and administration of credit cards.

(2) Segment revenue and business results

Revenue and business results by reportable segments of the Group are as follows. Inter-segment transactions are generally based on prevailing market prices.

Three months ended May 31, 2017

	Reportable segments					Other	Total	Adjustments	Consolidated
	Department Store Business	PARCO Business	Real Estate Business	Credit Finance Business	Total				
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
External revenue	63,213	23,391	2,403	1,457	90,466	23,618	114,084	–	114,084
Inter-segment revenue	117	117	64	1,025	1,325	8,407	9,732	(9,732)	–
Total	63,331	23,508	2,467	2,483	91,792	32,025	123,817	(9,732)	114,084
Segment profit	7,070	3,497	437	821	11,827	1,005	12,833	159	12,992
Finance income									297
Finance costs									(299)
Share of profit (loss) of investments accounted for using equity method									677
Profit before tax									13,668

Notes:

1. The "Other" category is a business segment not included as a reportable segments. It includes wholesaling, design and construction contracting, manufacture and sale of furniture, parking, leasing, etc.
2. The adjustments for segment profit include inter-segment eliminations and corporate income and expenses not attributable to any reportable segment. Corporate income and expenses are mainly income and expenses of the company submitting condensed quarterly consolidated financial statements that are not attributable to any reportable segment.
3. Segment profit is adjusted to operating profit in the condensed quarterly consolidated financial statements.

Three months ended May 31, 2018

	Reportable segments					Other	Total	Adjustments	Consolidated
	Department Store Business	PARCO Business	Real Estate Business	Credit Finance Business	Total				
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
External revenue	65,744	21,960	3,851	1,565	93,121	17,952	111,073	–	111,073
Inter-segment revenue	61	65	291	1,001	1,420	7,368	8,788	(8,788)	–
Total	65,805	22,026	4,143	2,566	94,541	25,320	119,862	(8,788)	111,073
Segment profit	6,850	2,750	1,607	738	11,946	725	12,672	326	12,998
Finance income									320
Finance costs									(304)
Share of profit (loss) of investments accounted for using equity method									197
Profit before tax									13,212

Notes:
1. The “Other” category is a business segment not included as a reportable segments. It includes wholesaling, design and construction contracting, manufacture and sale of furniture, parking, leasing, etc.
2. The adjustments for segment profit include inter-segment eliminations and corporate income and expenses not attributable to any reportable segment. Corporate income and expenses are mainly income and expenses of the company submitting condensed quarterly consolidated financial statements that are not attributable to any reportable segment.
3. Segment profit is adjusted to operating profit in the condensed quarterly consolidated financial statements.