Takashimaya

TAKASHIMAYA

FINANCIAL STATEMENTS 2017

Years ended February 28, 2017 and February 29, 2016

CONSOLIDATED BALANCE SHEETS

Takashimaya Company, Limited and Consolidated Subsidiaries
February 28, 2017 and February 29, 2016

ASSETS	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current assets:			
Cash and deposits (Notes 4, 5 and 10)	¥107,159	¥75,488	$952,017
Marketable securities (Notes 5, 6 and 10)	2,000	2,004	17,768
Notes and accounts receivable:			
Trade (Note 5)	120,966	118,037	1,074,680
Non-consolidated subsidiaries and affiliated companies (Note 5)	1,762	1,217	15,654
Other	22,050	24,045	195,896
Less: Allowance for doubtful accounts (Note 5)	(337)	(431)	(2,994)
	144,441	142,868	1,283,236
Inventories (Note 7)	45,050	46,152	400,231
Deferred tax assets (Note 11)	9,459	9,309	84,035
Other current assets (Note 5)	17,391	14,804	154,504
Total current assets	325,500	290,625	2,891,791
Investments and advances:			
Investment securities (Notes 5 and 10)	42,375	50,307	376,466
Investments in and advances to:			
Non-consolidated subsidiaries and affiliated companies	46,940	52,244	417,022
Other	13,079	15,268	116,196
Less: Allowance for doubtful accounts	(2,455)	(2,580)	(21,811)
	57,564	64,932	511,407
Total investments and advances	99,939	115,239	887,873
Property, plant and equipment:			
Land (Notes 12 and 16)	230,387	231,175	2,046,793
Buildings and structures (Notes 12 and 24)	393,047	391,776	3,491,889
Equipment and fixtures	34,256	32,926	304,335
Lease assets	6,158	6,234	54,708
Construction in progress	6,623	3,153	58,840
	670,471	665,264	5,956,565
Less: Accumulated depreciation	(256,768)	(247,957)	(2,281,165)
Total property, plant and equipment	413,703	417,307	3,675,400
Leasehold and other deposits (Notes 5, 8 and 10)	31,893	33,151	283,342
Goodwill (Note 21)	193	405	1,715
Deferred tax assets (Note 11)	8,256	9,772	73,348
Other assets	106,980	107,922	950,426
Total assets (Note 20)	¥986,464	¥974,421	$8,763,895

The accompanying notes are an integral part of these balance sheets.

LIABILITIES AND NET ASSETS	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Short-term bank loans (Notes 5 and 9)	¥5,947	¥5,887	$52,834
Current portion of long-term debt (Notes 5 and 9)	3,060	11,300	27,186
Notes and accounts payable:			
Trade (Note 5)	95,951	98,276	852,443
Non-consolidated subsidiaries and affiliated companies	5,370	5,088	47,708
Other	21,894	18,700	194,510
	123,215	122,064	1,094,661
Accrued income taxes	5,598	10,045	49,733
Accrued expenses	3,386	3,135	30,082
Allowance for directors' and corporate auditors' bonuses	46	36	409
Gift certificates outstanding	51,703	52,300	459,337
Advances received	91,852	82,954	816,027
Employees' saving deposits (Note 5)	15,240	15,239	135,394
Allowance for Point Gift Certificates	2,510	3,233	22,299
Allowance for loss on repair construction of building	2,160	582	19,190
Other current liabilities (Note 5)	15,076	18,308	133,937
Total current liabilities	319,793	325,083	2,841,089
Long-term debt (Notes 5 and 9)	146,255	137,413	1,299,351
Deposits from tenants	24,867	23,486	220,922
Net defined benefit liability (Note 14)	58,252	61,875	517,520
Allowance for directors' and corporate auditors' retirement benefits	265	371	2,354
Deferred tax liabilities (Note 11)	45	50	400
Deferred tax liabilities related to land revaluation (Notes 11 and 16)	6,880	7,117	61,123
Long-term accounts payable	1,263	1,053	11,221
Asset retirement obligations	1,867	1,804	16,587
Allowance for environmental measures	420	366	3,731
Allowance for loss on repair construction of building	3,767	5,273	33,467
Other long-term liabilities	900	3,144	7,996
Total liabilities	564,574	567,035	5,015,761
Contingent liabilities (Note 13)			
Net assets (Note 15)			
Shareholders' equity:			
Common stock	66,025	66,025	586,576
Authorized: 600,000 thousand shares			
Issued: 355,518,963 shares in 2017			
355,518,963 shares in 2016			
Capital surplus	55,086	55,086	489,392
Retained earnings	265,033	249,145	2,354,593
Less: Treasury stock, at cost: 6,036,312 shares in 2017			
6,028,353 shares in 2016	(6,160)	(6,153)	(54,726)
Total shareholders' equity	379,984	364,103	3,375,835
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	15,921	17,277	141,445
Deferred gains or losses on hedges	1	(15)	9
Revaluation reserve for land	7,146	6,908	63,486
Foreign currency translation adjustment	8,511	11,884	75,613
Remeasurements of defined benefit plans	662	(1,230)	5,881
Total accumulated other comprehensive income	32,241	34,824	286,434
Non-controlling interests in consolidated subsidiaries:	9,665	8,459	85,865
Total net assets (Note 19)	421,890	407,386	3,748,134
Total liabilities and net assets	¥986,464	¥974,421	$8,763,895

The accompanying notes are an integral part of these balance sheets.

CONSOLIDATED STATEMENTS OF INCOME

Takashimaya Company, Limited and Consolidated Subsidiaries
Years ended February 28, 2017 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Sales and other operating revenue (Note 20)**:**			
Net sales	¥860,762	¥865,890	$7,647,139
Other operating revenue	62,840	63,699	558,280
	923,602	929,589	8,205,419
Operating expenses:			
Cost of sales	648,765	651,011	5,763,726
Selling, general and administrative expenses	240,836	245,605	2,139,623
	889,601	896,616	7,903,349
Operating income (Note 20)	34,001	32,973	302,070
Other income (expenses):			
Interest and dividend income	1,648	1,743	14,641
Interest expenses	(631)	(777)	(5,606)
Gain (loss) on sale and disposal of property, plant and equipment, net	(3,388)	(3,911)	(30,100)
Gain (loss) on sale of securities, net	5,274	13,734	46,855
Impairment loss (Note 23)	(4,588)	—	(40,760)
Loss on repair construction of building	—	(6,041)	—
Gain (loss) on liquidation of gift certificates outstanding, net	(15)	23	(133)
Equity in gain of affiliated companies	2,337	2,990	20,762
Gain on liquidation of affiliated companies	877	—	7,791
Exchange gain (loss), net	(48)	(24)	(426)
Other, net	(864)	742	(7,676)
	602	8,479	5,348
Income before income taxes	34,603	41,452	307,418
Income taxes (Note 11)**:**			
Current	10,779	15,494	95,762
Deferred	2,244	1,687	19,936
	13,023	17,181	115,698
Net income	21,580	24,271	191,720
Net income attributable to non-controlling interests	(710)	(441)	(6,308)
Net income attributable to owners of parent (Note 19)	¥20,870	¥23,830	$185,412

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Takashimaya Company, Limited and Consolidated Subsidiaries
Years ended February 28, 2017 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net income	¥21,580	¥24,271	$191,720
Other comprehensive income			
Valuation difference on available-for-sale securities	(1,452)	(11,589)	(12,900)
Deferred gains or losses on hedges	16	(13)	142
Revaluation reserve for land	238	453	2,115
Foreign currency translation adjustment	(2,333)	(3,077)	(20,727)
Remeasurements of defined benefit plans, net of tax	1,867	(600)	16,587
Share of other comprehensive income of entities accounted for using equity method	(896)	(1,734)	(7,960)
Total other comprehensive income (Note 3)	(2,560)	(16,560)	(22,743)
Comprehensive income	19,020	7,711	168,977
Comprehensive income attributable to:			
Owners of parent	18,340	7,280	162,936
Non-controlling interests	680	431	6,041

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Takashimaya Company, Limited and Consolidated Subsidiaries
Years ended February 28, 2017 and February 29, 2016

		Millions of yen				
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance, February 28, 2015	355,518,963	¥66,025	¥55,086	¥229,185	¥(563)	¥349,733
Dividends of surplus				(3,870)		(3,870)
Profit attributable to owners of parent				23,830		23,830
Purchase of treasury stock and disposal of treasury stock					(5,590)	(5,590)
Change of scope of consolidation						—
Net changes of items other than shareholders' equity						—
Balance, February 29, 2016	355,518,963	¥66,025	¥55,086	¥249,145	¥(6,153)	¥364,103
Dividends of surplus				**(4,194)**		**(4,194)**
Profit attributable to owners of parent				**20,870**		**20,870**
Purchase of treasury stock and disposal of treasury stock			**0**		**(7)**	**(7)**
Change of scope of consolidation				**(788)**		**(788)**
Net changes of items other than shareholders' equity						**—**
Balance, February 28, 2017	**355,518,963**	**¥66,025**	**¥55,086**	**¥265,033**	**¥(6,160)**	**¥379,984**

	Millions of yen							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance, February 28, 2015	¥28,999	¥(2)	¥6,455	¥16,467	¥(545)	¥51,374	¥7,371	¥408,478
Dividends of surplus						—		(3,870)
Profit attributable to owners of parent						—		23,830
Purchase of treasury stock and disposal of treasury stock						—		(5,590)
Change of scope of consolidation						—		—
Net changes of items other than shareholders' equity	(11,722)	(13)	453	(4,583)	(685)	(16,550)	1,088	(15,462)
Balance, February 29, 2016	¥17,277	¥(15)	¥6,908	¥11,884	¥(1,230)	¥34,824	¥8,459	¥407,386
Dividends of surplus						**—**		**(4,194)**
Profit attributable to owners of parent						**—**		**20,870**
Purchase of treasury stock and disposal of treasury stock						**—**		**(7)**
Change of scope of consolidation						**—**		**(788)**
Net changes of items other than shareholders' equity	**(1,356)**	**16**	**238**	**(3,373)**	**1,892**	**(2,583)**	**1,206**	**(1,377)**
Balance, February 28, 2017	**¥15,921**	**¥1**	**¥7,146**	**¥8,511**	**¥662**	**¥32,241**	**¥9,665**	**¥421,890**

The accompanying notes are an integral part of these statements.

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance, February 29, 2016	$586,576	$489,392	$2,213,442	$(54,664)	$3,234,746
Dividends of surplus			(37,260)		(37,260)
Profit attributable to owners of parent			185,412		185,412
Purchase of treasury stock and disposal of treasury stock		0		(62)	(62)
Change of scope of consolidation			(7,001)		(7,001)
Net changes of items other than shareholders' equity					—
Balance, February 28, 2017	$586,576	$489,392	$2,354,593	$(54,726)	$3,375,835

	Thousands of U.S. dollars (Note 1)							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance, February 29, 2016	$153,491	$(133)	$61,372	$105,579	$(10,928)	$309,381	$75,151	$3,619,278
Dividends of surplus						—		(37,260)
Profit attributable to owners of parent						—		185,412
Purchase of treasury stock and disposal of treasury stock						—		(62)
Change of scope of consolidation						—		(7,001)
Net changes of items other than shareholders' equity	(12,046)	142	2,114	(29,966)	16,809	(22,947)	10,714	(12,233)
Balance, February 28, 2017	$141,445	$9	$63,486	$75,613	$5,881	$286,434	$85,865	$3,748,134

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Takashimaya Company, Limited and Consolidated Subsidiaries
Years ended February 28, 2017 and February 29, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes	¥34,603	¥41,452	$307,418
Depreciation	19,421	19,768	172,539
Impairment loss	4,588	—	40,760
Amortization of goodwill	114	113	1,013
Increase (decrease) in allowance for doubtful accounts	(215)	(112)	(1,910)
Increase (decrease) in net defined benefit liability	(868)	(1,874)	(7,711)
Increase (decrease) in provision for directors' retirement benefits	(106)	60	(942)
Increase (decrease) in provision for point card certificates	(725)	(19)	(6,441)
Increase (decrease) in allowance for loss on repair construction of building	73	5,855	648
Interest and dividend income	(1,648)	(1,743)	(14,641)
Interest expenses	631	777	5,606
Share of (profit) loss of entities accounted for using equity method	(2,337)	(2,990)	(20,762)
Loss (gain) on sales of property and equipment, net	(111)	—	(986)
Loss on retirement of property and equipment	1,583	1,751	14,064
Loss (gain) on sales of short-term and long-term investment securities	(5,274)	(13,734)	(46,855)
Loss (gain) on sales of shares of subsidiaries and associates	893	—	7,933
Gain on liquidation of affiliated companies	(877)	—	(7,791)
Decrease (increase) in notes and accounts receivable-trade	(2,448)	1,727	(21,748)
Decrease (increase) in inventories	1,043	(3,821)	9,266
Increase (decrease) in notes and accounts payable-trade	(1,918)	2,669	(17,040)
Other	9,929	(11,507)	88,211
Subtotal	56,351	38,372	500,631
Interest and dividend income received	2,968	3,120	26,368
Interest expenses paid	(600)	(813)	(5,331)
Income taxes paid	(16,453)	(15,041)	(146,171)
Net cash provided by (used in) operating activities	42,266	25,638	375,497
Cash flows from investing activities:			
Payments into time deposits	(3,639)	(1,913)	(32,329)
Proceeds from withdrawal of time deposits	2,102	1,238	18,674
Purchase of short-term and long-term investment securities	(2,116)	(4,080)	(18,799)
Proceeds from sales and redemption of short-term and long-term investment securities	13,083	11,420	116,231
Proceeds from sales of shares of subsidiaries and associates	1,610	—	14,303
Proceeds from liquidation of subsidiaries and associates	1,444	—	12,829
Purchase of property, plant and equipment and intangible assets	(21,792)	(23,647)	(193,603)
Proceeds from sales of property, plant and equipment and intangible assets	236	—	2,097
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	741	—
Other	(53)	159	(471)
Net cash provided by (used in) investing activities	(9,125)	(16,082)	(81,068)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	60	—	533
Proceeds from long-term loans payable	16,500	22,600	146,589
Repayment of long-term loans payable	(15,800)	(31,421)	(140,370)
Purchase of treasury shares	(7)	(5,590)	(62)
Cash dividends paid	(4,194)	(3,870)	(37,260)
Other	(788)	(958)	(7,001)
Net cash provided by (used in) financing activities	(4,229)	(19,239)	(37,571)
Effect of exchange rate changes on cash and cash equivalents	(2,613)	(3,278)	(23,214)
Net decrease (increase) in cash and cash equivalents	26,299	(12,961)	233,644
Cash and cash equivalents at beginning of year	73,537	86,498	653,314
Increase in cash and cash equivalents from newly consolidated subsidiaries	3,929	—	34,906
Cash and cash equivalents at end of year (Note 4)	¥103,765	¥73,537	$921,864

The accompanying notes are an integral part of these statements.

1 BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Takashimaya Company, Limited (hereafter, the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (hereafter, "Japanese GAAP") which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The accounts of consolidated overseas subsidiaries have been prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified six items as applicable. Japanese GAAP requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should be unified for the preparation of the consolidated financial statements. Japanese GAAP, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following six items are required in the consolidation process so that their impacts on net income are accounted for in accordance with Japanese GAAP unless the impact is not material.

(a) Goodwill not subject to amortization

(b) Actuarial gains and losses of defined-benefit retirement plans recognized outside of profit or loss

(c) Capitalized expenditures for research and development activities

(d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets

(e) Retrospective application of a change in accounting policies

(f) Accounting for net income attributable to minority interests

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company, prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at February 28, 2017, which was ¥112.56 to U.S.$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (hereafter, the "Companies").

Investments in certain significant affiliated companies are accounted for by the equity method after the elimination of unrealized intercompany profits. Investments in the remaining non-consolidated subsidiaries and affiliated companies are not accounted for by the equity method because of the immaterial effect on the consolidated financial statements. Such investments are, therefore, carried at cost, adjusted for any substantial and non-recoverable diminution in value, and income from those non-consolidated subsidiaries and affiliated companies is recognized only when the Companies receive dividends therefrom.

In accordance with the accounting standards for consolidation, the Company's subsidiaries include companies over which substantial control is exerted through either majority ownership of voting stock and/or by other means. Also, the Company's affiliated companies include companies over which the Company has the ability to exercise significant influence.

All significant intercompany transactions and unrealized profits among the Companies have been eliminated in consolidation.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The differences between the cost and underlying net equity of investments in consolidated subsidiaries ("Goodwill" and "Negative goodwill" which arose prior to March 31, 2010) are amortized on a straight-line basis over mainly 20 years with the exception of minor differences, which are charged or credited to income in the period of acquisition.

From the consolidated fiscal year under review, Takashimaya Vietnam Ltd., Food and Partners Co., Ltd., and Dear Mayuko Co., Ltd. are included within the scope of consolidation due to increased materiality.

As all of Dayeh Takashimaya Co., Ltd. shares held by the Company were transferred to DAYEH DEVELOPMENT CO., LTD. in May 2016, and Rosier Co., Ltd. completed its liquidation in December 2016, they are excluded from the scope of the equity method from the consolidated fiscal year under review.

All the Company's non-consolidated subsidiaries are of a limited scale in terms of total assets, net sales, profit, retained earnings and other indicators, and taken together they do not have a significant impact on the consolidated financial statements.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the current exchange rate at the balance sheet date, and translation gains and losses are charged to income.

The balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate except for owners' equity accounts, which are translated at the historical rates. Statements of operations of consolidated overseas subsidiaries are translated at average rates.

(c) Cash and cash equivalents

In preparing the Consolidated Statements of Cash Flows, cash and cash equivalents include cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase.

(d) Securities

No trading securities are held by the Companies. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost.

Available-for-sale securities with available fair market values are stated at fair market value.

Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets section in the balance sheets.

Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market values are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market values are stated at moving-average cost.

(e) Derivatives and hedging transactions

Derivative financial instruments are stated at fair value and changes in the fair value as gains or losses are charged to income unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

(1) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

(i) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and

(ii) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

(2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

In addition, special treatment is applied to interest rate swaps if they meet the requirements for special treatment.

The Companies use forward foreign currency contracts, currency swaps and interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange rates and increases in the interest rate and loans.

The related hedged items are trade receivables, trade payables, loans payable, and interest on foreign currency bonds.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided principally for amounts sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to specific items and possible losses on collection calculated by applying a percentage based on collection experience to the remaining items.

(g) Inventories

Inventories held by the Companies were measured at cost (book value is reduced on the basis of declines in profitability) determined by the following method.

Merchandise:	principally retail method and specific identification method
Products:	principally first-in, first-out method
Work in process:	principally specific identification method
Raw materials:	principally first-in, first-out method
Supplies:	principally first-in, first-out method

(h) Property, plant and equipment

Property, plant and equipment are stated at cost and depreciated by using mainly the straight-line method over the estimated useful lives of the assets as prescribed by Japanese tax laws.

Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred. The cost of property, plant and equipment sold or disposed of and the accumulated depreciation thereon are deducted from the related accounts, and the net gain or loss is credited or charged to income.

(i) Intangible assets (except lease assets)

Intangible assets are stated at cost and depreciated by using mainly the straight-line method over the estimated useful lives of the assets as prescribed by Japanese tax laws. The Companies amortize capitalized software using the straight-line method over its estimated useful life (five years).

(j) Lease assets

Lease assets arising from transactions under finance lease contracts that do not transfer ownership to the lessee are amortized to a residual value of zero by the straight-line method using the lease term as the useful life.

Finance leases commencing prior to March 1, 2009, which do not transfer ownership of the leased property to lessees are accounted for in the same manner as operating leases.

(k) Allowance for Point Gift Certificates

The Company provides its customers with credit points when they make purchases using the Takashimaya Card and, upon request, issues gift certificates (Point Gift Certificates) to those customers who have earned sufficient points.

The Company provides an allowance for the estimated future costs of the issuance of the certificates based on the number of credit points outstanding at each fiscal year-end.

(l) Employees' retirement benefit liability

(1) Attribution method for projected retirement benefits
The Companies account for the liability for retirement benefits based on the defined benefit obligations and plan assets at the balance sheet date. The defined benefit obligations are attributed to periods on a benefit formula basis.
(2) How to recognize the prior service cost and the actuarial gains or losses
The unrecognized prior service cost obligations are recognized as expenses and recorded in equal amounts mainly 10 years from their recognition, which is less than the average remaining years of employment of the employees.

Actuarial gains or losses incurred during the year are amortized by using the straight-line method over a certain period of time (mainly 10 years), which is less than the average remaining years of employment of the employees, commencing from the succeeding fiscal year.
(3) Adoption of simplified method in some consolidated subsidiaries
Some consolidated subsidiaries adopt the simplified method which assumes retirement benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at fiscal year-end for the calculation of net defined liability and retirement benefit costs.

(m) Allowance for directors' and corporate auditors' bonuses

An allowance for directors' and corporate auditors' bonuses is provided for the estimated amounts which the Company is obliged to pay to directors and corporate auditors subject to the resolution of the shareholders' meeting.

(n) Allowance for directors' and corporate auditors' retirement benefits

An allowance for directors' and corporate auditors' retirement benefits of the consolidated subsidiaries was provided based on the consolidated subsidiaries' pertinent rules and is calculated as the estimated amount which would be payable if all officers were to retire at the balance sheet date.

The payments are subject to approval of the shareholders' meeting.

(o) Allowance for environmental measures

An allowance for environmental measures is provided based on the estimated costs for treatment of Polychlorinated Biphenyl ("PCB") waste, which is obligated to be treated by the Act on Special Measures Concerning Promotion of Proper Treatment of PCB Waste.

(p) Allowance for loss on repair construction of building

An allowance for loss on repair construction of building is provided based on the estimated costs for repairment of Nihombashi Takashimaya Store, which is designated as an important cultural property.

(q) Income taxes

Income taxes consist of corporation, inhabitants' and enterprise taxes.

The Companies recognize the tax effects of temporary differences between the financial statements' carrying amounts and the tax basis of assets and liabilities. The provision for income taxes is computed based on the income before income taxes and non-controlling interests included in the statements of income of each of the Companies. The assets and liabilities approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(r) Per share information

Net income per share is based on the weighted average number of shares of common stock outstanding during each year and diluted net income per share reflects the potential dilution that could occur if it were converted into common stock.

Cash dividends per share represent interim dividends declared by the Board of Directors in each year and year-end dividends approved by the shareholders at the annual meeting held subsequent to the end of the fiscal year.

(s) Changes in accounting standards

"Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No. 21 of September 13, 2013, hereafter "Business Combinations Accounting Standards"), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 of September 13, 2013, hereafter "Consolidated Accounting Standard"), and Accounting Standard for Business Divestitures (ASBJ Statement No. 7 of September 13, 2013, hereafter "Business Divestitures Accounting Standard") are applied from the consolidated fiscal year under review. The method of recognizing differences, arising from changes in our equity interests in our subsidiaries that continue to be under control, as a capital surplus, as well as the method of recognizing acquisition-related expenses as expenses of the consolidated fiscal year in which they incur, have been revised. In addition, the method has been revised for a business combination occurring after the beginning of the consolidated fiscal year under review, in order to reflect the adjusted allocation of acquisition cost, based on the settlement of the provisional accounting treatment, to the consolidated financial statements for the consolidated fiscal year in which the business combination occurs. Furthermore, revisions are made to the presentation of net income and others and the presentation of minority interests to non-controlling interests in consolidated subsidiaries. Consolidated financial statements for the previous fiscal year have been restated to reflect such presentation revisions. For the application of Business Combinations Accounting Standards and others, the Company follows transitional treatments as stipulated by Article 58-2 (4) of Business Combinations Accounting Standards, Article 44-5 (4) of Consolidated Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard. These treatments are applied from the beginning of the consolidated fiscal year under review into the future.

There is no effect on the consolidated financial statements of the current fiscal year.

(t) Accounting standards issued but not yet applied

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26)

(1) Overview

In connection with the transfer of the practical accounting guidelines and auditing guidelines (relating to accounting treatments) on tax effect accounting stipulated by the Japanese Institute of Certified Public Accountants ("JICPA") to the Accounting Standards Board of Japan (ASBJ), the "Implementation Guidance on Recoverability of Deferred Tax Assets" prescribes guidelines in adopting the "Accounting Standards for Tax Effect Accounting" (by the Business Accounting Council) with respect to recoverability of deferred tax assets. Under this Guidance, ASBJ basically continues to apply the framework used in the Auditing Guidance No. 66," Auditing Treatment for Judgment of Recoverability of Deferred Assets", issued by JICPA in which companies are classified into five categories and the recoverability of deferred tax assets is assessed based on such categories, but made necessary changes to the classification criteria and certain accounting treatments.

(2) Schedule date of adoption
The Company expects to apply the revised accounting standard from the beginning of the fiscal year ending February 28, 2018.
(3) Effect of adoption
The effect of adoption of the aforementioned standards and guidance on the Company's consolidated financial statements is under evaluation.

3 OTHER COMPREHENSIVE INCOME

The recycling and effect of deferred income tax on the other comprehensive income for the years ended February 28, 2017 and February 29, 2016 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Valuation difference on available-for-sale securities			
Occurrence amount	**¥2,307**	¥(5,872)	**$20,496**
Recycling	**(5,274)**	(13,719)	**(46,855)**
Before tax effect	**(2,967)**	(19,591)	**(26,359)**
Tax effect	**1,515**	8,002	**13,459**
Valuation difference on available-for-sale securities	**(1,452)**	(11,589)	**(12,900)**
Deferred gains or losses on hedges			
Occurrence amount	**23**	(19)	**204**
Tax effect	**(7)**	6	**(62)**
Deferred gains or losses on hedges	**16**	(13)	**142**
Revaluation reserve for land	**238**	453	**2,115**
Foreign currency translation adjustment	**(2,333)**	(3,077)	**(20,727)**
Remeasurements of defined benefit plans, net of tax			
Occurrence amount	**1,788**	(2,438)	**15,885**
Recycling	**967**	1,672	**8,591**
Before tax effect	**2,755**	(766)	**24,476**
Tax effect	**(888)**	166	**(7,889)**
Remeasurements of defined benefit plans, net of tax	**1,867**	(600)	**16,587**
Share of other comprehensive income of entities accounted for using equity method			
Occurrence amount	**(1,125)**	(1,734)	**(9,994)**
Recycling	**229**	—	**2,034**
Share of other comprehensive income of entities accounted for using equity method	**(896)**	(1,734)	**(7,960)**
Total other comprehensive income	**¥(2,560)**	¥(16,560)	**$(22,743)**

4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at February 28, 2017 and February 29, 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash and deposits	**¥107,159**	¥75,488	**$952,017**
Time deposits with maturities exceeding three months	**(3,394)**	(1,951)	**(30,153)**
Cash and cash equivalents at end of year	**¥103,765**	¥73,537	**$921,864**

5 FINANCIAL INSTRUMENTS

1. Matters related to financial instruments

(1) Policies for financial instruments

In view of its capital investment plan, the Group raises needed funds (primarily bank loans and issuance of bonds). Temporary surplus funds are invested in highly secure financial assets.

Derivative transactions are only used to avoid the risks attributable to fluctuations in foreign currency exchange and interest rates. The Group does not engage in derivative transactions for speculative purposes.

(2) Financial instruments and their risks

Notes and accounts receivable as operating receivables are exposed to credit risk. Securities and investment securities are exposed to market price volatility risk. Guarantee deposits paid are exposed to credit risk of counterparties.

Notes and accounts payable as operating payables are almost all subject to payment deadlines of one year or less. A certain portion of trade obligations is related to the import of goods and as such are denominated in foreign currencies. Long-term debts are for the purpose of procuring needed funds mainly for capital investment. Some of them are exposed to interest rate risk because of variable interest rates.

Derivative transactions employed in an effort to offset the above-mentioned risk include forward foreign currency exchange rate contracts; interest rate swap transaction agreements, which seek to provide hedges for the risks of fluctuations in the foreign currency exchange rates of trade receivables and trade obligations; and interest rates applicable to loans and bonds payable, respectively. For hedge instruments and hedge targets, hedging policy, the method of assessing the effectiveness of hedges and other details in connection with hedge accounting, refer to Note 2 (e) "Derivatives and hedging transactions".

Moreover, operating payables and long-term debts are exposed to the liquidity risk of the inability to make payment by the payment due date.

(3) Risk management systems relating to financial instruments

(i) Management of credit risk (risk relating to non-performance of a contract obligation by a counterparty, etc.)

With respect to operating receivables, credit risk is guided by its own set of accounting rules and regulations. The Group regularly monitors the status of customers, managing due dates and balances on an individual customer basis. In this manner, every effort is made to ensure early detection and the mitigation of concerns regarding collection due to deterioration in financial standing or other factors.

(ii) Management of market risks (risks associated with fluctuations in foreign currency exchange as well as interest rates, etc.)

The Group utilizes forward foreign currency exchange rate contracts in an effort to offset the risks of movements in foreign currency exchange rates in connection with operating payables denominated in foreign currencies, and interest rate swap transaction agreements aimed at converting floating rates of interest applicable to loans and bonds payable to fixed rate interest.

With respect to investment securities, the Group regularly monitors fair values as well as the financial status of issuers (counterparties), and reviews its holdings on a continuous basis taking into consideration its relationships with counterparties.

(iii) Management of liquidity risks associated with the procurement of funds (the risk of being unable to make payments on due dates)

The Group manages its liquidity risk by concluding the commitment-line and overdraft contracts, along with adequate financial planning.

(iv) Supplementary explanation for fair values, etc. of financial instruments

Fair values of financial instruments are determined by market prices. If no market price is available, the fair value is based on the value that is calculated in a reasonable manner. The determination of such value contains variable factors, and the adoption of wide ranging and differing assumptions may cause values to change.

2. Matters related to fair value of financial instruments

The book values recorded in the Consolidated Balance Sheets for the years ended February 28, 2017 and February 29, 2016, and fair values and their differences are as follows. Figures for which fair value is not readily recognized are not included in the following tables (See Note 2.).

	Millions of yen		
	2017		
	Book value	Fair value	Difference
(1) Cash and deposits	¥107,159	¥107,159	¥—
(2) Notes and accounts receivable–trade	122,728	—	—
Allowance for doubtful accounts (*1)	(318)	—	—
	122,410	124,881	2,471
(3) Securities and investment securities			
1) Securities to be held until maturity	2,008	2,020	12
2) Available-for-sale securities	40,495	40,495	—
	42,503	42,515	12
(4) Guarantee deposits paid (*2)	8,340	8,355	15
Total assets	¥280,412	¥282,910	¥2,498
(1) Notes and accounts payable–trade	¥101,321	¥101,321	¥—
(2) Short-term bank loans	5,947	5,947	—
(3) Deposits received	24,702	24,702	—
(4) Long-term debt (*3)	149,315	151,776	2,461
Total liabilities	¥281,285	¥283,746	¥2,461
Derivatives (*4)			
Amounts not subject to hedge accounting	¥(153)	¥(153)	¥—
Amount subject to hedge accounting	1	1	—
Total derivatives	¥(152)	¥(152)	¥—

	Millions of yen		
	2016		
	Book value	Fair value	Difference
(1) Cash and deposits	¥75,488	¥75,488	¥—
(2) Notes and accounts receivable–trade	119,174	—	—
Allowance for doubtful accounts (*1)	(322)	—	—
	118,852	121,192	2,340
(3) Securities and investment securities			
1) Securities to be held until maturity	4,004	4,067	63
2) Available-for-sale securities	46,430	46,430	—
	50,434	50,497	63
(4) Guarantee deposits paid (*2)	9,211	9,242	31
Total assets	¥253,985	¥256,419	¥2,434
(1) Notes and accounts payable–trade	¥103,364	¥103,364	¥—
(2) Short-term bank loans	5,887	5,887	—
(3) Deposits received	27,069	27,069	—
(4) Long-term debt (*3)	148,713	150,967	2,254
Total liabilities	¥285,033	¥287,287	¥2,254
Derivatives (*4)			
Amounts not subject to hedge accounting	¥—	¥—	¥—
Amount subject to hedge accounting	(21)	(21)	—
Total derivatives	¥(21)	¥(21)	¥—

	Thousands of U.S. dollars		
	2017		
	Book value	Fair value	Difference
(1) Cash and deposits	$952,017	$952,017	$—
(2) Notes and accounts receivable–trade	1,090,334	—	—
Allowance for doubtful accounts (*1)	(2,825)	—	—
	1,087,509	1,109,462	21,953
(3) Securities and investment securities			
1) Securities to be held until maturity	17,839	17,946	107
2) Available-for-sale securities	359,764	359,764	—
	377,603	377,710	107
(4) Guarantee deposits paid (*2)	74,094	74,227	133
Total assets	$2,491,223	$2,513,416	$22,193
(1) Notes and accounts payable–trade	$900,151	$900,151	$—
(2) Short-term bank loans	52,834	52,834	—
(3) Deposits received	219,456	219,456	—
(4) Long-term debt (*3)	1,326,537	1,348,400	21,863
Total liabilities	$2,498,978	$2,520,841	$21,863
Derivatives (*4)			
Amounts not subject to hedge accounting	$(1,359)	$(1,359)	$—
Amount subject to hedge accounting	9	9	—
Total derivatives	$(1,350)	$(1,350)	$—

*1. Accounts receivable–trade are deducted from the carrying amount.
*2. The figures include guarantee deposits paid with repayment due dates of one year or less.
*3. The figures include long-term loans with repayment due dates of one year or less.
*4. Net receivables and payables arising from derivative transactions are shown as a net amount.

Note 1: Fair value of financial instruments and matters pertaining to securities and derivative transactions

Assets

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

As these items have short repayment periods, the fair value approximates the book value; therefore, the said book value shall be the fair value, although the fair value of a portion of accounts receivable–trade is based on the present value of the discounted cash flows using the interest rate determined by the factor of the estimated redemption terms and the government bond interest rate.

(3) Securities and investment securities

The fair value of these securities is measured at their stock market price, while the fair value of bonds is measured at their stock market price or the price submitted by the correspondent financial institutions. Because negotiable certificates of deposit have short repayment periods, the fair value approximates the book value; therefore, the said book value shall be the fair value.

(4) Guarantee deposits paid

The fair value of guarantee deposits paid is based on the present value of discounted cash flows using the interest rate determined by the factor of the estimated redemption terms and the government bond interest rates.

Liabilities

(1) Notes and accounts payable–trade, (2) Short-term bank loans and (3) Deposits received

As these items have short payment periods, the fair value approximates the book value; therefore, the said book value shall be the fair value.

(4) Long-term debt

The fair value of long-term bank loans is measured at the present value by discounting expected repayments of principal and interest in the remaining period using an assumed interest rate on an equivalent new loan.

The fair value of these bonds is measured at their market price or the price submitted by the correspondent financial institutions.

The fair value of interest rate swaps for which the special treatment is applied is included in the fair value of long-term bank loans, as such swaps are treated as a single item incorporating the hedged long-term bank loans.

The special treatment under Japanese GAAP may be applied for interest rate swap contracts that meet certain hedging criteria. In the special treatment, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on debts for which the swap contract is executed.

Derivatives

The fair value of interest rate swaps is measured at the price submitted by the correspondent financial institution. The fair value of forward exchange contracts is estimated based on actual cost and other items in the forward foreign exchange market.

Note 2: Items for which obtaining an estimated fair value is deemed to be extremely difficult

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
(a) Stock of subsidiaries	¥3,953	¥6,919	$35,119
(b) Stock of affiliates	42,787	45,325	380,126
(c) Unlisted stocks	1,872	1,877	16,631
(d) Guarantee deposits paid	24,603	25,012	218,577

(a) Stock of subsidiaries and (b) Stock of affiliates
They have no market value and their fair value is not readily determinable.
(c) Unlisted stocks
They are not included in "(3) Securities and investment securities" in the above tables, as they have no market value and their fair value is not readily determinable.
(d) Guarantee deposits paid
The fair value of a portion of these guarantee deposits paid has not been presented in "(4) Guarantee deposits paid" in the above tables because it is deemed to be extremely difficult to estimate the time when these will be returned and estimate their fair value.

Note 3: Estimated amounts of repayment after the balance sheet date for monetary receivables and securities with maturity dates

	Millions of yen			
	2017			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	¥107,159	¥—	¥—	¥—
Notes and accounts receivable–trade	117,613	5,002	107	6
Securities and investment securities				
1) Securities to be held until maturity	2,000	8	—	—
2) Available-for-sale securities with maturity dates	—	—	—	—
Guarantee deposits paid	1,050	3,391	2,797	1,102
Total	¥227,822	¥8,401	¥2,904	¥1,108

	Millions of yen			
	2016			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	¥75,488	¥—	¥—	¥—
Notes and accounts receivable–trade	114,559	4,514	70	31
Securities and investment securities				
1) Securities to be held until maturity	2,004	2,000	—	—
2) Available-for-sale securities with maturity dates	—	—	—	—
Guarantee deposits paid	887	3,784	3,039	1,501
Total	¥192,938	¥10,298	¥3,109	¥1,532

	Thousands of U.S. dollars			
	2017			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and deposits	$952,017	$—	$—	$—
Notes and accounts receivable–trade	1,044,892	44,438	951	53
Securities and investment securities				
1) Securities to be held until maturity	17,768	71	—	—
2) Available-for-sale securities with maturity dates	—	—	—	—
Guarantee deposits paid	9,329	30,126	24,849	9,790
Total	$2,024,006	$74,635	$25,800	$9,843

Note 4: Estimated amounts of repayment after the balance sheet date for corporate bonds and long-term debts

	Millions of yen					
	2017					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt—Corporate bonds	¥—	¥40,000	¥—	¥25,000	¥10,000	¥—
Long-term debt—Long-term loans	3,060	4,520	7,520	36,005	13,000	10,000
Total	¥3,060	¥44,520	¥7,520	¥61,005	¥23,000	¥10,000

	Millions of yen					
	2016					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt—Corporate bonds	¥—	¥—	¥40,000	¥—	¥25,000	¥10,000
Long-term debt—Long-term loans	11,300	7,560	4,520	7,520	22,505	20,000
Total	¥11,300	¥7,560	¥44,520	¥7,520	¥47,505	¥30,000

	Thousands of U.S. dollars					
	2017					
	Within 1 year	Over 1 year but within 2 years	Over 2 years but within 3 years	Over 3 years but within 4 years	Over 4 years but within 5 years	Over 5 years
Long-term debt—Corporate bonds	$—	$355,366	$—	$222,104	$88,841	$—
Long-term debt—Long-term loans	27,186	40,156	66,809	319,874	115,494	88,842
Total	$27,186	$395,522	$66,809	$541,978	$204,335	$88,842

6 SECURITIES

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of February 28, 2017 and February 29, 2016:

(1) Held-to-maturity debt securities:

Securities with available fair values exceeding book values:

	Millions of yen					
	2017			2016		
Type	Book value	Fair value	Difference	Book value	Fair value	Difference
Government bonds	¥2,000	¥2,012	¥12	¥4,000	¥4,063	¥63

	Thousands of U.S. dollars		
	2017		
Type	Book value	Fair value	Difference
Government bonds	$17,768	$17,875	$107

Securities with available fair values not exceeding book values:

	Millions of yen					
	2017			2016		
Type	Book value	Fair value	Difference	Book value	Fair value	Difference
Corporate bonds	¥8	¥8	¥—	¥4	¥4	¥—

	Thousands of U.S. dollars		
	2017		
Type	Book value	Fair value	Difference
Corporate bonds	$71	$71	$—

(2) Available-for-sale securities:

Securities with book values exceeding acquisition costs:

	Millions of yen					
	2017			2016		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥17,217	¥38,002	¥20,785	¥20,009	¥43,537	¥23,528
Government bonds	—	—	—	—	—	—
Others	161	173	12	177	190	13
Total	¥17,378	¥38,175	¥20,797	¥20,186	¥43,727	¥23,541

	Thousands of U.S. dollars		
	2017		
Type	Acquisition cost	Book value	Difference
Equity securities	$152,958	$337,615	$184,657
Government bonds	—	—	—
Others	1,430	1,537	107
Total	$154,388	$339,152	$184,764

Securities with book value not exceeding acquisition costs:

	Millions of yen					
	2017			2016		
Type	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥2,636	¥2,319	¥(317)	¥2,795	¥2,703	¥(92)
Bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Total	¥2,636	¥2,319	¥(317)	¥2,795	¥2,703	¥(92)

	Thousands of U.S. dollars		
	2017		
Type	Acquisition cost	Book value	Difference
Equity securities	$23,419	$20,602	$(2,817)
Bonds	—	—	—
Others	—	—	—
Total	$23,419	$20,602	$(2,817)

(3) The total sales for available-for-sale securities sold in the year ended February 28, 2017 amounted to ¥8,526 million ($75,746 thousand).

The related gains amounted to ¥5,274 million ($46,855 thousand) in the year ended February 28, 2017.

The related losses were not recorded in the year ended February 28, 2017.

7 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	**¥41,177**	¥41,137	**$365,823**
Products	**12**	31	**107**
Work in process	**2,749**	3,947	**24,422**
Raw materials	**36**	52	**320**
Supplies	**1,076**	985	**9,559**
Total	**¥45,050**	¥46,152	**$400,231**

8 LEASEHOLD AND OTHER DEPOSITS

The Companies conduct a substantial portion of their retail business through leased properties.

The terms of the relevant leases for stores are generally from 10 to 20 years with options for renewal, subject to renegotiation of rental fees every 2 or 5 years.

In connection with such leases, lessors require, under certain circumstances, large deposits relative to the amount of annual lease rental payments, and such deposits bear no interest or interest only at nominal rates.

9 SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans outstanding were generally represented by bank overdrafts and notes issued by the Companies to banks bearing interest at average rates of 0.36% and 0.61% at February 28, 2017 and February 29, 2016, respectively.

Long-term debt at February 28, 2017 and February 29, 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
0.0% convertible bonds due 2018	**¥40,142**	¥40,223	**$356,628**
0.0% convertible bonds due 2020	**25,068**	25,085	**222,708**
0.451% bonds due 2021	**10,000**	10,000	**88,841**
Loans from banks, insurance companies and others due serially to 2024:			
Unsecured (bearing interest at rates from 0.24% to 1.48% at February 28, 2017)	**74,105**	73,405	**658,360**
	149,315	148,713	**1,326,537**
Less: Current portion of long-term debt	**(3,060)**	(11,300)	**(27,186)**
Total	**¥146,255**	¥137,413	**$1,299,351**

The current conversion price of 0.0% convertible bonds due 2018 issued by the Company is ¥1,442.2 ($12.81). At February 28, 2017, the convertible bonds were convertible into approximately 27,735 thousand shares of common stock.

The current conversion price of 0.0% convertible bonds due 2020 issued by the Company is ¥1,342.4 ($11.93). At February 28, 2017, the convertible bonds were convertible into approximately 18,623 thousand shares of common stock.

Years ending February 28 (29)	Millions of yen	Thousands of U.S. dollars
2018	**¥3,060**	**$27,186**
2019	**44,520**	**395,522**
2020	**7,520**	**66,809**
2021	**61,005**	**541,978**
2022 and thereafter	**33,000**	**293,176**
Total	**¥149,105**	**$1,324,671**

10
DEPOSITED ASSETS

The deposited assets required by the Installment Sales Laws at February 29, 2016 and February 28, 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and deposits	¥1,249	¥1,305	$11,096
Marketable securities	2,000	2,000	17,768
Investment securities	—	2,000	—
Leasehold and other deposits	10	10	89
Total	¥3,259	¥5,315	$28,953

11
INCOME TAXES

The Companies are subject to a number of taxes based on income. The aggregate statutory tax rate in Japan was approximately 33.1% for the year ended February 28, 2017.

The following table summarizes the significant difference between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended February 28, 2017 and February 29, 2016.

	%	
Years ended February 28, 2017 and February 29, 2016	2017	2016
Statutory tax rate	33.1%	35.6%
Permanent differences (including dividends)	(3.4)	(2.5)
Difference in statutory tax rate of foreign subsidiaries	(3.2)	(2.6)
Elimination of dividends received	2.8	2.4
Increase in valuation allowance	6.7	5.6
Equity in gain of affiliated companies	(2.2)	(2.6)
Effect arising from change in tax rate	3.1	5.2
Others	0.7	0.3
Effective tax rate	37.6%	41.4%

Significant components of the Companies' deferred tax assets and liabilities as of February 28, 2017 and February 29, 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets (current):			
Accrued enterprise tax	¥563	¥870	$5,002
Undeductible allowance for doubtful accounts	119	134	1,057
Accrued bonuses	64	69	569
Undeductible write-down of inventories	537	503	4,771
Allowance for Point Gift Certificates	1,370	1,707	12,171
Adjustment of gift certificates	6,569	6,135	58,360
Others	1,045	758	9,284
Gross deferred tax assets	10,267	10,176	91,214
Less: Valuation allowance	(44)	(32)	(391)
Total deferred tax assets	10,223	10,144	90,823
Net of deferred tax liabilities	(764)	(835)	(6,788)
Net deferred tax assets	¥9,459	¥9,309	$84,035
Deferred tax liabilities (current):			
Adjustments of allowance for doubtful accounts	¥41	¥38	$364
Adjustment of gift certificates	700	797	6,219
Others	23	0	204
Total deferred tax liabilities	764	835	6,787
Net deferred tax assets	(764)	(835)	(6,787)
Net deferred tax liabilities	¥—	¥—	$—
Deferred tax assets (non-current):			
Unrealized intercompany profits	¥1,988	¥2,202	$17,662
Undeductible net defined benefit liability	17,888	20,064	158,920
Undeductible write-down of securities	625	768	5,553
Undeductible amortization of software costs	122	184	1,084
Loss on impairment of property, plant and equipment	1,777	304	15,787
Tax loss carryforward	4,159	3,427	36,949
Undeductible allowance for doubtful accounts	663	700	5,890
Devaluation of property, plant and equipment resulting from spin-off	718	733	6,379
Allowance for loss on repair construction of building	1,158	1,703	10,288
Allowance for environmental measures	162	121	1,439
Others	1,526	1,935	13,557
Gross deferred tax assets	30,786	32,141	273,508
Less: Valuation allowance	(7,789)	(5,626)	(69,199)
Total deferred tax assets	22,997	26,515	204,309
Net of deferred tax liabilities	(14,741)	(16,743)	(130,961)
Net deferred tax assets	¥8,256	¥9,772	$73,348
Deferred tax liabilities (non-current):			
Reserve for deferred capital gains of property	¥8,934	¥9,414	$79,371
Valuation difference on available-for-sale securities	5,805	7,321	51,572
Others	47	58	418
Gross deferred tax liabilities	14,786	16,793	131,361
Net of deferred tax assets	(14,741)	(16,743)	(130,961)
Net deferred tax liabilities	¥45	¥50	$400

Effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities

"Act on Partial Revision of the Income Tax Act" (Act No. 15 of 2016) and "Act on Partial Revision of the Local Tax Act" (Act No. 13 of 2016) were enacted at the Diet on March 29, 2016, and "Act on Partial Revision to the Partial Revision of Consumption Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" (Act No. 85 of 2016) and "Act on Partial Revision to the Partial Revision of Local Tax Act and Local Allocation Tax Act for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" (Act No. 86 of 2016) were enacted at the Diet on November 18, 2016.

As a result of this revision, the Company's statutory tax rate used to calculate deferred tax assets and liabilities for temporary differences expected to be eliminated in or after the consolidated fiscal year commencing from March 1, 2017 will change from 32.3% to 30.9%.

Also, the Company's statutory tax rate used to calculate deferred tax assets and liabilities for temporary differences expected to be eliminated in or after the consolidated fiscal year commencing from March 1, 2019 will change from 32.3% to 30.6%.

The effect of these changes was to decrease the current deferred tax assets by ¥396 million ($3,518 thousand), to decrease the non-current tax assets by ¥367 million ($3,260 thousand), and to decrease the deferred tax liabilities for land revaluation by ¥238 million ($2,114 thousand), and to decrease remeasurements of defined benefit plans by ¥28 million ($249 thousand).

In addition, the revaluation reserve for land increased by ¥238 million ($2,114 thousand), and the valuation difference on available-for-sale securities increased by ¥321 million ($2,852 thousand).

As the result of these changes, income taxes–deferred increased by ¥1,058 million ($9,399 thousand).

12 RENTAL PROPERTY

The Company and certain of its consolidated subsidiaries own some rental properties, such as office buildings and commercial properties principally in areas where they conduct operations.

Certain domestic commercial properties are not recognized as rental properties but as real estate including spaces used as rental properties since the Company or certain consolidated subsidiaries use some of the floor space of these properties.

The carrying amounts of these properties in the Consolidated Balance Sheets, their changes during the current fiscal year, their fair value, and the method for calculating the fair value at February 28, 2017 and February 29, 2016 were as follows:

Amounts on the Consolidated Balance Sheets

	Millions of yen			
	2017			
	Book value			Fair value
	March 1, 2016	Increase (decrease)	February 28, 2017	February 28, 2017
Rental property	**¥50,172**	**¥(866)**	**¥49,306**	**¥59,522**
Real estate including spaces used as rental properties	**361,212**	**(3,037)**	**358,175**	**493,274**

	Millions of yen			
	2016			
	Book value			Fair value
	March 1, 2015	Increase (decrease)	February 29, 2016	February 29, 2016
Rental property	¥51,288	¥(1,116)	¥50,172	¥59,094
Real estate including spaces used as rental properties	360,971	241	361,212	482,116

	Thousands of U.S. dollars			
	2017			
	Book value			Fair value
	March 1, 2016	Increase (decrease)	February 28, 2017	February 28, 2017
Rental property	**$445,736**	**$(7,694)**	**$438,042**	**$528,802**
Real estate including spaces used as rental properties	**3,209,062**	**(26,981)**	**3,182,081**	**4,382,321**

Notes: 1. The amounts presented on the Consolidated Balance Sheets are the acquisition value minus accumulated depreciation.
2. Rental property: the increase during the year ended February 28, 2017 primarily represents acquisition of rental properties, and the decrease primarily represents depreciation.
3. Real estate including spaces used as rental properties: the increase during the year ended February 28, 2017 primarily represents the acquisition, and the decrease primarily represents depreciation.
4. The fair value as of the end of the fiscal year was calcuated by the Company based on Real Estate Appraisal and Valuation Standards (including adjustments made using indicators and other information).

Profit (loss) on rental property and the portion of real estate including spaces used as rental properties during the years ended February 28, 2017 and February 29, 2016 were as follows:

	Millions of yen			
	2017			
	Rental income	Rental expenses	Difference	Other, net
Rental property	¥14,811	¥10,515	¥4,296	¥—
Real estate including spaces used as rental properties	21,764	16,675	5,089	(572)

	Millions of yen			
	2016			
	Rental income	Rental expenses	Difference	Other, net
Rental property	¥14,898	¥10,807	¥4,091	¥(37)
Real estate including spaces used as rental properties	21,759	16,850	4,909	(6,041)

	Thousands of U.S. dollars			
	2017			
	Rental income	Rental expenses	Difference	Other, net
Rental property	$131,583	$93,417	$38,166	$—
Real estate including spaces used as rental properties	193,355	148,143	45,212	(5,082)

Note: Since real estate including spaces used as rental properties by the Company and certain of its subsidiaries for the purpose of providing service and management, a part of the related rental income is not reported. Expenses related to rental property (depreciation, maintenance, insurance, taxes, etc.) are included in rental expenses.

13 CONTINGENT LIABILITIES

The Company and certain consolidated subsidiaries were contingently liable for the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Guarantees on loans from financial institutions:			
Keppel Land Watco II Co., Ltd.	¥3,582	¥1,616	$31,823
Keppel Land Watco III Co., Ltd.	1,709	1,154	15,183
Loan guarantees made for employees and others	111	151	986
Total	¥5,402	¥2,921	$47,992

Note: ¥779 million ($6,291 thousand) of ¥5,290 million ($46,997 thousand) for guarantees on loans from financial institutions for the consolidated fiscal year under review have been counter-guaranteed from Keppel Land Limited.

14 EMPLOYEES' RETIREMENT BENEFITS

1. Summary of employees' retirement benefits which the companies adopted

The Company and domestic consolidated subsidiaries have defined benefit pension plans (i.e., welfare pension plans and corporate pension plans) and lump-sum payment plans.

The Company and some consolidated subsidiaries have adopted a defined contribution pension plan for part of their retirement benefits plans.

Under the defined-benefit plans owed by some consolidated subsidiaries, retirement benefit liability and employees' retirement benefit cost are calculated using the simplified method.

2. Defined benefit obligation

(1) The changes in defined benefit obligation for the years ended February 28, 2017 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of the year	¥113,836	¥117,500	$1,011,336
Service cost	2,869	2,930	25,489
Interest cost	735	785	6,530
Actuarial losses	(967)	5	(8,591)
Benefit paid	(5,425)	(7,384)	(48,197)
Balance at end of the year	¥111,048	¥113,836	$986,567

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of the year	¥53,347	¥55,896	$473,943
Expected return on plan assets	1,334	1,398	11,851
Actuarial gains	821	(2,433)	7,294
Contribution from the employer	2,314	2,326	20,558
Benefit paid	(3,528)	(3,840)	(31,343)
Balance at end of the year	¥54,288	¥53,347	$482,303

(3) Reconciliation between the liability recorded in the Consolidated Balance Sheet and the balance of benefit obligation and plan assets as of February 28, 2017 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded defined benefit obligation	¥59,182	¥62,214	$525,782
Plan assets	(54,288)	(53,347)	(482,303)
	4,894	8,867	43,479
Unfunded defined benefit obligation	51,866	51,622	460,785
Net liability for defined benefit obligation	¥56,760	¥60,489	$504,264
Net defined benefit liabilities	56,760	60,489	504,264
Net liability for defined benefit obligation	¥56,760	¥60,489	$504,264

(4) The components of periodic benefit costs for the years ended February 28, 2017 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Service cost	**¥2,870**	¥2,930	**$25,497**
Interest cost	**735**	785	**6,530**
Expected return on plan assets	**(1,334)**	(1,397)	**(11,851)**
Recognized actuarial losses	**967**	1,672	**8,591**
Total	**¥3,238**	¥3,990	**$28,767**

(5) The components of other comprehensive income on defined retirement benefits plans, before tax, on February 28, 2017 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Actuarial losses	**¥2,756**	¥(766)	**$24,485**
Total	**¥2,756**	¥(766)	**$24,485**

(6) Accumulated other comprehensive income on defined retirement benefits plans, before tax, on February 28, 2017 and February 29, 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Unrecognized actuarial losses	**¥1,236**	¥(1,520)	**$10,981**
Total	**¥1,236**	¥(1,520)	**$10,981**

(7) Plan assets

1) Components of plan assets are as follows:

	%	
	2017	2016
Debt investments	**67%**	70%
Equity investments	**24**	20
General accounts with life insurance companies	**9**	9
Cash and deposits	**0**	1
Total	**100%**	100%

2) Method for determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) The assumptions used for the years ended February 28, 2017 and February 29, 2016 are as follows:

Discount rate	
Relating to defined benefit obligation	**Mainly 0.8%**
Relating to unfunded defined benefit obligation	**Mainly 0.5%**
Expected rate of return on plan assets	**2.5%**
Assumed salary increase rate	**1.5%**

3. Defined benefit obligation of the simplified method

(1) The changes in defined benefit obligation of the simplified method for the years ended February 28, 2017 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Balance at beginning of the year	**¥1,386**	¥1,380	**$12,313**
Employees' retirement benefit cost	**181**	215	**1,608**
Benefit paid	**(75)**	(209)	**(666)**
Balance at end of the year	**¥1,492**	¥1,386	**$13,255**

(2) Reconciliation between the liability recorded in the Consolidated Balance Sheet and the balance of benefit obligation and plan assets as of February 28, 2017 and February 29, 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Funded defined benefit obligation	**¥—**	¥—	**$—**
Plan assets	**—**	—	**—**
	—	—	**—**
Unfunded defined benefit obligation	**1,492**	1,386	**13,255**
Net liability for defined benefit obligation	**¥1,492**	¥1,386	**$13,255**
Defined benefit liability	**1,492**	1,386	**13,255**
Net liability for defined benefit obligation	**¥1,492**	¥1,386	**$13,255**

(3) Employees' benefit cost of the conventional method are ¥181 million ($1,608 thousand) for the year ended February 28, 2017 and ¥215 million for the year ended February 29, 2016.

4. Defined contribution pension plan

The Companies paid ¥681 million ($6,050 thousand) as defined contribution pension costs for the year ended February 28, 2017 and ¥675 million for the year ended February 29, 2016.

15 NET ASSETS

Net assets consist of shareholders' equity, valuation and translation adjustments, and non-controlling interests in consolidated subsidiaries. Under Japanese laws and regulations, the entire amount paid for new shares must be designated as common stock.

However, by resolution of the Board of Directors, a company can designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is then included in the capital surplus. It is a requirement under Japanese Corporate Law ("the Law") that, in cases where the surplus is distributed among shareholders as a dividend, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and the legal earnings reserve is set aside as additional paid-in capital or the legal earnings reserve.

The legal earnings reserve is included in retained earnings in the accompanying Consolidated Balance Sheets. Under the Law, appropriations of the legal earnings reserve and additional paid-in capital generally require a resolution by a General Meeting of Shareholders. Although additional paid-in capital and the legal earnings reserve may not be distributed as dividends, the Law allows all additional paid-in capital and all legal earnings reserves to be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can return to shareholders as dividends is calculated based on the non-consolidated financial statements in accordance with the Law.

16 LAND REVALUATION

In accordance with the Law Concerning Revaluation of Land, land used for business owned by the Company and two consolidated subsidiaries was revalued. The unrealized gain, net deferred tax, was excluded from earnings and reported as "Revaluation reserve for land" in net assets, and the relevant deferred tax was included as "Deferred tax liabilities related to land revalution" in liabilities.

Related information is shown as follows:

Date of revaluation:	
The Company	December 31, 2000 and February 28, 2001
A consolidated subsidiary	February 28, 2001
A consolidated subsidiary	March 31, 2002

17 LEASES

Operating leases

Future minimum lease payments subsequent to February 28, 2017 for noncancellable operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending February 28 and 29	2017	2017
2017	¥1,545	$13,726
2018 and thereafter	86,042	764,410
Total	¥87,587	$778,136

18 DERIVATIVE TRANSACTIONS

1. Derivatives to which hedge accounting is not applied

(1) Currency related derivatives

		Millions of yen			
		2017			
Classification	Type of derivatives	Contract amount	Contract amount due after one year	Fair value	Valuation loss
Non-market transactions	Swaps				
	Buy: U.S. dollars				
	Sell: JP yen	¥3,489	¥—	¥(153)	¥(153)
Total		¥3,489	¥—	¥(153)	¥(153)

		Thousands of U.S. dollars			
		2017			
Classification	Type of derivatives	Contract amount	Contract amount due after one year	Fair value	Valuation loss
Non-market transactions	Swaps				
	Buy: U.S. dollars				
	Sell: JP yen	$30,997	$—	$(1,359)	$(1,359)
Total		$30,997	$—	$(1,359)	$(1,359)

2. Derivatives to which hedge accounting is applied

(1) Currency related derivatives

			Millions of yen		
			2017		
Hedge accounting method	Type of derivatives	Major hedged items	Contract amount	Contract amount due after one year	Fair value
Deferral hedge accounting	Forward contracts	Accounts payable-trade			
	To buy U.S. dollars		¥164	¥—	¥1
	To buy Euros		16	—	1
	To buy G.B. pounds		1	—	0
Total			¥181	¥—	¥2

Hedge accounting method	Type of derivatives	Major hedged items	Millions of yen		
			2016		
			Contract amount	Contract amount due after one year	Fair value
Deferral hedge accounting	Forward contracts	Accounts payable-trade			
	To buy U.S. dollars		¥298	¥—	¥(13)
	To buy Euros		372	—	(8)
	To buy G.B. pounds		3	—	(0)
Total			¥673	¥—	¥(21)

Hedge accounting method	Type of derivatives	Major hedged items	Thousands of U.S. dollars		
			2017		
			Contract amount	Contract amount due after one year	Fair value
Deferral hedge accounting	Forward contracts	Accounts payable-trade			
	To buy U.S. dollars		**$1,457**	**$—**	**$9**
	To buy Euros		**142**	**—**	**9**
	To buy G.B. pounds		**9**	**—**	**0**
Total			**$1,608**	**$—**	**$18**

Note: The fair value was based on the quoted price obtained from the financial institutions with which the derivatives are transacted.

(2) Interest rate related derivatives

Hedge accounting method	Type of derivatives	Major hedged items	Millions of yen		
			2017		
			Contract amount	Contract amount due after one year	Fair value
Specified treatment for interest rate swaps	Interest rate swaps	Interest expenses on long-term debt			
	Receive floating rate		**¥32,000**	**¥29,000**	**¥—**
	Pay fixed rate				
Total			**¥32,000**	**¥29,000**	**¥—**

Hedge accounting method	Type of derivatives	Major hedged items	Millions of yen		
			2016		
			Contract amount	Contract amount due after one year	Fair value
Specified treatment for interest rate swaps	Interest rate swaps	Interest expenses on long-term debt			
	Receive floating rate		¥32,000	¥32,000	¥—
	Pay fixed rate				
Total			¥32,000	¥32,000	¥—

Hedge accounting method	Type of derivatives	Major hedged items	Thousands of U.S. dollars		
			2017		
			Contract amount	Contract amount due after one year	Fair value
Specified treatment for interest rate swaps	Interest rate swaps	Interest expenses on long-term debt			
	Receive floating rate		**$284,293**	**$257,640**	**$—**
	Pay fixed rate				
Total			**$284,293**	**$257,640**	**$—**

Note: The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the amount paid or received under the swap agreements is recognized and included in interest expenses of the long-term debt as hedged items. Accordingly, the fair value of the interest rate swaps is considered to be included in the fair value of the long-term debt.

(3) Interest rate and currency related derivatives

Hedge accounting method	Type of derivatives	Major hedged items	Millions of yen 2017 Contract amount	Contract amount due after one year	Fair value
Specified treatment for interest rate and currency swaps	Interest rate and currency swaps	Long-term debt	¥10,000	¥10,000	¥—
Total			¥10,000	¥10,000	¥—

Hedge accounting method	Type of derivatives	Major hedged items	Millions of yen 2016 Contract amount	Contract amount due after one year	Fair value
Specified treatment for interest rate and currency swaps	Interest rate and currency swaps	Long-term debt	¥10,000	¥10,000	¥—
Total			¥10,000	¥10,000	¥—

Hedge accounting method	Type of derivatives	Major hedged items	Thousands of U.S. dollars 2017 Contract amount	Contract amount due after one year	Fair value
Specified treatment for interest rate and currency swaps	Interest rate and currency swaps	Long-term debt	$88,842	$88,842	$—
Total			$88,842	$88,842	$—

Note: The interest rate and currency swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the amount paid or received under the swap agreements is recognized and included in the long-term debt as hedged items. Accordingly, the fair value of the interest rate and currency swaps is considered to be included in the fair value of the long-term debt.

19 PER SHARE INFORMATION

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended February 28, 2017 and February 29, 2016 was as follows:

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Basic net income attributable to owners of parent per share			
Income (numerator):			
Net income attributable to owners of parent	¥20,870	¥23,830	$185,412
Amounts not belonging to common stockholders	—	—	—
Net income attributable to owners of parent concerning common stock	20,870	23,830	185,412
Shares, thousands (denominator):			
Weighted average number of shares	349,487	351,052	—
Basic EPS (yen and U.S. dollars)	¥59.71	¥67.88	$0.53
Diluted net income attributable to owners of parent per share			
Income (numerator):			
Net income attributable to owners of parent	¥20,870	¥23,830	$185,412
Amounts not belonging to common stockholders	—	—	—
Net income attributable to owners of parent concerning common stock	20,870	23,830	185,412
Effect of dilutive securities — convertible bonds	(65)	(63)	(577)
Adjusted net income attributable to owners of parent	20,805	23,767	184,835
Shares, thousands (denominator):			
Weighted average number of shares	349,487	351,052	—
Assumed conversion of convertible bonds	46,359	46,269	—
Adjusted weighted average number of shares	395,846	397,321	—
Diluted EPS (yen and U.S. dollars)	¥52.55	¥59.81	$0.47

Net assets per share as of February 28, 2017 and February 29, 2016 were calculated as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Net assets per share			
Net assets (numerator):			
Total net assets	**¥421,890**	¥407,386	**$3,748,134**
Non-controlling interests in consolidated subsidiaries	**(9,665)**	(8,459)	**(85,865)**
Adjusted net assets	**412,225**	398,927	**3,662,269**
Common stock, thousands (denominator):			
Issued number of shares	**355,519**	355,519	—
Treasury stock	**(6,036)**	(6,028)	—
Outstanding number of shares	**349,483**	349,491	—
Net assets per share (yen and U.S. dollars)	**¥1,179.52**	¥1,141.45	**$10.48**

20 SEGMENT INFORMATION

Effective from the fiscal year ended February 29, 2012, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information "(ASBJ Statement No. 17, issued March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued March 21, 2008).

1. General information about reportable segments

The Company Group's reportable segments are components of the Group whose operating results are regularly reviewed by the Board of Directors when making resource allocation and performance assessment decisions, and for which discrete financial information is available. The Companies consist of segments identified by services based on Department store, and four major business segments, "Department Store,""Real Estate," and "Finance" and "Contract & Design,"are identified as reportable segments.

The Department Store segment is engaged in retailing operations of clothing, accessories, home furnishings, foods and others.

The Real Estate segment is engaged in property management and operating shopping malls.

The Finance segment is engaged in credit card and lease business in the Companies.

The Contract & Design segment is engaged in making plans for furnishings of houses and shops, and carrying out the plans.

Fashion Plaza Sunroser Co., Ltd. has been included in the "Department Store" segment; however, due to the strengthening of the leasing business, it became a wholly owned subsidiary of Toshin Development Co., Ltd. as of March 1, 2016. Therefore, the segment classification is revised to the "Real Estate" segment from the consolidated fiscal year under review. Segment information for the previous consolidated fiscal year is prepared and stated according to the new segment classification.

2. Basis of measurement about reportable segment net sales, segment income or loss, segment assets and other items

The accounting policies for the reportable segments are basically the same as those described in Note 1.

Basis of Presenting Consolidated Financial Statements. Income by the reportable segments is presented on an operating income basis.

Intersegment sales and transfer are recognized based on the current market prices.

(a) Business segment information

Business segment information for the years ended February 28, 2017 and February 29, 2016 was as follows:

	Millions of yen								
Year ended February 28, 2017	Department Store	Real Estate	Finance	Contract & Design	Total of Reportable Segments	Others	Total	Adjustments	Consolidated
Sales and other operating revenue:									
Outside customers	¥797,254	¥47,923	¥13,415	¥30,874	¥889,466	¥34,136	¥923,602	¥—	¥923,602
Intersegment	8,191	7,656	4,237	4,213	24,297	24,765	49,062	(49,062)	—
Total	805,445	55,579	17,652	35,087	913,763	58,901	972,664	(49,062)	923,602
Segment income	¥12,183	¥11,029	¥4,496	¥2,343	¥30,051	¥2,334	¥32,385	¥1,616	¥34,001
Segment assets	¥629,357	¥169,076	¥100,891	¥18,988	¥918,312	¥25,057	¥943,369	¥43,095	¥986,464
Goodwill amortization	—	188	—	—	188	18	206	—	206
Investment expenditures for affiliated company accounted for by equity method	13,997	25,485	—	—	39,482	—	39,482	—	39,482
Depreciation	14,989	3,968	98	46	19,101	407	19,508	(87)	19,421
Increase in property, plant and equipment, and intangibles	18,627	3,019	15	87	21,748	299	22,047	(118)	21,929

	Millions of yen								
Year ended February 29, 2016	Department Store	Real Estate	Finance	Contract & Design	Total of Reportable Segments	Others	Total	Adjustments	Consolidated
Sales and other operating revenue:									
Outside customers	¥811,648	¥42,390	¥12,866	¥26,710	¥893,614	¥35,975	¥929,589	¥0	¥929,589
Intersegment	6,560	4,565	4,379	4,417	19,921	27,322	47,243	(47,243)	—
Total	818,208	46,955	17,245	31,127	913,535	63,297	976,832	(47,243)	929,589
Segment income	¥14,976	¥10,294	¥4,377	¥1,899	¥31,546	¥1,497	¥33,043	¥(70)	¥32,973
Segment assets	¥636,977	¥170,080	¥96,185	¥19,463	¥922,705	¥25,041	¥947,746	¥26,675	¥974,421
Goodwill amortization	—	188	—	—	188	18	206	—	206
Investment expenditures for affiliated company accounted for by equity method	16,009	25,982	—	—	41,991	43	42,034	—	42,034
Depreciation	15,068	3,928	102	51	19,149	526	19,675	93	19,768
Increase in property, plant and equipment, and intangibles	21,168	4,930	0	59	26,157	359	26,516	(423)	26,093

	Thousands of U.S. dollars								
Year ended February 28, 2017	Department Store	Real Estate	Finance	Contract & Design	Total of Reportable Segments	Others	Total	Adjustments	Consolidated
Sales and other operating revenue:									
Outside customers	$7,082,925	$425,755	$119,181	$274,289	$7,902,150	$303,269	$8,205,419	$—	$8,205,419
Intersegment	72,770	68,017	37,642	37,429	215,858	220,016	435,874	(435,874)	—
Total	7,155,695	493,772	156,823	311,718	8,118,008	523,285	8,641,293	(435,874)	8,205,419
Segment income	$108,236	$97,983	$39,943	$20,816	$266,978	$20,735	$287,713	$14,357	$302,070
Segment assets	$5,591,302	$1,502,097	$896,331	$168,692	$8,158,422	$222,610	$8,381,032	$382,863	$8,763,895
Goodwill amortization	—	1,670	—	—	1,670	160	1,830	—	1,830
Investment expenditures for affiliated company accounted for by equity method	124,351	226,413	—	—	350,764	—	350,764	—	350,764
Depreciation	133,164	35,252	871	409	169,696	3,616	173,312	(773)	172,539
Increase in property, plant and equipment, and intangibles	165,485	26,821	134	773	193,213	2,656	195,869	(1,048)	194,821

(b) Related information

Amortization of goodwill and unamortized balance by reportable segment

As of and for the year ended February 28, 2017	Department Store	Real Estate	Finance	Contract & Design	Total of Reportable Segments	Others	Adjustments	Consolidated
	Millions of yen							
Goodwill:								
Amortization	¥—	¥188	¥—	¥—	¥188	¥18	¥—	¥206
Unamortized balance	¥—	¥563	¥—	¥—	¥563	¥—	¥—	¥563
Negative goodwill:								
Amortization	¥—	¥—	¥—	¥93	¥93	¥—	¥—	¥93
Unamortized balance	¥—	¥—	¥—	¥370	¥370	¥—	¥—	¥370

Impairment of goodwill of ¥98 million ($871 thousand) is posted in "Others" on the consolidated fiscal year under review.

As of and for the year ended February 29, 2016	Department Store	Real Estate	Finance	Contract & Design	Total of Reportable Segments	Others	Adjustments	Consolidated
	Millions of yen							
Goodwill:								
Amortization	¥—	¥188	¥—	¥—	¥188	¥18	¥—	¥206
Unamortized balance	¥—	¥751	¥—	¥—	¥751	¥116	¥—	¥867
Negative goodwill:								
Amortization	¥—	¥—	¥—	¥93	¥93	¥—	¥—	¥93
Unamortized balance	¥—	¥—	¥—	¥462	¥462	¥—	¥—	¥462

As of and for the year ended February 28, 2017	Department Store	Real Estate	Finance	Contract & Design	Total of Reportable Segments	Others	Adjustments	Consolidated
	Thousands of U.S. dollars							
Goodwill:								
Amortization	$—	$1,670	$—	$—	$1,670	$160	$—	$1,830
Unamortized balance	$—	$5,002	$—	$—	$5,002	$—	$—	$5,002
Negative goodwill:								
Amortization	$—	$—	$—	$826	$826	$—	$—	$826
Unamortized balance	$—	$—	$—	$3,287	$3,287	$—	$—	$3,287

Information about loss on impairment of non-current assets by reportable segment

As of and for the year ended February 28, 2017	Department Store	Real Estate	Finance	Contract & Design	Total of Reportable Segments	Others	Adjustments	Consolidated
	Millions of yen							
Loss on impairment	¥4,377	¥—	¥—	¥—	¥4,377	¥211	¥—	¥4,588

Impairment of goodwill of ¥98 million ($871 thousand) is posted in "Others" on the consolidated fiscal year under review.

As of and for the year ended February 28, 2017	Department Store	Real Estate	Finance	Contract & Design	Total of Reportable Segments	Others	Adjustments	Consolidated
	Thousands of U.S. dollars							
Loss on impairment	$38,886	$—	$—	$—	$38,886	$1,874	$—	$40,760

21 PRESENTATION OF GOODWILL AND NEGATIVE GOODWILL

The partial offsetting of goodwill by negative goodwill at February 28, 2017 and February 29, 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Goodwill	¥563	¥867	$5,002
Negative goodwill	370	462	3,287
Goodwill, net	¥193	¥405	$1,715

22 CASH DIVIDENDS

On May 23, 2017, the shareholders of the Company approved the following appropriations.

	Millions of yen	Thousands of U.S. dollars
Cash dividends	¥2,097	$18,630

23 IMPAIRMENT LOSS

				Millions of yen	Thousands of U.S. dollars
				2017	2017
	Location	Category by use	Assets	Impairment loss	
The Company Semboku store	Sakai, Japan	Stores	Buildings	¥715	$6,352
			Others	125	1,110
The Company Konandai store	Yokohama, Japan	Stores	Buildings	544	4,833
			Others	153	1,359
Okayama Takashimaya Co., Ltd.	Okayama, Japan	Stores	Buildings	781	6,939
			Others	101	897
Yonago Takashimaya Co., Ltd.	Tottori, Japan	Stores	Land	699	6,210
			Buildings	1,107	9,835
			Others	152	1,350
Select Square Co., Ltd.	Tokyo, Japan	Business Assets	Software	83	737
			Others	30	267
		—	Goodwill	98	871
Total				¥4,588	$40,760

Impairment loss is recognized for the following asset groups.

The Company and its subsidiaries group their assets mainly by store as a basic and minimum unit that generates cash flows. The book value of the asset group that is expected to continue to post a loss from operating activities is reduced to the recoverable amount, and such reduction is recorded as an impairment loss of ¥4,490 million ($39,889 thousand) under extraordinary loss. The recoverable amount is based on the value in use for stores and business assets, and that for real properties with no foreseeable future cash flows is assessed as zero. The value in use is calculated by applying a discount rate of 4.8% to future cash flows.

Furthermore, because income initially anticipated to be generated by our subsidiary, Select Square Co., Ltd., is no longer expected, all goodwill is recorded as an impairment loss of ¥98 million ($871 thousand).

24 REDUCTION ENTRY

Due to acceptance of national subsidies, the following reduction entry amount was deducted directly from the acquisition cost of property, plant and equipment.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	¥172	¥23	$1,528
Total	¥172	¥23	$1,528

KPMG

Independent Auditor's Report

To the Board of Directors of Takashimaya Company, Limited:

We have audited the accompanying consolidated financial statements of Takashimaya Company, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at February 28, 2017 and February 29, 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information 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 such internal control as management determines is necessary to enable the preparation of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control 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, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 present fairly, in all material respects, the financial position of Takashimaya Company, Limited and its consolidated subsidiaries as at February 28, 2017 and February 29, 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 28, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

May 23, 2017
Tokyo, Japan

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