J.FRONT RETAILING

Integrated Report 2017 (Year ended February 28, 2017) Part 2

FINANCIAL DATA

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Consolidated Balance Sheet

J. FRONT RETAILING Co., Ltd. and Consolidated Subsidiaries

February 28, 2017

	Millions of	yen	Thousands of U.S. dollars (Note 1)	
	2017	2016	2017	
Assets				
Current assets:				
Cash and deposits (Notes 15 and 24)	¥33,018	¥30,039	\$292,842	
Notes and accounts receivable – trade (Notes 15 and 16)	68,997	68,049	611,946	
Securities (Notes 10 and 15)	1,500	1,233	13,303	
Inventories (Notes 5 and 8)	34,499	28,205	305,977	
Deferred tax assets (Note 25)	10,523	11,671	93,330	
Other (Note 15)	44,540 (249)	41,865	395,033 (2,208)	
Less allowance for doubtful accounts Total current assets		(173) 180.890	· , ,	
Total current assets	192,829	180,890	1,710,235	
Non-current assets: Property and equipment (Notes 6, 7, 8, 9, 13 and 19):				
Land	420,894	360,297	3,732,984	
Buildings and structures, net	196,598	182,772	1,743,662	
Construction in progress	58,296	120,751	517,037	
Other, net	8.273	4,829	73,374	
Total property and equipment	684,063	668,651	6,067,077	
Intangible assets: Goodwill (Notes 19 and 27) Other	208 41,438	568 40,876	1,844 367,521	
Total intangible assets	41,647	41,444	369,374	
Investments and other assets:				
Investment securities (Notes 8, 10 and 15) Investments in unconsolidated subsidiaries and affiliates	18,904	20,055	167,662	
(Note 15)	26,533	26,930	235,325	
Long-term loans receivable	1,534	1,503	13,605	
Deposits and guarantees (Note 15)	60,561	61,515	537,126	
Asset for retirement benefits (Note 12)	10,738	5,687	95,237	
Deferred tax assets (Note 25)	3,695	5,112	32,771	
Other (Note 15)	12,415	10,065	110,110	
Less allowance for doubtful accounts	(2,810)	(2,710)	(24,922)	
Total investments and other assets	131,569	128,160	1,166,909	
Total non-current assets	857,280	838,255	7,603,370	

Total assets (Note 27) **¥1,050,109** ¥1,019,146 **\$9,313,605**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable - trade (Notes 8, 15 and 16)	¥87,964	¥90,768	\$780,168
Short-term loans payable (Notes 8, 11 and 15)	8,320	8,439	73,791
Commercial papers (Notes 11 and 15)	33,799	30,798	299,769
Current portion of long-term debt (Notes 8, 11, 15 and 16)	41,789	32,588	370,634
Income taxes payable (Notes 15 and 25)	7,125	8,322	63,192
Advances received	24,136	19,318	214,066
Gift certificates outstanding	38,596	38,599	342,314
Provision for bonuses to employees	5,493	5,709	48,718
Provision for bonuses to directors and audit and supervisory board members	206	204	1,827
Provision for sales returns	21	21	186
Provision for loss on books unsalable	133	121	1,179
Provision for sales promotion expenses	445	709	3,946
Provision for loss on utilization of gift certificates	14,493	13,913	128,541
Provision for loss on business liquidation	1,855	487	16,452
Provision for loss on store reconstruction	-	1,245	-
Other	48,186	51,696	427,370
Total current liabilities	312,568	302,944	2,772,221
Non-current liabilities:			
Long-term debt (Notes 8, 11, 15 and 16)	108,650	111,409	963,636
Deferred tax liabilities (Note 25)	85,296	89,158	756,505
Deferred tax liabilities for land revaluation (Note 25)	1,100	1,161	9,756
Liability for retirement benefits (Note 12)	31,605	32,707	280,310
Accrued retirement benefits for directors and audit and supervisory board members	5	37	44
Provision for loss on business liquidation	-	564	-
Provision for loss on store reconstruction	1,712	1,191	15,184
Other (Note 15)	43,332	39,378	384,319
Total non-current liabilities	271,701	275,607	2,409,764
Total liabilities	584,269	578,552	5,181,986
Contingent liabilities (Note 17)			
Net assets:			
Shareholders' equity (Note 14):			
Common stock:			
Authorized - 1,000,000,000 shares			
Issued - 268,119,164 shares	30,000	30,000	266,075
Capital surplus	209,551	209,551	1,858,545
Retained earnings	183,598	163,971	1,628,363
Treasury stock, at cost: 6,573,594 shares in 2017 and 6,575,238 shares in 2016	(11,281)	(11,286)	(100,053)
Total shareholders' equity	411,868	392,236	3,652,931
Accumulated other comprehensive loss:	0.050	0.110	40.000
Net unrealized holding gain on securities (Note 10)	2,053	2,113	18,208
Net unrealized deferred gain on hedging instruments (Note 16)	288	223	2,554
Foreign currency translation adjustments	349	516	3,095
Retirement benefits adjustments (Note 12)	(8,223)	(11,391)	(72,931)
Total accumulated other comprehensive loss	(5,532)	(8,537)	(49,064)
Stock subscription rights (Note 14)	- F0 F02	14	E07 740
Non-controlling interests Tetal pot accept (Neto 26)	59,503	56,880	527,742
Total liabilities and not assets	465,839 ¥1,050,100	440,594 ¥1,010,146	4,131,609
Total liabilities and net assets	¥1,050,109	¥1,019,146	\$9,313,605

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Income

J. FRONT RETAILING Co., Ltd. and Consolidated Subsidiaries

Year ended February 28, 2017

	Millions o	of yen	Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales (Notes 13 and 27):			
Net sales of goods	¥1,094,964	¥1,151,469	\$9,711,432
Rent income of real estate (Note 7)	13,547	12,094	120,150
	1,108,512	1,163,564	9,831,592
Cost of sales (Note 22):			
Cost of goods sold	866,009	910,927	7,680,789
Cost of real estate rent (Note 7)	7,718	7,104	68,452
	873,727	918,031	7,749,241
Gross profit	234,785	245,532	2,082,350
Selling, general and administrative expenses (Note 18)	190,205	197,494	1,686,962
Operating income (Note 27)	44,580	48,038	395,388
Other income (expenses):			
Interest income	349	369	3,095
Dividend income	395	365	3,503
Gain on derecognition of unutilized gift certificates	2,806	2,866	24,886
Compensation income	975	_	8,647
Equity in earnings of unconsolidated subsidiaries and affiliates	308	1,886	2,731
Interest expenses	(1,181)	(1,419)	(10,474)
Provision for loss on utilization of gift certificates	(2,971)	(3,159)	(26,350)
Gain on sales of fixed assets	1,998	_	17,720
Gain on sales of investment securities (Note 10)	1,283	960	11,379
Gain on sales of shares of an affiliate	-	131	-
Loss on disposal of fixed assets (Note 7)	(2,031)	(3,493)	(18,013)
Loss on impairment of fixed assets (Notes 7, 19 and 27)	(748)	(1,570)	(6,634)
Loss on store reconstruction (Notes 20 and 27)	-	(7,492)	-
Loss on business liquidation (Notes 7, 21 and 27)	(4,106)	(1,719)	(36,416)
Other, net	(1,107)	(1,062)	(9,818)
Income before income taxes	40,550	34,698	359,645
Income taxes (Note 25)			
Current	13,577	14,626	120,416
Deferred	(3,413)	(9,791)	(30,270)
	10,164	4,834	90,146
Net income	30,386	29,863	269,498
Net income attributable to:			
Non-controlling interests	3,435	3,549	30,465
Owners of the parent	¥26,950	¥26,313	\$239,024

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Comprehensive Income

J. FRONT RETAILING Co., Ltd. and Consolidated Subsidiaries

Year ended February 28, 2017

	Millions of	yen	Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net income	¥30,386	¥29,863	\$269,498
Other comprehensive income (loss) (Note 23):			
Net unrealized holding loss on securities	(51)	(288)	(452)
Net unrealized deferred income (loss) on hedging instruments	63	(37)	558
Foreign currency translation adjustments	(115)	(147)	(1,019)
Retirement benefits adjustments (Note12)	3,584	(3,654)	31,787
Share of other comprehensive (loss) income of unconsolidated			
subsidiaries and affiliates accounted for by equity method	(441)	318	(3,911)
Other comprehensive income (loss), net	3,039	(3,810)	26,953
Comprehensive income	¥33,425	¥26,053	\$296,452
Total comprehensive income attributable to:			
Owners of the parent	¥29.956	¥22,631	\$265.685
Non-controlling interests	¥3,469	¥3,421	\$30,767

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Net Assets

J. FRONT RETAILING Co., Ltd. and Consolidated Subsidiaries

Year ended February 28, 2017

		Millions of yen Shareholders' equity				
	Number of shares in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at March 1, 2015 Cumulative effects of changes in accounting	268,119,164	¥30,000	¥209,556	¥147,555	¥(6,369)	¥380,742
policies		_	_	(3,065)	-	(3,065)
Restated balance at March 1, 2015	268,119,164	30,000	209,556	144,490	(6,369)	377,677
Changes in items during the period:						
Cash dividends	-	-	-	(6,832)	-	(6,832)
Net income attributable to owners of the parent	-	-	-	26,313	-	26,313
Purchase of treasury stock	-	-	-	-	(5,025)	(5,025)
Disposal of treasury stock	-	-	(4)	-	108	103
Net changes in items other than shareholders' equity		_	_	_	_	
Total changes in items during the period		_	(4)	19,481	(4,917)	14,559
Balance at March 1, 2016	268,119,164	30,000	209,551	163,971	(11,286)	392,236
Changes in items during the period:						
Cash dividends	-	-	-	(7,323)	_	(7,323)
Net income attributable to owners of the parent	-	-	-	26,950	-	26,950
Purchase of treasury stock	-	-	-	-	(10)	(10)
Disposal of treasury stock	-	-	(0)	-	15	14
Net changes in items other than shareholders' equity		_	_	-	_	
Total changes in items during the period	_	_	(0)	19,627	4	19,631
Balance at February 28, 2017	268,119,164	¥30,000	¥209,551	¥183,598	¥(11,281)	¥411,868

				Millions	of yen			
	Accı	umulated othe	r comprehen	sive income (loss)			
	Net unrealized holding gain on securities	Net unrealized deferred gain on hedging instruments	Foreign currency translation adjustments	Retirement benefits adjustments	Total accumulated other comprehensive loss	Stock subscription rights	Non- controlling interests	Total net assets
Balance at March 1, 2015	¥2,352	¥(35)	¥659	¥(7,832)	¥(4,855)	¥15	¥54,357	¥430,260
Cumulative effects of changes in accounting policies	_	-	-	-	-	-	(114)	(3,179)
Restated balance at March 1, 2015	2,352	(35)	659	(7,832)	(4,855)	15	54,243	427,080
Changes in items during the period: Cash dividends								(C.020)
	_	-	-	_	-	_	_	(6,832)
Net income attributable to owners of the parent	-	-	-	-	-	-	-	26,313
Purchase of treasury stock	-	-	-	-	-	-	-	(5,025)
Disposal of treasury stock	-	-	-	_	-	-	_	103
Net changes in items other than shareholders' equity	(238)	258	(143)	(3,558)	(3,681)	(1)	2,637	(1,045)
Total changes in items during the period	(238)	258	(143)	(3,558)	(3,681)	(1)	2,637	13,513
Balance at March 1, 2016	2,113	223	516	(11,391)	(8,537)		56,880	440,594
Changes in items during the period:								
Cash dividends	-	-	_	-	-	-	_	(7,323)
Net income attributable to owners of the parent	-	-	-	-	-	-	-	26,950
Purchase of treasury stock	-	-	-	-	-	-	-	(10)
Disposal of treasury stock	-	-	-	-	-	-	-	14
Net changes in items other than shareholders' equity	(59)	64	(166)	3,167	3,005	(14)	2,622	5,613
Total changes in items during the period	(59)	64	(166)	3,167	3,005	(14)	2,622	25,245
Balance at February 28, 2017	¥2,053	¥288	¥349	¥(8,223)	¥(5,532)	¥-	¥59,503	¥465,839

		Thousands of U.S. dollars (Note 1)						
		Shareholders' equity						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity			
Balance at March 1, 2016	\$266,075	\$1,858,545	\$1,454,288	\$(100,097)	\$3,478,811			
Changes in items during the period:								
Cash dividends	-	-	(64,949)	-	(64,949)			
Net income attributable to owners of the parent	-	-	239,024	-	239,024			
Purchase of treasury stock	-	-	-	(88)	(88)			
Disposal of treasury stock	-	(0)	-	133	124			
Net changes in items other than shareholders' equity	_	-	-	-	-			
Total changes in items during the period	-	(0)	174,075	35	174,110			
Balance at February 28, 2017	\$266,075	\$1,858,545	\$1,628,363	\$(100,053)	\$3,652,931			

		Thousands of U.S. dollars (Note 1)						
	Acc	cumulated other	er comprehens	sive income (la	oss)			
	Net unrealized holding gain on securities	Net unrealized deferred gain on hedging instruments	Foreign currency translation adjustments	Retirement benefits adjustments	Total accumulated other comprehensive loss	Stock subscription rights	Non- controlling interests	Total net assets
Balance at March 1, 2016	\$18,740	\$1,977	\$4,576	\$(101,028)	\$(75,716)	\$124	\$504,478	\$3,907,707
Changes in items during the period:								
Cash dividends	-	-	-	-	-	-	-	(64,949)
Net income attributable to owners of the parent	-	-	-	-	-	-	-	239,024
Purchase of treasury stock	-	-	-	-	-	-	-	(88)
Disposal of treasury stock	-	-	-	-	-	-	-	124
Net changes in items other than shareholders' equity	(523)	567	(1,472)	28,088	26,651	(124)	23,254	49,782
Total changes in items during the period	(523)	567	(1,472)	28,088	26,651	(124)	23,254	223,902
Balance at February 28, 2017	\$18,208	\$2,554	\$3,095	\$(72,931)	\$(49,064)	\$-	\$527,742	\$4,131,609

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

J. FRONT RETAILING Co., Ltd. and Consolidated Subsidiaries

Year ended February 28, 2017

	Millions of	yen	Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥40,550	¥34,698	\$359,645
Depreciation and amortization	17,189	18,345	152,452
Loss on impairment of fixed assets	2,657	5,905	23,565
Amortization of goodwill	359	499	3,184
Increase in allowance for doubtful accounts	176	167	1,560
(Decrease) increase in provision for bonuses to employees	(214)	88	(1,898)
Decrease in liability for retirement benefits	(1,160)	(1,832)	(10,288)
Decrease in asset for retirement benefits	(1,131)	(1,367)	(10,031)
Decrease in provision for sales promotion expenses	(263)	(13)	(2,332)
Increase in provision for loss on business liquidation	803	930	7,121
Increase in provision for loss on utilization of gift certificates	579	672	5,135
(Decrease) increase in provision for loss on store reconstruction	(723)	1,676	(6,412)
Interest and dividend income	(744)	(734)	(6,598)
Interest expenses	1,181	1,419	10,474
Equity in earnings of unconsolidated subsidiaries and affiliates	(308)	(1,886)	(2,731)
(Gain) loss on sales of fixed assets, net	(1,997)	30	(17,711)
Loss on disposal of fixed assets	2,031	3,493	18,013
Gain on sales of investment securities	(1,259)	(960)	(11,166)
Gain on sales of shares of an affiliate	-	(131)	-
(Increase) decrease in notes and accounts receivable – trade	(948)	7,507	(8,407)
(Increase) decrease in inventories	(6,293)	2,680	(55,813)
Decrease in notes and accounts payable – trade	(2,803)	(4,251)	(24,860)
Increase in accounts receivable – other	(4,438)	(5,092)	(39,361)
Decrease in long-term prepaid expenses	292	553	2,589
Decrease in accounts payable – other	(1,963)	(499)	(17,410)
Other, net	2,836	(5,220)	25,152
Subtotal	44,409	56,682	393,871
Interest and dividend income received	793	616	7,033
Interest expenses paid	(1,296)	(1,446)	(11,494)
Proceeds from compensation income	7,855	_	69,667
Income taxes paid	(17,323)	(20,733)	(153,640)
Income taxes refunded	1,799	1,680	15,955
Net cash provided by operating activities	¥36,239	¥36,799	\$321,410

	Millions of	yen	Thousands of U.S. dollars (Note 1)	
	2017	2016	2017	
Cash flows from investing activities:				
Purchases of securities and investment securities	¥(2,463)	¥(12,470)	\$(21,844)	
Proceeds from sales of securities and investment securities	4,462	4,113	39,574	
Proceeds from sales of shares of an affiliate	-	1,632	-	
Purchases of property and equipment and intangible assets	(41,966)	(37,254)	(372,203)	
Proceeds from sales of property and				
equipment and intangible assets	10,423	40	92,443	
Net (increase) decrease in short-term loans receivable	(248)	6	(2,199)	
Increase in long-term loans receivable	(156)	(43)	(1,383)	
Collection of long-term loans receivable	93	59	824	
Other, net	(499)	4,174	(4,425)	
Net cash used in investing activities	(30,353)	(39,741)	(269,206)	
Cash flows from financing activities:				
Net decrease in short-term loans payable	(119)	(829)	(1,055)	
Net increase in commercial papers	3,001	2,107	26,616	
Proceeds from long-term loans payable	46,000	21,200	407,982	
Repayments of long-term loans payable	(42,005)	(13,008)	(372,549)	
Proceeds from issuance of bonds	-	15,000	-	
Redemption of bonds payable	-	(12,000)	-	
Purchase of treasury stock	(21)	(5,031)	(186)	
Cash dividends paid	(7,305)	(6,814)	(64,789)	
Cash dividends paid to non-controlling interests	(846)	(789)	(7,503)	
Other, net	(892)	(876)	(7,911)	
Net cash used in financing activities	(2,189)	(1,041)	(19,414)	
Effect of exchange rate changes on cash and cash equivalents	2	(0)	17	
Net increase (decrease) in cash and cash equivalents	3,699	(3,985)	32,807	
Cash and cash equivalents at the beginning of the year	28,147	32,132	249,640	
Cash and cash equivalents at the end of the year (Note 24)	¥31,846	¥28,147	\$282,447	

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

J. FRONT RETAILING Co., Ltd. and Consolidated Subsidiaries

February 28, 2017

1 Basis of Preparation

The accompanying consolidated financial statements of J. FRONT RETAILING Co., Ltd. (the "Company") and consolidated subsidiaries (collectively, the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan. In addition, certain notes included herein are not required under accounting principles generally accepted in Japan but are presented as additional information.

Certain amounts in prior year's financial statements have been reclassified to conform to the current year's presentation.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥112.75 = U.S. \$1.00, the exchange rate prevailing on February 28, 2017. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2 Summary of Significant Accounting Policies

(a)Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and the significant companies which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis.

On September 1, 2016, Daimaru Com Development Co., Ltd., a consolidated subsidiary of the Company, was merged into Daimaru Matsuzakaya Department Stores Co., Ltd., another consolidated subsidiary of the Company. JFR Office Support Co., Ltd. and JFR Consulting Co., Ltd., consolidated subsidiaries of the Company, were merged into JFR Service Co., Ltd., another consolidated subsidiary of the Company, on the same day.

Certain subsidiaries are excluded from the scope of consolidation because the effect of its total assets, sales, net income or loss and retained earnings on the accompanying consolidated financial statements is immaterial. In addition, an unconsolidated subsidiary is accounted for by the equity method.

SAN-A PARCO, Inc. has been newly included within the scope of application of the equity method from the current

year ended February 28, 2017 because PARCO CO., LTD., a consolidated subsidiary of the Company and one other investor jointly established SAN-A PARCO, Inc. on December 20, 2016.

The fiscal year end of certain consolidated subsidiaries is December 31. Their financial statements as of and for the year ended December 31 are used in the preparation of the consolidated financial statements and necessary adjustments are made to their financial statements to reflect any significant transactions from January 1 to February 28 or 29. All significant intercompany balances and transactions have been eliminated in consolidation. The fiscal year end of the other consolidated subsidiaries is the same as the fiscal year end of the consolidated financial statements.

The financial statements of certain affiliates accounted for by the equity method with a different fiscal year end are consolidated on the basis of the affiliates' fiscal year end.

Investments in subsidiaries and affiliates which are not consolidated nor accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

(b)Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Foreign exchange gain or loss on translation is recognized in the consolidated statement of income.

Assets and liabilities of overseas consolidated subsidiaries are translated into yen at the exchange rates in effect at the respective balance sheet dates, except for the components of net assets excluding minority interests which are translated at the respective historical rates. Revenue and expenses are translated at the average rates of exchange for the year. Differences arising from the translation are reflected in "Foreign currency translation adjustments" and "Non-controlling interests" in the accompanying consolidated balance sheet and statement of changes in net assets.

(c)Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(d)Allowance for doubtful accounts

Allowance for doubtful accounts is computed based on the actual historical experience for normal receivables and an estimate of uncollectible amounts determined after an analysis of specific individual receivables from companies in financial difficulty.

(e)Securities and investment securities

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost based on the moving average method.

Investments in limited partnerships are stated at the net value of equities attributable to the Company based on

the most recent financial statements available prepared according to the financial reporting dates specified in the respective partnership agreements.

(f)Inventories

Inventories are principally stated at cost, determined by the specific identification method, or net selling value.

(g)Property and equipment (except for leased assets)

Property and equipment are stated at cost. Depreciation is computed based on the estimated useful lives of the respective assets by the straight-line method.

The principal estimated useful lives are as follows:

Buildings and structures 3 to 50 years Other 2 to 20 years

(h)Leases

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

Finance lease transactions entered into on or before February 28, 2009 that do not transfer ownership to the lessee continue to be accounted for in the same manner as operating lease transactions.

(i)Goodwill

Goodwill is amortized by the straight-line method over five years, with the exception of immaterial amounts, which are charged to income when incurred.

(j)Intangible assets (except for goodwill and leased assets)

Amortization is calculated by the straight-line method over the estimated useful lives of the respective assets.

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software is expected to contribute to the generation of income or to future cost savings. Such expenditures are capitalized as intangible assets and are amortized by the straight-line method over their respective estimated useful lives, a period of five years.

(k)Deferred income taxes

Deferred income taxes are provided for temporary differences between the balances of assets and liabilities

reported for financial reporting purposes and the corresponding balances for tax reporting purposes.

(I)Derivative financial instruments and hedging activities

All derivatives are stated at fair value with any changes in fair value included in profit or loss in the corresponding period, except for derivatives meeting the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is deferred as a component of net assets. Receivables and payables hedged by forward foreign exchange contracts meeting certain conditions are translated at the corresponding forward foreign exchange contract rates (the "allocation method"). Interest-rate swap transactions meeting certain conditions for special treatment are accounted for as if the interest rates applied to the interest-rate swap had originally applied to the underlying debt (the "special treatment").

Hedging instruments are forward foreign exchange contracts and interest rate swaps and hedged items are trade accounts receivable and payable denominated in foreign currencies, forecast transactions denominated in foreign currencies, loans payable and interest expenses on loans payable.

The Company and its consolidated subsidiaries hedge foreign currency exchange rate risk and interest rate risk based on its risk management policy of the Group.

The relationship between the hedging instruments and the underlying hedged items is assessed at each balance sheet date to confirm the effectiveness of hedging activities. However, hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged items are the same.

(m)Distribution of retained earnings

Under the Corporation Law of Japan and the Company's Articles of Incorporation, the distribution of retained earnings with respect to a given fiscal year is made by resolution of the shareholders at a general meeting held subsequent to the close of the fiscal year. The distribution of retained earnings with respect to the interim period is made by resolution of the Board of Directors. The accounts for the corresponding periods do not reflect such distributions. Please refer to the Note 28 "Subsequent Event" of these Notes of Consolidated Financial Statements.

(n)Provisions

i)Provision for bonuses to employees

Provision for bonuses to employees is provided based on the estimated amount to be paid to employees subsequent to the balance sheet date.

ii)Provision for bonuses to directors and audit and supervisory board members

Provision for bonuses to directors and audit and supervisory board members is provided based on the estimated amount to be paid to directors and audit and supervisory board members subsequent to the balance sheet date.

iii)Provision for sales returns

Provision for sales returns is provided at the amount of estimated loss expected to be incurred subsequent to the balance sheet date based on the maximum deductible amount under the Corporation Tax Law of Japan.

iv)Provision for loss on books unsalable

Provision for books unsalable after a certain period from publication is provided at the amount of estimated loss expected to be incurred subsequent to the balance sheet date based on the maximum deductible amount under the Corporation Tax Law of Japan.

v)Provision for sales promotion expense

Provision for sales promotion expense is provided at the estimated amount calculated based on historical experience to prepare for the future use of point card certificates granted under a point card program that is designed for sales promotion.

vi)Provision for loss on utilization of gift certificates

Gift certificates outstanding are credited to income upon derecognition after a certain period has passed from their respective dates of issuance. Provision for loss on utilization of gift certificates is provided at the estimated amount based on the historical utilization ratio.

vii)Provision for loss on business liquidation

Provision for loss on business liquidation is provided for losses arising from business liquidation and store closures of certain consolidated subsidiaries at the estimated amount expected to be incurred subsequent to the balance sheet date.

viii)Provision for loss on store reconstruction

Provision for loss on store reconstruction is provided for losses arising from the reconstruction of a store of a consolidated subsidiary at the estimated amount expected to be incurred subsequent to the balance sheet date.

(o)Retirement benefits

Asset for retirement benefits and liability for retirement benefits have been provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets. The estimated benefit is attributed to each period by the benefit formula method.

Prior service cost is amortized as incurred primarily by the straight-line method over periods of principally 11 years, which are within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized commencing in the year following the year in which the gain or loss was recognized primarily by the straight-line method over periods of principally 11 years, which are within the estimated average remaining years of service of the eligible employees.

Unrecognized actuarial gain and loss and prior service cost (after tax effect) are recognized as "Retirement benefits adjustments" in accumulated other comprehensive loss as a component of net assets in the consolidated balance sheet.

In addition, directors and audit and supervisory board members of certain domestic consolidated subsidiaries are customarily entitled to lump-sum payments under unfunded retirement benefit plans. Accrued retirement benefits for these directors and audit and supervisory board members are provided at an estimated amount based on each consolidated subsidiary's internal rules.

(p)Additional Information

Accounting Treatment for Redevelopment Project

Under Article 7-9, Paragraph 1, of the Urban Redevelopment Act, PARCO CO., LTD., a consolidated subsidiary was approved as an individual developer of a "First-type urban redevelopment project in the 14-15 district Udagawa-cho" by the Tokyo Metropolitan Urban Development Bureau on August 3, 2016. PARCO CO., LTD., started the redevelopment project as the developer of an urban area redevelopment project, including store reconstruction of Shibuya PARCO.

Since PARCO CO., LTD., is the only developer of this redevelopment project, the accounting records as the developer of the redevelopment project such as the receipts related to construction costs and contractor payments are included in the accompanying consolidated financial statements as of and for the year ended February 28, 2017.

As a result of this accounting treatment, cash and deposits, and other current assets decreased by ¥4,476 million (\$39,698 thousand) and ¥57 million (\$505 thousand), respectively, and inventories, advances received and other current liabilities increased by ¥6,406 million (\$56,815 thousand), ¥1,460 million (\$12,949 thousand) and ¥413 million (\$3,662 thousand), respectively. Also, the Company recorded the related cash flows from the operating activities as "increases in inventories" and "other, net" of cash flow from operating activities in the accompanying consolidated statement of cash flows for the year ended February 28, 2017, in the amounts of ¥6,406 million (\$56,815 thousand) and ¥1,930 million (\$17,117 thousand), respectively.

Accounting Changes

(a)Application of Accounting Standard for Business Combinations, etc.

Effective March 31, 2016, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21, revised on September 13, 2013), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement

No. 22, revised on September 13, 2013), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, revised on September 13, 2013) and other standards. Under these accounting standards, differences resulting from changes in ownership interest in a subsidiary when control over the subsidiary is retained by the parent are recognized under capital surplus, and acquisition-related costs are recorded as expenses for the period in which

they arise. Effective for business combinations conducted on or after March 1, 2016, any changes in the allocation of the acquisition price arising from the finalization of the provisional accounting treatment are reflected in the consolidated financial statements for the year in which the business combination occurs.

In addition, the presentation caption of net income attributable to owners of the parent was amended and the reference to "minority interests" was changed to "non-controlling interests."

Effective March 1, 2016, these revised standards are applied prospectively in accordance with the transitional treatment provided in Article 58-2(4) of ASBJ Statement No.21, Article 44-5(4) of ASBJ Statement No.22 and Article 57-4(4) of ASBJ Statement No.7.

There was no effect on the consolidated financial statements as of and for the year ended February 28, 2017 as a result of the application of these revised accounting standards.

(b)Changes in the depreciation method of property and equipment

Although the Company and its domestic consolidated subsidiaries previously mainly applied the declining-balance method for depreciation of property and equipment (excluding leased assets) other than buildings and structures, effective from the fiscal year ended February 28, 2017, the straight-line method has been applied for depreciation of all items of property and equipment.

The Company reassessed the Group's investment strategy in line with the recent execution and planning of large-

scale investments by Daimaru Matsuzakaya Department Stores Co., Ltd. and PARCO CO., LTD. Also, the Company revalidated the profit structures of the Group's property and equipment in line with the proactive expansion of a stable business model involving the fixing of rent income in PARCO CO., LTD. and others.

As a result, the Company concluded that the straight-line method is more appropriate to reflect depreciation for each period than the declining-balance method by allocating the cost to each year equally through the useful life.

As a result of this change, operating income, ordinary income and income before income taxes for the year ended February 28, 2017 increased by ¥1,453 million (\$12,886 thousand) compared with the amounts that would have been recorded under the previous method.

The effect of this change on each segment are shown in Note 27 "Segment Information" of these Notes of Consolidated Financial Statements.

(c)Changes in amortization period of prior service costs and actuarial gain and loss for accounting related to retirement benefits

Effective from the year ended February 28, 2017, certain consolidated subsidiaries changed the amortization period of prior service costs and actuarial gain and loss from 12 years to 11 years because the average remaining years of service of the employees has decreased.

The effect of this change on the accompanying consolidated financial statements for the year ended February 28, 2017 was immaterial.

Standards Issued but Not Yet Effective

Implementation Guidance on Recoverability of Deferred Tax Assets

On March 28, 2016, the ASBJ issued "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No.26), which basically transferred the accounting guidance included in the Japanese Institute of Certified Public Accountants Audit Committee Report No.66 "Audit Treatment on Determining the Recoverability of Deferred Tax Assets" (JICPA Report No.66) to the ASBJ. The ASBJ basically continues to apply the framework of the JICPA Report No.66, whereby companies are categorized into five

categories and deferred tax assets are calculated based on each of these categories. However, the ASBJ conducted a necessary review regarding the partial accounting treatments for the categorizing criteria and recoverability of deferred tax assets and established the guidance in applying "Accounting Standard for Tax Effect Accounting" (Business Accounting Council of Japan), regarding the recoverability for deferred tax assets.

(1)Treatment is clarified for entities that do not meet the criteria for any of the five categories.

- (2) Criteria for classifying entities as "Category 2" or "Category 3" is changed from ordinary income to taxable income in the absence of infrequent or unusual events.
- (3)For "Category 2" entities, deferred tax assets attributable to deductible temporary differences for which scheduling the timing of the reversals is not possible are considered to be realizable if certain conditions are met.

Under Audit Committee Report No.66, deferred tax assets are considered to be realizable to the extent not exceeding the amount based on a scheduling of future reversals of temporary differences.

(4)For "Category 3" entities, the future period of estimated taxable income can be estimated in excess of five years if

certain conditions are met.

Under Audit Committee Report No.66, the future estimable period is generally limited to five years.

(5)For entities classified as "Category 4," they can be treated as "Category 2" or "Category 3" if certain conditions are met and such entities can use the methods of measurement of deferred tax assets stipulated in "Category 2" or "Category 3."

The effect of adopting this revised implementation guidance on the consolidated financial statements was not evaluated as the Group will voluntarily adopt International Financial Reporting Standards from the fiscal year ending February 28, 2018.

5 Inventories

Inventories at February 28, 2017 and February 29, 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Merchandise and finished goods	¥26,814	¥27,085	\$237,818
Work in process	917	826	8,133
Real estate for sale in process	6,406	_	56,815
Raw materials and supplies	359	294	3,184
	¥34,499	¥28,205	\$305,977

Accumulated Depreciation

Accumulated depreciation (including accumulated impairment losses) of property and equipment at February 28, 2017 and February 29, 2016 amounted to ¥283,063 million (\$2,510,536 thousand) and ¥291,437 million, respectively,

which has been offset against the acquisition costs of the property and equipment in the accompanying consolidated balance sheet.

Rental Properties

Certain subsidiaries of the Company own buildings (including land) as rental properties in Tokyo and other regions.

Gross profit of ¥5,829 million (\$51,698 thousand) and ¥4,990 million (rental revenue is recorded as rent income of real estate in net sales and rental expenses as cost of real estate rent in costs of sales), loss on disposal of fixed assets of ¥328 million (\$2,909 thousand) and ¥757 million, loss on

impairment of fixed assets of ¥341 million (\$3,024 thousand) and ¥57 million and loss on business liquidation of ¥288 million (\$2,554 thousand) and ¥225 million related to rental properties were recognized for the years ended February 28, 2017 and February 29, 2016, respectively. In addition, gain on sales of fixed assets related to rental properties amounted to ¥1,330 million (\$11,796 thousand) for the year ended February 28, 2017.

	Millions of yen				
		Carrying value		Fair value	
	March 1, 2016	Net change	February 28, 2017	February 28, 2017	
Rental properties	¥119,556	¥111,689	¥231,245	¥228,060	
	Millions of yen				
		Fair value			
	March 1, 2015	Net change	February 29, 2016	February 29, 2016	
Rental properties	¥109,530	¥10,026	¥119,556	¥116,951	
		Thousands of	U.S. dollars		
		Carrying value		Fair value	
	March 1, 2016	Net change	February 28, 2017	February 28, 2017	
Rental properties	\$1,060,363	\$990,589	\$2,050,953	\$2,022,705	

Notes:1.The carrying value represents the acquisition cost less accumulated depreciation and loss on impairment.

- 2.The main components of net change in carrying value include the increases of ¥110,450 million (\$979,600 thousand) due to the urban redevelopment project in the Ginza 6-chome district and ¥3,008 million (\$26,678 thousand) due to acquisitions of real estate and the decrease of ¥2,385 million (\$21,152 thousand) due to depreciation for the year ended February 28, 2017. The main components of net change in carrying value include the increases of ¥6,294 million due to acquisitions of real estate and ¥6,182 million due to changes in the purpose of ownership and the decrease of ¥2,187 million due to depreciation for the year ended February 29, 2016.
- 3.For major properties, fair value is determined based on the real estate appraisal standards of independent real estate appraisers, etc. For other properties, fair value is estimated by considering the land price index with necessary adjustments applied by the Company and its consolidated subsidiaries.
- 4.Construction of south building of Matsuzakaya Ueno store, whose consolidated balance sheet amount was ¥73,635 million (\$653,082 thousand) as of February 28, 2017, involves the development of large-scale commercial facilities and is still in the development stage at present. Since it is extremely difficult to determine the fair value due to these reasons, the carrying value and the fair value of the project are not included in the above table.
- 5.The urban redevelopment project in the Ginza 6-chome district, whose consolidated balance sheet amount was ¥129,754 million as of February 29, 2016, involves the development of large-scale commercial facilities and was still in the development stage as of February 29, 2016. Since it was extremely difficult to determine the fair value due to these reasons, the carrying value and the fair value of the project as of February 29, 2016 are not included in the above table.

Pledged Assets and Secured Liabilities

The carrying value of assets pledged as collateral and the corresponding liabilities secured by collateral at February 28, 2017 and February 29, 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Assets pledged as collateral:			
Inventories	¥53	¥51	\$470
Land	10,798	10,798	95,769
Buildings and structures, net	10,458	10,779	92,753
Investment securities	455	265	4,035
Total	¥21,766	¥21,894	\$193,046
Liabilities secured by collateral:			
Notes and accounts payable - trade	¥430	¥524	\$3,813
Short-term loans payable	200	1,000	1,773
Long-term loans payable	1,425	1,625	12,638
Total	¥2,055	¥3,149	\$18,226

9 Assets in Trust

The carrying value of assets in trust at February 28, 2017 and February 29, 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2017 2016	
Assets in trust:			
Land	¥43,956	¥43,956	\$389,853
Buildings and structures, net	15,604	16,858	138,394
Other property and equipment, net	171	208	1,516
Total	¥59,732	¥61,024	\$529,773

10 Securities

Information regarding marketable securities classified as other securities at February 28, 2017 and February 29, 2016 is summarized as follows:

	Millions of yen					
		2017			2016	
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥8,870	¥5,747	¥3,122	¥8,932	¥5,275	¥3,656
Debt securities	3,944	3,926	17	4,788	4,758	30
Subtotal	12,814	9,674	3,140	13,720	10,034	3,686
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	1,527	1,638	(111)	3,037	3,550	(513)
Debt securities	2,006	2,022	(15)	193	200	(6)
Subtotal	3,534	3,660	(126)	3,231	3,750	(519)
Total	¥16,348	¥13,335	¥3,013	¥16,951	¥13,785	¥3,166

	Thousands of U.S. dollars			
	2017			
	Carrying Acquisition Unrea			
Securities whose carrying value exceeds their acquisition cost:				
Equity securities	\$78,669	\$50,971	\$27,689	
Debt securities	34,980	34,820	150	
Subtotal	113,649	85,800	27,849	
Securities whose carrying value does not exceed their acquisition cost:				
Equity securities	13,543	14,527	(984)	
Debt securities	17,791	17,933	(133)	
Subtotal	31,343	32,461	(1,117)	
Total	\$144,993	\$118,270	\$26,722	

Sales of securities classified as other securities and the aggregate gain and loss for the years ended February 28, 2017 and February 29, 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2017 2016	
Equity securities:			
Sales proceeds	¥3,232	¥2,763	\$28,665
Aggregate gain	1,283	960	11,379
Aggregate loss	23	-	203

For marketable securities, the Company and its consolidated subsidiaries recognize loss on devaluation of investment securities for securities whose fair value has declined by 30% or more compared with their acquisition cost, if the decline is deemed to be irrecoverable.

The Company and consolidated subsidiaries did not recognize loss on devaluation of investment securities for the years ended February 28, 2017 and February 29, 2016.

11 Short-Term Loans Payable, Commercial Papers, Long-Term Debt and Lease Obligations

The annual weighted-average interest rates applicable to short-term loans payable were 0.37% and 0.49% at February 28, 2017 and February 29, 2016, respectively.

The annual weighted-average interest rates applicable to commercial papers were 0.001% and 0.02% at February 28, 2017 and February 29, 2016, respectively.

Long-term debt and lease obligations at February 28, 2017 and February 29, 2016 consisted of the following:

	Millions of	Millions of yen	
	2017	2016	2017
Bonds payable without collateral due through November 2017, with an annual interest rate of 0.49%	¥12,000	¥12,000	\$106,430
Bonds payable without collateral due through August 2020, with an annual interest rate of 0.30%	10,000	10,000	88,691
Bonds payable without collateral due through August 2022, with an annual interest rate of 0.46%	5.000	5,000	44.345
Loans payable, due through January 2027, with an annual weighted-average interest rate of 0.63%	118,680	114,685	1.052.594
Lease obligations due through August 2024	4,758	2,312	42,199
	150,438	143,997	1,334,261
Less current portion	(41,789)	(32,588)	(370,634)
	¥108,649	¥111,409	\$963,628

The aggregate annual maturities of bonds payable, long-term loans payable and lease obligations subsequent to February 28, 2017 are summarized as follows:

	Millions of yen			
Years ending February 28 or 29,	Bonds payable	Long-term loans payable	Lease obligations	
2018	¥12,000	¥28,960	¥829	
2019	-	18,060	623	
2020	-	12,700	519	
2021	10,000	19,280	406	
2022	-	11,180	240	
2023 and thereafter	5,000	28,500	2,141	
	¥27,000	¥118,680	¥4,758	

	Thousands of U.S. dollars				
Years ending February 28 or 29,	Bonds payable Long-term loans Lease obligation				
2018	\$106,430	\$256,851	\$7,352		
2019	-	160,177	5,525		
2020	-	112,638	4,603		
2021	88,691	170,997	3,600		
2022	-	99,157	2,128		
2023 and thereafter	44,345	252,771	18,988		
	\$239,467	\$1,052,594	\$42,199		

12 Retirement Benefits

(1)Outline of retirement benefits for employees

The Company and its main consolidated subsidiaries have defined benefit pension plans (i.e., corporate pension fund plans and lump-sum payment plans). Certain consolidated subsidiaries have defined contribution pension plans.

Additional retirement allowances not included in the actuarial calculation as per retirement benefit accounting may also be paid when an employee retires. Certain

consolidated subsidiaries also have established an employees' benefit trust.

Certain domestic subsidiaries have calculated their retirement benefit obligation and retirement benefit expenses based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (the "simplified method").

(2) Defined benefit pension plans for the years ended February 28, 2017 and February 29, 2016

1. The changes in the retirement benefit obligation for the years ended February 28, 2017 and February 29, 2016 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of the year	¥69,128	¥67,737	\$613,108
Cumulative effect of change in accounting policy	-	4,705	_
Restated balance at beginning of the year	69,128	72,443	613,108
Service cost	2,275	2,339	20,177
Interest cost	118	278	1,046
Actuarial loss	227	700	2,013
Benefits paid	(5,842)	(6,644)	(51,813)
Prior service cost	-	10	-
Balance at end of the year	¥65,906	¥69,128	\$584,532

^{*}The retirement benefit obligation based on the simplified method is included in the table above due to its immateriality.

2.The changes in plan assets for the years ended February 28, 2017 and February 29, 2016 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of the year	¥42,108	¥48,087	\$373,463
Expected return on plan assets	746	794	6,616
Actuarial gain (loss)	4,088	(5,152)	36,257
Contributions paid by the Group	1,379	1,954	12,230
Benefits paid	(3,284)	(3,576)	(29,126)
Balance at end of the year	¥45,039	¥42,108	\$399,458

3. The balance of retirement benefit obligation and plan assets at fair value and the amounts recognized in the consolidated balance sheet at February 28, 2017 and February 29, 2016 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligations	¥36,538	¥39,218	\$324,062
Plan assets at fair value	(45,039)	(42,108)	(399,458)
	(8,501)	(2,889)	(75,396)
Unfunded retirement benefit obligation	29,368	29,909	260,470
Net liability for retirement benefits recognized in consolidated balance sheet	20,866	27,020	185,064
Liability for retirement benefits	31,605	32,707	280,310
Asset for retirement benefits	10,738	5,687	95,237
Net liability for retirement benefits recognized in consolidated balance sheet	¥20,866	¥27,020	\$185,064

4. The components of retirement benefit expenses for the years ended February 28, 2017 and February 29, 2016 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥2,275	¥2,339	\$20,177
Interest cost	118	278	1,046
Expected return on plan assets	(746)	(794)	(6,616)
Amortization of actuarial loss	1,701	931	15,086
Amortization of prior service cost	146	134	1,294
Other	231	204	2,048
Retirement benefit expenses	¥3,727	¥3,093	\$33,055

5. The components of retirement benefits adjustments included in other comprehensive income (before tax effects) for the years ended February 28, 2017 and February 29, 2016 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars	
	2017	2016	2017	
Prior service cost	¥146	¥123	\$1,294	
Actuarial gain (loss)	5,563	(5,292)	49,339	
Total	¥5,709	¥(5,168)	\$50,634	

6. The components of retirement benefits adjustments included in accumulated other comprehensive income (before tax effect) at February 28, 2017 and February 29, 2016 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized prior service cost	¥(1,729)	¥(1,876)	\$(15,334)
Unrecognized actuarial loss	(9,991)	(15,554)	(88,611)
Total	¥(11,721)	¥(17,431)	\$(103,955)

7. The fair value of plan assets, by major category, as a percentage of total plan assets at February 28, 2017 and February 29, 2016 is as follows:

	2017	2016
Debt securities	32%	33%
Equity securities	46	42
General accounts at life insurance companies	12	13
Cash and deposits	1	3
Other	8	9
Total	100%	100%

The total pension plan assets include 30% (23% in equity securities and 7% in cash and deposits) and 26% (24% in equity securities and 1% in cash and deposits) of the retirement benefits trust for the corporate pension fund plans as of February 28, 2017 and February 29, 2016, respectively.

The expected long-term rate of return on plan assets is determined as a result of consideration of both the present and anticipated portfolio allocation and the expected long-term rates of return from multiple plan assets.

8. The assumptions used in accounting for the defined benefit pension plans are as follows:

	2017	2016
Discount rates	0.08% to 0.59%	0.12% to 0.59%
Expected long-term rates of return on plan assets	1.0% to 2.0%	1.0% to 2.0%
Expected rate of salary increase	Primarily 3.8%	Primarily 3.8%

(3)Defined contribution pension plans for the years ended February 28, 2017 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Contributions to defined contribution pension plans	¥353	¥360	\$3,130

13 Leases

(1)Lessee's accounting

1. Finance lease transactions that do not transfer ownership to the lessee

For finance lease transactions that do not transfer ownership to the Company or its consolidated subsidiaries, the corresponding leased assets mainly consist of system facilities (tools, furniture and fixtures) in the information services business, which included in "Other, net" of property and equipment.

Regarding the depreciation method of the leased assets, please refer to Note 2 "Summary of Significant Accounting Policies" of these Notes to Consolidated Financial Statements.

Finance lease transactions commencing on or before February 28, 2009, other than those in which the ownership of the leased assets is transferred to certain consolidated subsidiaries, are accounted for in the same manner as operating leases.

The following amounts represent the acquisition cost, accumulated depreciation, accumulated loss on impairment, and net book value of the leased assets at February 28, 2017 and February 29, 2016, which would have been reflected in the accompanying consolidated balance sheet if finance lease accounting had been applied to the finance lease transactions entered into by the consolidated subsidiaries as lessees on or before February 28, 2009, which are accounted for as operating leases:

		Million	ns of yen	
			017	
	Acquisition cost	Accumulated depreciation	Accumulated loss on impairment	Net book value
Leased assets:				
Machinery, equipment, tools, furniture and fixtures	¥185	¥17	-	¥9
		Million	ns of yen	
	2016		016	
	Acquisition cost	Accumulated depreciation	Accumulated loss on impairment	Net book value
Leased assets:				
Machinery, equipment, tools, furniture and fixtures	¥532	¥48	6 ¥9	¥36
		Thousands	of U.S. dollars	
		2	017	
	Acquisition cost	Accumulated depreciation	Accumulated loss on impairment	Net book value
Leased assets:				
Machinery, equipment, tools, furniture and fixtures	\$1,640	\$1,56	0 -	\$79

The amounts in the above table include the interest portion.

Lease payments relating to finance leases accounted for as operating leases for the years ended February 28, 2017 and February 29, 2016 totaled ¥17 million (\$150 thousand) and ¥42 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective

lease terms with a nil residual value amounted to ± 17 million (\$150 thousand) and ± 40 million for the years ended February 28, 2017 and February 29, 2016, respectively. Reversal of accumulated loss on impairment of the leased assets for the year ended February 29, 2016 totaled ± 1 million.

Future minimum lease payments (including the interest portion thereon) subsequent to February 28, 2017 for finance leases accounted for as operating leases are summarized as follows:

Years ending February 28 or 29,	Millions of yen	Thousands of U.S. dollars	
2018	¥8	\$70	
2019 and thereafter	0	0	
Total	¥9	\$79	

2. Operating leases

Future minimum lease payments subsequent to February 28, 2017 for noncancelable operating leases were as follows:

Years ending February 28 or 29,	Millions of yen	Thousands of U.S. dollars	
2018	¥4,179	\$37,064	
2019 and thereafter	22,394	198,616	
Total	¥26,574	\$235,689	

(2)Lessor's accounting

1. Finance lease transactions that do not transfer ownership to the lessee

Finance lease transactions commencing on or before February 28, 2009 other than those in which the ownership of the leased assets is transferred from the Company or its consolidated subsidiaries to the lessees are accounted for in the same manner as operating leases.

The following amounts represent the acquisition cost, accumulated depreciation and net book value of the leased assets at February 28, 2017 and February 29, 2016, which would have been transferred to the lessees if finance lease accounting had been applied to the finance lease transactions entered into by the consolidated subsidiaries as lessors on or February 28, 2009, which are accounted for as operating leases:

			Millions	of yen		
		2017			2016	
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Leased assets:						
Machinery, equipment, tools, furniture and fixtures included in "Other, net" in property and equipment	¥81	¥79	¥1	¥270	¥261	¥9
	Thous	sands of U.S. do	llars			
		2017				
	Acquisition cost	Accumulated depreciation	Net book value			
Leased assets:						
Machinery, equipment, tools, furniture and fixtures included in "Other, net" in property and equipment	\$718	\$700	\$8			

Lease income relating to finance leases accounted for as operating leases for the years ended February 28, 2017 and February 29, 2016 totalled ¥7 million (\$62 thousand) and ¥25 million, respectively. Depreciation expense of the leased assets computed by the straight-line method over the respective lease terms amounted to ¥7 million (\$62

thousand) and ¥25 million for the years ended February 28, 2017 and February 29, 2016, respectively.

No loss on impairment was allocated to any leased assets for the years ended February 28, 2017 and February 29, 2016. Future minimum lease receivables (including the interest portion thereon) subsequent to February 28, 2017 for finance leases accounted for as operating leases are summarized as follows:

Years ending February 28 or 29,	Millions of yen	Thousands of U.S. dollars
2018	¥1	\$8
2019 and thereafter	-	-
Total	¥1	\$8

2. Operating leases

Future minimum lease receivables subsequent to February 28, 2017 for noncancelable operating leases were as follows:

Years ending February 28 or 29,	Millions of yen	Thousands of U.S. dollars
2018	¥3,347	\$29,685
2019 and thereafter	9,678	85,835
Total	¥13,025	\$115,521

14 Shareholders' Equity

(1)The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

The capital reserve included in capital surplus amounted to $\pm 7,500$ million (\$66,518 thousand) at February 28, 2017 and February 29, 2016. In addition, the legal reserve included in retained earnings amounted to nil at February 28, 2017 and February 29, 2016.

(2)Movements in shares issued and treasury stock during the years ended February 28, 2017 and February 29, 2016 are summarized as follows:

		Number of	shares	
		2017		
	March 1, 2016	Increase	Decrease	February 28, 2017
Shares issued: Common stock Treasury stock:	268,119,164	-		- 268,119,164
Common stock	6,575,238	7,146	8,79	6,573,594

The increase in treasury stock of 7,146 shares is due to the purchase of shares less than one voting unit by the Company for the year ended February 28, 2017. The decrease in treasury stock consists of 290 shares resulting from the sale

of shares less than one voting unit by the Company and 8,500 shares resulting from the exercise of stock options for the year ended February 28, 2017.

		Number of s	shares	
		2016		
	March 1, 2015	Increase	Decrease	February 29, 2016
Shares issued:				
Common stock	268,119,164	-		- 268,119,164
Treasury stock:				
Common stock	4,205,258	2,496,640	126,66	6,575,238

The increase in treasury stock consists of 11,970 shares resulting from the purchase of shares less than one voting unit by the Company, 770 shares of treasury stock attributable to the Company resulting from the purchase by an affiliate accounted for by the equity method and 2,483,900 shares resulting from the purchase based on resolution of the board of directors for the year ended February 29, 2016. The

decrease in treasury stock consists of 497 shares resulting from the sale of shares less than one voting unit by the Company, 23,400 shares resulting from the exercise of stock options and 102,763 shares resulting from the exclusion of an affiliate accounted for by the equity method for the year ended February 29, 2016.

(3)Stock option plans

Descriptions of each stock option plan at February 28, 2017 are as follows:

Stock option plans	No.5 plan (*1)
Individuals covered by the plan	Directors: 8 Audit and supervisory board members: 5
Type and number of shares to be issued upon the exercise of the stock subscription rights (*3)	31,500 shares of common stock
Grant date	May 25, 2006 (*2)
Vesting conditions	None
Vesting period	None
Exercise period	From September 3, 2007 to July 14, 2026

^{*1} The Company granted these stock options which were originally granted by Matsuzakaya Co., Ltd. through the stock transfer contract entered into on September 3, 2007

^{*2} Grant date was the date of resolution of shareholder's meeting of Matsuzakaya Co., Ltd., currently Daimaru Matsuzakaya Department Store Co., Ltd. and individuals covered by the plan and their title were those as of the grant date.

^{*3} The number of shares in the above table are adjusted to reflect the consolidation of two shares into one share on September 1, 2014.

Information regarding the Company's stock option plans is summarized as follows:

	No.5 plan
Number of stock options: (*1)	
Non-vested	
Outstanding at March 1, 2016	_
Granted	_
Forfeited	_
Vested	-
Outstanding at February 28, 2017	_
Vested	
Outstanding at March 1, 2016	8,500
Vested	-
Exercised	8,500
Forfeited	_
Outstanding at February 28, 2017	_
Exercise price (Yen)	¥1
Average stock price at exercise (Yen)	¥1,380
Fair value at grant date (Yen)	¥1,666(*1)
Exercise price (U.S. dollars)	\$8
Average stock price at exercise (U.S. dollars)	\$12,239
Fair value at grant date (U.S. dollars)	\$14,776

^{*1} The amounts are adjusted to reflect the consolidation of two shares into one share on September 1, 2014.

During the year ended February 28, 2017, no stock options were granted.

Because it is difficult to reasonably estimate the number of options that will be forfeited in the future, the number of

options actually forfeited is reflected.

Stock subscription rights as stock options of nil and ¥14 million were recorded as of February 28, 2017 and February 29, 2016.

15 Financial Instruments

Overview

(a)Policy for financial instruments

The Group manages funds only through low-risk financial assets such as bank deposits and debt securities, in addition, funds are raised through bank borrowings, issuance of commercial papers and corporate bonds, and securitization of receivables. Derivatives are only utilized to hedge foreign currency fluctuation risk arising from receivables and payables denominated in foreign currencies and interest rate fluctuation risk arising from loans payable and bonds payable, and are not used for speculative purposes.

(b)Types of financial instruments, related risks and risk management

Notes and accounts receivable-trade are exposed to credit risk of customers. Deposits and guarantees are mainly associated with leases of stores and are exposed to credit risk of lessors. For these credit risks, the Group individually manages the due dates and balances for each counterparty and tries to identify any incidents that may cause potential collectability issues at an early stage and to mitigate such risks.

Equity securities, such as investment securities, are exposed to market price fluctuation risk, but mainly consist of securities of companies with which a business relationship has been established, and the fair value is monitored periodically and the portfolio is reviewed on an ongoing basis.

Trade payables, such as notes and accounts payable – trade and income taxes payable are mostly due within one year. Trade payables denominated in foreign currencies are exposed to foreign currency fluctuation risk and foreign exchange forward contracts are utilized for a portion of

these trade payables to hedge foreign currency fluctuation risk.

Short-term loans payable, commercial papers and securitized receivables are mainly used for financing of operating activities, and bonds payable and long-term loans payable are mainly used for capital investments. Loans payable with variable interest rates are exposed to interest rate fluctuation risk, but derivative transactions (interest rate swaps) are utilized as hedging instruments for certain of long-term loans payable on an individual loan basis to mitigate the interest rate fluctuation risk and fix interest payments. Hedge effectiveness of each transaction is assessed periodically. For interest-rate swap transactions that meet the criteria for the special treatment, an assessment of hedge effectiveness is omitted.

The execution and management of derivative transactions are based on the internal rules which determine the

authorization for such transactions. In addition, derivative transactions are entered into only with financial institutions with high credit ratings to mitigate credit risk.

Trade payables and loans payable are exposed to liquidity risk. The Group individually manages the risk by preparing a cash management schedule on a monthly basis and maintains necessary liquidity by entering into commitment lines and overdraft contracts with its main financial institutions.

Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheet, fair value and the difference as of February 28, 2017 and February 29, 2016, are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note 2 below).

			Millions	of yen		
		2017			2016	
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
(1)Cash and deposits	¥36,318	¥36,318	¥-	¥32,439	¥32,439	¥-
(2)Notes and accounts						
receivable - trade	68,997	68,997	-	68,049	68,049	_
(3)Securities and investment						
securities:						
Other securities	16,348	16,348	-	16,951	16,951	_
Investments in affiliates	11,816	9,428	(2,388)	11,980	8,128	(3,851)
(4)Deposits and guarantees	36,028	35,621	(406)	36,679	36,304	(374)
Total assets	¥169,509	¥166,714	¥(2,794)	¥166,099	¥161,873	¥(4,225)
(5)Notes and accounts						
payable - trade	87,964	87,964	-	90,768	90,768	_
(6)Short-term loans payable	8,320	8,320	-	8,439	8,439	_
(7)Commercial papers	33,799	33,799	-	30,798	30,798	_
(8)Income taxes payable	7,125	7,125	-	8,322	8,322	_
(9)Bonds payable	27,000	27,117	117	27,000	27,260	260
(10)Long-term loans payable	118,680	119,264	584	114,685	115,951	1,266
Total liabilities	¥282,889	¥283,592	¥702	¥280,013	¥281,540	¥1,527
Derivative transactions (*)	¥11	¥11	¥-	¥(83)	¥(83)	¥-

(1)Cash and deposits \$322,110 \$322,110 (2)Notes and accounts 611,946 611,946 (3)Securities and investment securities: 0ther securities 144,993 144,993 Investments in affiliates 104,798 83,618 (21,17 (4)Deposits and guarantees 319,538 315,929 (3,60				
Carrying value Fair value Difference (1)Cash and deposits \$322,110 \$322,110 \$322,110 (2)Notes and accounts receivable – trade 611,946 611,946 611,946 (3)Securities and investment securities: 144,993 144,993 144,993 Investments in affiliates 104,798 83,618 (21,17 (4)Deposits and guarantees 319,538 315,929 (3,60 Total assets \$1,503,405 \$1,478,616 \$(24,78) (5)Notes and accounts payable – trade 780,168 780,168 (6)Short-term loans payable 73,791 73,791 (7)Commercial papers 299,769 299,769		Thous	sands of U.S. do	llars
(1)Cash and deposits \$322,110 \$322,110 \$(2)Notes and accounts receivable – trade 611,946 611,946 (3)Securities and investment securities: Other securities 144,993 144,993 Investments in affiliates 104,798 83,618 (21,17 4)Deposits and guarantees 319,538 315,929 (3,60 Total assets \$1,503,405 \$1,478,616 \$(24,78 (5)Notes and accounts payable – trade 780,168 780,168 (6)Short-term loans payable 73,791 73,791 (7)Commercial papers 299,769 299,769			2017	
(2)Notes and accounts receivable – trade 611,946 611,946 (3)Securities and investment securities: 144,993 144,993 Other securities 104,798 83,618 (21,17 (4)Deposits and guarantees 319,538 315,929 (3,60 Total assets \$1,503,405 \$1,478,616 \$(24,78 (5)Notes and accounts payable – trade 780,168 780,168 (6)Short-term loans payable 73,791 73,791 (7)Commercial papers 299,769 299,769		Carrying value	Fair value	Difference
receivable – trade (3)Securities and investment securities: Other securities Investments in affiliates (4)Deposits and guarantees Total assets (5)Notes and accounts payable – trade (6)Short-term loans payable (7)Commercial papers (3)19,938 (4)1,946 (6)1,9	(1)Cash and deposits	\$322,110	\$322,110	\$-
(3) Securities and investment securities: Other securities Investments in affiliates (4) Deposits and guarantees Total assets (5) Notes and accounts payable – trade (6) Short-term loans payable (7) Commercial papers 144,993 144,993 144,993 144,993 193,618 (21,17 319,538 315,929 (3,60 \$1,503,405 \$1,478,616 \$(24,78) \$1,503,405 \$1,478,616 \$1,478,616 \$1,503,405 \$1,503,405	(2)Notes and accounts			
securities: 144,993 144,993 144,993 Investments in affiliates 104,798 83,618 (21,17 (4)Deposits and guarantees 319,538 315,929 (3,60 Total assets \$1,503,405 \$1,478,616 \$(24,78 (5)Notes and accounts payable - trade 780,168 780,168 (6)Short-term loans payable 73,791 73,791 (7)Commercial papers 299,769 299,769	receivable - trade	611,946	611,946	-
Other securities 144,993 144,993 Investments in affiliates 104,798 83,618 (21,17 (4)Deposits and guarantees 319,538 315,929 (3,60 Total assets \$1,503,405 \$1,478,616 \$(24,78 (5)Notes and accounts 780,168 780,168 (6)Short-term loans payable 73,791 73,791 (7)Commercial papers 299,769 299,769	(3)Securities and investment			
Investments in affiliates	securities:			
(4)Deposits and guarantees 319,538 315,929 (3,60 Total assets \$1,503,405 \$1,478,616 \$(24,78) (5)Notes and accounts \$1,503,405 \$1,478,616 \$(24,78) payable – trade 780,168 780,168 \$(6)Short-term loans payable 73,791 73,791 73,791 (7)Commercial papers 299,769 299,769 299,769	Other securities	144,993	144,993	-
Total assets \$1,503,405 \$1,478,616 \$(24,78) (5)Notes and accounts payable – trade 780,168 780,168 (6)Short-term loans payable 73,791 73,791 (7)Commercial papers 299,769 299,769	Investments in affiliates	104,798	83,618	(21,179)
(5)Notes and accounts payable - trade 780,168 780,168 (6)Short-term loans payable 73,791 73,791 (7)Commercial papers 299,769 299,769	(4)Deposits and guarantees	319,538	315,929	(3,600)
payable – trade 780,168 780,168 (6)Short-term loans payable 73,791 73,791 (7)Commercial papers 299,769 299,769	Total assets	\$1,503,405	\$1,478,616	\$(24,780)
(6)Short-term loans payable 73,791 73,791 (7)Commercial papers 299,769 299,769	(5)Notes and accounts			
(7)Commercial papers 299,769 299,769	payable - trade	780,168	780,168	-
	(6)Short-term loans payable	73,791	73,791	-
(8)Income taxes payable 63,192 63,192	(7)Commercial papers	299,769	299,769	-
	(8)Income taxes payable	63,192	63,192	-
(9)Bonds payable 239,467 240,505 1,03	(9)Bonds payable	239,467	240,505	1,037
(10)Long-term loans payable 1,052,594 1,057,773 5,17	(10)Long-term loans payable	1,052,594	1,057,773	5,179
Total liabilities \$2,508,993 \$2,515,228 \$6,22	Total liabilities	\$2,508,993	\$2,515,228	\$6,226
Derivative transactions (*) \$97 \$97	Derivative transactions (*)	\$97	\$97	\$-

^{*}Assets and liabilities arising from derivative transactions are shown at net value with the amount in parentheses representing net liability position.

Note 1:Methods to determine the fair value of financial instruments and other matters related to securities and derivative transactions

(1) Cash and deposits and (2) Notes and accounts receivable - trade

Since these items are settled in a short time period, their fair value approximates carrying value. Time deposits with their maturity dates over one year are included in (1) Cash and deposits in the above table.

(3) Securities and investment securities

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on quoted market prices or prices provided by the counterparty financial institutions.

(4) Deposits and guarantees

The fair value of deposits and guarantees is based on the present value of future cash flows discounted by the interest rates reflecting credit risk. Deposits and guarantees due within one year are included in (4) Deposits and guarantees in the above table.

(5) Notes and accounts payable – trade, (6) Short-term loans payable, (7) Commercial papers and (8) Income taxes payable Since these items are settled in a short time period, their fair value approximates carrying value.

(9) Bonds payable

The fair value of bonds payable is stated at the market value. The current portion of bonds payable is included in (9) Bonds payable in the above table.

(10) Long-term loans payable

The fair value of long-term loans payable with variable interest rates approximates the carrying the value because the interest rate reflects the market rate in a short period of time. Certain long-term loans payable with variable interest rates are hedged by the special treatment of interest-rate swap agreements and accounted for as loans with fixed interest rates. The fair value of those long-term loans payable is based on the present value of the total of principal, interest payments and net cash flows of the swap agreements discounted by the interest rates to be applied reasonably assuming new loans under similar conditions are made. The fair value of long-term loans payable with fixed interest rates is based on the present value of the total of principal and interest payments discounted by the interest rates to be applied assuming new loans under similar conditions are made. The current portion of long-term loans payable is included in (10) Long-term loans payable in the above table.

Derivative Transactions

Please refer to Note 16 "Derivative Financial Instruments and Hedging Activities" of these Notes to Consolidated Financial Statements.

Note 2:Financial instruments for which it is extremely difficult to determine the fair value are as follows:

	Millions of y	/en	Thousands of U.S. dollars
	2017	2016	2017
Unlisted stocks	¥18,772	¥19,286	\$166,492
Deposits and guarantees	¥26,154	¥26,303	\$231,964
Long-term guarantee deposits received	¥28,646	¥31,820	\$254,066

Long-term guarantee deposits received are included in "Other" in non-current liabilities in the consolidated balance sheet as of February 28, 2017 and February 29, 2016.

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above

unlisted stocks are not included in the preceding table.

Because no quoted market price is available and it is extremely difficult to estimate the future cash flows, the above deposits and guarantees and long-term guarantee deposits received are not included in the preceding table.

Note 3:Redemption schedules for cash and deposits, receivables and marketable securities with maturities at February 28, 2017 and February 29, 2016 are as follows:

		Millions o		
			•	
	Within one year	More than one year and within five years	More than five years and within ten years	More than ten years
Cash and deposits	¥33,018	¥3,300	¥-	¥-
Notes and accounts receivable - trade	68,997	-	-	-
Securities and investment securities:				
Other securities with maturities:				
(1)Government and municipal bonds (2)Corporate bonds	- 1,301	4,248	-	-
(3)Other	200	4,246 200	_	_
Deposits and guarantees	1,504	3,430	7,063	6,863
Total	¥105,021	¥11,178	¥7,063	¥6,863
		Millions		
		More than	o More than	
	Within	one year and	five years	More than
	one year	within five	and within	ten years
	V00 000	years	ten years	
Cash and deposits Notes and accounts receivable – trade	¥30,039 68,049	¥2,400	¥-	¥-
Securities and investment securities:	00,049	_	_	_
Other securities with maturities:				
(1)Government and municipal bonds	30	_	_	-
(2)Corporate bonds	1,000	3,300	-	-
(3)Other	200	400	-	-
Deposits and guarantees	1,109	3,200	6,814	8,263
Total	¥100,427	¥9,300	¥6,814	¥8,263
		Thousands of	U.S. dollars	
		201		
		More than	More than	
	Within one year	one year and within five	five years and within	More than ten years
	orie year	years	ten years	terr years
Cash and deposits	\$292,842	\$29,268	\$-	\$-
Notes and accounts receivable – trade	611,946	-	-	-
Securities and investment securities:				
Other securities with maturities:				
(1)Government and municipal bonds(2)Corporate bonds	- 11,538	- 37,676	_	_
(3)Other	1,773	1,773	_	
Deposits and guarantees	13,339	30,421	62,643	60,869
Total	\$931,450	\$99,139	\$62,643	\$60,869

Note 4:The redemption schedule for long-term loans payable is disclosed in Note 11 "Short-Term Loans Payable, Commercial Papers, Long-Term Debt and Lease Obligations" of these Notes to Consolidated Financial Statements.

16 Derivative Financial Instruments and Hedging Activities

Derivative transactions which qualify for hedge accounting

The estimated fair value of the derivatives positions outstanding as of February 28, 2017 and February 29, 2016, which qualify for hedge accounting are summarized as follows:

Currency-related transactions

			N	fillions of ye	n
			Control	2017	
Method of hedge accounting	Transaction	Major hedged item	Contrac Notional amount	Maturing after one year	Fair value
Allocation method	Forward foreign currency exchange contracts: Sell:				
	U.S. dollars	Accounts receivable, trade	¥513	¥-	(*)
	Chinese yuan				(*)
	Total		¥513	¥-	(*)
	Currency swap contracts:				
	Receive / U.S. dollars and pay / Japanese yen Total	Long-term loans payable	¥300 ¥300	¥- ¥-	(*) (*)
Deferral hedge accounting	Forward foreign currency exchange contracts: Buy:		+300	+-	()
	U.S. dollars	Forecasted transactions	¥408	¥-	¥(0
	Euro	denominated in foreign	343	-	(3
	Chinese yuan	currencies (Accounts	462	-	15
	Thai baht	payable, trade)	6	-	0
	Total		¥1,220	¥-	¥11
			Operation	2016	
			Contrac		
Method of hedge accounting	Transaction	Major hedged item	Notional amount	Maturing after one year	Fair value
Allocation method	Forward foreign currency exchange contracts: Sell:				
	U.S. dollars	Accounts receivable, trade	¥126	¥-	(*)
	Chinese yuan		0	_	(*)
	Total		¥127	¥-	(*)
	Currency swap contracts:				
	Receive / U.S. dollars and pay / Japanese yen	Long-term loans payable	¥300	¥300	(*)
	Total		¥300	¥300	(*)
	rotar		1000	1000	()
Deferral hedge accounting	Forward foreign currency exchange contracts:				
	exchange contracts: Buy:				
	exchange contracts:		¥958	¥-	¥(37
	exchange contracts: Buy: U.S. dollars Euro	Forecasted transactions	460	¥- -	(25
	exchange contracts: Buy: U.S. dollars Euro Chinese yuan	denominated in foreign	460 359	¥- - -	(25 (19
	exchange contracts: Buy: U.S. dollars Euro Chinese yuan Thai baht		460 359 4	¥- - -	(25 (19 (0
	exchange contracts: Buy: U.S. dollars Euro Chinese yuan	denominated in foreign currencies (Accounts	460 359	¥- - - - - - ¥-	(25 (19

			Thousa	ands of U.S.	dollars
				2017	
			Contrac	t value	
Method of hedge accounting	Transaction	Major hedged item	Notional amount	Maturing after one year	Fair value
Allocation method	Forward foreign currency exchange contracts: Sell:				
	U.S. dollars	Accounts receivable, trade	\$4,549	\$-	(*)
	Chinese yuan		-	-	(*)
	Total		\$4,549	\$-	(*)
	Currency swap contracts: Receive / U.S. dollars and pay / Japanese yen	Long-term loans payable	\$2,660	_	(*)
	Total		\$2,660	\$-	(*)
Deferral hedge accounting	Forward foreign currency exchange contracts: Buy:				
	U.S. dollars	Forecasted transactions	\$3,618	\$-	\$(0)
	Euro	denominated in foreign	3,042	-	(26)
	Chinese yuan	currencies (Accounts	4,097	-	133
	Thai baht	payable, trade)	53	-	0
	Total		\$10,820	\$-	\$97

The fair value of forward foreign currency exchange contracts under deferral hedge accounting is computed using prices provided by the counterparty financial institutions.

Interest-related transactions

			N	illions of yer	า
				2017	
			Contrac	t value	
Method of hedge accounting	Transaction	Major hedged item	Notional amount	Maturing after one year	Fair value
Special treatment of	Interest-rate swaps:	Long-term loans payable			
interest-rate swap	Receive / variable and pay / fixed		¥22,820	¥10,260	(*)
			N	illions of yer	า
				2016	
			Contrac	t value	
Method of hedge accounting	Transaction	Major hedged item	Notional amount	Maturing after one year	Fair value
Special	Interest-rate swaps:	Long-term loans payable			
treatment of					

^(*)Because transactions under the allocation method are accounted for as if the exchange rates applied to the forward foreign exchange contracts had originally applied to notes and accounts receivable – trade or as if the currency applied to the currency swap contracts had originally applied to long-term loans payable, the fair value of these transactions is included in that of notes and accounts receivable – trade and long-term loans payable disclosed in Note 15 "Financial Instruments" of these Notes to Consolidated Financial Statements.

			Thousa	nds of U.S.	dollars
				2017	
			Contrac	t value	
Method of hedge accounting	Transaction	Major hedged item	Notional amount	Maturing after one year	Fair value
Special treatment of	Interest-rate swaps:	Long-term loans payable			
interest-rate swap	Receive / variable and pay / fixed		\$202,394	\$90,997	(*)

^(*)Because interest-rate swap agreements are accounted for by applying the swap rates to the underlying long-term loans payable, their fair value is included in that of the long-term loans payable disclosed in Note 15 "Financial Instruments" of these Notes to Consolidated Financial Statements.

17 Contingent Liabilities

At February 28, 2017, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of financing for employee housing Guarantees of lease agreement for JET CLEANING Co., Ltd.,	¥11	\$97
an unconsolidated subsidiary	63	558
	¥75	\$665

18 Selling, General and Administrative Expenses

The components of selling, general and administrative expenses for the years ended February 28, 2017 and February 29, 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2017	2016	2017	
Advertising expenses	¥26,544	¥27,733	\$235,423	
Provision of allowance for doubtful accounts	539	459	4,780	
Compensation and bonuses for directors and audit and supervisory board members and salaries and bonuses for employees	48,201	49,828	427,503	
Provision for bonuses to employees	5,284	5,511	46,864	
Provision for bonuses to directors and audit and supervisory board members Retirement benefit expenses	206 3,935	204 3,285	1,827 34,900	
Provision of accrued retirement benefits for directors and audit and supervisory board members	2	8	17	
Welfare expenses	10,249	10,632	90,900	
Depreciation and amortization	14,843	16,194	131,645	
Rent expenses	28,637	28,682	253,986	
Operational costs	15,621	16,338	138,545	
Amortization of goodwill	359	499	3,184	
Other	35,780	38,115	317,339	
Total	¥190,205	¥197,494	\$1,686,962	

19 Impairment of Fixed Assets

The Company and its consolidated subsidiaries wrote down the following assets to their respective net recoverable value. Consequently, the Company and its consolidated subsidiaries recorded related loss on impairment of fixed assets of ¥748 million (\$6,634 thousand) and ¥1,570 million in the accompanying consolidated statement of income for the years ended February 28, 2017 and February 29, 2016, respectively:

			Millions o	f yen	Thousands of U.S. dollars
Company (Location)	Usage	Classification	2017	2016	2017
		Land	¥5	¥-	\$44
PARCO CO., LTD (Chuo-ku, Kobe-shi, Utsunomiya-shi,	Stores, etc.	Building and structures, net Other property and	435	5	3,858
Tochigi, and others)	010100, 010.	equipment, net	8	0	70
		Total	450	5	3,991
		Building and structures, net	146	45	1,294
NEUVE·A CO., LTD.		Other property and			
(Omiya-ku, Saitama-shi, Higashikurume-shi, Tokyo,	Stores, etc.	equipment, net	35	87	310
and others)		Other intangible assets		26	
,		Total	181	160	1,605
PARCO SPACE SYSTEMS Co., Ltd.		Other property and	40		400
(Naka-ku, Nagoya-shi, and others)	Offices, etc.	equipment, net	12		106
		Total	12	-	106
PARCO-CITY Co., Ltd.	-	Other intangible assets	14		124
(Shibuya-ku,Tokyo)		Total	14	-	124
		Building and structures, net	-	47	-
JFR Online Co., Ltd.		Other property and		_	
(Chuo-ku, Osaka-shi, Suminoe-ku,	Offices, etc.	equipment, net	.=	8	-
Osaka-shi, and others)		Other intangible assets	15	216	133
		Total	15	273	133
J. Front Foods Co., Ltd.		Building and structures, net	3	95	26
(Tokoname-shi, Aichi, Hirakata-shi,	Stores, etc.	Other property and	•	40	00
Osaka, and others)		equipment, net	3_	12	26
		Total	7	107	62
		Building and structures, net	55	23	487
JFR PLAZA Inc. (Taiwan)	Stores, etc.	Other property and equipment, net	2	6	17
(Talwall)		Other intangible assets	10	1	88
		Total	68	31	603
J. FRONT RETAILING Co., Ltd.		Goodwill	-	990	-
(Chuo-ku, Tokyo)	-	Total	_	990	_
			¥748	¥1,570	\$6,634

The Group mainly group stores into minimum units which generate identifiable cash flows.

Regarding buildings and structures and others in the above table, the Company reduced the carrying value of the assets to the recoverable value, and recognized the difference as loss on impairment of fixed assets amounting to ¥748 million (\$6,634 thousand) and ¥579 million for the years ended February 28, 2017 and February 29, 2016, respectively.

Regarding goodwill in the above table, the full amount of the carrying value was recognized as loss on impairment amounting to ¥990 million for the year ended February 29, 2016 because the originally assumed profitabity from the consolidated subsidiaries is no longer expected.

The recoverable value of buildings and others is measured mainly based on value in use and written down to nil if no future cash inflows are expected.

20 Loss on Store Reconstruction

Loss on store reconstruction recognized by a consolidated subsidiary for the year ended February 29, 2016 consisted of the following:

	Millions of yen
	2016
Reconstruction of main building of Shinsaibashi store in Daimaru Matsuzakaya Department Stores Co., Ltd.:	
Provision for loss on store reconstruction	¥3,825
Loss on impairment of fixed assets:	
Building and structures, net	3,666
Other property and equipment, net	1
Total	3667
Total	¥7,492

The Group mainly group stores into minimum units which generate identifiable cash flows.

The Company reduced the carrying value of the assets to the recoverable value, and recognized the difference as loss on store reconstruction.

The recoverable value of assets is measured mainly based on value in use and written down to nil if no future cash inflows are expected.

21 Loss on Business Liquidation

Loss on business liquidation recognized by certain consolidated subsidiaries for the years ended February 28, 2017 and February 29, 2016 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	201	17
Store closures:		
Daimaru Matsuzakaya Department Stores Co., Ltd. (Daimaru Urawa PARCO)		
Provision for loss on business liquidation Loss on impairment of fixed assets:	¥50	\$443
Buildings and structures, net	262	2,323
Other property and equipment, net	8	70
Total	270	2,394
PARCO CO., LTD. (Otsu PARCO)		
Provision for loss on business liquidation Loss on impairment of fixed asset:	1,092	9,685
Land	973	8,629
Buildings and structures, net	644	5,711
Other property and equipment, net	19	168
Total	1,638	14,527
JFR Online Co. Ltd.		
Provision for loss on business liquidation	750	6,651
JFR PLAZA Inc.		
Provision for loss on business liquidation	305	2,705
Total	¥4,106	\$36,416

	Millions of yen
	2016
Store closures:	
PARCO CO., LTD. (Chiba PARCO)	
Provision for loss on business liquidation	¥1,052
Loss on impairment of fixed assets:	
Buildings and structures, net	649
Other property and equipment, net	6
Total	656
PARCO SPACE SYSTEMS CO., LTD. Loss on impairment of fixed assets: Buildings and structures, net Other property and equipment, net Total	2 7 10
NEUVE·A CO., LTD. Loss on impairment of fixed assets: Buildings and structures, net Total	0 ¥1,719

The Group mainly group stores into minimum units which generate identifiable cash flows.

The Company reduced the carrying value of the assets to the recoverable value, and recognized the difference as loss on business liquidation.

The recoverable value of assets is measured at the value in use or the estimated net selling value, which is based on the selling price in the contract for sale, and written down to nil if no future cash inflows are expected.

22 Loss on Devaluation of Inventories

Loss on devaluation of inventories included in cost of goods sold of ¥485 million (\$4,301 thousand) and ¥233 million was recognized for the years ended February 28, 2017 and February 29, 2016, respectively.

23 Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended February 28, 2017 and February 29, 2016.

	Millions of yen		Thousands of U.S. dollars	
	2017	2016	2017	
Net unrealized holding loss on securities:				
Amount arising during the year	¥1,130	¥321	\$10,022	
Reclassification adjustments for gain	(4.000)	(000)	(44.070)	
included in net income	(1,283)	(899)	(11,379)	
Before tax effect	(153)	(578)	(1,356)	
Tax effect	101	289	895	
Total	(51)	(288)	(452)	
Net unrealized deferred income (loss) on hedging instruments:				
Amount arising during the year	94	(55)	833	
Before tax effect	94	(55)	833	
Tax effect	(30)	17	(266)	
Total	63	(37)	558	
Foreign currency translation adjustments:				
Amount arising during the year	(115)	(147)	(1,019)	
Total	(115)	(147)	(1,019)	
Retirement benefits adjustments:	` ,	, ,	` , ,	
Amount arising during the year	3,861	(5,864)	34,243	
Reclassification adjustments for loss	.,	(-,,	,	
included in net income	1,848	1,066	16,390	
Before tax effect	5,709	(4,798)	50,634	
Tax effect	(2,125)	1,144	(18,847)	
Total	3,584	(3,654)	31,787	
Share of other comprehensive (loss) income of unconsolidated subsidiaries and affiliates accounted for by equity method:	·	, , ,	·	
Amount arising during the year	(395)	785	(3,503)	
Reclassification adjustments for loss (gain) included in net income	26	(188)	230	
Amount of acquisition cost adjustment	(72)	(277)	(638)	
Total	(441)	318	(3,911)	
Total other comprehensive income (loss)	¥3,039	¥(3,810)	\$26,953	

24 Supplemental Information on the Consolidated Statement of Cash Flows

Reconciliations of cash and deposits in the accompanying consolidated balance sheet at February 28, 2017 and February 29, 2016 and cash and cash equivalents in the accompanying consolidated statement of cash flows for the years then ended are as follows:

	Millions of y	Thousands of U.S. dollars	
	2017	2016	2017
Cash and deposits	¥33,018	¥30,039	\$292,842
Time deposits over three months	(1,171)	(1,891)	(10,385)
Cash and cash equivalents	¥31,846	¥28,147	\$282,447

25 Income Taxes

Income taxes in Japan applicable to the Company and its domestic subsidiaries comprise corporate tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory tax rates of 33.1% and 35.6% for the years ended February 28, 2017 and February 29, 2016, respectively. Overseas subsidiaries are subject to the income tax regulations of the respective countries in which they operate.

The effective tax rates reflected in the consolidated statement of income for the years ended February 28, 2017 and February 29, 2016 differ from the statutory tax rates for the following reasons:

	2017	2016
Statutory tax rates	33.1%	35.6%
Effect of:		
Permanent non-deductible expenses	0.8	0.9
Permanent non-taxable income	0.1	(0.1)
Per capita portion of inhabitants' taxes	0.5	0.6
Change in valuation allowance	0.9	1.3
Remeasurement of deferred tax assets and deferred tax liabilities due to the change in statutory tax rates	(10.9)	(24.9)
Equity in earnings of unconsolidated subsidiaries and affiliates	(0.3)	(1.9)
Loss on impairment of goodwill	-	1.0
Other, net	0.9	1.4
Effective tax rates	25.1%	13.9%

The significant components of deferred tax assets and liabilities at February 28, 2017 and February 29, 2016 are as follows:

	Millions of	yen	Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Liability for retirement benefits	¥6,394	¥8,854	\$56,709
Accrued loss on utilization of gift certificates	4,418	4,499	39,184
Loss on devaluation of assets resulting from merger of consolidated subsidiaries	3,504	3,699	31,077
Securities for retirement benefit trust	3,479	3,798	30,855
Deferred revenue	2,116	-	18,767
Provision for bonuses to employees	1,698	1,879	15,059
Accrued point card certificates	1,692	1,827	15,006
Allowance for doubtful accounts	1,119	753	9,924
Asset retirement obligations	1,103	996	9,782
Loss on impairment of fixed assets	962	1,501	8,532
Unrealized profit on fixed assets	850	1,487	7,538
Tax loss carryforwards	709	506	6,288
Provision for loss on business liquidation	696	458	6,172
Accrued enterprise taxes, etc.	602	653	5,339
Provision for loss on store reconstruction	525	1,136	4,656
Loss on devaluation of inventories	138	76	1,223
Provision for sales promotion expenses	137	232	1,215
Others	3,345	3,723	29,667
Gross deferred tax assets	33,497	36,085	297,090
Valuation allowance	(6,675)	(6,570)	(59,201)
Total deferred tax assets	26,821	29,515	237,880
Deferred tax liabilities:			
Revaluation of assets and liabilities	(86,248)	(91,541)	(764,949)
Reserve for depreciation for tax purposes	(6,269)	(6,764)	(55,600)
Securities returned from retirement benefit trust	(407)	(464)	(3,609)
Assets related to asset retirement obligations	(342)	(305)	(3,033)
Others	(4,631)	(2,813)	(41,073)
Total deferred tax liabilities	(97,899)	(101,889)	(868,283)
Net deferred tax liabilities	¥(71,077)	¥(72,374)	\$(630,394)

The "Act for Partial Revision of the Income Tax Act etc." (Act. No. 15 of 2016) and the "Act for Partial Revision of the Local Tax Act etc." (Act. No.13 of 2016) were enacted in the Japanese Diet session on March 29, 2016. Accordingly, the statutory tax rates used for calculating deferred tax assets and liabilities were reduced from 32.3% to 30.9% for temporary differences that are expected to be realized or settled during the year from March 1, 2018 to February 28, 2019 and to 30.6% for temporary differences that are expected to be realized or settled on or after March 1, 2019.

As a result of applying these revised statutory tax rates at

February 28, 2017, deferred tax assets in current assets, deferred tax assets in investments and other assets, deferred tax liabilities in non-current liabilities, deferred tax liabilities for land revaluation and retirement benefits adjustments (credit) have decreased by ¥355 million (\$3,148 thousand), ¥173 million (\$1,534 thousand), ¥4,749 million (\$42,119 thousand), ¥61 million (\$541 thousand) and ¥199 million (\$1,764 thousand), respectively, and net unrealized holding gain on securities, non-controlling interests and income taxes-deferred (credit) have increased by ¥46 million (\$407 thousand), ¥305 million (\$2,705 thousand) and ¥4,437 million (\$39,352 thousand), respectively.

26 Amounts per Share

Amounts per share at February 28, 2017 and February 29, 2016 and for the years then ended are as follows:

	Yen		U.S. dollars
	2017	2016	2017
Net assets	¥1,553.60	¥1,467.05	\$13.77
Basic net income	103.04	100.42	0.91
Diluted net income	103.04	100.41	0.91
Cash dividends	28.00	27.00	0.24

Net assets per share are computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Basic net income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted net income per share is computed based on the

net income available for distribution to shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock subscription rights.

Cash dividends per share of the Company represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of basic and diluted net income per share for the years ended February 28, 2017 and February 29, 2016 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net income attributable owners of the parent	¥26,950	¥26,313	\$239,024
	Thous	;	
	201	7	2016
Weighted-average number of shares of common stock outstanding	261	,547	262,038
Increase in shares of common stock resulting from the exercise of stock subscription rights		2	18

The financial data used in the computation of net assets per share as of February 28, 2017 and February 29, 2016 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total net assets	¥465,839	¥440,594	\$4,131,609
Deduction from total net assets:			
Stock subscription rights	-	(14)	-
Non-controlling interests	(59,503)	(56,880)	(527,742)
_	(59,503)	(56,895)	(527,742)
Total net assets attributable to common stockholders	¥406,336	¥383,699	\$3,603,866
	Thou	;	
	20 ⁻	17	2016
Number of shares of common stock used in the calculation of net assets per share	26	1,545	261,543

27 Segment Information

(1)Outline of reportable segments

The Group's reporting segments are divisions of the Group for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors of the Company in order to allocate management resources and assess performance of operations.

The Group operates its main businesses such as the department store business, under a holding company structure, and the reportable segments of the Group consist of the "Department Store Business," the "PARCO Business," the "Wholesale Business," the "Credit Business" and "Other Businesses."

The "Department Store Business" consists of sales of clothing, general goods, household goods, food products, etc. the "PARCO Business" mainly consists of development, management, supervision and operation of shopping centers. The "Wholesale Business" consists of wholesaling of food products, chemical products and materials, etc. the "Credit Business" mainly consists of issuance and administration of credit cards. "Other Businesses" mainly consist of mail-order marketing, rentals of real estate, parking, leasing, design and construction contracting, manufacturing and sales of furniture, and retailing of general goods.

(2) Calculation of net sales, income, assets, and other items by reportable segments

The accounting policies of the reportable segments are substantially the same as those described in Note 2 "Summary of Significant Accounting Policies" of these Notes to Consolidated Financial Statements. Inter-segment sales and transfers are recorded at the same prices used in transactions with third parties.

(Changes in the depreciation method of property and equipment)

As described in Note 3 "Accounting Changes," although the Company and its domestic consolidated subsidiaries previously mainly used the declining-balance method for depreciation of property and equipment (excluding leased assets) other than buildings and structures, effective from the year ended February 28, 2017, the straight-line method has been applied for depreciation of all items of property and equipment.

As a result of this change, segment income in "Department Store Business", "PARCO Business", "Wholesale Business", "Credit Business" and "Other Businesses" increased by ¥83 million (\$736 thousand), ¥1,294 million (\$11,476 thousand), ¥60 million (\$532 thousand), ¥0 million (\$0 thousand) and ¥15 million (\$133 thousand), respectively, compared with the amounts that would have been recorded under the previous method.

(3)Net sales, income, assets, and other items by reportable segments
Reportable segment information for the years ended February 28, 2017 and February 29, 2016 is summarized as follows:

					of yen			
					17			
			Reportable	segments			_	
	Department Store Business	PARCO Business	Wholesale Business	Credit Business	Other Businesses	Total	Adjustments	Consolidated
Net sales:								
Sales to third parties	¥727,028	¥272,981	¥38,764	¥6,501	¥63,236	¥1,108,512	¥-	¥1,108,512
Inter-segment sales or transfers	966	395	8,527	4,399	34,339	48,628	(48,628)	-
Total	¥727,994	¥273,377	¥47,291	¥10,900	¥97,575	¥1,157,140	¥ (48,628)	¥1,108,512
Segment income	¥24,592	¥12,520	¥1,529	¥2,844	¥2,881	¥44,368	¥211	¥44,580
Segment assets	¥630,882	¥279,573	¥22,923	¥48,441	¥114,470	¥1,096,291	¥(46,181)	¥1,050,109
Other items:								
Depreciation and amortization Investments in unconsolidated subsidiaries and affiliates accounted	¥11,010	¥5,353	¥196	¥5	¥803	¥17,370	¥(181)	¥17,189
for by the equity method Increase in property	¥2,625	¥87	¥-	¥-	¥165	¥2,878	¥23,405	¥26,284
and equipment and intangible assets	¥22,741	¥20,985	¥178	¥2	¥627	¥44,535	¥(107)	¥44,427

	Millions of yen 2016							
			Reportable		10			
	Department Store Business	PARCO Business	Wholesale Business	Credit Business	Other Businesses	Total	Adjustments	Consolidated
Net sales:								
Sales to third parties Inter-segment sales or	¥762,280	¥280,696	¥48,744	¥5,901	¥65,940	¥1,163,564	¥-	¥1,163,564
transfers	941	354	9,104	4,553	38,798	53,752		
Total	¥763,222	¥281,050	¥57,849	¥10,455	¥104,739	¥1,217,316	¥ (53,752)	¥1,163,564
Segment income	¥28,786	¥12,582	¥1,315	¥2,703	¥2,807	¥48,194	¥(156)	¥48,038
Segment assets	¥617,046	¥266,743	¥21,796	¥44,655	¥106,365	¥1,056,607	¥(37,461)	¥1,019,146
Other items: Depreciation and amortization Investments in unconsolidated subsidiaries and affiliates accounted	¥10,960	¥6,281	¥154	¥8	¥1,123	¥18,528	¥(183)	¥18,345
for by the equity method Increase in property and equipment and	¥2,554	¥427	¥-	¥-	¥164	¥3,146	¥23,543	¥26,689
intangible assets	¥14,002	¥21,435	¥197	¥6	¥887	¥36,528	¥(273)	¥36,255

				Thousands of				
				20	17			
			Reportable	segments				
	Department Store Business	PARCO Business	Wholesale Business	Credit Business	Other Businesses	Total	Adjustments	Consolidated
Net sales:								
Sales to third parties Inter-segment	\$6,448,141	\$2,421,117	\$343,804	\$57,658	\$560,851	\$9,831,592	\$-	\$9,831,592
sales or transfers	8.567	3,503	75,627	39,015	304.558	431,290	(431,290)	_
Total	\$6,456,709	\$2,424,629	\$419,432	\$96,674	\$865,410	\$10,262,882	\$(431,290)	\$9,831,592
Segment income	\$218,110	\$111,042	\$13,560	\$25,223	\$25,552	\$393,507	\$1,871	\$395,388
Segment assets	\$5,595,405	\$2,479,583	\$203,308	\$429,631	\$1,015,254	\$9,723,201	\$(409,587)	\$9,313,605
Other items: Depreciation and amortization Investments in unconsolidated subsidiaries	\$97,649	\$47,476	\$1,738	\$44	\$7,121	\$154,057	\$(1,605)	\$152,452
and affiliates accounted for by the equity method Increase in property and equipment and intangible	\$23,281	\$771	\$-	\$-	\$1,463	\$25,525	\$207,583	\$233,117
assets	\$201,694	\$186,119	\$1,578	\$17	\$5,560	\$394,988	\$ (949)	\$394,031

The total amount of segment income is adjusted to operating income on the consolidated statement of income.

The adjustments for segment income in the amounts of ¥211 million (\$1,871 thousand) and ¥156 million include eliminations of inter-segment transactions of ¥3,424 million (\$30,368 thousand) and ¥2,862 million and corporate expenses mainly recorded by the Company not attributable to any reportable segments of ¥3,213 million (\$28,496 thousand) and ¥3,018 million for the years ended February 28, 2017 and February 29, 2016, respectively.

The adjustments for segment assets in the amounts of ¥46,181 million (\$409,587 thousand) and ¥37,461 million include eliminations of inter-segment receivables of ¥85,829 million (\$761,232 thousand) and ¥74,807 million, unrealized profit on fixed assets of ¥1,457 million (\$12,922 thousand) and ¥1,502 million, and assets of the Company, which are not attributable to any reportable segments, of ¥40,399 million (\$358,305 thousand) and ¥38,246 million as of February 28, 2017 and February 29, 2016, respectively.

The adjustments for depreciation and amortization in the amounts of ¥181 million (\$1,605 thousand) and ¥183 million for the years ended February 28, 2017 and February 29, 2016, respectively, consist of inter-segment transfers.

The adjustments for investments in unconsolidated subsidiaries and affiliates accounted for by the equity method in the amounts of ¥23,405 million (\$207,583 thousand) and ¥23,543 million as of February 28, 2017 and February 29, 2016, respectively, consist of investments made by the Company, which are not attributable to any reportable segments.

The adjustments for increase in property and equipment and intangible assets in the amounts of ¥107 million (\$949 thousand) and ¥273 million for the years ended February 28, 2017 and February 29, 2016, respectively, consist of intersegment unrealized profit on fixed assets.

(4)Related information

As more than 90% of consolidated net sales for the years ended February 28, 2017 and February 29, 2016 were made in Japan, the disclosure of geographical segment information of net sales has been omitted.

As more than 90% of the property and equipment in the consolidated balance sheet as of February 28, 2017 and February 29, 2016 were located in Japan, the disclosure of geographical segment information of property and equipment has been omitted.

The information about major customers has been omitted, as there is no major external customer that accounts for 10% or more of consolidated net sales for the years ended February 28, 2017 and February 29, 2016.

(5)Loss on impairment of fixed assets

Loss on impairment of fixed assets by reportable segments for the years ended February 28, 2017 and February 29, 2016 is summarized as follows:

			Millions	of ven			
			20				
		Reportable s	egments				
Department Store Business	PARCO Business	Wholesale Business				Corporate and elimination	Consolidated
¥270	¥2,296	¥ -	¥ -	¥90	¥2,657	¥-	¥2,657
			Millions	of yen			
			20	16			
		Reportable s	egments				
Department Store Business	PARCO Business	Wholesale Business	Credit Other Total		Corporate and elimination	Consolidated	
¥3,773	¥833	¥-	¥-	¥1,404	¥6,011	¥ (105)	¥5,905
			Thousands of	U.S. dollars			
			20	17			
		Reportable s	egments				
Department Store Business	PARCO Business	Wholesale Business	Credit Business	Other Businesses	Total	Corporate and elimination	Consolidated
\$2,394	\$20,363	\$-	\$-	\$798	\$23,565	\$-	\$23,565

Loss on impairment of fixed assets of ¥270 million (\$2,394 thousand) recognized in the "Department Store Business" for the year ended February 28, 2017 was due to the store closure of Daimaru Urawa PARCO store in Daimaru Matsuzakaya Department Store Co., Ltd. and was included in loss on business liquidation in the consolidated statement of income.

Loss on impairment of fixed assets of ¥1,638 million (\$14,527 thousand) recognized in the "PARCO Business" for the year ended February 28, 2017 was due to the transfer of fixed assets and the store closure of Otsu PARCO in PARCO CO., LTD. and was included in loss on business liquidation in the consolidated statement of income.

Loss on impairment of fixed assets of ¥3,773 million recognized in the "Department Store Business" for the year ended February 29, 2016 was due to the reconstruction of main building of Shinsaibashi store in Daimaru Mastuzakaya Deparetment Store Co., Ltd. and included in loss on store reconstruction in the consolidated statement of income.

The amounts in "Other Businesses" in the above table for the year ended February 29, 2016 included loss on impairment of goodwill of ¥990 million.

(6)Amortization of goodwill and remaining balance

Information on amortization of goodwill and the remaining balance by reportable segments as of and for the years ended February 28, 2017 and February 29, 2016 is as follows:

				A 4:11:				
					s of yen)17			
	Department Store Business	PARCO Business	Reportable : Wholesale Business	Credit Business	Other Businesses	Total	Corporate and elimination	Consolidated
Amortization of goodwill	¥_	¥359	¥-	¥.	. ¥-	- ¥359) ¥-	¥359
Remaining balance	¥-	¥208	¥-	¥-	_			
				Million	s of yen			
				20)16			
	Department Store Business	PARCO Business	Wholesale Business	Credit Business	Other Businesses	Total	Corporate and elimination	Consolidated
Amortization of goodwill	¥-	¥358	¥-	¥-	- ¥141	¥499) ¥-	¥499
Remaining balance	¥-	¥568	¥-	¥-	- ¥-	¥568	3 ¥-	¥568
					of U.S. dollars			
)17			
			Reportable	segments			-	
	Department Store Business	PARCO Business	Wholesale Business	Credit Business	Other Businesses	Total	Corporate and elimination	Consolidated
Amortization of goodwill	\$-	\$3,184	\$-	\$-	- \$-	- \$3,184	ļ \$-	\$3,184
Remaining balance	\$-	\$1,844	\$-	\$-	- \$-	- \$1,844	\$ -	\$1,844

Goodwill is recognized as a result of business combinations (acquisition of shares of PARCO CO., LTD. and Forest Co., Ltd.).

28 Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended February 28, 2017, was approved at the meeting of the Board of Directors held on April 10, 2017:

	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends (¥14.00 = \$0.12 per share)	¥3,661	\$32,470



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 balance sheet as at February 28, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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 accounting principles generally accepted in Japan, 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 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, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

May 29, 2017 Ernst on young Shir Trihon LLC



