J.FRONT RETAILING

Integrated Report 2018 (Year ended February 28, 2018) Part 2

FINANCIAL DATA

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Consolidated Financial Statements

1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

1) Consolidated Statement of Financial Position

	Notes	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
		Millions of yen	Millions of yen	Millions of yen
Assets				
Current assets				
Cash and cash equivalents	7	28,149	31,867	38,883
Trade and other receivables	8	117,545	122,703	125,649
Other financial assets	10	5,947	5,852	4,067
Inventories	9	27,853	34,332	33,755
Other current assets	12	8,112	5,462	6,076
Assets held for sale	11	–	1,049	6,732
Total current assets		187,608	201,268	215,164
Non-current assets				
Property, plant and equipment	13,19	455,375	459,979	458,877
Goodwill	14	568	534	523
Investment property	15	179,442	189,013	195,608
Intangible assets	14	2,912	3,426	3,588
Investments accounted for using equity method	16	26,171	26,033	16,425
Other financial assets	10,19	93,941	94,840	100,016
Deferred tax assets	17	11,005	8,974	7,286
Other non-current assets	12	14,794	20,998	24,857
Total non-current assets		784,211	803,800	807,183
Total assets		971,820	1,005,069	1,022,348

	Notes	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
		Millions of yen	Millions of yen	Millions of yen
Liabilities and equity				
Liabilities				
Current liabilities				
Bonds and borrowings	18,19	89,148	101,229	46,230
Trade and other payables	21	145,537	143,711	141,343
Other financial liabilities	18,19,20	32,822	31,419	30,811
Income tax payables		8,322	7,117	9,202
Provisions	23	1,826	2,177	202
Other current liabilities	24	52,636	54,407	64,561
Total current liabilities		330,295	340,062	292,351
Non-current liabilities				
Bonds and borrowings	18,19	109,885	104,722	137,972
Other financial liabilities	18,19,20	35,003	32,217	34,240
Retirement benefit liabilities	22	32,894	31,760	29,909
Provisions	23	5,193	5,158	4,595
Deferred tax liabilities	17	58,805	57,868	61,161
Other non-current liabilities	24	4,942	11,836	11,231
Total non-current liabilities		246,724	243,562	279,109
Total liabilities		577,019	583,625	571,460
Equity				
Capital	25	30,000	30,000	31,974
Share premium	25	209,565	209,551	211,864
Treasury shares	25	(11,286)	(11,281)	(15,244)
Other components of equity	25	11,615	12,610	15,772
Retained earnings	25	104,615	127,690	151,151
Parent		344,510	368,571	395,519
Non-controlling interests		50,290	52,872	55,368
Total equity		394,800	421,444	450,887
Total liabilities and equity		971,820	1,005,069	1,022,348

2) Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

Consolidated Statement of Profit or Loss

	Notes	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
		Millions of yen	Millions of yen
Sales revenue	27	452,505	469,915
Cost of sales	29	(239,938)	(256,979)
Gross profit		212,567	212,935
Selling, general and administrative expense	30	(167,668)	(166,688)
Other operating income	28	4,084	8,967
Other operating expense	31	(7,255)	(5,668)
Operating profit		41,727	49,546
Finance income	32	1,353	1,090
Finance costs	32	(1,370)	(1,194)
Share of profit (loss) of investments accounted for using equity method		898	(1,171)
Profit before tax		42,608	48,271
Income tax expense	17	(12,165)	(16,415)
Profit		30,443	31,855
Profit attributable to:			
Owners of parent		27,052	28,486
Non-controlling interests		3,390	3,368
Profit		30,443	31,855
Earnings per share			
Basic earnings per share (Yen)	34	103.43	108.92
Diluted earnings per share (Yen)	34	103.43	108.86

Consolidated Statement of Comprehensive Income

	Notes	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
		Millions of yen	Millions of yen
Profit		30,443	31,855
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	33,36	2,167	3,464
Remeasurements of defined benefit plans	33	2,905	2,298
Share of other comprehensive income of entities accounted for using equity method	33	(411)	(3)
Total items that will not be reclassified to profit or loss		4,660	5,758
Items that may be reclassified to profit or loss			
Cash flow hedges	33	164	57
Exchange differences on translation of foreign operations	33	(118)	69
Share of other comprehensive income of entities accounted for using equity method	33	(333)	70
Total items that may be reclassified to profit or loss		(286)	197
Other comprehensive income, net of tax		4,374	5,955
Comprehensive income		34,817	37,811
Comprehensive income attributable to:			
Owners of parent		31,393	34,450
Non-controlling interests		3,423	3,360
Comprehensive income		34,817	37,811

3) Consolidated Statement of Changes in Equity

	Notes	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, 2016		30,000	209,565	(11,286)	–	73	11,542
Profit		–	–	–	–	–	–
Other comprehensive income		–	–	–	(154)	(140)	2,065
Total comprehensive income		–	–	–	(154)	(140)	2,065
Issuance of new shares		–	–	–	–	–	–
Purchase of treasury shares		–	–	(10)	–	–	–
Disposal of treasury shares		–	(0)	15	–	–	–
Dividends	26	–	–	–	–	–	–
Changes in ownership interests in subsidiaries		–	–	–	–	–	–
Share-based payment transactions		–	(14)	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	–	–	(775)
Other		–	–	–	–	–	–
Total transactions with owners		–	(14)	4	–	–	(775)
Balance at February 28, 2017		30,000	209,551	(11,281)	(154)	(66)	12,832
Profit		–	–	–	–	–	–
Other comprehensive income		–	–	–	92	111	3,471
Total comprehensive income		–	–	–	92	111	3,471
Issuance of new shares	25	1,974	1,974	–	–	–	–
Purchase of treasury shares	25	–	–	(3,963)	–	–	–
Disposal of treasury shares		–	(0)	0	–	–	–
Dividends	26	–	–	–	–	–	–
Changes in ownership interests in subsidiaries		–	(56)	–	–	–	–
Share-based payment transactions		–	395	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	–	(60)	(472)
Other		–	–	–	18	–	–
Total transactions with owners		1,974	2,313	(3,962)	18	(60)	(472)
Balance at February 28, 2018		31,974	211,864	(15,244)	(43)	(15)	15,831

	Notes	Equity attributable to owners of parent				Non-controlling interests	Total
		Other components of equity		Retained earnings	Total		
		Remeasurements of defined benefit plans	Total				
		Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance at March 1, 2016		–	11,615	104,615	344,510	50,290	394,800
Profit		–	–	27,052	27,052	3,390	30,443
Other comprehensive income		2,570	4,341	–	4,341	32	4,374
Total comprehensive income		2,570	4,341	27,052	31,393	3,423	34,817
Issuance of new shares		–	–	–	–	–	–
Purchase of treasury shares		–	–	–	(10)	–	(10)
Disposal of treasury shares		–	–	–	14	–	14
Dividends	26	–	–	(7,323)	(7,323)	(840)	(8,163)
Changes in ownership interests in subsidiaries		–	–	–	–	–	–
Share-based payment transactions		–	–	–	(14)	–	(14)
Transfer from other components of equity to retained earnings		(2,570)	(3,345)	3,345	–	–	–
Other		–	–	(0)	(0)	(0)	(0)
Total transactions with owners		(2,570)	(3,345)	(3,977)	(7,333)	(840)	(8,174)
Balance at February 28, 2017		–	12,610	127,690	368,571	52,872	421,444
Profit		–	–	28,486	28,486	3,368	31,855
Other comprehensive income		2,287	5,963	–	5,963	(7)	5,955
Total comprehensive income		2,287	5,963	28,486	34,450	3,360	37,811
Issuance of new shares	25	–	–	–	3,948	–	3,948
Purchase of treasury shares	25	–	–	–	(3,963)	–	(3,963)
Disposal of treasury shares		–	–	–	0	–	0
Dividends	26	–	–	(7,846)	(7,846)	(911)	(8,757)
Changes in ownership interests in subsidiaries		–	–	–	(56)	56	–
Share-based payment transactions		–	–	–	395	–	395
Transfer from other components of equity to retained earnings		(2,287)	(2,820)	2,820	–	–	–
Other		–	18	–	18	(10)	8
Total transactions with owners		(2,287)	(2,801)	(5,025)	(7,502)	(865)	(8,367)
Balance at February 28, 2018		–	15,772	151,151	395,519	55,368	450,887

4) Consolidated Statement of Cash Flows

	Notes	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
		Millions of yen	Millions of yen
Cash flows from/(used in) operating activities			
Profit before tax		42,608	48,271
Depreciation and amortization expense		17,284	18,683
Impairment loss		774	2,576
Finance income		(1,353)	(1,090)
Finance costs		1,370	1,194
Share of loss (profit) of investments accounted for using equity method		(898)	1,171
Loss (gain) on sales of non-current assets		(1,953)	(3,103)
Loss (gain) on disposals of non-current assets		2,051	1,609
Decrease (increase) in inventories		(6,466)	(354)
Decrease (increase) in trade and other receivables		(5,634)	(3,557)
Increase (decrease) in trade and other payables		(1,778)	(1,971)
Increase (decrease) in retirement benefit liabilities		(1,134)	(1,850)
Decrease (increase) in retirement benefit assets		(1,131)	(3,455)
Other, net		(1,684)	12,474
Subtotal		42,054	70,597
Interest received		207	131
Dividends received		390	330
Interest paid		(1,337)	(1,108)
Proceeds from compensation		7,855	–
Income taxes paid		(17,206)	(14,833)
Income taxes refund		1,799	1,961
Net cash flows from/(used in) operating activities		33,764	57,079
Cash flows from/(used in) investing activities			
Purchase of property, plant and equipment		(26,885)	(17,708)
Proceeds from sales of property, plant and equipment		10,423	2,089
Purchase of investment property		(12,436)	(8,993)
Proceeds from sales of investment property		–	1,810
Purchase of investment securities		(2,463)	(1,946)
Proceeds from sales of investment securities		4,462	2,857
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	37	–	1,839
Other, net		(1,052)	1,020
Net cash flows from/(used in) investing activities		(27,952)	(19,030)
Cash flows from/(used in) financing activities			
Net increase (decrease) in current borrowings	18	(100)	950
Net increase (decrease) in commercial papers		3,001	(32,799)
Proceeds from non-current borrowings	18	46,000	16,500
Repayments of non-current borrowings	18	(42,005)	(28,960)
Proceeds from issuance of bonds	18	–	34,838
Redemption of bonds	18	–	(12,000)
Purchase of treasury shares		(21)	(15)
Dividends paid		(7,305)	(7,822)
Dividends paid to non-controlling interests		(846)	(911)
Other, net	18	(819)	(827)
Net cash flows from/(used in) financing activities		(2,097)	(31,048)
Net increase (decrease) in cash and cash equivalents		3,714	7,000
Cash and cash equivalents at beginning of period	7	28,149	31,867
Effect of exchange rate changes on cash and cash equivalents		3	15
Cash and cash equivalents at end of period	7	31,867	38,883

Notes to Consolidated Financial Statements

1 Reporting Entity

J. FRONT RETAILING Co., Ltd. (the"Company"or the "parent") is a company located in Japan. The registered address of its head office is Chuo-ku, Tokyo.
The Company's consolidated financial statements for the fiscal year ended February 28, 2018 comprise the Company and its subsidiaries (the 'Group'), as well as the Group's interests in associates.
For the Group's major business activities, please refer to "6. Segment Information."

2 Basis of Preparation

(1)Compliance with IFRS and first-time adoption

The consolidated financial statements of the Group have been prepared in compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

Pursuant to the provisions of Article 93 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ordinance of the Ministry of Finance No. 28 of 1976), the consolidated financial statements of the Group have been prepared in compliance with IFRS since the Company qualifies as a "Specified Company Complying with Designated International Accounting Standards" prescribed in Article 1-2 of the Ordinance.

The Group has adopted IFRS for the first time in the fiscal year ended February 28, 2018, and the date of transition to IFRSs is March 1, 2016. The impact of the transition to IFRSs on financial position, operating results and cash flows of the Group on the IFRS transition date and in the comparative year is provided in "42. First-Time Adoption."

Except for IFRS that have not been early adopted and exemptions permitted under IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), the Group's accounting policies are in accordance with IFRS effective February 28, 2018.

The exemptions adopted are provided in "42. First-Time Adoption."

(2)Basis of measurement

The Group's consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, etc. measured at fair value as stated in "3. Significant Accounting Policies."

(3)Functional currency and presentation currency

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

(4)Early adoption of new accounting standards

The Group has early adopted IFRS 9 *Financial Instruments* (amended in July 2014; "IFRS 9").

3 Significant Accounting Policies

Significant accounting policies are applied consistently for all periods presented in these consolidated financial statements (including the consolidated statement of financial position on the date of transition to IFRSs), except as otherwise provided.

(1)Basis of consolidation

1)Subsidiaries

Subsidiaries are entities controlled by the Group. Control means the power to govern the financial and operating policies of the entity so as to obtain benefits from its business activities.

The financial statements of subsidiaries are included in the consolidated financial statements of the Group from the date when the Group gains control until the date when it ceases to control the subsidiary.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary. All intergroup balances, transactions and unrealized gains or losses arising from transactions within the Group are eliminated in preparing the consolidated financial statements.

When the Company retains control when there has been partial disposal of ownership interest in a subsidiary, the partial disposal is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity attributable to owners of the parent.

The additional acquisition of non-controlling interests is accounted for as a capital transaction, and therefore no goodwill is recognized with respect to such transactions.

Non-controlling interests in consolidated subsidiaries are identified separately from the Group's equity therein. Comprehensive income of subsidiaries is attributed to owners of the parent company and to the non-controlling interests even if this results in the non-controlling interests having a negative balance.

When subsidiaries' fiscal year end is not the end of February, which is the fiscal year end of the Company, because the legal system of the region where the subsidiaries are located does not allow them to have the same fiscal year end as that of the Company, or for other reasons, adjustments are made by additionally preparing their financial statements as of the fiscal year end of the Company or other means.

2)Associates

An associate is defined as an entity over which the Group has significant influence on financial and operating policies but does not have control.

Investments in associates are recognized at cost at the time of the acquisition, and are accounted for by the equity method thereafter. Goodwill recognized on acquisition (less accumulated impairment) is included in investments in associates.

In cases where the accounting policies applied by an associate are different from those applied by the Group, adjustments are made to the associate's financial statements, if necessary.

For associates whose fiscal year end is not the end of February, which is the fiscal year end of the Company, due to relationships with other shareholders or other reasons, adjustments are made by additionally preparing their financial statements as of the fiscal year end of the Company or other means.

(2)Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the acquisition date fair value of the assets transferred, liabilities assumed and equity instruments issued by the Company in exchange for control of the acquiree. Any excess of the consideration transferred over the fair value of identifiable assets and liabilities is recognized as goodwill in the consolidated statement of financial position. Conversely, any deficit is immediately recognized as income in the consolidated statement of profit or loss.

The Group elects to measure non-controlling interests at fair value, or at the proportionate share of the recognized amounts of identifiable net assets, on a transaction-by-transaction basis.

Acquisition-related costs are expensed as incurred.

The Group applies exemption of IFRS 1 and does not retrospectively apply IFRS 3 *Business Combinations* ("IFRS 3") for the business combinations that occurred before the date of transition to IFRSs (March 1, 2016). Accordingly, goodwill resulted from acquisitions that occurred before the date of transition to IFRSs is recorded at its carrying amount under former accounting standards (Japanese GAAP) on the date of transition to IFRSs.

(3)Foreign currency translation

1)Foreign currency transactions

Each entity of the Group has set its own functional currency as the currency of the primary economic environment in which the entity operates. Transactions of each entity are measured at the functional currency.

When each entity prepares non-consolidated financial statements, transactions in currencies other than its functional currencies are translated using the exchange rate prevailing at the dates of transactions.

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

Exchange differences arising from translation or settlement are recognized as profit or loss. However, when gains or losses on non-monetary items are recorded in other comprehensive income, exchange differences are also recorded in other comprehensive income.

2)Financial statements of foreign subsidiaries, etc.

Assets and liabilities of foreign subsidiaries, etc. are translated into Japanese yen at the exchange rate prevailing at the end of the reporting period. Income and expenses of foreign subsidiaries, etc. are translated into Japanese yen at the average exchange rate for the period, unless there is significant change in the exchange rate during the period. When there is significant change in the exchange rate, the income and expenses are translated using the exchange rate at the transaction date.

Exchange differences arising from translation of the financial statements of foreign subsidiaries, etc. are recognized in other comprehensive income. Exchange differences for foreign subsidiaries, etc. are recognized as profit or loss in the period during which the foreign subsidiaries, etc. are disposed of.

The Group has applied the exemption of IFRS 1, and deemed cumulative exchange differences for foreign subsidiaries, etc. arising before the date of transition as zero and transferred all of them to retained earnings.

(4)Financial instruments

1)Non-derivative financial assets

Trade and other receivables are initially recognized on the date when they are incurred. All other financial assets are initially recognized on the trade date when the Group becomes a party to the contractual provisions of the financial instruments.

An overview of classification and measurement model of non-derivative financial assets is as follows.

(i) Financial assets measured at amortized cost

With regard to investments in debt instruments, when the contractual cash flows consist of principal and interest paid on specified dates, and the Group holds such investments based on a business model whose objective is to hold the instrument to collect contractual cash flows, the debt financial assets are measured at amortized cost. Transaction cost directly attributable to acquisition of financial assets measured at amortized cost is included in the fair value.

After initial recognition, amortization cost is measured using the effective interest method, and impairment losses are deducted where necessary. Interest revenue, foreign exchange gains and losses and impairment losses on financial assets measured at amortized cost are recognized in profit or loss.

(ii) Financial assets measured at fair value through other comprehensive income (financial assets at FVTOCI)

With regard to investments in debt instruments, when the contractual cash flows consist of principal and interest paid on specified dates, and the Group holds such investments based on a business model whose objective is both to collect contractual cash flows and to sell the financial assets, the debt financial assets are measured at fair value. In this case, interest revenue measured using the effective interest method, foreign exchange gains and losses and impairment losses are recognized in profit or loss, and changes in the fair value excluding these are recognized in other comprehensive income (may be reclassified to profit or loss).

For investments in equity instruments that are not held for sale, the Group may make an irrevocable election at initial recognition to measure them at fair value and recognize any changes in the fair value in other comprehensive income. In this case, changes in the fair value are recognized in other comprehensive income (not reclassified to profit or loss). The cumulative amount recognized as other comprehensive income is transferred to retained earnings when the financial asset is derecognized. Dividends are recognized in profit or loss unless they obviously represent a partial recovery of the cost of the investment.

Transaction cost directly attributable to acquisition of financial assets at FVTOCI is included in the fair value.

(iii) Financial assets measured at fair value through profit or loss (financial assets at FVTPL)

Financial assets other than the above are measured at fair value with changes in fair value recognized in profit or loss. Transaction cost directly attributable to acquisition of financial assets at FVTPL is recognized in profit or loss as incurred.

The Group does not designate any debt instrument as measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch.

(iv) Impairment of financial assets

The Group recognizes impairment of debt financial assets measured at amortized cost or at fair value through other comprehensive income based on its evaluation at the end of each reporting period of whether there has been a significant increase in credit risk of financial assets or groups of financial assets since initial recognition. Specifically, when there has been no significant increase in the credit risk since initial recognition, 12-month expected credit losses are recognized as allowance for credit losses. On the other hand, when there has been a significant increase in credit risk since initial recognition, lifetime expected credit losses of the financial assets are recognized as allowance for credit losses. Whether credit risk has significantly increased or not is determined based on the changes in default risk.

For trade receivables arising from the ordinary course of business of the Group, since the period until collection is short, as a practical expedient,expected credit losses of such trade receivables are recognized over their remaining lives from inception based on historical credit loss experience.

(v) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or the contractual rights to receive cash flows from the financial asset are transferred in a transaction where substantially all the risks and rewards incidental to ownership of the financial asset are transferred. Any interests in transferred financial assets that are created or continuously retained by the Group are recognized as a separate asset or liability.

2)Non-derivative financial liabilities

The Group recognizes financial liabilities at the date of transaction when the Group becomes a party to the contract for the financial instrument.

The Group derecognizes a financial liability when the financial liability is extinguished, i.e. when the contractual obligation is discharged or cancelled or expires.

The Group principally has borrowings, bonds, trade payables, other short-term payables, common gift certificates for department stores nationwide, deposits received, etc. as non-derivative financial liabilities. These financial liabilities are initially recognized at fair value and subsequently measured at amortized cost based on the effective interest method.

3)Presentation of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Group has a legally enforceable right to offset 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 to hedge interest rate fluctuation risk and foreign exchange fluctuation risk. Derivatives used by the Group primarily include forward exchange contracts and interest rate swaps.

At the time of initial designation of the hedge, the Group documents the relationship between the hedging instrument and the hedged item, the risk management objective, the strategy for implementation of the hedge transaction, the hedging instrument and the hedged item, the nature of the hedged risk, the method for assessing the effectiveness of the hedge relationship and the method of measuring effectiveness and ineffectiveness.

The Group assesses whether the hedging instrument is expected to be highly effective in achieving offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated, at the inception of the hedge and on an ongoing basis.

To apply cash flow hedges to forecast transactions, the forecast transaction must be highly probable.

Derivatives are initially recognized at fair value and the transaction costs are recognized in profit or loss as incurred. After initial recognition, derivatives are measured at fair value, and any changes in the fair value are accounted for as follows.

(i) Cash flow hedges

When a derivative is designated as a hedging instrument to hedge changes in cash flows attributable to certain risks related to highly probable transactions that could affect recognized assets and liabilities or profit or loss, the effective portion of the hedge in changes in fair value of the derivative is included in other components of equity as “cash flow hedges.” The balance of cash flow hedges is deducted from other comprehensive income in the consolidated statement of comprehensive income and transferred to profit or loss under the same item as the hedging instrument in the same period as the period in which cash flows of the hedged item affect profit or loss. The ineffective portion of the hedge in changes in fair value of the derivative is immediately recognized in profit or loss.

When the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation of the hedge is revoked, the application of hedge accounting, is discontinued prospectively.

If hedge accounting is discontinued, the Group continues to record the balance of cash flow hedges that have already been recognized in other comprehensive income until the forecast transaction affects profit or loss. When forecast transactions are no longer expected to occur, the balance of cash flow hedges is immediately recognized in profit or loss.

(ii) Fair value hedges

Changes in fair value of derivatives that are hedging instruments are recognized in profit or loss. Carrying amounts of hedged items are measured at fair value. For gains or losses on hedged items attributable to hedged risk, any changes in the fair value are recognized in profit or loss.

(5)Cash and cash equivalents

Cash and cash equivalents consist of cash, demand deposits, and short-term investments with maturities of three months or less from the date of acquisition that are readily convertible to cash and subject to insignificant risk of change in value.

(6)Inventories

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 acquisition cost is calculated mainly using the specific identification method, and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition.

(7)Assets held for sale

If the carrying amounts of non-current assets are recovered principally through a sale transaction rather than through continuing use, these assets (or disposal groups) are classified under “assets held for sale.”

The condition for classifying an asset under “assets held for sale” is only met by an asset whose sale is highly probable and which is available for immediate sale in its present condition. Management must have committed to the execution of a sale plan for that asset, and the sale of the asset must be scheduled to be completed within one year from the day it is classified as an asset held for sale.

An asset held for sale is measured at the lower of its carrying amount and fair value less cost to sell. After property, plant and equipment, intangible assets and investment property have been classified under “assets held for sale,” depreciation or amortization will not be applied to these assets.

(8)Property, plant and equipment

Property, plant, and equipment is measured using the cost model and is carried at cost less accumulated depreciation and accumulated impairment.

The acquisition cost includes costs directly attributable to the acquisition of the asset, costs related to disassembly, retirement and site restoration, and borrowing costs that should be capitalized.

Depreciation of assets other than land and construction in progress is recognized using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of major components of property, plant and equipment are as follows:

- Buildings and structures 3 to 50 years
- Machinery and vehicles 2 to 20 years
- Furniture and fixtures 2 to 20 years

The estimated useful lives, residual values and depreciation methods are reviewed at the end of the fiscal year, and if there are any changes made, those changes are applied prospectively as a change in an accounting estimate.

(9)Goodwill

The Group measures goodwill at the amount calculated by deducting the net recognized amount (usually, fair value) of identifiable assets acquired and liabilities assumed at the date of acquisition from the fair value of the consideration for the transfer including the recognized amount of non-controlling interests in the acquiree, which is measured at the date of acquisition.

Goodwill is not amortized. Instead, it is tested for impairment in each period, or whenever there are indications of impairment.

Impairment losses of goodwill are recognized in the consolidated statement of profit or loss, and not reversed subsequently.

In addition, goodwill is carried at cost less accumulated impairment on the consolidated statement of financial position.

(10)Intangible assets

Intangible assets are measured using the cost model and stated at cost less accumulated amortization and accumulated impairment.

Intangible assets acquired separately are measured at cost at initial recognition.

After initial recognition, intangible assets other than goodwill are amortized using the straight-line method over respective estimated useful lives, except for intangible assets with indefinite useful lives. Estimated useful lives of major intangible assets are as follows. In addition, the Group has no intangible assets with indefinite useful lives.

- Software 5 years

The estimated useful lives, residual values and amortization methods are reviewed at the end of the fiscal year, and if there are any changes made, those changes are applied prospectively as a change in an accounting estimate.

(11)Leased assets

Leases are classified as finance leases whenever substantially all the risks and rewards incidental to ownership of leased assets are transferred to the Group under the contract. All other leases are classified as operating leases.

In finance lease transactions, leased assets are recorded in the consolidated statement of financial position at the lower of the fair value of the leased property or the present value of the aggregated minimum lease payments, each determined at the inception of the lease. Leased assets are depreciated over the shorter of their estimated useful lives or the lease term.

Lease payments are apportioned between the finance costs based on the interest method and the payment of the lease obligations, and interest expense is recognized in the consolidated statement of profit or loss.

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term in the consolidated statement of profit or loss. In addition, contingent rent is recognized as an expense in the period in which it is incurred.

Determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement, in accordance with IFRIC 4 *Determining whether an Arrangement contains a Lease* even if the arrangement does not take the legal form of a lease.

(12)Investment property

Investment property is property held to earn rentals or for capital appreciation or both.

Investment property is measured using the cost model and stated at cost less accumulated depreciation and accumulated impairment (For the depreciation method and useful lives, please refer to "(8) Property, plant and equipment").

When the investment property portion of a property cannot be accounted for separately from other portions of a property, the entire property is accounted for as investment property only if the owner-occupied portion is insignificant.

(13)Impairment of non-financial assets

The Group determines at the end of every reporting period whether there is any indication that carrying amounts of the Group's non-financial assets excluding inventories and deferred tax assets may be impaired. If any indication exists, the recoverable amount of the asset is estimated. For goodwill and intangible assets that have indefinite useful lives or not yet available for use, the recoverable amount is estimated at the same time each year.

The recoverable amount of an asset or a cash-generating unit is the larger of its value in use and fair value less cost of disposal. In calculating value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the time value of money and the risks specific to the asset. The cash-generating unit is the smallest group of funds that generates cash inflows, from continuous use, that are largely independent of the cash inflows from other assets or groups of assets.

To test goodwill for impairment, cash-generating units to which the goodwill is allocated are integrated so that impairment is tested reflecting the smallest unit related to the goodwill. Goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

Since the Group's corporate assets do not generate independent cash inflows, the recoverable amount of cash-generating units to which the corporate assets are attributed is determined if there is any indication that corporate assets are impaired.

An impairment loss is recognized as profit or loss if the carrying amount of an asset or cash-generating unit exceeds the estimated recoverable amount. The impairment loss recognized in association with a cash-generating unit is first allocated to reduce the carrying amount of goodwill allocated to this unit, and then the carrying amounts of other assets in the cash-generating unit are reduced on a pro rata basis.

Impairment losses related to goodwill are not reversed. With regard to other assets, for previously recognized impairment losses, the Group assesses whether there is any indication that the loss may have decreased or may no longer exist at the end of each reporting period. An impairment loss is reversed when there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed up to the carrying amount that would have been determined had no impairment loss been recognized, net of necessary depreciation and amortization.

(14)Employee benefits

The Group has established defined benefit plans (such as a corporate pension fund plan and lump-sum retirement benefit plan) as employee retirement benefit plans, and certain consolidated subsidiaries have adopted defined contribution plans.

The projected unit credit method is used to determine the present value of defined benefit obligation, related current service cost and past service cost.

The discount rate is determined by reference to market yields at the end of the fiscal year on high quality corporate bonds corresponding to the discount period established based on the period to the date when the future benefits for each fiscal year are to be paid.

Net defined benefit liability or asset is determined as the present value of defined benefit obligation less the fair value of plan assets.

Remeasurements of net defined benefit liability or asset are recognized as other comprehensive income and immediately transferred from other components of equity to retained earnings. Remeasurements consist of actuarial gains and losses on defined benefit obligation, return on plan assets (excluding the amount of interest revenue on plan assets) and others.

Past service costs are immediately accounted for as profit or loss.

Costs for defined contribution benefits are recognized as expenses when the contributions are made.

(15)Share-based payment

The Company has adopted an officer remuneration BIP (Board Incentive Plan) trust (hereinafter referred to as the "BIP Trust") as a performance-linked, share-based payment to ensure steady execution and progress of the Medium-term Business Plan.

The BIP Trust is a system of granting the Company's shares to officers (in certain cases, the Company's shares are converted into cash within the trust and cash in the amount equivalent to their conversion value is paid) in accordance with the officers' rank and level of achievement of the Medium-term Business Plan, etc. The consideration for the services received is calculated using the fair value of the Company's shares on the grant date. This value is expensed over the vesting period from the grant date, and a corresponding amount is recognized as an increase in equity.

(16)Provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of financial resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. To determine the amount of a provision, when the effect of the time value of money is material, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects the time value of money and the risks specific to the liability. Increases in provisions over time are recognized in finance costs.

Asset retirement obligations

Asset retirement obligations are recorded at the estimated amount of restoration costs for leased stores offices, etc. for which the Group has obligations to restore to their original state at the time when the lease agreement is terminated and costs for removing harmful substances related to non-current assets.

Provision for loss on business liquidation

A loss is recorded for the cost of store dismantlement, etc. that is expected to be borne in the future as a result of business liquidation, store closure and store rebuilding.

(17)Sales revenue

Sales revenue is measured at the fair value of the consideration received from the sale of goods and rendering of services, less any discounts, rebates and sales-related taxes.

1)Sale of goods

Revenue from the sale of goods is recognized when the Group has transferred the significant risks and rewards of ownership of the goods to the buyer; the Group retains neither continuing involvement nor effective control over the goods; it is probable that economic benefits related to the transaction will flow to the Group; and these benefits and corresponding costs can be measured reliably.

For sales under a customer loyalty program in which points are granted at the time of sales, fair value of the points is estimated and the amount less the estimated fair value is recognized as revenue.

2)Rendering of services

Rendering of services of the Group is principally lease of properties, etc. and revenue is recognized according to the lease period or the rendering of services.

3)Interest revenue

Interest revenue is recognized using the effective interest method.

4)Dividends

Divided income is recognized when the right to receive dividends is established.

5)Gross and net presentation of revenue

When the Group conducts transactions as a principal, revenue is presented at the gross amount of consideration received from customers. When the Group conducts transactions as an agent for the benefit of a third party, revenue is presented at the net amount calculated by deducting the amount collected for the benefit of the third party from the gross amount of consideration received from customers.

The following indicators are taken into account in the determination of whether the Group conducts a transaction as a principal or agent:

- Whether the Group has principal responsibility for providing the goods or services to the customer or for fulfilling the order
- Whether the Group has inventory risk before or after the customer order, during shipping or on return
- Whether the Group has discretion in establishing prices directly or indirectly
- Whether the Group bears credit risk of the customer in association with receivables from the customer
- Whether the amount received is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed

(18)Government grants

Government grants are measured and recognized at fair value, if the conditions attaching to them are complied with, and there is reasonable assurance that the grants will be received. Grants for expenses incurred are recorded as income in the same fiscal year as the fiscal year in which the expenses are incurred. Grants related to acquisition of an asset are recorded as other operating income on a systematic basis over the useful life of the asset, and unearned government grants are recorded in liabilities as deferred income.

(19)Income tax

Income tax consists of current taxes and deferred taxes. Income tax is recognized as profit or loss, except for taxes related to business combinations and taxes related to items that are recognized directly in equity or in other comprehensive income.

1)Current taxes

Current taxes are measured in the amount of the expected tax payables to or receivables from the taxation authorities. Calculation of the amount of tax is based on the tax rates and tax laws enacted or substantively enacted by the end of the reporting period in countries where the Group conducts business and earns taxable profit.

2)Deferred taxes

Deferred taxes are recognized for temporary differences between the carrying amounts of assets or liabilities in the statement of financial position and its tax base, and for tax loss carryforwards and unused tax credits.

No deferred tax assets and liabilities are recognized on the following temporary differences:

- Temporary differences arising from the initial recognition of goodwill
- Temporary differences arising from initial recognition of assets and liabilities from transactions that are not business combinations and affect neither accounting income or taxable profit
- Taxable temporary differences associated with investments in subsidiaries and associates 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

A deferred tax liability is recognized for all taxable temporary differences in principle, and a deferred tax asset is recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized.

Carrying amount of deferred tax assets is reassessed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to use all or part of the benefit of the deferred tax assets. Unrecognized deferred tax assets are reassessed each period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates and by 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 tax laws enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity.

(20)Earnings per share

Basic earnings per share are calculated by dividing profit (loss) attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period, adjusted for treasury shares. Diluted earnings per share are calculated by adjusting for the effects of all dilutive potential ordinary shares.

(21)Operating segments

Operating segments are components of entities that engage in business activities that earn revenue and incur costs including transactions with other operating segments. Operating results of all the operating segments, for which the financial information is separately available, are reviewed periodically by the Board of Directors for the purpose of allocating management resources to each segment and assessing performance.

(22)Treasury shares

Treasury shares are valued at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or cancellation of the Company's treasury shares. Any difference between the carrying amount and consideration received on the sale of treasury shares is recognized as share premium.

(23)Borrowing costs

The Group includes borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, i.e., a qualifying asset, as part of the cost until the asset is substantially ready for its intended use or sale.

All borrowing costs other than those above are recognized as profit or loss in the fiscal period in which they are incurred.

4 Significant Accounting Estimates and Judgments

In the preparation of consolidated financial statements, management is required to make judgments, estimates and assumptions that affect application of accounting policies as well as amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The estimates and their underlying assumptions are reviewed on an ongoing basis. The effects of changes in accounting estimates are recognized in the fiscal period in which the estimates are changed and in future periods that are affected. Estimates and judgments made by management that significantly affect the amounts in the consolidated financial statements are as follows.

(1)Property, plant and equipment, goodwill, intangible assets and investment property

The Group conducts impairment tests if there is an indication that property, plant and equipment, goodwill, intangible assets and investment property may be impaired.

Impairment tests are performed by comparing the carrying amount and the recoverable amount of the asset. If the recoverable amount is less than the carrying amount, an impairment loss is recognized.

In calculating the recoverable amount, the Group estimates the discounted present value of future cash flows generated from use of the asset and the discounted present value of future cash flows generated from ultimate disposal of the asset. These estimates are based on management's best estimates, but may differ from actual results due to effects of changes in uncertain future economic conditions.

(2)Useful lives of property, plant and equipment and investment property

The useful lives of property, plant and equipment and investment property are reviewed at the end of the fiscal year, and if any changes are required, those changes are applied prospectively as a change in an accounting estimate.

If revisions to the useful lives become necessary, such revisions could have a material effect on the amounts recognized in the consolidated financial statements in the next fiscal year and beyond.

(3)Recoverability of deferred tax assets

The Group recognizes deferred tax assets to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized, and the judgment of the recoverability is made on the basis of an estimate of taxable profit for each future fiscal year determined based on the Group's business plan.

The estimate of taxable profit for future fiscal years may be affected by changes in uncertain future economic conditions.

(4)Provisions

The Group recognizes asset retirement obligations and provision for loss on business liquidation as provisions in the consolidated statement of financial position.

The amount recognized as provisions is estimated based on best estimates which take into account historical and other information on the reporting date for expenditures necessary to settle current obligations, but may differ from actual results.

(5)Post-employment benefits

The Group has defined benefit and defined contribution post-employment benefit plans for employees and retirees. Present value of defined benefit obligations, service costs and others are determined based on various actuarial assumptions. For actuarial assumptions, a variety of factors, such as discount rates, future payment of salaries, those who withdraw from the plan in the future and life expectancy of members, are estimated. These estimates are made based on management's best estimates, but may differ from actual results due to effects of changes in uncertain future economic conditions and amendment or promulgation of relevant laws and regulations.

5 Accounting Standards That Have Been Published but Not Yet Applied

Accounting standards and interpretations newly established or revised by the approval date of the consolidated financial statements but not early applied by the Group are primarily as follows.

The Group estimates that the impact of the application of IFRS 15 *Revenue from Contracts with Customers* will not be significant, and the impact of the application of IFRS 16 *Leases* is being assessed and cannot be estimated at present.

IFRS	Mandatory application (From the fiscal year beginning on or after)	To be applied by the Group	Description of new standards and interpretations or revisions
IFRS 15 *Revenue from Contracts with Customers*	January 1, 2018	From fiscal year ending February 28, 2019	Revision of accounting treatment for revenue recognition
IFRS 16 *Leases*	January 1, 2019	From fiscal year ending February 29, 2020	Revision of accounting treatment for leases

6 Segment Information

(1)Overview of reportable segments

The reportable segments of the Group are components 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 "Department Store Business," "PARCO Business," "Real Estate Business" and "Credit Finance Business reportable segments 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.

Fiscal year ended February 28, 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	267,873	93,382	4,523	5,448	371,227	81,278	452,505	–	452,505
Inter-segment revenue	359	398	481	4,399	5,638	33,306	38,945	(38,945)	–
Total	268,233	93,780	5,004	9,847	376,866	114,584	491,451	(38,945)	452,505
Segment profit	22,224	13,021	348	2,856	38,450	2,981	41,431	295	41,727
Finance income									1,353
Finance costs									(1,370)
Share of profit (loss) of investments accounted for using the equity method									898
Profit before tax									42,608
Segment assets	419,160	246,434	179,898	66,444	911,938	133,640	1,045,578	(40,509)	1,005,069
Other items									
Depreciation	10,470	5,268	509	5	16,253	1,133	17,387	(102)	17,284
Impairment loss	–	683	–	–	683	90	774	–	774
Amounts invested in entities accounted for using the equity method	2,625	67	–	–	2,692	165	2,858	23,174	26,033
Capital expenditures	13,271	19,206	9,296	2	41,777	739	42,517	(104)	42,413

Notes:
1. The "Other" category is a business segment not included as a reportable segment. It includes wholesaling, design and construction contracting, manufacture and sale of furniture, parking, leasing, etc.
2. Adjustments are made as follows.
   (1) The adjustment for segment profit includes an inter-segment elimination and corporate income and expenses not attributable to any reportable segment. Corporate income and expenses are mainly income and expenses of the company submitting consolidated financial statements that are not attributable to any reportable segment.
   (2) The adjustment for segment assets includes elimination of segment receivables, unrealized adjustments on non-current assets, and assets of the company submitting consolidated financial statements that are not attributable to any reportable segment.
   (3) The adjustment for depreciation consists of inter-segment transfers.
   (4) The adjustment for amounts invested in entities accounted for using the equity method consists of investments accounted for using the equity method of the company submitting consolidated financial statements that are not attributable to any reporting segment.
   (5) The adjustment for capital expenditures consists mainly of inter-segment unrealized profit.
3. Segment profit is adjusted to operating profit in the consolidated financial statements.

Fiscal year ended February 28, 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	273,937	91,254	12,761	5,881	383,834	86,080	469,915	–	469,915
Inter-segment revenue	371	366	665	4,295	5,699	31,765	37,465	(37,465)	–
Total	274,308	91,621	13,427	10,176	389,534	117,845	507,380	(37,465)	469,915
Segment profit	26,659	11,752	4,131	2,742	45,285	4,744	50,030	(483)	49,546
Finance income									1,090
Finance costs									(1,194)
Share of profit (loss) of investments accounted for using the equity method									(1,171)
Profit before tax									48,271
Segment assets	420,990	259,502	186,778	71,123	938,395	114,908	1,053,303	(30,955)	1,022,348
Other items									
Depreciation	10,250	5,662	2,089	6	18,009	931	18,940	(256)	18,683
Impairment loss	396	458	–	–	855	104	959	1,617	2,576
Amounts invested in entities accounted for using the equity method	2,768	37	–	–	2,805	166	2,971	13,454	16,425
Capital expenditures	6,153	15,309	7,450	27	28,939	887	29,827	(3,232)	26,594

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. Adjustments are made as follows.
   (1) The adjustment for segment profit includes an inter-segment elimination and corporate income and expenses not attributable to any reportable segment. Corporate income and expenses are mainly income and expenses of the company submitting consolidated financial statements that are not attributable to any reportable segment.
   (2) The adjustment for segment assets includes elimination of segment receivables, unrealized adjustments on non-current assets, and assets of the company submitting consolidated financial statements that are not attributable to any reportable segment.
   (3) The adjustment for depreciation consists of inter-segment transfers.
   (4) The adjustment for impairment loss consists of impairment loss of the company submitting consolidated financial statements that are not attributable to any reportable segment.
   (5) The adjustment for amounts invested in entities accounted for using the equity method consists of investments accounted for using the equity method of the company submitting consolidated financial statements that are not attributable to any reporting segment.
   (6) The adjustment for capital expenditures consists mainly of inter-segment unrealized profit.
3. Segment profit is adjusted to operating profit in the consolidated financial statements.

(3)Information by geographical area

Sales revenue from external customers

This information has been omitted, as sales revenue from external customers in Japan accounts for a large percentage of sales revenue recorded on the consolidated statement of profit or loss.

Non-current assets

This information has been omitted, as the amount of non-current assets located in Japan accounts for a large percentage of the amount recorded on the consolidated statement of financial position.

7 Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	Millions of yen	Millions of yen	Millions of yen
Cash and deposits	3,109	3,085	2,979
Time deposits with deposit terms of three months or less	25,039	28,781	35,904
Total	28,149	31,867	38,883

8 Trade and Other Receivables

The breakdown of trade and other receivables is as follows.
All these receivables have been classified as financial assets measured at amortized cost.

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	Millions of yen	Millions of yen	Millions of yen
Notes receivable - trade	3,104	2,816	3,022
Accounts receivable - trade	65,736	66,439	64,354
Accounts receivable - other	45,374	49,972	53,591
Other	3,329	3,474	4,679
Total	117,545	122,703	125,649

9 Inventories

The breakdown of inventories is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	Millions of yen	Millions of yen	Millions of yen
Merchandise and finished goods	26,987	27,176	22,955
Work in process	571	389	514
Real estate for sale in process	–	6,406	9,846
Supplies	294	359	437
Total	27,853	34,332	33,755
Inventories scheduled to be sold after 12 months	–	6,406	9,846

The amount of inventories that were recognized as expenses and included in cost of sales was ¥231,137 million in the fiscal year ended February 28, 2017 and ¥246,401 million in the fiscal year ended February 28, 2018.

The amounts of write-down of inventories recognized as expenses are as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	Millions of yen	Millions of yen
Amounts of write-down	485	215

10 Other Financial Assets

The breakdown of other financial assets is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	Millions of yen	Millions of yen	Millions of yen
Financial assets measured at amortized cost			
Time deposits with deposit terms of more than three months	4,291	4,471	4,805
Lease and guarantee deposits	58,132	57,863	56,885
Loans receivable	1,779	1,926	2,008
Other	5,194	6,863	6,305
Financial instruments measured at fair value through profit or loss			
Derivative financial assets	67	70	–
Financial assets measured at fair value through other comprehensive income			
Shares and investments in capital	30,423	29,498	34,079
Total	99,888	100,693	104,084
Total current assets	5,947	5,852	4,067
Total non-current assets	93,941	94,840	100,016

11 Assets Held for Sale

The breakdown of assets held for sale is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	Millions of yen	Millions of yen	Millions of yen
Property, plant and equipment	–	1,049	–
Shares of subsidiaries and associates	–	–	6,732
Total	–	1,049	6,732

As of February 28, 2017, assets held for sale were property, plant and equipment of two company residences held by Daimaru Matsuzakaya Department Stores Co. Ltd., which belongs to the Department Store Business. Since the decision to sell these assets was made, the assets were classified as assets held for sale as of February 28, 2017. The sale was completed in March 2017.

For these assets, gain on sales of non-current assets of ¥1,473 million was recorded.

As of February 28, 2018, assets held for sale were shares of Senshukai Co., Ltd. Since the decision to sell these assets was made, the assets were classified as assets held for sale as of February 28, 2018. The sale was completed in May 2018.

With regard to the assets, because the carrying amount exceeds the fair value less costs to sell, an impairment loss of ¥1,617 million was recorded.

12 Other Assets

The breakdown of other assets is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	Millions of yen	Millions of yen	Millions of yen
Prepaid expense	10,657	9,823	10,095
Advance payments - trade	478	637	517
Suspense payments	3,113	678	400
Retirement benefit assets	5,687	10,742	14,197
Other	2,970	4,579	5,721
Total	22,907	26,460	30,933
Other current assets	8,112	5,462	6,076
Other non-current assets	14,794	20,998	24,857

13 Property, Plant and Equipment

(1)Schedule of changes

Changes in acquisition costs and accumulated depreciation and impairment of property, plant and equipment are as follow:

Acquisition costs

	Land	Buildings and structures	Machinery and vehicles	Furniture and fixtures	Construction in progress	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance as of March 1, 2016	278,754	426,676	3,387	16,917	6,844	732,580
Acquisitions	7,209	10,296	121	1,906	10,325	29,859
Sales or disposals	(6,996)	(13,791)	(81)	(1,575)	–	(22,445)
Transfer among line items	(38,709)	5,420	577	(428)	31,018	(2,122)
Other	–	0	–	(0)	–	0
Balance as of February 28, 2017	240,258	428,601	4,005	16,819	48,188	737,872
Acquisitions	–	8,798	193	1,529	5,128	15,649
Sales or disposals	–	(5,616)	(56)	(952)	–	(6,626)
Transfer among line items	(402)	185	14	(260)	(880)	(1,344)
Exclusion from consolidation	–	(242)	(100)	(204)	–	(547)
Other	–	1	–	0	–	2
Balance as of February 28, 2018	239,856	431,726	4,055	16,931	52,435	745,005

Accumulated depreciation and impairment

	Land	Buildings and structures	Machinery and vehicles	Furniture and fixtures	Construction in progress	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance as of March 1, 2016	(1,704)	(259,983)	(2,379)	(13,137)	–	(277,205)
Depreciation expense	–	(13,592)	(151)	(1,288)	–	(15,033)
Impairment loss	(10)	(308)	(0)	(56)	–	(376)
Sales or disposals	942	10,675	77	1,399	–	13,095
Transfer among line items	118	897	(4)	615	–	1,626
Balance as of February 28, 2017	(653)	(262,312)	(2,458)	(12,468)	–	(277,892)
Depreciation expense	–	(13,713)	(194)	(1,501)	–	(15,409)
Impairment loss	–	(760)	(0)	(111)	–	(872)
Sales or disposals	165	5,057	54	898	–	6,174
Transfer among line items	–	371	(0)	1,019	–	1,390
Exclusion from consolidation	–	232	71	175	–	479
Balance as of February 28, 2018	(487)	(271,124)	(2,527)	(11,988)	–	(286,128)

Carrying amounts

	Land	Buildings and structures	Machinery and vehicles	Furniture and fixtures	Construction in progress	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance as of March 1, 2016	277,050	166,692	1,007	3,779	6,844	455,375
Balance as of February 28, 2017	239,605	166,288	1,546	4,350	48,188	459,979
Balance as of February 28, 2018	239,368	160,601	1,527	4,942	52,435	458,877

Notes: 1. The amount of depreciation expense for property, plant and equipment is included in "cost of sales" and "selling, general and administrative expense" in the consolidated statement of profit or loss.

2. Please refer to "28. Other Operating Income" for the gain on sales of non-current assets for the fiscal years ended February 28, 2017 and February 28, 2018, and "31. Other Operating Expense" for the loss on disposals of non-current assets for the fiscal years ended February 28, 2017 and February 28, 2018.

(2)Leased assets

Carrying amounts of leased assets under finance leases included in property, plant and equipment are as follows:

	Buildings and structures	Machinery and vehicles	Furniture and fixtures	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance as of March 1, 2016	–	423	1,363	1,787
Balance as of February 28, 2017	298	398	1,418	2,115
Balance as of February 28, 2018	642	376	979	1,998

(3)Impairment loss

Property, plant and equipment are grouped based on the smallest cash-generating unit (principally stores) that generates cash inflows largely independent of those of other assets.

For buildings, etc. and land among these property, plant and equipment, the carrying amount is reduced to the recoverable amount and the reduction is recorded as an impairment loss in "other operating expense."

The breakdown of the assets for which impairment losses were recognized by segment is as follows:

Fiscal year ended February 28, 2017

(Millions of yen)

Segment	Company name (Location)	Use	Type	Impairment loss
PARCO Business	PARCO Co., Ltd. (Utsunomiya, Tochigi, etc.)	Store, etc.	Land	5
			Buildings and structures	102
			Machinery and vehicles	0
			Furniture and fixtures	5
			Other	5
	NEUVE A Co., Ltd. (Omiya-ku, Saitama, etc.)	Store, etc.	Buildings and structures	146
			Furniture and fixtures	35
	PARCO SPACE SYSTEMS Co., Ltd. (Naka-ku, Nagoya, etc.)	Parking space, etc.	Leased assets	12
Other	J. Front Foods Co., Ltd. (Tokoname, Aichi, etc.)	Store, etc.	Buildings and structures	3
			Furniture and fixtures	1
	JFR PLAZA Inc. (Taiwan)	Store, etc.	Buildings and structures	55
			Furniture and fixtures	2
			Total	376

1) With regard to the PARCO Business, principally because the recovery of the amount invested cannot be expected due to the decreased profitability of Utsunomiya PARCO, the carrying amount of the cash-generating unit was reduced to the recoverable amount and the reduction was recognized as an impairment loss. The recoverable amount was measured at fair value less costs of disposal. The fair value less costs of disposal was based on the amount assessed by a real-estate appraiser, and the fair value has been classified as Level 3 in the hierarchy.

2) With regard to other segment, primarily because gain or loss arising from operating activities of JFR PLAZA Inc. was expected to continue to be a negative amount, the carrying amount of the cash-generating unit was reduced to the recoverable amount and the reduction was recognized as an impairment loss. The recoverable amount of the cash-generating unit was measured at value in use. Since the value in use based on future cash flows was a negative figure, the carrying amount of each asset was impaired to zero.

There was no reversal of impairment losses recorded in the fiscal year ended February 28, 2017.

Fiscal year ended February 28, 2018

(Millions of yen)

Segment	Company name (Location)	Use	Type	Impairment loss
Department Store Business	Daimaru Matsuzakaya Department Stores Co. Ltd. (Ashiya, Hyogo, etc.)	Store, etc.	Buildings and structures	327
			Machinery and vehicles	23
			Furniture and fixtures	2
			Other	1
PARCO Business	PARCO Co., Ltd. (Utsunomiya, Tochigi, etc.)	Store, etc.	Buildings and structures	138
			Machinery and vehicles	0
			Furniture and fixtures	19
	NEUVE A Co., Ltd. (Shibuya-ku, Tokyo)	Store, etc.	Buildings and structures	213
			Furniture and fixtures	41
Other	J. Front Foods Co., Ltd. (Kita-ku, Osaka)	Store, etc.	Buildings and structures	79
			Furniture and fixtures	24
			Total	872

1) With regard to the Department Store Business, principally because the recovery of the amount invested cannot be expected due to the decreased profitability of Daimaru Ashiya store, the carrying amount of the cash-generating unit was reduced to the recoverable amount and the reduction was recognized as an impairment loss. The recoverable amount of the cash-generating unit was measured at value in use. Since the value in use based on future cash flows was a negative figure, the carrying amount of each asset was impaired to zero.

2) With regard to the PARCO Business, primarily because gain or loss arising from operating activities of Utsunomiya PARCO was expected to continue to be a negative amount, the carrying amount of the cash-generating unit was reduced to the recoverable amount and the reduction was recognized as an impairment loss. The recoverable amount was measured at fair value less costs of disposal. The fair value less costs of disposal was based on the amount assessed by a real-estate appraiser, and the fair value has been classified as Level 3 in the hierarchy.

There was no reversal of impairment losses recorded in the fiscal year ended February 28, 2018.

(4)Assets pledged as collateral

Please refer to "19. Bonds and Borrowings" for assets pledged as collateral.

(5)Commitments

Please refer to "39. Commitments" for commitments related to purchase of property, plant and equipment.

14 Goodwill and Intangible Assets

(1)Changes in acquisition costs, accumulated amortization and impairment and carrying amounts of goodwill and intangible assets

Changes in acquisition costs, accumulated amortization and impairment and carrying amounts of goodwill and intangible assets are as follows:

Acquisition costs

	Goodwill	Other intangible assets		
		Software	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance as of March 1, 2016	568	7,302	891	8,194
Acquisitions	–	1,688	164	1,852
Sales or disposals	–	(443)	(52)	(495)
Transfer among line items	–	434	(525)	(91)
Balance as of February 28, 2017	568	8,981	478	9,459
Acquisitions	–	1,565	8	1,574
Sales or disposals	–	(2,602)	(35)	(2,638)
Transfer among line items	–	–	65	65
Balance as of February 28, 2018	568	7,944	516	8,460

Accumulated amortization and impairment

	Goodwill	Other intangible assets		
		Software	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance as of March 1, 2016	–	(4,877)	(404)	(5,281)
Amortization expense	–	(1,168)	(2)	(1,171)
Impairment loss	(34)	(29)	–	(29)
Sales or disposals	–	111	–	111
Transfer among line items	–	334	2	337
Balance as of February 28, 2017	(34)	(5,629)	(404)	(6,033)
Amortization expense	–	(1,271)	(2)	(1,274)
Impairment loss	(10)	(29)	–	(29)
Sales or disposals	–	2,497	25	2,522
Transfer among line items	–	–	(58)	(58)
Balance as of February 28, 2018	(44)	(4,433)	(439)	(4,872)

Carrying amounts

	Goodwill	Other intangible assets		
		Software	Other	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Balance as of March 1, 2016	568	2,425	487	2,912
Balance as of February 28, 2017	534	3,352	74	3,426
Balance as of February 28, 2018	523	3,511	77	3,588

Note: The amount of amortization expense for intangible assets is included in "cost of sales" and "selling, general and administrative expense" in the consolidated statement of profit or loss.

(2)Leased assets

Carrying amounts of leased assets under finance leases included in intangible assets are as follows:

	Software	Total
	Millions of yen	Millions of yen
Balance as of March 1, 2016	–	–
Balance as of February 28, 2017	54	54
Balance as of February 28, 2018	41	41

(3) Impairment test on goodwill

Goodwill arising in business combinations is allocated to cash-generating units that benefit from the business combination on the acquisition date. The breakdown of the carrying amount of goodwill by segment is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	Millions of yen	Millions of yen	Millions of yen
PARCO Business	568	534	523
Total	568	534	523

The Group tests goodwill for impairment each fiscal year, or whenever there is an indication of impairment.
To test goodwill for impairment, cash-generating units to which the goodwill is allocated are integrated so that impairment is tested reflecting the smallest units related to the goodwill. Goodwill acquired in a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the combination.
In calculating the recoverable amount, the Group estimates the discounted present value of future cash flows generated from use of the asset and the discounted present value of future cash flows generated from ultimate disposal of the asset. These estimates are based on management's best estimates, but may differ from actual results due to effects of changes in uncertain future economic conditions.
There is a risk that impairment may arise if major assumptions used for impairment test are changed. However, the value in use sufficiently exceeds the carrying amount of the cash-generating unit or the group of cash-generating units, and the Group considers value in use unlikely to fall below the carrying amount even if major assumptions used for impairment tests change within a reasonably foreseeable range.

15 Investment Property

(1)Changes in acquisition costs, accumulated amortization and impairment and carrying amounts of investment property and fair values

Changes in acquisition costs, accumulated amortization and impairment and carrying amounts of investment property and fair values as of the end of each fiscal year are as follows:

Acquisition costs

	Investment property
	Millions of yen
Balance as of March 1, 2016	187,756
Acquisitions	9,299
Sales or disposals	(133)
Transfer among line items	1,851
Balance as of February 28, 2017	198,774
Acquisitions	10,624
Sales or disposals	(1,152)
Transfer among line items	(1,085)
Balance as of February 28, 2018	207,160

Accumulated depreciation and impairment

	Investment property
	Millions of yen
Balance as of March 1, 2016	(8,314)
Depreciation expense	(949)
Impairment loss	(323)
Sales or disposals	6
Transfer among line items	(179)
Balance as of February 28, 2017	(9,760)
Depreciation expense	(2,079)
Impairment loss	–
Sales or disposals	853
Transfer among line items	(565)
Balance as of February 28, 2018	(11,551)

Carrying amounts and fair values

(Millions of yen)

	IFRS Transition Date (March 1, 2016)		As of February 28, 2017		As of February 28, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Investment property	179,442	195,186	189,013	210,050	195,608	257,872

(2)Impairment loss

Fair value of investment property is based on real-estate appraisal by an external real-estate appraiser with recent experience in appraisal for the region where the property is located and the type of the property to be valued who holds certified professional qualifications and others. The appraisal is based on market evidence reflecting the transaction price of similar assets in accordance with valuation standards of the country where the property is located.

Investment property is grouped based on the smallest cash-generating unit that generates cash inflows largely independent of those of other assets. However, idle assets are grouped on an individual basis.

For buildings, etc. among these properties, the carrying amount is reduced to the recoverable amount and the reduction is recorded as an impairment loss in "other operating expense."

The breakdown of the assets for which impairment losses were recognized by segment is as follows:

Fiscal year ended February 28, 2017

(Millions of yen)

Segment	Company name (Location)	Use	Type	Impairment loss
PARCO Business	Sannomiya ZERO GATE (Kobe, Hyogo)	Store	Buildings and structures	323
			Furniture and fixtures	0
			Total	323

In regard to Sannomiya ZERO GATE, the Group reduced the carrying amount of the asset group to the recoverable amount and recognized the amount of the reduction as an impairment loss because the recoverable amount fell below the carrying amount following the decision on rebuilding.

The recoverable amount of Sannomiya ZERO GATE was measured at value in use. Since the decision on the rebuilding was made, the carrying amount of buildings, etc. was impaired to zero.

There was no reversal of impairment losses recorded in the fiscal year ended February 28, 2017.

Fiscal year ended February 28, 2018

There was no impairment loss recorded in the fiscal year ended February 28, 2018.

Furthermore, there was no reversal of impairment losses recorded in the fiscal year ended February 28, 2018.

(3)Income and expenses from investment property

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Rental income	7,190	15,024
Direct operating expense	3,274	9,173

The amounts of rental income from investment property and accompanying direct operating expense are included in "sales revenue" and "cost of sales," respectively, in the consolidated statement of profit or loss.

(4) Commitments

Please refer to "39. Commitments" for commitments related to purchase of investment property.

16 Investments Accounted for Using the Equity Method

(1) Investments in associates

The carrying amount of investments in associates that are not individually material is as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Total carrying amount	26,171	26,033	16,425

The Group's share of comprehensive income of associates that are not individually material is as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Share of profit	898	(1,171)
Share of other comprehensive income	(745)	66
Share of comprehensive income	153	(1,105)

17 Income Tax

(1)Deferred tax assets and liabilities

The breakdown of and changes in deferred tax assets and liabilities by major cause are as follows:

Fiscal year ended February 28, 2017

(Millions of yen)

	Balance as of March 1, 2016	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of February 28, 2017
Deferred tax assets				
Retirement benefit liabilities	16,356	(1,208)	(1,662)	13,485
Allowance for credit losses	617	230	–	848
Non-current assets	6,673	(1,300)	–	5,372
Other financial assets	658	(27)	(52)	578
Asset retirement obligations	1,093	112	–	1,205
Tax loss carryforwards	356	(14)	–	341
Gain on adjustment of accounts payable	4,102	(232)	–	3,869
Long-term unearned revenue	–	2,116	–	2,116
Prepaid expense (Land leasehold right)	3,089	(151)	–	2,938
Other	4,324	(344)	159	4,139
Total	37,272	(820)	(1,555)	34,896
Deferred tax liabilities				
Non-current assets	76,880	(1,449)	(7)	75,423
Securities	5,837	–	573	6,410
Other	2,354	(602)	204	1,955
Total	85,071	(2,051)	769	83,789
Net amount of deferred tax assets	(47,799)	1,231	(2,325)	(48,893)

Fiscal year ended February 28, 2018

(Millions of yen)

	Balance as of March 1, 2017	Recognized in profit or loss	Recognized in other comprehensive income	Balance as of February 28, 2018
Deferred tax assets				
Retirement benefit liabilities	13,485	(598)	(994)	11,893
Allowance for credit losses	848	(143)	–	705
Non-current assets	5,372	90	–	5,463
Other financial assets	578	(55)	(1)	520
Asset retirement obligations	1,205	(195)	–	1,009
Tax loss carryforwards	341	47	–	389
Gain on adjustment of accounts payable	3,869	49	–	3,918
Long-term unearned revenue	2,116	(603)	–	1,513
Prepaid expense (Land leasehold right)	2,938	11	–	2,949
Other	4,139	(749)	90	3,480
Total	34,896	(2,146)	(905)	31,844
Deferred tax liabilities				
Non-current assets	75,423	362	(19)	75,767
Securities	6,410	–	1,521	7,932
Other	1,955	(114)	179	2,019
Total	83,789	247	1,681	85,719
Net amount of deferred tax assets	(48,893)	(2,394)	(2,587)	(53,875)

Deferred tax assets and liabilities in the consolidated statement of financial position are as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Deferred tax assets	11,005	8,974	7,286
Deferred tax liabilities	58,805	57,868	61,161
Net amount	(47,799)	(48,893)	(53,875)

In recognizing deferred tax assets, the Group takes into account the possibility that tax loss carryforwards or deductible temporary differences can be utilized against future taxable profit. In the recoverability of deferred tax assets, the Group considers the scheduled reversal of deferred tax liabilities, projected future taxable profit and tax planning.

Based on the result of the above assessment of recoverability of deferred tax assets, the Group has not recognized deferred tax assets for certain tax loss carryforwards and deductible temporary differences. Tax loss carryforwards and deductible temporary differences for which deferred tax assets have not been recognized are as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Tax loss carryforwards	2,853	3,470	4,054
Deductible temporary differences	34,692	36,578	36,086
Total	37,546	40,049	40,140

The deferral period of tax loss carryforwards for which deferred tax assets have not been recognized is as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
1st year	–	99	0
2nd year	76	72	–
3rd year	143	135	–
4th year	382	360	–
5th year and after	2,251	2,802	4,054
Total	2,853	3,470	4,054

(2)Income tax

The effective statutory tax rate used for the calculation of deferred tax assets and liabilities is 30.9%, with respect to the temporary differences expected to be reversed on or after the end of the fiscal year under review (February 28, 2018). Furthermore, the effective statutory tax rate used for the calculation of deferred tax assets and liabilities is 30.6%, with respect to the temporary differences expected to be reversed in and after the fiscal year beginning March 1, 2019.

The breakdown of income tax is as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Current taxes:		
Current period	13,383	14,060
Prior periods	13	(39)
Total current taxes	13,396	14,021
Deferred taxes:		
Origination and reversal of temporary differences, etc.	1,573	1,968
Changes in unrecognized deferred tax assets	(14)	430
Changes in tax rates, etc.	(2,789)	(4)
Total deferred taxes	(1,231)	2,394
Total	12,165	16,415

(3)Reconciliation between effective tax rates

Differences between the effective statutory tax rate and average effective tax rate are as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	%	%
Effective statutory tax rate	33.1	30.9
Entertainment expense	0.7	0.7
Bonuses for directors (and other officers)	0.2	0.3
Dividend income	0.0	(0.0)
Share of profit (loss) of investments accounted for using equity method	(0.7)	0.7
Unrecognized deferred tax assets	0.5	1.9
Effect of changes in tax rates	(6.5)	(0.0)
Other	1.1	(0.6)
Average effective tax rate	28.5	34.0

On March 29, 2016, the “Act for Partial Revision of the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act on Partial Revision of the Local Tax Act, etc.” (Act No. 13 of 2016) were enacted in the Diet, resulting in changes in the rates of income taxes for fiscal years beginning on or after April 1, 2016. In accordance with these revisions, for temporary differences expected to be reversed in fiscal year beginning on or after March 1, 2017, the effective statutory tax rate used to measure deferred tax assets and liabilities has been changed from 32.3% to 30.9%. In addition, for temporary differences expected to be reversed in fiscal years beginning on or after March 1, 2019, the effective statutory tax rate used to measure deferred tax assets and liabilities has been changed to 30.6%.

18 Cash Flow Information

(1)Changes in liabilities arising from financing activities

Changes in liabilities arising from financing activities are as follows:

Fiscal year ended February 28, 2017

	Balance as of March 1, 2016	Changes that affect cash flows	Changes that do not affect cash flows				Balance as of February 28, 2017
			Changes due to business combinations	Exchange differences on translation of foreign operations	Changes in fair values	Other	
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Current borrowings	58,350	(42,105)	–	–	–	39,185	55,430
Commercial papers	30,798	3,001	–	–	–	–	33,799
Non-current borrowings	82,970	46,000	–	(3)	–	(39,185)	89,782
Bonds	26,914	–	–	–	–	25	26,939
Lease obligations	3,295	(826)	–	–	–	1,287	3,756
Derivatives	201	–	–	–	(98)	–	102
Total	202,531	6,069	–	(3)	(98)	1,312	209,811

Derivatives are held in order to hedge interest rate fluctuation risk and foreign exchange fluctuation risk.

Fiscal year ended February 28, 2018

	Balance as of March 1, 2017	Changes that affect cash flows	Changes that do not affect cash flows				Balance as of February 28, 2018
			Changes due to business combinations	Exchange differences on translation of foreign operations	Changes in fair values	Other	
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Current borrowings	55,430	(28,010)	(50)	–	–	17,860	45,230
Commercial papers	33,799	(32,799)	–	–	–	–	1,000
Non-current borrowings	89,782	16,440	(200)	(1)	–	(17,860)	88,160
Bonds	26,939	22,838	–	–	–	34	49,812
Lease obligations	3,756	(723)	–	–	–	2,260	5,293
Derivatives	102	60	–	–	(90)	–	72
Total	209,811	(22,193)	(250)	(1)	(90)	2,294	189,569

Derivatives are held in order to hedge interest rate fluctuation risk and foreign exchange fluctuation risk.

(2)Non-cash transactions

Property, plant and equipment and investment property acquired through finance leases are as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	Millions of yen	Millions of yen
Property, plant and equipment and investment property acquired through finance leases	1,077	2,058

19 Bonds and Borrowings

(1)Breakdown of financial liabilities

The breakdown of "bonds and borrowings" and "other financial liabilities" is as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018	Average interest rate (Note 1)	Repayment deadline
	Millions of yen	Millions of yen	Millions of yen	%	
Current borrowings	58,350	55,430	45,230	0.51	–
Commercial papers	30,798	33,799	1,000	–	–
Current portion of bonds (Note 2)	–	12,000	–	–	–
Non-current borrowings	82,970	89,782	88,160	0.52	From March 2019 to November 2027
Bonds (Note 2)	26,914	14,939	49,812	(Note 2)	(Note 2)
Current lease obligations	826	723	693	–	–
Non-current lease obligations	2,469	3,033	4,599	–	–
Guarantee deposits received	31,883	28,715	29,133	–	–
Other	32,647	31,164	30,624	–	–
Total	266,860	269,588	249,254	–	–
Current liabilities	121,971	132,649	77,041	–	–
Non-current liabilities	144,888	136,939	172,213	–	–

Notes: 1. The average interest rates are weighted-average interest rates based on the contract interest rates and the closing balances for each borrowing.
2. Summary of issuing conditions of bonds is as follows:

(Millions of yen)

Company name	Bond name	Date of issue	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018	Interest rate (%)	Maturity date
J. FRONT RETAILING Co., Ltd.	1st series of unsecured bonds	November 16, 2012	12,000	12,000	–	0.49	November 16, 2017
J. FRONT RETAILING Co., Ltd.	3rd series of unsecured bonds	August 5, 2015	10,000	10,000	10,000	0.30	August 5, 2020
J. FRONT RETAILING Co., Ltd.	4th series of unsecured bonds	August 5, 2015	5,000	5,000	5,000	0.46	August 5, 2022
J. FRONT RETAILING Co., Ltd.	5th series of unsecured bonds	August 4, 2017	–	–	15,000	0.16	August 4, 2022
J. FRONT RETAILING Co., Ltd.	6th series of unsecured bonds	August 4, 2017	–	–	20,000	0.43	August 4, 2027
Total			27,000	27,000	50,000		

Agreements on some of borrowings of the Group require the maintenance of specific financial ratios and net assets at a certain level.

The Group has complied with all the agreements on borrowings.

(2)Assets pledged as collateral

The Group has pledged corporate properties as collateral for borrowings, etc. Secured creditors have the right to receive the payment of their claims prior to other unsecured creditors with regard to the Group's properties.

Assets pledged as collateral for borrowings, etc. are as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Land	6,620	6,620	5,290
Buildings and structures	10,779	10,458	2,638
Other financial assets	265	455	855
Inventories	51	53	–
Total	17,716	17,588	8,784

The corresponding obligations are as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Current borrowings	1,000	500	300
Non-current borrowings	1,625	1,125	825
Trade and other payables	524	430	361
Total	3,149	2,055	1,486

20 Leases

(1)As lessee

1)Finance lease obligations

The total of future minimum lease payments under finance lease arrangements and their present value are as follows:

(Millions of yen)

	Minimum lease payments			Present value of minimum lease payments		
	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Due within one year	846	867	954	826	723	693
Due after one year through five years	1,288	1,940	2,485	1,212	1,371	1,484
Due after five years	1,572	3,306	5,496	1,256	1,662	3,115
Total	3,706	6,115	8,937	3,295	3,756	5,293
Future finance costs	411	2,358	3,643			
Present value of lease obligations	3,295	3,756	5,293			

Future minimum lease payments receivable on non-cancellable subleases as of February 28, 2018 were ¥2,782 million. There is no information to be disclosed on the IFRS transition date and February 28, 2017.

The Group leases system facilities (furniture and fixtures) and others in the information service business as a lessee.

Renewal options and purchase options have been attached to certain lease agreements. In addition, there are no contingent rents payable, no escalation clauses (clause providing for an increase in the lease agreement amount) and no restrictions imposed by lease agreements (such as restrictions related to dividends, additional borrowing and additional leases).

2)Operating Leases

Future minimum lease payments under non-cancellable operating leases are as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Due within one year	4,567	5,437	5,942
Due after one year through five years	12,094	12,800	14,693
Due after five years	9,626	9,953	10,791
Total	26,288	28,191	31,428

Minimum lease payments and contingent rents under operating lease agreements recognized as expenses are as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Minimum lease payments	17,040	15,718
Contingent rents	687	686
Total	17,727	16,405

The Group leases commercial buildings and others as the lessee.

Renewal options and purchase options have been attached to certain lease agreements. In addition, there are no escalation clauses (clause providing for an increase in the lease agreement amount) and no restrictions imposed by lease agreements (such as restrictions related to dividends, additional borrowing and additional lease).

Future minimum lease payments receivable on non-cancellable sublease agreements as of the IFRS transition date, February 28, 2017 and February 28, 2018 were ¥3,945 million, ¥3,886 million and ¥2,814 million, respectively.

Sublease payments receivable recognized as revenue under cancellable or non-cancellable operating leases in the fiscal years ended February 28, 2017 and February 28, 2018 were ¥10,636 million and ¥9,582 million, respectively.

(2)As lessor

1)Finance leases

The information has been omitted due to its immateriality.

2)Operating Leases

Future minimum lease payments receivable under non-cancellable operating leases are as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Due within one year	3,210	3,347	4,645
Due after one year through five years	9,475	7,658	9,155
Due after five years	2,756	2,020	5,520
Total	15,442	13,025	19,321

The Group leases commercial buildings and others as the lessor.

Contingent rents recognized as revenue are as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Contingent rents	27,603	26,874
Total	27,603	26,874

21 Trade and Other Payables

The breakdown of trade and other payables is as follows.
These are all classified as financial liabilities measured at amortized cost.

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Notes payable - trade	2,580	2,711	3,318
Accounts payable - trade	88,188	85,264	82,001
Accounts payable - other	25,463	24,169	26,938
Deposits received	27,022	29,562	27,978
Other	2,283	2,001	1,105
Total	145,537	143,711	141,343

The average payment maturity of notes payable - trade, accounts payable - trade and accounts payable - other is 150 to 155 days, 20 to 60 days and 30 to 63 days, respectively.

22 Employee Benefits

The Group has established defined benefit plans (such as a corporate pension fund plan and lump-sum retirement benefit plan) as employee retirement benefit plans, and certain consolidated subsidiaries have adopted defined contribution plans. In addition, the Group may pay early retirement payments when employees retire before their normal retirement date. Certain consolidated subsidiaries have instituted a retirement benefit trust.

In regard to the corporate pension fund plan, the Group has obligations including paying contributions to the corporate pension fund under the Defined-Benefit Corporate Pension Act, etc. Directors of the fund have responsibilities including a duty of loyalty to comply with laws and regulations, dispositions made by the Minister of Health, Labour and Welfare and Director-Generals of Regional Bureaus of Health and Welfare in accordance with laws and regulations, and the rules of the corporate pension fund and resolutions of the board of representatives, and faithfully execute operations related to managing and operating funds in the interests of the fund. In addition, it is stipulated that directors are forbidden from entering into any asset management contract aimed at serving the interests of a third party, and rules of conduct that include forbidding acts that create a conflict of interest are clarified.

The plan is mainly operated by a corporate pension fund that is independent from the Group. The board of representatives comprises the same number of representatives elected from among the employers (elected representatives) and representatives elected from among employees (mutually elected representatives), and the chairperson (president) of the board of representatives is elected from among the employers.

Decisions of the board of representatives are made by a majority of members in attendance, but in the case of a tie, the President, who is the Chairperson, has the authority to make a decision. However, it is stipulated that decisions related to particularly important matters shall be determined by a majority in excess of the above.

The board of representatives holds the authority to make decisions about all important matters, such as investment policies. Actual asset management is conducted by a managing trustee under an investment service agreement, and directions from the board of representatives regarding investment in individual securities, etc. are forbidden by laws and regulations.

The Company is required to pay contributions to the corporate pension fund and contributions are regularly reviewed within the range permitted by laws and regulations. While the Company is obligated to make contributions stipulated by the fund into the future, in addition to these contributions, it also funds a retirement benefit trust on a voluntary basis.

With regard to the lump-sum retirement benefit plan, the Company is obligated to pay benefits directly to the beneficiaries. There are no statutory requirements regarding funding.

(1)Defined benefit plans

The relationship between the present value of the defined benefit obligations and the fair value of the plan assets and the amounts recognized in the consolidated statement of financial position is as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Present value of funded defined benefit obligations	39,398	36,688	34,605
Fair value of plan assets	(42,108)	(45,039)	(46,994)
Subtotal	(2,709)	(8,351)	(12,388)
Present value of unfunded defined benefit obligations	29,916	29,368	28,100
Liabilities of defined benefit plans	27,207	21,017	15,711
Amounts in the consolidated statement of financial position			
Retirement benefit liabilities	32,894	31,760	29,909
Retirement benefit assets	5,687	10,742	14,197
Net defined benefit liability or (asset) in the consolidated statement of financial position	27,207	21,017	15,711

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

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Present value of defined benefit obligations at beginning of period	69,315	66,057
Service cost	2,288	2,181
Interest expense	103	139
Remeasurements		
Actuarial gains and losses arising from changes in demographic assumptions	(47)	(8)
Actuarial gains and losses arising from changes in financial assumptions	243	(343)
Past service cost	–	–
Benefits paid	(5,897)	(5,332)
Other	50	13
Present value of defined benefit obligations at end of period	66,057	62,705

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

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Fair value of plan assets at beginning of period	42,108	45,039
Interest revenue	68	97
Remeasurements		
Return on plan assets	4,766	2,945
Contributions by employer	2,046	1,991
Benefits paid	(3,951)	(3,080)
Other	–	–
Fair value of plan assets at end of period	45,039	46,994

The fair value of each item of plan assets is as follows:

IFRS transition date (March 1, 2016) (Millions of yen)

Items of plan assets	Assets with quoted market prices in active markets	Assets without quoted market prices in active markets	Total
Cash and cash equivalents	1,197	–	1,197
Domestic shares	15,598	–	15,598
Overseas shares	3,701	–	3,701
Jointly operated trusts (shares)	–	616	616
Domestic bonds	381	10,647	11,028
Overseas bonds	55	2,008	2,063
Jointly operated trusts (public and corporate bonds)	–	1,711	1,711
General accounts of life insurance companies	–	5,527	5,527
Other	51	612	663
Total	20,984	21,123	42,108

As of February 28, 2017 (Millions of yen)

Items of plan assets	Assets with quoted market prices in active markets	Assets without quoted market prices in active markets	Total
Cash and cash equivalents	518	–	518
Domestic shares	18,553	–	18,553
Overseas shares	3,767	–	3,767
Jointly operated trusts (shares)	–	894	894
Domestic bonds	397	12,691	13,089
Overseas bonds	48	330	379
Jointly operated trusts (public and corporate bonds)	–	1,526	1,526
General accounts of life insurance companies	–	5,579	5,579
Other	–	731	731
Total	23,286	21,753	45,039

As of February 28, 2018 (Millions of yen)

Items of plan assets	Assets with quoted market prices in active markets	Assets without quoted market prices in active markets	Total
Cash and cash equivalents	1,058	–	1,058
Domestic shares	19,534	–	19,534
Overseas shares	4,161	–	4,161
Jointly operated trusts (shares)	–	1,036	1,036
Domestic bonds	360	12,512	12,872
Overseas bonds	91	200	291
Jointly operated trusts (public and corporate bonds)	–	1,610	1,610
General accounts of life insurance companies	–	5,672	5,672
Other	–	755	755
Total	25,206	21,788	46,994

The Group's management of plan assets is aimed at ensuring the necessary income over the long-term to reliably make pension and lump-sum payments into the future. Its investment policy to achieve this is fundamentally to make diversified investments after analyzing characteristics of risks and returns for each asset and taking into account correlations between respective assets.

Specifically, the Group develops the policy asset mix that is the optimal combination now and in the future after taking into account the expected rate of return and risks on eligible investments, and the managing trustee manages assets accordingly.

In regard to plan assets, the status of asset management is managed primarily by regularly reviewing the financial position of the plans, formulating long-term management policies, and monitoring the status of asset allocation.

The Group's pension funding is determined after taking into consideration various factors such as the allowable limit of deductible expenses under tax laws, the funding status of plan assets and actuarial calculations. Contributions to plan assets are intended to cover benefits for services already rendered, in addition to benefits for services to be rendered in future.

In accordance with the provisions of the Defined-Benefit Corporate Pension Act, the rules of the corporate pension fund stipulate that the amount of contributions shall be recalculated every three to five years with a record date of the fiscal year end, in order to preserve a balanced budget into the future. During the recalculation, the basic rates related to contributions (expected interest rates, expected mortality rates, expected withdrawal rates, expected salary increase indexes, expected number of new participants, etc.) are reviewed, and the appropriateness of the contributions is reverified.

The Group plans to pay contributions of ¥1,173 million in the fiscal year ending February 28, 2019.

The weighted average duration of the defined benefit obligations as of February 28, 2018 was 7.24 years.

The main actuarial assumptions used to calculate the present value of the defined benefit obligations are as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	%	%	%
Discount rate	Mainly 0.1	Mainly 0.2	Mainly 0.2
Anticipated rate of salary increase	Mainly 3.8	Mainly 3.8	Mainly 3.8

Sensitivity analyses are conducted based on changes in assumptions that are reasonably possible, as of the end of the fiscal year.

The sensitivity analysis is based on the premise that all actuarial assumptions remain constant other than the actuarial assumption that is the focus of the analysis, but in reality there is a possibility that changes in other actuarial assumptions may affect the sensitivity analysis.

If there are no other changes to assumptions, the sensitivity of defined benefit obligations at the end of each fiscal year to changes in the discount rate is as follows. Furthermore, the Group does not expect any changes in the anticipated rate of salary increase.

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Changes in discount rate			
0.5% increase	(2,504)	(2,458)	(2,169)
0.5% decrease	2,828	2,576	2,312

Amounts recognized as retirement benefit expense are as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Service cost	2,288	2,181
Net interest	34	41
Other	141	197
Total	2,464	2,420

(2)Defined contribution plans

The amount recorded as expenses in relation to defined contribution plans is ¥439 million for the fiscal year ended February 28, 2017 and ¥470 million for the fiscal year ended February 28, 2018, and included in "cost of sales" and "selling, general and administrative expense" in the consolidated statement of profit or loss.

(3)Early retirement payments

Early retirement payments may be provided when an employee retires prior to the normal retirement date.

The amount recorded as expenses in relation to early retirement payments was ¥196 million in the fiscal year ended February 28, 2017 and included in "other operating expense" in the consolidated statement of profit or loss.

(4)Employee salary expense

The amount of employee salary expense was ¥77,648 million in the fiscal year ended February 28, 2017 and ¥77,879 million in the fiscal year ended February 28, 2018, and included in "cost of sales" and "selling, general and administrative expense" in the consolidated statement of profit or loss.

23 Provisions

The breakdown and changes of provisions are as follows:

(Millions of yen)

	Asset retirement obligations	Provision for loss on business liquidation	Total
Balance as of March 1, 2016	3,531	3,488	7,019
Increase during the period	341	1,862	2,204
Discounted interest expenses for the period	45	–	45
Decrease during the period (use)	(123)	(1,481)	(1,605)
Decrease during the period (reversal)	–	(327)	(327)
Other	(0)	–	(0)
Balance as of February 28, 2017	3,794	3,541	7,335
Increase during the period	137	–	137
Discounted interest expenses for the period	43	–	43
Decrease during the period (use)	(386)	(1,889)	(2,275)
Decrease during the period (reversal)	–	(432)	(432)
Other	(11)	–	(11)
Balance as of February 28, 2018	3,577	1,219	4,797

The breakdown of provisions in the consolidated statement of financial position is as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Current liabilities	1,826	2,177	202
Non-current liabilities	5,193	5,158	4,595
Total	7,019	7,335	4,797

(1)Asset retirement obligations

Asset retirement obligations are recorded at the estimated amount of restoration costs for rented stores, offices, etc. for which the Group has obligations to restore to their original state at the time when the lease agreement is terminated and costs for removing harmful substances related to non-current assets. These expenses are expected to be mainly paid after two to 50 years or more have passed, and will be affected by future business plans, etc.

(2)Provision for loss on business liquidation

An amount of loss is recorded for the cost of store dismantlement, etc. that is expected to be borne in the future as a result of business liquidation, store closure and store rebuilding. These expenses are expected to be mainly paid within two years after store closure or rebuilding, but will be affected by changes in the surrounding environment and others.

24 Other Liabilities

(1)The breakdown of other liabilities is as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Accrued bonuses	5,913	5,699	5,652
Accrued paid absences	2,679	2,849	2,840
Advances received	3,269	5,554	13,946
Deferred income	5,300	5,137	5,103
Accruals for gift certificates (Note)	22,490	23,866	25,254
Other accrued expense	7,116	6,127	6,796
Other	10,812	17,011	16,201
Total	57,579	66,243	75,792
Other current liabilities	52,636	54,407	64,561
Other non-current liabilities	4,942	11,836	11,231

Note: These represent gift certificates issued by Daimaru Matsuzakaya Tomonokai Co., Ltd., a consolidated subsidiary of the Company.

(2)The breakdown of deferred income is as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Customer loyalty program	5,159	5,010	4,988
Government grants	140	127	114
Total	5,300	5,137	5,103

25 Equity and Other Equity Items

(1)Capital and share premium

Changes in the number of authorized shares, number of issued shares, and the balances of capital, etc. are as follows:

	Number of authorized shares (Shares)	Number of issued shares (Shares)	Capital (Millions of yen)	Share premium (Millions of yen)
IFRS transition date (March 1, 2016)	1,000,000,000	268,119,164	30,000	209,565
Changes during the period	–	–	–	(14)
As of February 28, 2017	1,000,000,000	268,119,164	30,000	209,551
Changes during the period	–	2,446,600	1,974	2,313
As of February 28, 2018	1,000,000,000	270,565,764	31,974	211,864

Note: All shares issued by the Company are ordinary shares with no restrictions and no par value. Issued shares are fully paid.

(2)Treasury shares

Changes in the number and balance of treasury shares are as follows:

	Number of shares (Shares)	Amount (Millions of yen)
IFRS transition date (March 1, 2016)	6,575,238	(11,286)
Changes during the period	(1,644)	4
As of February 28, 2017	6,573,594	(11,281)
Changes during the period	2,454,750	(3,962)
As of February 28, 2018	9,028,344	(15,244)

Notes: 1. The major factor for changes during the fiscal year ended February 28, 2017 was purchase or demand for sale of shares less than one unit.
2. The major factor for changes during the fiscal year ended February 28, 2018 was an inclusion of the Company's shares held by the officer remuneration BIP trust into the above number of treasury shares.

(3)Nature and purposes of share premium and retained earnings

1)Share premium

It is stipulated in the Companies Act of Japan ("Companies Act"), that at least 50% of the payment of certain issues of common shares shall be credited to capital. The remainder of the payment shall be credited to legal capital surplus included in share premium. In addition, the Companies Act permits, upon approval of the shareholders meeting, the transfer of amounts from legal capital surplus to capital.

2)Retained earnings

Under the Companies Act, 10% of the amount paid as dividends from surplus shall be reserved as legal capital surplus (an item of share premium) or legal retained earnings (an item of retained earnings), until the total amount of legal capital surplus and legal retained earnings reaches 25% of capital. The legal retained earnings may be used to eliminate or reduce a deficit, or may be reversed by resolution of the shareholders meeting.

(4)Nature and purposes of other components of equity

Exchange differences on translation of foreign operations

Exchange differences on translation of foreign operations represent the translation differences that occurred when consolidating financial statements denominated in a foreign currency for companies including foreign subsidiaries.

Cash flow hedges

The Group uses derivatives to hedge the risk of fluctuations in future cash flows. Cash flow hedges represent the effective portion of changes in fair value of derivative transactions designated as cash flow hedges.

Financial assets measured through other comprehensive income

Financial assets measured at fair value through other comprehensive income represent the changes in fair value of financial assets measured at fair value through other comprehensive income.

Remeasurements of defined benefit plans

Remeasurements of defined benefit plans are the effect of difference between actuarial assumptions as at the beginning of the period and actual results in defined benefit plans and the effect of changes in actuarial assumptions. They are recognized in other comprehensive income when incurred and immediately transferred from other components of equity to retained earnings.

26 Dividends

(1)Dividends paid

Fiscal year ended February 28, 2017

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting held on April 7, 2016	Ordinary shares	3,661	14.00	February 29, 2016	May 6, 2016
Board of Directors meeting held on October 4, 2016	Ordinary shares	3,661	14.00	August 31, 2016	November 9, 2016

Fiscal year ended February 28, 2018

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting held on April 10, 2017	Ordinary shares	3,661	14.00	February 28, 2017	May 8, 2017
Board of Directors meeting held on October 10, 2017	Ordinary shares	4,223	16.00	August 31, 2017	November 8, 2017

Note: Total amount of dividends resolved at the Board of Directors meeting held on October 10, 2017 includes ¥39 million of dividends paid to the Company's shares held by the officer remuneration BIP trust.

(2)Dividends whose effective date belongs to the following fiscal year

Fiscal year ended February 28, 2017

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting held on April 10, 2017	Ordinary shares	3,661	14.00	February 28, 2017	May 8, 2017

Fiscal year ended February 28, 2018

Resolution	Class of shares	Total amount of dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
Board of Directors meeting held on April 10, 2018	Ordinary shares	5,015	19.00	February 28, 2018	May 7, 2018

Note: Total amount of dividends resolved at the Board of Directors meeting held on April 10, 2018 includes ¥46 million of dividends paid to the Company's shares held by the officer remuneration BIP trust.

27 Sales Revenue

The breakdown of sales revenue is as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Revenue on sales of goods	380,298	396,658
Revenue on real estate leasing, etc.	13,545	17,156
Revenue on other services	58,662	56,100
Total	452,505	469,915

28 Other Operating Income

The breakdown of other operating income is as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Gain on sales of non-current assets	1,953	3,103
Gain on sales of shares of subsidiaries and associates	–	1,926
Compensation income	975	1,951
Other	1,154	1,985
Total	4,084	8,967

29 Cost of Sales

The breakdown of cost of sales is as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Cost of goods sold	214,643	228,875
Personnel expense	16,529	17,549
Depreciation expense	5,974	7,739
Other	2,791	2,815
Total	239,938	256,979

30 Selling, General and Administrative Expense

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

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Personnel expense	63,513	62,989
Depreciation and amortization expense	11,310	10,944
Advertising expense	11,763	10,534
Rent expense	24,821	24,372
Operational costs	8,259	8,148
Other	47,999	49,698
Total	167,668	166,688

31 Other Operating Expense

The breakdown of other operating expense is as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Loss on disposals of non-current assets	2,051	1,609
Impairment loss	774	2,576
Loss on business liquidation	2,155	–
Other	2,274	1,482
Total	7,255	5,668

32 Finance Income and Finance Costs

The breakdown of finance income is as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Interest income		
Financial assets measured at amortized cost	926	758
Dividend income		
Equity financial assets measured at fair value through other comprehensive income	395	330
Other	31	0
Total	1,353	1,090

The breakdown of finance costs is as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Interest expense		
Financial liabilities measured at amortized cost	1,222	1,065
Other	148	129
Total	1,370	1,194

33 Other Comprehensive Income

The amount arising during the period and reclassification adjustments to profit or loss for each item of other comprehensive income and tax effect are as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Financial assets measured at fair value through other comprehensive income		
Amount arising during the period	2,740	4,985
Tax effect	(573)	(1,521)
Financial assets measured at fair value through other comprehensive income	2,167	3,464
Remeasurements of defined benefit plans		
Amount arising during the period	4,567	3,292
Tax effect	(1,662)	(994)
Remeasurements of defined benefit plans	2,905	2,298
Share of other comprehensive income of entities accounted for using the equity method		
Amount arising during the period	(615)	(6)
Reclassification adjustments	203	2
Share of other comprehensive income of entities accounted for using the equity method	(411)	(3)
Total items that will not be reclassified to profit or loss	4,660	5,758
Items that may be reclassified to profit or loss		
Cash flow hedges		
Amount arising during the period	245	55
Reclassification adjustments	–	–
Before tax effect	245	55
Tax effect	(81)	2
Cash flow hedges	164	57
Exchange differences on translation of foreign operations		
Amount arising during the period	(118)	71
Reclassification adjustments	–	(2)
Before tax effect	(118)	69
Tax effect	–	–
Exchange differences on translation of foreign operations	(118)	69
Share of other comprehensive income of entities accounted for using the equity method		
Amount arising during the period	(497)	102
Reclassification adjustments	–	–
Before tax effect	(497)	102
Tax effect	164	(31)
Share of other comprehensive income of entities accounted for using the equity method	(333)	70
Total items that may be reclassified to profit or loss	(286)	197
Total other comprehensive income	4,374	5,955

34 Earnings per Share

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Profit attributable to ordinary equity holders of the parent entity (Millions of yen)	27,052	28,486
Adjustment to profit	–	–
Profit used to calculate diluted earnings per share (Millions of yen)	27,052	28,486
Average number of ordinary shares during the period (Shares)	261,547,498	261,541,599
Increase in the number of ordinary shares:		
Share acquisition rights (Shares)	2,048	–
Officer remuneration BIP trust (Shares)	–	151,779
Average number of diluted ordinary shares during the period (Shares)	261,549,546	261,693,378
Basic earnings per share (Yen)	103.43	108.92
Diluted earnings per share (Yen)	103.43	108.86

Note: The calculation of basic earnings per share and diluted earnings per share excludes the number of the Company's shares owned by the officer remuneration BIP trust from the average number of ordinary shares during the period because such shares are treated as the Company's treasury shares.

The overview of potential ordinary shares that are not included in the calculation of diluted earnings per share because they have no dilutive effect is as follows:

Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
The Company's share acquisition rights: 8,500 shares by resolution of the annual shareholders meeting held on May 25, 2006	The Company's share acquisition rights: N/A

35 Share-Based Payment

(1)Stock option plan

1)Details of stock option plan

The Company has adopted a stock option plan. Stock options are granted to the Company's Directors, Audit & Supervisory Board Members, Executive Officers and employees in accordance with the content approved at its shareholders meeting. All stock options issued by the Company are equity-settled share-based payment.

The exercise period has been set forth in the allotment agreement. If any stock option is not exercised within that period, the option is forfeited. No vesting conditions have been attached.

Details of stock options issued by the Company are as follows:

	Grant date	Exercise period	Number of stock options granted (Shares)	Outstanding (Shares)	Exercise price (Yen)
No. 5 plan	May 25, 2006	From September 3, 2007 to July 14, 2026	63,000	8,500	1

Note: In regard to the stock options for the No. 5 plan, the Company newly granted the stock options granted by Matsuzakaya Co., Ltd. as per the stock transfer contract entered into on September 3, 2007.

2)The number and weighted average exercise prices of stock options

	Fiscal year ended February 28, 2017		Fiscal year ended February 28, 2018	
	Number of shares (Shares)	Weighted average exercise price (Yen)	Number of shares (Shares)	Weighted average exercise price (Yen)
Outstanding at beginning of period	8,500	1	–	–
Granted	–	–	–	–
Exercised	8,500	1	–	–
Forfeited	–	–	–	–
Expired	–	–	–	–
Outstanding at end of period	–	–	–	–
Exercisable at end of period	–	–	–	–
Weighted average remaining contractual life	– years		– years	

The expiration date and exercise price of unexercised options in relation to stock options issued by the Company are as follows:

	Expiration date	Exercise price (Yen)	Number of shares (Shares)		
			IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
No. 5 plan	July 14, 2026	1	8,500	–	–
Total			8,500	–	–

Stock options exercised in the fiscal year ended February 28, 2017 are as follows:

	Number of shares exercised	Exercise date	Share price at exercise date (Yen)
No. 5 plan	8,500	May 27, 2016	1,244
Total	8,500		

No stock options were exercised in the fiscal year ended February 28, 2018.

(2)Performance-linked share-based payment plan

1)Details of performance-linked share-based payment plan

The Company has adopted an officer remuneration BIP (Board Incentive Plan) trust (the "BIP Trust") as a performance-linked share-based payment for officers to ensure steady execution and progress of the Medium-term Business Plan. The BIP Trust is a system of granting points (one point = one share) in accordance with the officers' rank and level of achievement of the Medium-term Business Plan, etc. and distributing the Company's shares to officers (in certain cases, the Company's shares are converted into cash within the trust and cash in the amount equivalent to their conversion value is paid) according to level of annual accomplishments in performance each year for short-term PS, according to level of achievement of the Medium-term Business Plan (five years) after the completion of the Medium-term Business Plan for medium- to long-term PS, and in the number of shares according to the rank at the time of retirement from the position for RS. The consideration for the services received is calculated using the fair value of the Company's shares on the grant date. The consideration is expensed over the vesting period from the grant date, and a corresponding amount is recognized as an increase in equity.

2)Number of points granted during the period and weighted average fair value of the points

In the measurement of fair value, a calculation is made based on the market price of the Company's shares adjusted after taking into account expected dividends. The number of points granted during the period and weighted average fair value of the points are as follows:

	Fiscal year ended February 28, 2018		
	Short-term PS	Medium- to long-term PS	RS
Number of points granted during the period	133,201	90,382	22,584
Weighted average fair value (yen)	1,533	1,477	1,477

Notes: 1. PS (Performance Share) means shares granted when a predetermined performance target for a certain period was achieved.
2. RS (Restricted Stock) means shares granted with restriction on transfer of shares for a certain period established.

(3)Share-based payment expense

The amount recognized as share-based payment expense, which is included in the consolidated statement of profit or loss, was ¥395 million in the fiscal year ended February 28, 2018.

36 Financial Instruments

(1) Capital management

In order to realize the Group's vision to "Create and Bring 'New Happiness' to Your Life," the Group works to increase productivity and managerial efficiency as a group and conducts capital management with the aim of achieving sustained improvement in corporate value.

The Group aims to achieve an optimal balance of debt to equity which takes into consideration the cost of capital.

Major indicators monitored in the capital management are ROE and D/E ratio.

The Group's, management also monitors and checks these indicators to maintain sound financial condition and increase managerial efficiency including effective utilization of assets.

Furthermore, the Group is not subject to any material capital regulations.

(2)Financial risk management policy

In the course of its business activities, the Group is exposed to financial risks (credit risk, liquidity risk, foreign currency risk, and interest rate risk), and engages in risk management to reduce these financial risks.

The Group uses derivative transactions to avoid foreign currency fluctuation risk or interest rate fluctuation risk and, in accordance with its policy, does not carry out any speculative transactions.

1)Credit risk management

Credit risk is the risk that a business partner will default on contractual obligations and cause the Group to incur a financial loss.

To address this risk, each Group company carries out due date management and balance management for each business partner and seeks early identification and mitigation of collectability concerns.

The Group's receivables are from a number of business partners in a wide range of industries and regions.

The Group does not have credit risks overly concentrated in a single counterparty or a group to which the counterparty belongs.

The maximum exposure to credit risk on financial assets is the carrying amount after impairment presented in consolidated financial statements. The Group does not hold any properties as collateral or other credit enhancements in regard to exposure to these credit risks.

The Group considers whether or not there has been a significant increase in credit risk from the date of initial recognition, and establishes an allowance for credit losses. Specifically, when there is no significant increase in credit risk since initial recognition, expected credit losses for 12 months are measured as allowance for credit losses.

On the other hand, when there is a significant increase in credit risk since initial recognition, lifetime expected credit losses are measured as allowance for credit losses. Whether credit risk has significantly increased or not is determined based on changes in default risk.

Regardless of the above, for trade receivables, lease receivables, etc. without a significant financing component, allowance for credit losses is measured at an amount equal to lifetime expected credit losses.

In the measurement of these expected credit losses, reasonable and supportable information that is available at the fiscal year end is used for past events, current situations and projection of future economic conditions such as credit loss experience in past years, status of delinquent receivables and financial conditions of creditors. Expected credit losses on financial assets for which credit risk has not increased significantly and trade receivables, etc. without a significant financing component are set altogether as a group and collectively assessed based on historical credit losses because they have largely homogeneous credit risk characteristics.

Expected credit losses on financial assets for which credit risk has increased significantly and credit-impaired financial assets are individually assessed, taking into account historical credit loss experience, future estimated collectible amount and others.

If a debtor does not make a payment within 90 days after the due date, the situation is considered as default.

When financial assets are assessed as fully or partially uncollectible and the Group determines, as a result of credit research, that it is appropriate to write off the assets, the Group directly writes off the carrying amount of the credit-impaired financial assets.

(i)Changes in allowance for credit losses

The Group considers whether or not there has been a significant increase in credit risk from the date of initial recognition, and establishes an allowance for credit losses.

Changes in allowance for credit losses are as follows:

(Millions of yen)

	12-month expected credit losses	Lifetime expected credit losses (Assessed collectively)	Lifetime expected credit losses (Assessed individually)	Credit-impaired financial assets (Lifetime expected credit losses)
Balance as of March 1, 2016	81	11	2,016	713
Transfer to lifetime expected credit losses	(22)	–	44	(22)
Transfer to credit-impaired financial assets	(46)	–	(78)	125
Transfer to 12-month expected credit losses	0	–	(0)	(0)
Changes due to new arising and collection of financial assets	74	(2)	109	265
Financial assets that were derecognized during the period	–	–	(5)	–
Direct write-off	(0)	–	(40)	(230)
Changes in model/risk variables	–	–	–	0
Balance as of February 28, 2017	86	9	2,044	851
Transfer to lifetime expected credit losses	(21)	–	47	(25)
Transfer to credit-impaired financial assets	(50)	–	(117)	167
Transfer to 12-month expected credit losses	0	–	(0)	(0)
Changes due to new arising and collection of financial assets	92	(1)	149	180
Financial assets that were derecognized during the period	–	(0)	(4)	(9)
Direct write-off	(0)	–	(97)	(231)
Changes in model/risk variables	–	–	–	(0)
Balance as of February 28, 2018	106	8	2,021	932

(ii)The carrying amounts of financial assets by risk type (before deducting allowance for credit losses)are as follows:

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
	Millions of yen	Millions of yen	Millions of yen
Trade and other receivables (12-month expected credit losses)	43,111	45,014	45,308
Trade and other receivables (Lifetime expected credit losses)	74,028	77,260	79,896
Financial assets whose credit risk has increased significantly since initial recognition (Lifetime expected credit losses)	2,514	2,568	2,551
Credit-impaired financial assets (Lifetime expected credit losses)	713	851	961

2)Liquidity risk management

Liquidity risk is the risk of failure to make payments on the due date when the Group is required to fulfill its payment obligations for financial liabilities due.

The Group manages liquidity risk with methods such as preparing monthly cash flow management plans at all companies, and securing sufficient liquidity on hand through commitment line contracts and overdraft contracts with its main financing banks.

The balance of financial liabilities (other than lease obligations, etc.) by payment due date is as follows:

(Millions of yen)

IFRS Transition Date (March 1, 2016)	Carrying amount	Contractual amount	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	145,537	145,537	145,537	–	–	–	–	–
Current borrowings	58,350	58,519	58,519	–	–	–	–	–
Commercial paper	30,798	30,800	30,800	–	–	–	–	–
Non-current borrowings	82,970	84,518	659	37,341	16,745	11,273	17,264	1,234
Bonds	26,914	27,405	112	12,112	53	53	10,038	5,035
Other financial liabilities	64,145	64,082	31,826	4,071	3,079	2,346	1,892	20,865
Derivative financial liabilities								
Forward exchange	79	79	79	–	–	–	–	–
Interest rate swaps	305	305	102	95	56	52	–	–
Total	409,102	411,249	267,637	53,620	19,935	13,725	29,195	27,135

Note: Receivables and liabilities resulting from derivative transactions are presented on a net basis.

(Millions of yen)

As of February 28, 2017	Carrying amount	Contractual amount	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	143,711	143,711	143,711	–	–	–	–	–
Current borrowings	55,430	55,532	55,532	–	–	–	–	–
Commercial paper	33,799	33,800	33,800	–	–	–	–	–
Non-current borrowings	89,782	91,797	483	18,487	13,016	19,508	11,336	28,965
Bonds	26,939	27,293	12,112	53	53	10,038	23	5,011
Other financial liabilities	59,737	60,018	30,661	3,709	3,361	2,189	2,691	17,405
Derivative financial liabilities								
Interest rate swaps	141	141	67	39	35	–	–	–
Total	409,543	412,295	276,368	22,289	16,466	31,735	14,051	51,382

Note: Receivables and liabilities resulting from derivative transactions are presented on a net basis.

(Millions of yen)

As of February 28, 2018	Carrying amount	Contractual amount	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Trade and other payables	141,343	141,343	141,343	–	–	–	–	–
Current borrowings	45,230	45,296	45,296	–	–	–	–	–
Commercial paper	1,000	1,000	1,000	–	–	–	–	–
Non-current borrowings	88,160	90,144	443	13,085	19,576	11,404	7,694	37,940
Bonds	49,812	51,115	164	164	10,149	134	20,110	20,391
Other financial liabilities	59,680	59,666	30,109	4,033	2,989	3,124	1,768	17,641
Derivative financial liabilities								
Forward exchange	24	24	24	–	–	–	–	–
Interest rate swaps	52	52	27	25	–	–	–	–
Total	385,304	388,643	218,408	17,308	32,715	14,663	29,573	75,972

Note: Receivables and liabilities resulting from derivative transactions are presented on a net basis.

If funds are temporarily insufficient for the payment of trade payables, etc., the Group procures funds with the following financing methods. Fund procurement methods and the status of procurement in each fiscal year were as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Commitment line			
Used	–	–	–
Unused	23,200	25,200	25,200
Total	23,200	25,200	25,200
Overdraft limit			
Used	8,420	8,320	9,220
Unused	138,410	142,210	140,710
Total	146,830	150,530	149,930
Commercial paper issuance limit			
Used	30,800	33,800	1,000
Unused	39,200	36,200	69,000
Total	70,000	70,000	70,000

3)Foreign currency risk management

The Group conducts transactions denominated in foreign currencies and is exposed to the risk of fluctuations in exchange rates of foreign currencies against the Japanese yen, but this has immaterial effect on profit before tax.

4)Interest rate risk management

The Group is exposed to various interest rate fluctuation risks in the course of its business activities. Particularly, fluctuations in interest rates greatly affect borrowing costs.

To mitigate such interest rate fluctuation risks, the Group hedges the risks by conducting interest rate swap transactions and other means. Payment of interest has an immaterial effect on the Group's profit or loss.

(3)Fair value of financial instruments

1)Calculation method of fair value

(Cash and cash equivalents, trade and other receivables, other financial assets (current), trade and other payables, and other financial liabilities (current))

The carrying amount is used as the fair value of these instruments, given that the fair value is almost the same as the carrying amount, as they are mostly settled in a short period of time.

Derivatives are measured as financial assets or liabilities measured at fair value through profit or loss based on prices presented by the counterparty financial institutions. Carrying amount and fair value of major financial instruments by type are as follows.

(Other financial assets (non-current), and other financial liabilities (non-current))

The fair value of listed shares is measured based on market prices at the last date of a fiscal year. The fair value of unlisted shares is measured by discounted future cash flows, valuation model based on profit and net assets, comparable company analysis method or the like.

Other financial assets or other financial liabilities measured at amortized cost mainly consist of lease and guarantee deposits paid or lease and guarantee deposits received, and their fair value is measured at present value calculated by discounting future cash flows at the current market interest rates or the like.

(Bonds and borrowings)

Bonds and borrowings are mainly measured by present value obtained by discounting future cash flows at interest rates that would be charged for a new similar borrowing

2)Financial instruments measured at amortized cost

The carrying amounts and fair values of financial instruments measured at amortized cost are as follows.

Financial instruments measured at fair value and financial instruments whose carrying amount closely approximates fair value are not included in the following table.

	IFRS Transition Date (March 1, 2016)		As of February 28, 2017		As of February 28, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Financial assets:						
Other financial assets (non-current)	63,517	71,403	65,342	73,782	65,937	70,441
Total	63,517	71,403	65,342	73,782	65,937	70,441
Financial liabilities:						
Borrowings	141,320	142,551	145,212	145,802	133,390	133,551
Bonds	26,914	27,175	26,939	27,057	49,812	50,168
Other financial liabilities (non-current)	34,801	34,824	32,114	32,094	34,192	34,179
Total	203,037	204,551	204,266	204,954	217,395	217,899

3) Fair value measurement

In regard to financial instruments measured at fair value, the fair value amounts measured are categorized into three levels, from Level 1 to Level 3, in accordance with the observability and materiality of inputs used in measurement.

Level 1: Market prices for identical assets or liabilities in active markets

Level 2: Fair value, other than Level 1, that is determined by directly or indirectly using an observable price

Level 3: Fair value that is determined using a valuation technique including unobservable inputs

The fair value of financial instruments measured at fair value is as follows.

Any transfer between levels in the fair value hierarchy is recognized on each reporting date. In the fiscal years ended February 28, 2017 and February 28, 2018, there was no transfer between Level 1, Level 2 and Level 3.

IFRS Transition Date (March 1, 2016)

Financial assets measured at fair value on a recurring basis

	Level 1	Level 2	Level 3	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Assets:				
Financial assets measured at fair value through profit or loss				
Derivative financial assets	–	67	–	67
Financial assets measured at fair value through other comprehensive income				
Other financial assets (non-current)	11,970	–	18,453	30,423
Total	11,970	67	18,453	30,491
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	–	384	–	384
Total	–	384	–	384

As of February 28, 2017

Financial assets measured at fair value on a recurring basis

	Level 1	Level 2	Level 3	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Assets:				
Financial assets measured at fair value through profit or loss				
Derivative financial assets	–	70	–	70
Financial assets measured at fair value through other comprehensive income				
Other financial assets (non-current)	9,967	–	19,531	29,498
Total	9,967	70	19,531	29,568
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	–	141	–	141
Total	–	141	–	141

As of February 28, 2018

Financial assets measured at fair value on a recurring basis

	Level 1	Level 2	Level 3	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Assets:				
Financial assets measured at fair value through profit or loss				
Derivative financial assets	–	–	–	–
Financial assets measured at fair value through other comprehensive income				
Other financial assets (non-current)	11,276	–	22,802	34,079
Total	11,276	–	22,802	34,079
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Derivative financial liabilities	–	77	–	77
Total	–	77	–	77

Financial assets measured at fair value on a non-recurring basis

	Level 1	Level 2	Level 3	Total
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Assets:				
Assets held for sale	6,732	–	–	6,732
Total	6,732	–	–	6,732

Note: For reasons for the measurement, please refer to note “11. Assets Held for Sale.”

4)Changes, from the beginning to the end of the period, in financial instruments whose fair value measurement is categorized within Level 3

Changes, from the beginning to the end of the period, in financial instruments whose fair value measurement is categorized within Level 3 are as follows:

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
	Millions of yen	Millions of yen
Balance at beginning of period	18,453	19,531
Other comprehensive income (Note)	891	3,124
Purchase	191	179
Sale	(5)	(26)
Other	–	(7)
Balance at end of period	19,531	22,802

Note: Gains or losses included in other comprehensive income relate to financial assets measured at fair value through other comprehensive income as of the reporting date. These gains or losses are included in "financial assets measured at fair value through other comprehensive income" in the consolidated statement of comprehensive income.

Financial instruments classified as Level 3 principally consist of unlisted shares. Fair value of unlisted shares is measured by the Group's department in charge using the latest figures available for each quarter in accordance with the Group's accounting policies and others, and reported together with the basis for changes in fair value to superiors and to management where necessary.
Illiquidity discount that is a significant unobservable input used for the measurement of fair value classified as Level 3 in the fair value hierarchy is 30% in the calculation.
A significant increase (decrease) in this input will cause a significant decrease (increase) in the fair value.

(4)Fair value hierarchy for assets and liabilities that are not measured at fair value but of which fair value has been disclosed

Fair values of financial instruments measured at amortized cost are as follows.
Financial instruments measured at fair value and financial instruments whose carrying amount closely approximates their fair value are not included in the following tables.

(Millions of yen)

IFRS Transition Date (March 1, 2016)	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at amortized cost				
Other financial assets (non-current)	–	3,747	67,655	71,403
Total	–	3,747	67,655	71,403
Financial liabilities:				
Financial liabilities measured at amortized cost				
Borrowings	–	142,551	–	142,551
Bonds	–	27,175	–	27,175
Other financial liabilities (non-current)	–	2,469	32,355	34,824
Total	–	172,196	32,355	204,551

(Millions of yen)

As of February 28, 2017	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at amortized cost				
Other financial assets (non-current)	–	4,450	69,331	73,782
Total	–	4,450	69,331	73,782
Financial liabilities:				
Financial liabilities measured at amortized cost				
Borrowings	–	145,802	–	145,802
Bonds	–	27,057	–	27,057
Other financial liabilities (non-current)	–	3,033	29,060	32,094
Total	–	175,894	29,060	204,954

(Millions of yen)

As of February 28, 2018	Level 1	Level 2	Level 3	Total
Financial assets:				
Financial assets measured at amortized cost				
Other financial assets (non-current)	–	5,464	64,976	70,441
Total	–	5,464	64,976	70,441
Financial liabilities:				
Financial liabilities measured at amortized cost				
Borrowings	–	133,551	–	133,551
Bonds	–	50,168	–	50,168
Other financial liabilities (non-current)	–	4,599	29,580	34,179
Total	–	188,319	29,580	217,899

(5)Financial assets measured at fair value through other comprehensive income

The Group designates investments in equity instruments held in order to maintain and strengthen business relationships as financial assets measured at fair value through other comprehensive income in the light of the holding purpose.

1)Fair value of securities

In regard to investments in equity instruments designated as financial assets measured at fair value through other comprehensive income, the fair value of the main securities is as follows:

IFRS Transition Date (March 1, 2016)

(Millions of yen)

Securities	Amount
Asahi Properties Inc.	5,167
Takenaka Corporation	5,156
Ono Pharmaceutical Co., Ltd.	2,196
Mitsubishi UFJ Financial Group, Inc.	1,136
Toho Gas Co., Ltd.	877
Kyushu Kangyo Co., Ltd.	861
Misonoza Theatrical Corporation	716
Chunichi Shimbun Co., Ltd.	709
OSAKA GAS CO., LTD.	667
Wacoal Holdings Corp.	626

As of February 28, 2017

(Millions of yen)

Securities	Amount
Asahi Properties Inc.	5,608
Takenaka Corporation	5,070
Misonoza Theatrical Corporation	1,028
Toho Gas Co., Ltd.	900
Kyushu Kangyo Co., Ltd.	850
Shiseido Company, Limited	751
Chunichi Shimbun Co., Ltd.	739
Mitsubishi UFJ Financial Group, Inc.	733
Wacoal Holdings Corp.	681
OSAKA GAS CO., LTD.	672

As of February 28, 2018

(Millions of yen)

Securities	Amount
Asahi Properties Inc.	6,427
Takenaka Corporation	6,289
Misonoza Theatrical Corporation	1,810
Chunichi Shimbun Co., Ltd.	920
Nagoya Dome Company, Limited	855
Shiseido Company, Limited	821
Wacoal Holdings Corp.	767
Nagashima Resort Co., Ltd.	761
Mitsubishi UFJ Financial Group, Inc.	757
Nintendo Co., Ltd.	736

2)Dividend income

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Investments derecognized during the period	68	15
Investments held at end of period	326	315
Total	395	330

3)Financial assets measured at fair value through other comprehensive income derecognized during the period

The Group sells financial assets measured at fair value through other comprehensive income for the purpose of periodic portfolio revisions, management of risk assets and others. The fair value on the date of sale thereof and cumulative gain or loss on the sale (before tax) are as follows.

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Fair value on the date of sale	3,194	1,355
Cumulative gain (loss) on sale	1,258	751

4) Transfer to retained earnings

The Group transfers cumulative gain or loss caused by fluctuations in the fair value of financial assets measured at fair value through other comprehensive income to retained earnings when the asset is derecognized. In the fiscal years ended February 28, 2017 and February 28, 2018, cumulative gain or loss (after tax) in other comprehensive income transferred to retained earnings were ¥775 million and ¥472 million, respectively.

(6)Derivatives and hedges

1)Cash flow hedges

Cash flow hedges are hedges to avoid the risk of fluctuations in future cash flows. The Company utilizes forward exchange contracts to hedge fluctuations in cash flows for forecast transactions, and interest rate swaps and currency swaps to hedge fluctuations in cash flows related to floating-rate borrowings. Changes in fair value of derivative transactions designated as cash flow hedges are recognized as other comprehensive income, included in other components of equity, and transferred to profit (loss) when the hedged item is recognized as profit (loss).

The details of hedging instruments designated as cash flow hedges are as follows:

IFRS transition date (March 1, 2016)

	Contract value	With term exceeding one year	Carrying amount		Line item in the consolidated statement of financial position	Changes in fair value used to calculate the ineffective portion of the hedge
			Assets	Liabilities		
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		Millions of yen
Foreign currency risk						
Forward exchange contracts	1,912	–	–	79	Other financial liabilities	–
Currency swaps	300	300	67	–	Other financial assets	–
Interest rate risk						
Interest rate swaps	29,280	22,820	–	305	Other financial liabilities	–

As of February 28, 2017

	Contract value	With term exceeding one year	Carrying amount		Line item in the consolidated statement of financial position	Changes in fair value used to calculate the ineffective portion of the hedge
			Assets	Liabilities		
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		Millions of yen
Foreign currency risk						
Forward exchange contracts	1,733	–	2	–	Other financial assets	–
Currency swaps	300	–	67		Other financial assets	–
Interest rate risk						
Interest rate swaps	22,820	10,260	–	141	Other financial liabilities	–

As of February 28, 2018

	Contract value	With term exceeding one year	Carrying amount		Line item in the consolidated statement of financial position	Changes in fair value used to calculate the ineffective portion of the hedge
			Assets	Liabilities		
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		Millions of yen
Foreign currency risk						
Forward exchange contracts	2,116	–	–	24	Other financial liabilities	–
Interest rate risk						
Interest rate swaps	10,260	4,700	–	52	Other financial liabilities	–

(7)Transfer of financial assets

The Group securitizes certain trade receivables by discounting bills. However, some of such securitized receivables impose an obligation to pay on the Group retrospectively if the debtor does not make a payment. Since these securitized receivables do not meet requirements for derecognition of financial assets, they are not derecognized.

As of the IFRS transition date, February 28, 2017 and February 28, 2018, such transferred assets were recorded in “trade and other receivables” and the amount of money received arising at the time when the assets were transferred as related liabilities was recorded in “bonds and borrowings,” at ¥18,150 million each.

37 Subsidiaries

(1)Subsidiaries

Status of subsidiaries is as follows:

Name	Location	Reportable segment	Equity ratio (%)		
			IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Daimaru Matsuzakaya Department Stores Co. Ltd.	Japan	Department Store Business	100.0	100.0	100.0
The Hakata Daimaru, Inc.	Japan	Department Store Business	69.9	69.9	69.9
The Shimonoseki Daimaru, Inc.	Japan	Department Store Business	100.0	100.0	100.0
Kochi Daimaru Co., Ltd.	Japan	Department Store Business	100.0	100.0	100.0
PARCO Co., Ltd.	Japan	PARCO Business	64.9	64.9	64.9
PARCO (SINGAPORE) PTE LTD	Singapore	PARCO Business	64.9	64.9	64.9
NEUVE A Co., Ltd.	Japan	PARCO Business	64.9	64.9	64.9
PARCO SPACE SYSTEMS Co., Ltd.	Japan	PARCO Business	64.9	64.9	64.9
PARCO Digital Marketing Co., Ltd.	Japan	PARCO Business	64.9	64.9	64.9
JAPAN RETAIL ADVISORS Co., Ltd.	Japan	PARCO Business	64.9	64.9	64.9
JFR Card Co., Ltd.	Japan	Credit Finance Business	100.0	100.0	100.0
Daimaru Kogyo, Ltd.	Japan	Other (Wholesale)	100.0	100.0	100.0
Daimaru Kogyo International Trading (Shanghai) Co., Ltd.	China	Other (Wholesale)	100.0	100.0	100.0
Daimaru Kogyo (Thailand) Co., Ltd.	Thailand	Other (Wholesale)	99.9	99.9	99.9
Taiwan Daimaru Kogyo, Ltd.	Taiwan	Other (Wholesale)	100.0	100.0	100.0
J. Front Design & Construction Co., Ltd.	Japan	Other (Design and construction contracting/ manufacture and sale of furniture)	100.0	100.0	100.0
Dimples' Co., Ltd.	Japan	Other (Staffing service)	100.0	100.0	100.0
J. Front Foods Co., Ltd.	Japan	Other (Restaurant)	100.0	100.0	100.0
Consumer Product End-Use Research Institute Co., Ltd.	Japan	Other (Merchandise test and quality control)	100.0	100.0	100.0
Angel Park Co., Ltd.	Japan	Other (Parking)	50.2	50.2	50.2
JFR Service Co. Ltd.	Japan	Other (Leasing/ parking management)	100.0	100.0	100.0
JFR Information Center Co., Ltd.	Japan	Other (Information service)	100.0	100.0	100.0
Daimaru Matsuzakaya Sales Associates Co. Ltd.	Japan	Other (Commissioned sales and store operations)	100.0	100.0	100.0
Daimaru Matsuzakaya Tomonokai Co., Ltd.	Japan	Other (Specified prepaid transaction service)	100.0	100.0	100.0
JFR Online Co. Ltd.	Japan	Other (Direct marketing)	100.0	100.0	100.0
JFR PLAZA Inc.	Taiwan	Other (Retailing of general goods)	90.0	90.0	–
Forest Co., Ltd.	Japan	Other (Direct marketing)	100.0	100.0	–

Notes: 1. All business operations of JFR Online Co. Ltd. were transferred to Feel Life Inc., a wholly owned subsidiary of Senshukai Co., Ltd. on March 1, 2017.
2. JFR Plaza Inc. was dissolved on June 30, 2017 and the liquidation was completed as of December 31, 2017.
3. The Company transferred all shares of Forest Co., Ltd. on August 31, 2017.

(2)Subsidiaries with material non-controlling interests

The Company has subsidiaries with material non-controlling interests. Information on these subsidiaries is as follows:

PARCO Co., Ltd. and companies under its control

Fiscal year ended February 28, 2017

Location	Non-controlling interests in subsidiaries (%)	Profit (loss) distributed to non-controlling interests (millions of yen)	Accumulated non-controlling interests (millions of yen)	Dividends paid to non-controlling interests (millions of yen)
Japan	35.1	2,884	41,822	746

Fiscal year ended February 28, 2018

Location	Non-controlling interests in subsidiaries (%)	Profit (loss) distributed to non-controlling interests (millions of yen)	Accumulated non-controlling interests (millions of yen)	Dividends paid to non-controlling interests (millions of yen)
Japan	35.1	2,748	43,744	817

Condensed financial statements before elimination of intragroup transactions including goodwill and consolidation adjustments at the time of acquisition are as follows:

IFRS Transition Date (March 1, 2016)

(Millions of yen)

Cash and cash equivalents	6,584
Other current assets	16,338
Non-current assets other than goodwill	212,691
Goodwill	44
Total assets	235,659
Current liabilities	52,627
Non-current liabilities	69,423
Total liabilities	122,051

Fiscal year ended February 28, 2017

(Millions of yen)

Cash and cash equivalents	10,522
Other current assets	23,025
Non-current assets other than goodwill	215,248
Goodwill	10
Total assets	248,806
Current liabilities	54,636
Non-current liabilities	73,568
Total liabilities	128,205
Sales revenue	93,780
Profit (loss)	8,795
Comprehensive income	9,124
Net cash flows from (used in) operating activities	7,690
Net cash flows from (used in) investing activities	(4,961)
Net cash flows from (used in) financing activities	1,210
Net increase (decrease) in cash and cash equivalents	3,939

Fiscal year ended February 28, 2018

(Millions of yen)

Cash and cash equivalents	12,464
Other current assets	26,781
Non-current assets other than goodwill	222,590
Goodwill	–
Total assets	261,835
Current liabilities	52,514
Non-current liabilities	83,010
Total liabilities	135,524
Sales revenue	92,621
Profit (loss)	7,809
Comprehensive income	8,045
Net cash flows from (used in) operating activities	21,386
Net cash flows from (used in) investing activities	(11,552)
Net cash flows from (used in) financing activities	(7,897)
Net increase (decrease) in cash and cash equivalents	1,936

(3)Transfer of subsidiaries

The Group transferred all shares of Forest Co., Ltd. on August 31, 2017 to EDION Corporation.

Major components of assets and liabilities at the time of loss of control over companies that are no longer subsidiaries due to sale of the shares, and relationship between consideration received and balance of revenue with expense due to the sale are as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Components of assets at the time of the loss of control	–	
Current assets	–	2,772
Non-current assets	–	396
Components of liabilities at the time of the loss of control	–	
Current liabilities	–	2,573
Non-current liabilities	–	204

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Cash consideration received	–	3,311
Collection of loans receivable	–	(789)
Expenses incidental to the sale of shares	–	(130)
Of assets at the time of the loss of control, cash and cash equivalents	–	(443)
Additional acquisition of shares	–	(107)
Proceeds from sale of subsidiaries	–	1,839

38 Related Parties

(1)Transactions with related parties

With regard to transactions with related parties (excluding those eliminated in the consolidated financial statements), the note has been omitted because there were no significant transactions, etc.

(2)Remuneration for key management personnel

Description of the remuneration for Directors and other key management personnel of the Group is as follows:

(Millions of yen)

	Fiscal year ended February 28, 2017	Fiscal year ended February 28, 2018
Officer remuneration	2,179	2,127
Retirement benefit	2	1
Share-based payment	–	395
Total	2,182	2,525

39 Commitments

Commitments related to expenditures after the reporting date are as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Purchase of property, plant and equipment	2,473	1,039	28,462
Purchase of investment property	–	890	583
Total	2,473	1,929	29,045

40 Contingent Liabilities

Amount of guarantee obligations

The Group has provided guarantee for its employees' transactions with financial institutions as follows:

(Millions of yen)

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017	As of February 28, 2018
Debt guarantees for third parties	77	63	–
Debt guarantees for employees	11	11	10
Total	88	75	10

41 Subsequent Events

No items to report.

42 First-Time Adoption

The Group disclosed the consolidated financial statements under IFRSs from the fiscal year ended February 28, 2018. The most recent consolidated financial statements prepared in accordance with Japanese GAAP are those for the fiscal year ended February 28, 2017, and the date of transition to IFRSs is March 1, 2016.

(1)Exemption in IFRS 1

In principle, IFRSs require companies adopting IFRSs for the first time (first-time adopters) to apply standards required by IFRSs retrospectively. However, for some of the standards required under IFRSs, IFRS 1 specifies standards for which the exemption is applied mandatorily and those for which the exemption is applied voluntarily. The effect of the application of these exemptions was adjusted in retained earnings and other components of equity as of the date of transition to IFRSs.

The major items of exemption adopted by the Group in transitioning from Japanese GAAP to IFRSs are as follows:

- Business combinations

  First-time adopters are permitted to elect not to apply IFRS 3 retrospectively to business combinations that occurred prior to the date of transition to IFRSs. The Group elected to apply this exemption and did not apply IFRS 3 retrospectively to business combinations that occurred before the date of transition to IFRSs. Consequently, the amount of goodwill arising from business combinations before the date of transition is based on the carrying amount as of the date of transition under Japanese GAAP. The Group performed an impairment test on goodwill at the date of transition regardless of whether there was any indication that the goodwill might be impaired.

- Deemed cost

  IFRS 1 permits an entity to measure items of property, plant and equipment, investment property and intangible assets at the date of transition to IFRSs at their fair value and use that fair value as deemed cost at that date. The Group uses the fair value at the date of transition to IFRSs as deemed cost at the date of transition to IFRSs for certain items of property, plant and equipment and investment property.

- Exchange differences on translation of foreign operations

  IFRS 1 permits an entity to elect the cumulative amount of exchange differences on translation of foreign operations to be deemed to be zero at the date of transition to IFRSs. The Group elected to deem cumulative exchange differences on translation of foreign operations as zero at the date of transition to IFRSs.

- Designation of financial instruments recognized prior to date of transition

  IFRS 1 permits an entity to determine the classification under IFRS 9 on the basis of the facts and circumstances that exist at the date of transition, rather than the facts and circumstances at the initial recognition. In addition, an entity is permitted to designate changes in fair value of equity financial assets as financial assets measured through other comprehensive income based on the facts and circumstances that exist at the date of transition.

  The Group has determined the classification under IFRS 9 based on the facts and circumstances that existed at the date of transition and designated certain equity financial assets as financial assets measured through other comprehensive income.

- Share-based payment

  Under IFRS 1, an entity is recommended to apply IFRS 2 "Share-based payment" (hereinafter "IFRS 2") to share-based payments granted on and after November 7, 2002 and vested before the date of transition to IFRSs, though it is not mandatory. The Group elected not to apply IFRS 2 to share-based payments vested before the date of transition.

- Leases

  Under IFRS 1, a first-time adopter may evaluate whether an arrangement contains a lease or not at the date of transition to IFRSs. The Group adopts this exemption and evaluates whether an arrangement contains a lease or not based on facts and circumstances existing at that date.

- Decommissioning liabilities included in the cost of property, plant and equipment

  For liabilities related to obligations for decommissioning, etc. that are included in the cost of property, plant and equipment, IFRS 1 permits an entity to choose either the method where retrospective application is made from the time when obligations for decommissioning, etc. initially arise, or the method where the obligations for decommissioning, etc. are measured at the date of transition.

  The Group has chosen the method where obligations for decommissioning, etc. included in the cost of property, plant and equipment are measured at the date of transition.

- Borrowing costs

  IFRS 1 permits an entity to commence capitalization of borrowing costs relating to qualifying assets at the date of transition to IFRSs. The Group has adopted this exemption and continues to expense borrowing costs for construction projects that were started and finished before the date of transition.

  For borrowing costs for construction projects that were started before the date of transition and are in progress on and after the date of transition, the Group expenses the borrowing costs incurred before the date of transition, and capitalizes those incurred on and after the date of transition in accordance with IAS 23 *Borrowing Costs.*

(2)Mandatory exceptions of IFRS 1

IFRS 1 prohibits retrospective application of IFRSs for estimates, derecognition of financial assets and financial liabilities, hedge accounting, non-controlling interests, and classification and measurement of financial assets. The Company has prospectively applied IFRSs for these items from the date of transition.

Reconciliations that are required to be disclosed under the first-time adoption of IFRSs are as follows:

Reconciliation of equity as of March 1, 2016 (IFRS Transition Date)

Line items under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Differences in recognition and measure-ment	IFRSs	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Assets						Assets
Current assets						Current assets
Cash and deposits	30,039	(1,891)	1	28,149	(1)	Cash and cash equivalents
Notes and accounts receivable - trade	68,049	30,606	18,889	117,545	(2), (3) (4), (5)	Trade and other receivables
Securities	1,233	4,648	65	5,947	(1), (3) (6)	Other financial assets
Inventories	28,205	–	(352)	27,853	(4)	Inventories
Deferred tax assets	11,671	(11,671)	–	–	(7)	
Other	41,865	(33,537)	(215)	8,112	(2), (6)	Other current assets
Allowance for doubtful accounts	(173)	173	–	–	(3)	
Total current assets	180,890	(11,671)	18,389	187,608		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	668,651	(191,783)	(21,492)	455,375	(8), (9)	Property, plant and equipment
	–	202,441	(22,998)	179,442	(8), (9)	Investment property
Intangible assets						
Goodwill	568	–	–	568	(10)	Goodwill
Other	40,876	(37,711)	(251)	2,912	(6)	Intangible assets
	–	26,284	(113)	26,171	(11)	Investments accounted for using the equity method
Investment securities	46,985	34,125	12,830	93,941	(3), (6) (11)	Other financial assets
Long-term loans receivable	1,503	(1,503)	–	–	(6)	
Lease and guarantee deposits	61,515	(61,515)	–	–	(6)	
Deferred tax assets	5,112	4,418	1,474	11,005	(7)	Deferred tax assets
Net defined benefit asset	5,687	(5,687)	–	–	(6)	
Other	9,980	32,640	(27,826)	14,794	(6)	Other non-current assets
Allowance for doubtful accounts	(2,710)	2,710	–	–	(3)	
Total non-current assets	838,170	4,418	(58,377)	784,211		Total non-current assets
Deferred assets						
Bond issuance cost	85	–	(85)	–	(12)	
Total deferred assets	85	–	(85)	–		
Total assets	1,019,146	(7,252)	(40,073)	971,820		Total assets

Line items under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Differences in recognition and measure-ment	IFRSs	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Short-term loans payable	40,219	30,798	18,131	89,148	(5), (13)	Bonds and borrowings
Commercial papers	30,798	(30,798)	–	–	(13)	
Notes and accounts payable - trade	90,768	39,275	15,493	145,537	(2)	Trade and other payables
Gift certificates	38,599	(38,599)	–	–	(14)	
	–	17,943	14,878	32,822	(6), (14)	Other financial liabilities
Income taxes payable	8,322	–	0	8,322		Income tax payables
Advances received	19,318	(19,318)	–	–	(14)	
Provision for bonuses	5,709	–	(5,709)	–	(14)	
Provision for directors' bonuses	204	–	(204)	–	(14)	
Provision for sales returns	21	–	(21)	–	(14)	
Provision for books unsold	121	–	(121)	–	(14)	
Provision for sales promotion expenses	709	–	(709)	–	(14)	
Reserve for gift certificates	13,913	–	(13,913)	–	(14)	
Provision for loss on business liquidation	487	(487)	–	–	(14)	
Provision for loss on stores rebuilding	1,245	(1,245)	–	–	(14)	
	–	1,826	–	1,826	(14)	Provisions
Other	52,504	604	(472)	52,636	(2), (6), (14)	Other current liabilities
Total current liabilities	302,944	–	27,351	330,295		Total current liabilities
Non-current liabilities						Non-current liabilities
Bonds payable	27,000	(27,000)	–	–	(13)	
Long-term loans payable	82,905	27,000	(19)	109,885	(12), (13)	Bonds and borrowings
	–	33,778	1,224	35,003	(6)	Other financial liabilities
Net defined benefit liability	32,707	–	187	32,894	(15)	Retirement benefit liabilities
Deferred tax liabilities for land revaluation	1,161	–	(1,161)	–	(7)	
Provision for directors' retirement benefits	37	–	(37)	–	(14)	
Provision for loss on business liquidation	564	(564)	–	–	(14)	
Provision for loss on stores rebuilding	1,191	(1,191)	–	–	(14)	
	–	4,862	330	5,193	(14)	Provisions
Deferred tax liabilities	89,158	(7,252)	(23,100)	58,805	(7)	Deferred tax liabilities
Other	40,882	(36,886)	946	4,942	(6), (14)	Other non-current liabilities
Total non-current liabilities	275,607	(7,252)	(21,631)	246,724		Total non-current liabilities
Total liabilities	578,552	(7,252)	5,720	577,019		Total liabilities

Line items under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Differences in recognition and measure-ment	IFRSs	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Net assets						Equity
Capital stock	30,000	–	–	30,000		Capital
Capital surplus	209,551	14	–	209,565		Share premium
Treasury shares	(11,286)	–	–	(11,286)		Treasury shares
Subscription rights to shares	14	(14)	–	–		
Total accumulated other comprehensive income	(8,537)	–	20,153	11,615	(15), (16)	Other components of equity
Retained earnings	163,971	–	(59,355)	104,615	(17)	Retained earnings
	383,713	–	(39,202)	344,510		Parent
Non-controlling interests	56,880	–	(6,590)	50,290		Non-controlling interests
Total net assets	440,594	–	(45,793)	394,800		Total equity
Total liabilities and net assets	1,019,146	(7,252)	(40,073)	971,820		Total liabilities and equity

Reconciliation of equity as of February 28, 2017

Line items under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Differences in recognition and measure-ment	IFRSs	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Assets						Assets
Current assets						Current assets
Cash and deposits	33,018	(1,171)	20	31,867	(1)	Cash and cash equivalents
Notes and accounts receivable - trade	68,997	35,320	18,384	122,703	(2), (3) (4), (5)	Trade and other receivables
Securities	1,500	4,329	22	5,852	(1), (3) (6)	Other financial assets
Inventories	34,499	–	(166)	34,332	(4)	Inventories
Deferred tax assets	10,523	(10,523)	–	–	(7)	
	–	1,049	–	1,049	(9)	Assets held for sale
Other	44,540	(39,778)	701	5,462	(2), (6)	Other current assets
Allowance for doubtful accounts	(249)	249	–	–	(3)	
Total current assets	192,829	(10,523)	18,962	201,268		Total current assets
Non-current assets						Non-current assets
Property, plant and equipment	684,063	(199,752)	(24,330)	459,979	(8), (9)	Property, plant and equipment
	–	210,410	(21,396)	189,013	(8), (9)	Investment property
Intangible assets						
Goodwill	208	–	325	534	(10)	Goodwill
Other	41,438	(37,711)	(300)	3,426	(6)	Intangible assets
	–	26,284	(251)	26,033	(11)	Investments accounted for using the equity method
Investment securities	45,437	33,075	16,327	94,840	(3), (6) (11)	Other financial assets
Long-term loans receivable	1,534	(1,534)	–	–	(6)	
Lease and guarantee deposits	60,561	(60,561)	–	–	(6)	
Deferred tax assets	3,695	4,389	889	8,974	(7)	Deferred tax assets
Net defined benefit asset	10,738	(10,738)	–	–	(6)	
Other	12,351	37,717	(29,071)	20,998	(6)	Other non-current assets
Allowance for doubtful accounts	(2,810)	2,810	–	–	(3)	
Total non-current assets	857,220	4,389	(57,808)	803,800		Total non-current assets
Deferred assets						
Bond issuance cost	60	–	(60)	–	(12)	
Total deferred assets	60	–	(60)	–		
Total assets	1,050,109	(6,133)	(38,906)	1,005,069		Total assets

Line items under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Differences in recognition and measure-ment	IFRSs	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Short-term loans payable	37,280	45,799	18,150	101,229	(5), (13)	Bonds and borrowings
Current portion of bonds	12,000	(12,000)	–	–	(13)	
Commercial papers	33,799	(33,799)	–	–	(13)	
Notes and accounts payable - trade	87,964	37,027	18,719	143,711	(2)	Trade and other payables
Gift certificates	38,596	(38,596)	–	–	(14)	
	–	16,644	14,774	31,419	(6), (14)	Other financial liabilities
Income taxes payable	7,125	–	(7)	7,117		Income tax payables
Advances received	24,136	(24,136)	–	–	(14)	
Provision for bonuses	5,493	–	(5,493)	–	(14)	
Provision for sales returns	21	–	(21)	–	(14)	
Provision for books unsold	133	–	(133)	–	(14)	
Provision for sales promotion expenses	445	–	(445)	–	(14)	
Reserve for gift certificates	14,493	–	(14,493)	–	(14)	
Provision for loss on business liquidation	1,855	(1,855)	–	–	(14)	
Provision for directors' bonuses	206	–	(206)	–	(14)	
	–	2,204	(26)	2,177	(14)	Provisions
Other	49,015	8,712	(3,321)	54,407	(2), (6), (14)	Other current liabilities
Total current liabilities	312,568	–	27,494	340,062		Total current liabilities
Non-current liabilities						Non-current liabilities
Bonds payable	15,000	(15,000)	–	–	(13)	
Long-term loans payable	89,720	15,000	2	104,722	(12), (13)	Bonds and borrowings
	–	32,944	(726)	32,217	(6)	Other financial liabilities
Net defined benefit liability	31,605	–	154	31,760	(15)	Retirement benefit liabilities
Deferred tax liabilities for land revaluation	1,100	–	(1,100)	–	(7)	
Provision for directors' retirement benefits	5	–	(5)	–	(14)	
Provision for loss on stores rebuilding	1,712	(1,712)	–	–	(14)	
	–	5,089	68	5,158	(14)	Provisions
Deferred tax liabilities	85,296	(6,133)	(21,294)	57,868	(7)	Deferred tax liabilities
Other	47,262	(36,321)	895	11,836	(6), (14)	Other non-current liabilities
Total non-current liabilities	271,701	(6,133)	(22,005)	243,562		Total non-current liabilities
Total liabilities	584,269	(6,133)	5,488	583,625		Total liabilities

Line items under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Differences in recognition and measure-ment	IFRSs	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Net assets						Equity
Capital stock	30,000	–	–	30,000		Capital
Capital surplus	209,551	–	–	209,551		Share premium
Treasury shares	(11,281)	–	(0)	(11,281)		Treasury shares
Total accumulated other comprehensive income	(5,532)	–	18,142	12,610	(15), (16)	Other components of equity
Retained earnings	183,598	–	(55,908)	127,690	(17)	Retained earnings
	406,336	–	(37,765)	368,571		Parent
Non-controlling interests	59,503	–	(6,630)	52,872		Non-controlling interests
Total net assets	465,839	–	(44,395)	421,444		Total equity
Total liabilities and net assets	1,050,109	(6,133)	(38,906)	1,005,069		Total liabilities and equity

Notes on reconciliation of equity

(1)Reclassification of cash and deposits

Time deposits with deposit terms of more than three months, which were included in “cash and deposits” under Japanese GAAP, have been reclassified to “other financial assets (current)” under IFRSs.

(2)Reclassification of accounts receivable - other and accounts payable - other

Accounts receivable - other, which were included in “other” under current assets under Japanese GAAP, have been reclassified to “trade and other receivables” under IFRSs, while accounts payable - other, which were included in “other” under current liabilities under Japanese GAAP, have been reclassified to “trade and other payables” under IFRSs.

Items qualifying as levies such as property tax were recognized at the time of payment under Japanese GAAP. Under IFRSs, they are recognized on the date when an obligating event occurs.

(3)Reclassification of allowance for doubtful accounts

“Allowance for doubtful accounts (current),” which was presented separately under Japanese GAAP, has been reclassified to be presented on a net basis by directly deducting the item from “trade and other receivables” and “other financial assets (current)” under IFRSs. Likewise, “allowance for doubtful accounts (non-current)” has been reclassified to be presented on a net basis by directly deducting the item from “other financial assets (non-current).”

(4)Adjustment to trade receivables and inventories due to the change of timing of revenue recognition

With regard to certain sales of goods, which were recognized on a shipping basis under Japanese GAAP, since changes including recognition of revenue at the time of delivery of goods were made, “trade and other receivables” and “inventories” have been adjusted.

(5)Derecognition of financial assets

Since certain assignment of receivables, etc. that met requirements for extinguishment of financial assets under Japanese GAAP does not satisfy requirements for derecognition of financial assets under IFRSs, the Group recognizes “trade and other receivables” for such assignment of receivables, and records related liabilities in “bonds and borrowings (current).”

(6)Reclassification of and adjustment to other financial assets and liabilities and other non-current assets

Short-term loans receivable, which were included in “other” under current assets under Japanese GAAP, have been reclassified to “other financial assets (current)” under IFRSs, while “investment securities,” “long-term loans receivable” and “lease and guarantee deposits,” which were presented separately under Japanese GAAP, have been reclassified to “other financial assets (non-current)” under IFRSs. In addition, “net defined benefit asset,” which was presented separately under Japanese GAAP, has been reclassified to “other non-current assets” under IFRSs.

“Lease obligations,” which were included in “other” under current liabilities and “other” under non-current liabilities under Japanese GAAP, have been reclassified to “other financial liabilities (current)” and “other financial liabilities (non-current),” respectively, under IFRSs.

“Long-term guarantee deposited” and “long-term accounts payable - other,” which were included in “other” under non-current liabilities under Japanese GAAP, have been reclassified to “other financial liabilities (non-current)” under IFRSs.

Land leasehold rights, which were included in “other” under intangible assets under Japanese GAAP, have been reclassified to “other non-current assets” as long-term prepaid expenses and are amortized according to the contractual period under IFRSs. As a result, “other non-current assets” as of the date of transition to IFRSs decreased by ¥25,086 million.

Unlisted shares, which were recorded on the basis of acquisition cost under Japanese GAAP, are measured at fair value under IFRSs.

(7)Reclassification of deferred tax assets and liabilities, and review of recoverability of deferred tax assets

Since under IFRSs, all deferred tax assets and liabilities are to be classified into non-current items irrespective of whether they are current or non-current, deferred tax assets and liabilities that were recorded in current items have been reclassified to non-current items. In addition, upon the adoption of IFRSs, recoverability of all deferred tax assets has been reviewed.

(8)Reclassification of investment property

‘’Certain fixed assets are reclassfired from ‘’property, plant and equipment’’ to ‘’investment property’’ under IFRSs.’’

(9)Adjustment to the amount of property, plant and equipment and investment property

For certain property, plant and equipment and investment property, the Group elected to apply the exemption where fair value as of the date of transition to IFRSs is used as deemed cost. The carrying amount and fair value of property, plant and equipment and investment property for which deemed cost is used were ¥151,973 million and ¥120,049 million, respectively, as of the date of transition.

In addition, taxes on the acquisition of non-current assets, which were expensed under Japanese GAAP, are capitalized under IFRSs.

In addition, the items that satisfy the classification requirements of assets held for sale under IFRS that were classified under property, plant and equipment under Japanese GAAP are presented as “assets held for sale.”

(10)Adjustment to the amount of goodwill

Although goodwill is amortized under Japanese GAAP, it is not amortized under IFRSs.

(11)Adjustment to the amount of investments accounted for using the equity method

“Investments accounted for using the equity method,” which was included in “investment securities” under Japanese GAAP, is presented separately under IFRSs. In addition, although goodwill for entities accounted for using the equity method is amortized under Japanese GAAP, it is not amortized under IFRSs.

(12)Transfer of deferred assets

Since “bond issuance cost,” which was recorded as deferred assets under Japanese GAAP, is measured at amortized cost using the effective interest method under IFRSs, it is included in the effective interest rate.

(13)Reclassification of bonds and borrowings

“Bonds payable,” “Commercial papers,” “Short-term loans payable” and “long-term loans payable,” which were presented separately as liabilities under Japanese GAAP, have been reclassified to “bonds and borrowings” under IFRSs.

(14)Reclassification of other current liabilities and adjustment to provisions

“Advances received,” “Provision for bonuses” and “accrued expenses,” which were presented separately as current liabilities under Japanese GAAP, have been reclassified to “other current liabilities” under IFRSs, while asset retirement obligations, which were included in “other current liabilities” and “other non-current liabilities” under Japanese GAAP, have been reclassified to “provisions (current)” and “provisions (non-current)” under IFRSs. Since “provision for sales returns,” “provision for books unsold” and “provision for sales promotion expenses,” which were accounted for as provisions under Japanese GAAP, cannot be recorded as provisions under IFRSs, adjustments have been made to “inventories” and others for these items. Unused paid absences, which were not accounted for under Japanese GAAP, are recorded in liabilities as “other current liabilities” under IFRSs.

In addition, common gift certificates for department stores nationwide, etc. that can be used at other companies were accounted for as “gift certificates” and “reserve for gift certificates” under Japanese GAAP. However, under IFRSs, they are accounted for as “other financial liabilities (current),” since they satisfy requirements for financial liabilities.

(15)Adjustment to retirement benefit liabilities

Under Japanese GAAP, the Group recognized actuarial gains and losses in other comprehensive income at the time of occurrence and amortized them by the straight-line method over a certain number of years within the average remaining service period of employees, starting in the fiscal year during which they occurred. However, under IFRSs, the Group shall recognize actuarial gains and losses in other comprehensive income at the time of occurrence, and immediately transfer them in retained earnings.

(16)Transfer of cumulative exchange differences for foreign subsidiaries

Upon the first-time adoption of IFRSs, the Group has elected the exemption set forth under IFRS 1 and transferred all cumulative exchange differences as of the date of transition to retained earnings.

(17) Adjustment to retained earnings

	IFRS Transition Date (March 1, 2016)	As of February 28, 2017
	Millions of yen	Millions of yen
Adjustment to property, plant and equipment and investment property	(44,570)	(43,356)
Adjustment to intangible assets	(25,699)	(25,791)
Adjustment to other non-current assets	(1,447)	(1,018)
Adjustment to other current liabilities	(9,268)	(9,823)
Adjustment to retirement benefit liabilities	(11,900)	(7,849)
Adjustment to exchange differences on translation of foreign operations	598	598
Other	(2,323)	(1,653)
Subtotal	(94,611)	(88,895)
Adjustments for tax effects	28,858	25,925
Adjustments for non-controlling interests	6,397	7,060
Total	(59,355)	(55,908)

Reconciliations of profit or loss and comprehensive income for the fiscal year ended February 28, 2017 (from March 1, 2016 to February 28, 2017)

Line items under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Differences in recognition and measure-ment	IFRSs	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Net sales	1,108,512	–	(656,006)	452,505	(1)	Sales revenue
Cost of sales	(873,727)	–	633,788	(239,938)	(1), (2)	Cost of sales
Gross profit	234,785	–	(22,218)	212,567		Gross profit
Selling, general and administrative expenses	(190,205)	(177)	22,714	(167,668)	(1), (2) (3), (5)	Selling, general and administrative expense
	–	6,869	(2,784)	4,084	(6)	Other operating income
	–	(12,030)	4,774	(7,255)	(2), (6)	Other operating expense
Operating income	44,580	(5,338)	2,485	41,727		Operating profit
Non-operating income	5,596	(5,596)	–	–	(6)	
Non-operating expenses	(5,751)	5,751	–	–	(6)	
Extraordinary income	3,609	(2,325)	(1,283)	–	(6)	
Extraordinary losses	(7,483)	7,460	23	–	(6)	
	–	744	609	1,353	(6)	Finance income
	–	(1,181)	(189)	(1,370)	(6)	Finance costs
	–	308	589	898	(4), (6)	Share of profit of investments accounted for using the equity method
Profit before income taxes	40,550	(177)	2,235	42,608		Profit before tax
Income taxes - current	(13,577)	13,577	–	–	(7)	
Income taxes - deferred	3,413	(3,413)	–	–	(7)	
	–	(9,986)	(2,179)	(12,165)	(7)	Income tax expense
Profit	30,386	–	56	30,443		Profit
Profit attributable to owners of parent	26,950	–	101	27,052		Profit attributable to: Owners of parent
Profit attributable to non-controlling interests	3,435	–	(45)	3,390		Profit attributable to: Non-controlling interests
Profit	30,386	–	56	30,443		

Line items under Japanese GAAP	Japanese GAAP	Reclassifi-cation	Differences in recognition and measure-ment	IFRSs	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
Valuation difference on available-for-sale securities	(51)	–	2,218	2,167	(8)	Financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans, net of tax	3,584	–	(679)	2,905	(5)	Remeasurements of defined benefit plans
	–	(385)	(26)	(411)		Share of other comprehensive income of entities accounted for using the equity method
	3,533	(385)	1,513	4,660		Total items that will not be reclassified to profit or loss
						Items that may be reclassified to profit or loss
Deferred gains or losses on hedges	63	–	100	164		Cash flow hedges
Foreign currency translation adjustment	(115)	–	(2)	(118)		Exchange differences on translation of foreign operations
Share of other comprehensive income of entities accounted for using the equity method	(441)	385	(276)	(333)		Share of other comprehensive income of entities accounted for using the equity method
	(494)	385	(178)	(286)		Total items that may be reclassified to profit or loss
Total other comprehensive income	3,039	–	1,334	4,374		Other comprehensive income, net of tax
Comprehensive income	33,425	–	1,391	34,817		Comprehensive income

Notes to reconciliations of profit or loss and comprehensive income

(1)Adjustment to sales revenue

1)Under Japanese GAAP, the amount of transactions which the Group conducted as a principal and the amount of transactions in which the Group was involved as an agent are presented as net sales on a gross basis; however, under IFRSs, transactions considered to be those in which the Group was involved as an agent are presented on a net basis.

2)The Group has implemented a point program for the purpose of encouraging repeated visits to shops and shopping by customers. Under Japanese GAAP, revenue is recognized collectively at the time of sales, and a provision for the amount that is prepared for future use against the unused balance at the end of each reporting period is recorded as liabilities. Under IFRSs, when reward points are granted simultaneously with sales of goods, consideration is allocated to goods sold and reward points granted, and revenue of the former is recognized at the time of initial sale and revenue recognition for the latter is deferred until the time when the reward points are actually exchanged.

(2)Adjustment to levies

Items qualified as levies such as property tax were recognized at the time of payment under Japanese GAAP. Under IFRSs, they are recognized on the date when an obligation event occurs.

(3)Adjustment to the amount of goodwill

Goodwill is amortized over a certain period of time under Japanese GAAP, but it is not amortized under IFRSs.

(4)Adjustment to the amount of investments accounted for using the equity method

Goodwill for entities accounted for using the equity method is amortized under Japanese GAAP, but it is not amortized under IFRSs.

(5)Accounting of retirement benefit liabilities

Under Japanese GAAP, the Group recognized actuarial gains and losses in other comprehensive income at the time of occurrence and amortized them by the straight-line method over a certain number of years within the average remaining service period of employees, starting in the fiscal year during which they occurred. However, under IFRSs, the Group shall recognize actuarial gains and losses in other comprehensive income at the time of occurrence, and immediately transfer them in retained earnings.

(6)Adjustment to line items

Items presented in "non-operating income," "non-operating expenses," "extraordinary income" and "extraordinary losses" under Japanese GAAP are recorded as "finance income" and "finance costs" for finance-related gains or losses, and as "other operating income," "other operating expense" and "share of profit (loss) of investments accounted for using the equity method," for other items under IFRSs.

(7)Income tax expense

Although "income taxes - current" and "income taxes - deferred" were presented separately under Japanese GAAP, these items are presented collectively as "income tax expense" under IFRSs.

(8)Financial assets measured at fair value through other comprehensive income

Unlisted shares, which were recorded on the basis of acquisition cost under Japanese GAAP, are measured at fair value under IFRSs.

Reconciliation of cash flows for the fiscal year ended February 28, 2017 (from March 1, 2016 to February 28, 2017)

There are no material differences between the consolidated statement of cash flows that is disclosed in accordance with Japanese GAAP and the consolidated statement of cash flows that is disclosed in accordance with IFRS.

43 Approval of Consolidated Financial Statements

These consolidated financial statements were approved by the President and Representative Executive Officer Ryoichi Yamamoto on May 21, 2018.

(2)Other

Quarterly financial information, etc. for the fiscal year under review

(Cumulative)	First three months	First six months	First nine months	Fiscal year under review
Sales revenue (Millions of yen)	114,084	234,510	342,495	469,915
Profit before tax (Millions of yen)	13,668	25,918	37,727	48,271
Profit attributable to owners of parent (Millions of yen)	8,720	16,315	23,713	28,486
Basic earnings per share (Yen)	33.34	62.38	90.67	108.92

(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share (Yen)	33.34	29.04	28.29	18.25

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Independent Auditor's Report

The Board of Directors
J. FRONT RETAILING Co., Ltd.

We have audited the accompanying consolidated financial statements of J. FRONT RETAILING Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at February 28, 2018, and the consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of J. FRONT RETAILING Co., Ltd. and its consolidated subsidiaries as at February 28, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Ernst & Young ShinNihon LLC

May 28, 2018
Tokyo, Japan

J. FRONT RETAILING

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