# TAKASHIMAYA

## FINANCIAL STATEMENTS 2018

Years ended February 28, 2018 and 2017

# CONSOLIDATED BALANCE SHEETS

Takashimaya Company, Limited and Consolidated Subsidiaries
February 28, 2018 and 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| **ASSETS** | **2018** | 2017 | **2018** |
| **Current assets:** | | | |
| Cash and deposits (Notes 3, 4 and 5) | **¥99,541** | ¥107,159 | **$927,084** |
| Marketable securities (Notes 4, 5 and 6) | **—** | 2,000 | **—** |
| Notes and accounts receivable: | | | |
| Trade (Note 4) | **139,193** | 120,966 | **1,296,386** |
| Non-consolidated subsidiaries and affiliated companies (Note 4) | **845** | 1,762 | **7,870** |
| Other | **15,158** | 22,050 | **141,176** |
| Less: Allowance for doubtful accounts (Note 4) | **(306)** | (337) | **(2,850)** |
| | **154,890** | 144,441 | **1,442,582** |
| Inventories (Note 7) | **44,746** | 45,050 | **416,746** |
| Deferred tax assets (Note 8) | **10,164** | 9,459 | **94,663** |
| Other current assets (Note 4) | **18,161** | 17,391 | **169,144** |
| Total current assets | **327,502** | 325,500 | **3,050,219** |
| **Investments and advances:** | | | |
| Investment securities (Notes 4 and 6) | **42,955** | 42,375 | **400,065** |
| Investments in and advances to: | | | |
| Non-consolidated subsidiaries and affiliated companies | **53,076** | 46,940 | **494,328** |
| Other | **11,245** | 13,079 | **104,732** |
| Less: Allowance for doubtful accounts | **(1,939)** | (2,455) | **(18,059)** |
| | **62,382** | 57,564 | **581,001** |
| Total investments and advances | **105,337** | 99,939 | **981,066** |
| **Property, plant and equipment:** | | | |
| Land (Notes 9 and 10) | **361,362** | 230,387 | **3,365,577** |
| Buildings and structures (Notes 9 and 11) | **403,320** | 393,047 | **3,756,356** |
| Equipment and fixtures | **35,792** | 34,256 | **333,352** |
| Lease assets | **6,005** | 6,158 | **55,928** |
| Construction in progress | **9,658** | 6,623 | **89,951** |
| | **816,137** | 670,471 | **7,601,164** |
| Less: Accumulated depreciation | **(265,379)** | (256,768) | **(2,471,631)** |
| Total property, plant and equipment | **550,758** | 413,703 | **5,129,533** |
| **Other assets:** | | | |
| Leasehold and other deposits (Notes 4, 5 and 12) | **29,227** | 31,893 | **272,208** |
| Goodwill (Note 13) | **98** | 193 | **913** |
| Deferred tax assets (Note 8) | **4,947** | 8,256 | **46,074** |
| Other | **17,938** | 106,980 | **167,067** |
| Total other assets | **52,210** | 147,322 | **486,262** |
| **Total assets** (Note 14) | **¥1,035,807** | ¥986,464 | **$9,647,080** |

The accompanying notes are an integral part of these statements.

| LIABILITIES AND NET ASSETS | Millions of yen 2018 | 2017 | Thousands of U.S. dollars (Note 1) 2018 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans (Notes 4 and 15) | ¥5,800 | ¥5,947 | $54,019 |
| Current portion of long-term debt (Notes 4, 15 and 16) | 44,583 | 3,060 | 415,228 |
| Notes and accounts payable: | | | |
| Trade (Note 4 and 16) | 96,600 | 95,951 | 899,693 |
| Non-consolidated subsidiaries and affiliated companies | 5,829 | 5,370 | 54,289 |
| Other | 22,802 | 21,894 | 212,368 |
| | 125,231 | 123,215 | 1,166,350 |
| Accrued income taxes | 6,237 | 5,598 | 58,089 |
| Accrued expenses | 3,254 | 3,386 | 30,306 |
| Allowance for directors' and corporate auditors' bonuses | 54 | 46 | 503 |
| Gift certificates outstanding | 52,663 | 51,703 | 490,482 |
| Advances received | 96,102 | 91,852 | 895,054 |
| Employees' saving deposits (Note 4) | 15,415 | 15,240 | 143,569 |
| Allowance for Point Gift Certificates | 2,561 | 2,510 | 23,852 |
| Allowance for loss on repair construction of building | 2,744 | 2,160 | 25,557 |
| Other current liabilities (Note 4) | 16,245 | 15,076 | 151,299 |
| Total current liabilities | 370,889 | 319,793 | 3,454,308 |
| **Long-term liabilities:** | | | |
| Long-term debt (Notes 4 and 15) | 123,880 | 146,255 | 1,153,767 |
| Deposits from tenants | 23,389 | 24,867 | 217,836 |
| Net defined benefit liability (Note 17) | 54,616 | 58,252 | 508,671 |
| Allowance for directors' and corporate auditors' retirement benefits | 297 | 265 | 2,766 |
| Deferred tax liabilities (Note 8) | 287 | 45 | 2,673 |
| Deferred tax liabilities related to land revaluation (Notes 8 and 10) | 6,879 | 6,880 | 64,068 |
| Long-term accounts payable | 973 | 1,263 | 9,062 |
| Asset retirement obligations | 1,908 | 1,867 | 17,770 |
| Allowance for environmental measures | 342 | 420 | 3,185 |
| Allowance for loss on repair construction of building | 1,910 | 3,767 | 17,789 |
| Other long-term liabilities | 911 | 900 | 8,485 |
| Total long-term liabilities | 215,392 | 244,781 | 2,006,072 |
| Total liabilities | 586,281 | 564,574 | 5,460,380 |
| **Contingent liabilities** (Note 18) | | | |
| **Net assets** (Note 19) | | | |
| **Shareholders' equity:** | | | |
| Common stock | 66,025 | 66,025 | 614,930 |
| Authorized: 600,000 thousand shares | | | |
| Issued: 355,518,963 shares in 2018 | | | |
| 355,518,963 shares in 2017 | | | |
| Capital surplus | 55,025 | 55,086 | 512,480 |
| Retained earnings | 284,321 | 265,033 | 2,648,049 |
| Less: Treasury stock, at cost: 6,045,405 shares in 2018 | | | |
| 6,036,312 shares in 2017 | (6,170) | (6,160) | (57,465) |
| Total shareholders' equity | 399,201 | 379,984 | 3,717,994 |
| **Accumulated other comprehensive income:** | | | |
| Valuation difference on available-for-sale securities | 17,837 | 15,921 | 166,126 |
| Deferred gains or losses on hedges | (3) | 1 | (28) |
| Revaluation reserve for land | 7,146 | 7,146 | 66,555 |
| Foreign currency translation adjustment | 11,605 | 8,511 | 108,084 |
| Remeasurements of defined benefit plans | 3,386 | 662 | 31,536 |
| Total accumulated other comprehensive income | 39,971 | 32,241 | 372,273 |
| **Non-controlling interests in consolidated subsidiaries:** | 10,354 | 9,665 | 96,433 |
| Total net assets (Note 20) | 449,526 | 421,890 | 4,186,700 |
| **Total liabilities and net assets** | ¥1,035,807 | ¥986,464 | $9,647,080 |

The accompanying notes are an integral part of these statements.

# CONSOLIDATED STATEMENTS OF INCOME

Takashimaya Company, Limited and Consolidated Subsidiaries
Years ended February 28, 2018 and 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2018** | 2017 | **2018** |
| **Sales and other operating revenue** (Note 14): | | | |
| Net sales | **¥886,701** | ¥860,762 | **$8,258,368** |
| Other operating revenue | **62,871** | 62,840 | **585,555** |
| | **949,572** | 923,602 | **8,843,923** |
| **Operating expenses:** | | | |
| Cost of sales | **668,295** | 648,765 | **6,224,225** |
| Selling, general and administrative expenses | **245,958** | 240,836 | **2,290,751** |
| | **914,253** | 889,601 | **8,514,976** |
| **Operating income** (Note 14) | **35,319** | 34,001 | **328,947** |
| **Other income (expenses):** | | | |
| Interest and dividend income | **1,686** | 1,648 | **15,703** |
| Interest expenses | **(649)** | (631) | **(6,045)** |
| Gain (loss) on sale and disposal of property, plant and equipment, net | **(4,611)** | (3,388) | **(42,945)** |
| Gain (loss) on sale of investment securities, net | **2,627** | 5,274 | **24,467** |
| Impairment loss (Note 21) | **(1,598)** | (4,588) | **(14,883)** |
| Gain (loss) on liquidation of gift certificates outstanding, net | **(407)** | (15) | **(3,791)** |
| Equity in gain of affiliated companies | **2,719** | 2,337 | **25,324** |
| Gain on liquidation of affiliated companies | **—** | 877 | **—** |
| Exchange gain (loss), net | **(391)** | (48) | **(3,642)** |
| Other, net | **315** | (864) | **2,934** |
| | **(309)** | 602 | **(2,878)** |
| **Income before income taxes** | **35,010** | 34,603 | **326,069** |
| **Income taxes** (Note 8): | | | |
| **Current** | **10,396** | 10,779 | **96,824** |
| **Deferred** | **494** | 2,244 | **4,601** |
| | **10,890** | 13,023 | **101,425** |
| **Net income** | **24,120** | 21,580 | **224,644** |
| **Net income attributable to non-controlling interests** | **(461)** | (710) | **(4,294)** |
| **Net income attributable to owners of parent** (Note 20) | **¥23,659** | ¥20,870 | **$220,350** |

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, 2018 and 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2018** | 2017 | **2018** |
| **Net income** | **¥24,120** | ¥21,580 | **$224,644** |
| **Other comprehensive income** | | | |
| Valuation difference on available-for-sale securities | **1,325** | (1,452) | **12,340** |
| Deferred gains or losses on hedges | **(4)** | 16 | **(37)** |
| Revaluation reserve for land | **—** | 238 | **—** |
| Foreign currency translation adjustment | **2,067** | (2,333) | **19,251** |
| Remeasurements of defined benefit plans, net of tax | **2,666** | 1,867 | **24,830** |
| Share of other comprehensive income of entities accounted for using equity method | **1,728** | (896) | **16,094** |
| Total other comprehensive income (Note 22) | **7,782** | (2,560) | **72,478** |
| **Comprehensive income** | **31,902** | 19,020 | **297,122** |
| **Comprehensive income attributable to:** | | | |
| Owners of parent | **31,389** | 18,340 | **292,344** |
| Non-controlling interests | **513** | 680 | **4,778** |

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, 2018 and 2017

| | | Millions of yen | | | | |
|---|---|---|---|---|---|---|
| | Number of shares issued | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total 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) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | — |
| 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 |
| Dividends of surplus | | | | **(4,193)** | | **(4,193)** |
| Profit attributable to owners of parent | | | | **23,659** | | **23,659** |
| Purchase of treasury stock and disposal of treasury stock | | | | | **(10)** | **(10)** |
| Change of scope of consolidation | | | | **(178)** | | **(178)** |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | **(61)** | | | **(61)** |
| Net changes of items other than shareholders' equity | | | | | | **—** |
| **Balance, February 28, 2018** | **355,518,963** | **¥66,025** | **¥55,025** | **¥284,321** | **¥(6,170)** | **¥399,201** |

| | 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 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) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | — | | — |
| 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 |
| Dividends of surplus | | | | | | **—** | | **(4,193)** |
| Profit attributable to owners of parent | | | | | | **—** | | **23,659** |
| Purchase of treasury stock and disposal of treasury stock | | | | | | **—** | | **(10)** |
| Change of scope of consolidation | | | | | | **—** | | **(178)** |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | **—** | | **(61)** |
| Net changes of items other than shareholders' equity | **1,916** | **(4)** | **—** | **3,094** | **2,724** | **7,730** | **689** | **8,419** |
| **Balance, February 28, 2018** | **¥17,837** | **¥(3)** | **¥7,146** | **¥11,605** | **¥3,386** | **¥39,971** | **¥10,354** | **¥449,526** |

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 28, 2017** | $614,930 | $513,048 | $2,468,409 | $(57,372) | $3,539,015 |
| Dividends of surplus | | | (39,052) | | (39,052) |
| Profit attributable to owners of parent | | | 220,350 | | 220,350 |
| Purchase of treasury stock and disposal of treasury stock | | | | (93) | (93) |
| Change of scope of consolidation | | | (1,658) | | (1,658) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (568) | | | (568) |
| Net changes of items other than shareholders' equity | | | | | — |
| **Balance, February 28, 2018** | $614,930 | $512,480 | $2,648,049 | $(57,465) | $3,717,994 |

| | 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 28, 2017** | $148,281 | $9 | $66,555 | $79,268 | $6,166 | $300,279 | $90,016 | $3,929,310 |
| Dividends of surplus | | | | | | — | | (39,052) |
| Profit attributable to owners of parent | | | | | | — | | 220,350 |
| Purchase of treasury stock and disposal of treasury stock | | | | | | — | | (93) |
| Change of scope of consolidation | | | | | | — | | (1,658) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | | — | | (568) |
| Net changes of items other than shareholders' equity | 17,845 | (37) | — | 28,816 | 25,370 | 71,994 | 6,417 | 78,411 |
| **Balance, February 28, 2018** | $166,126 | $(28) | $66,555 | $108,084 | $31,536 | $372,273 | $96,433 | $4,186,700 |

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, 2018 and 2017

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| **Cash flows from operating activities:** | | | |
| Income before income taxes | ¥35,010 | ¥34,603 | $326,069 |
| Depreciation | 19,058 | 19,421 | 177,498 |
| Impairment loss | 1,598 | 4,588 | 14,883 |
| Amortization of goodwill | 95 | 114 | 885 |
| Increase (decrease) in allowance for doubtful accounts | (547) | (215) | (5,094) |
| Increase (decrease) in net defined benefit liability | 160 | (868) | 1,490 |
| Increase (decrease) in provision for directors' retirement benefits | 32 | (106) | 298 |
| Increase (decrease) in provision for point card certificates | 49 | (725) | 456 |
| Increase (decrease) in allowance for loss on repair construction of building | (1,274) | 73 | (11,865) |
| Interest and dividend income | (1,686) | (1,648) | (15,703) |
| Interest expenses | 649 | 631 | 6,045 |
| Share of (profit) loss of entities accounted for using equity method | (2,719) | (2,337) | (25,324) |
| Loss (gain) on sales of property, plant and equipment, net | 2 | (111) | 19 |
| Loss on retirement of property, plant and equipment | 2,479 | 1,583 | 23,089 |
| Loss (gain) on sales of investment securities | (2,627) | (5,274) | (24,467) |
| Loss (gain) on sales of shares of subsidiaries and associates | — | 893 | — |
| Gain on liquidation of affiliated companies | — | (877) | — |
| Decrease (increase) in notes and accounts receivable-trade | (17,503) | (2,448) | (163,016) |
| Decrease (increase) in inventories | 347 | 1,043 | 3,232 |
| Increase (decrease) in notes and accounts payable-trade | 977 | (1,918) | 9,099 |
| Other | 10,266 | 9,929 | 95,613 |
| Subtotal | 44,366 | 56,351 | 413,207 |
| Interest and dividend income received | 2,542 | 2,968 | 23,675 |
| Interest expenses paid | (705) | (600) | (6,566) |
| Income taxes paid | (9,333) | (16,453) | (86,924) |
| Net cash provided by (used in) operating activities | 36,870 | 42,266 | 343,392 |
| **Cash flows from investing activities:** | | | |
| Payments into time deposits | (5,536) | (3,639) | (51,560) |
| Proceeds from withdrawal of time deposits | 4,670 | 2,102 | 43,495 |
| Purchase of marketable securities and investment securities | (2,563) | (2,116) | (23,871) |
| Proceeds from sales and redemption of marketable securities and investment securities | 11,113 | 13,083 | 103,502 |
| Proceeds from sales of shares of subsidiaries and associates | — | 1,610 | — |
| Proceeds from liquidation of subsidiaries and associates | — | 1,444 | — |
| Purchase of property, plant and equipment and intangible assets | (69,437) | (21,792) | (646,708) |
| Proceeds from sales of property, plant and equipment and intangible assets | 20 | 236 | 186 |
| Other | (553) | (53) | (5,150) |
| Net cash provided by (used in) investing activities | (62,286) | (9,125) | (580,106) |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term loans payable | (148) | 60 | (1,379) |
| Proceeds from long-term loans payable | 22,320 | 16,500 | 207,879 |
| Repayment of long-term loans payable | (3,075) | (15,800) | (28,639) |
| Purchase of treasury shares | (10) | (7) | (93) |
| Cash dividends paid | (4,193) | (4,194) | (39,052) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | (60) | — | (559) |
| Other | (648) | (788) | (6,035) |
| Net cash provided by (used in) financing activities | 14,186 | (4,229) | 132,122 |
| **Effect of exchange rate changes on cash and cash equivalents** | 2,193 | (2,613) | 20,425 |
| **Net decrease (increase) in cash and cash equivalents** | (9,037) | 26,299 | (84,167) |
| **Cash and cash equivalents at beginning of year** | 103,765 | 73,537 | 966,425 |
| **Increase in cash and cash equivalents from newly consolidated subsidiaries** | 392 | 3,929 | 3,651 |
| **Cash and cash equivalents at end of year** (Note 3) | ¥95,120 | ¥103,765 | $885,909 |

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 four 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

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, 2018, which was ¥107.37 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 non-controlling interests, 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, A&S Takashimaya Duty free Co., Ltd. is included within the scope of consolidation due to increased materiality.

All the Company's non-consolidated subsidiaries are of a limited scale in terms of total assets, sales and other operating revenue, 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 straightline 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.

### (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)Accounting standards not yet adopted

(1) Consolidated overseas subsidiaries

- IFRS 15 "Revenue from Contracts with Customers"

(i) Overview

A single comprehensive model has been implemented in accounting for revenue from contracts with customers

(ii) Schedule date of adoption

The accounting standards will be adopted from March 1, 2018.

(iii) Effect of adoption of the accounting standards

The Company recognizes the unexecuted portion of uncollected gift certificates for a certain period in the past as revenue, according to the ratio of certificate value not used to total certificate value issued in a given period in the past. However, any material effect on the consolidated financial statements is not expected.

(2) The Company and domestic consolidated subsidiaries

- "Implementation Guidance on Accounting Standards for Tax Effect Accounting" (ASBJ Guidance No. 28, issued February 16, 2018)
- "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued February 16, 2018)

(i) Overview

In the transfer of the practical accounting guidelines and auditing guidelines on tax effect accounting stipulated by the Japanese Institute of Certified Public Accountants ("JICPA") to the Accounting Standards Board of Japan (ASBJ), the following revisions have been made as needed to the guidance such as "Implementation Guidance on Accounting Standards for Tax Effect Accounting", maintaining the contents.

(Main accounting treatments that were revised)

- Treatment of temporary taxable differences associated with stock of subsidiaries in their respective financial statements
- Treatment of recoverability of deferred tax assets in the Company that fall under Classification 1

(ii) Schedule date of adoption

The guidance will be adopted from March 1, 2019.

(iii) Effect of adoption of the guidance

The effect of adopting the guidance such as "Implementation Guidance on Accounting

Standards for Tax Effect Accounting" on the Company's consolidated financial statements is under evaluation.

### (t) Additional information

Adoption of Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from the fiscal year under review, the Company adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, issued March 28, 2016).

## 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents at February 28, 2018 and 2017 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2018** | 2017 | **2018** |
| Cash and deposits | **¥99,541** | ¥107,159 | **$927,084** |
| Time deposits with maturities exceeding three months | **(4,421)** | (3,394) | **(41,175)** |
| Cash and cash equivalents at end of year | **¥95,120** | ¥103,765 | **$885,909** |

## 4 FINANCIAL INSTRUMENTS

### 1. Matters related to financial instruments

### (1) Policies for financial instruments

In view of its capital investment plan, the Companies 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 Companies 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 Companies 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 Companies 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 Companies 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 Companies manages its liquidity risk by concluding the commitment-line and overdraft contracts, along with adequate financial planning.

### (4) 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, 2018 and 2017, 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 | | |
|---|---|---|---|
| | 2018 | | |
| | Book value | Fair value | Difference |
| (1) Cash and deposits | ¥99,541 | ¥99,541 | ¥— |
| (2) Notes and accounts receivable–trade | 140,038 | | |
| Allowance for doubtful accounts (*1) | (306) | | |
| | 139,732 | 140,738 | 1,006 |
| (3) Securities and investment securities | | | |
| 1) Securities to be held until maturity | 8 | 8 | — |
| 2) Available-for-sale securities | 41,167 | 41,167 | — |
| | 41,175 | 41,175 | — |
| (4) Guarantee deposits paid (*2) | 7,290 | 7,287 | (3) |
| Total assets | ¥287,738 | ¥288,741 | ¥1,003 |
| (1) Notes and accounts payable–trade | ¥102,429 | ¥102,429 | ¥— |
| (2) Short-term bank loans | 5,800 | 5,800 | — |
| (3) Deposits received | 26,725 | 26,725 | — |
| (4) Long-term debt (*3) | 168,463 | 170,186 | 1,723 |
| Total liabilities | ¥303,417 | ¥305,140 | ¥1,723 |
| Derivatives (*4) | | | |
| Amounts not subject to hedge accounting | ¥35 | ¥35 | ¥— |
| Amount subject to hedge accounting | (4) | (4) | — |
| Total derivatives | ¥31 | ¥31 | ¥— |

| | 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) | ¥— |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | **2018** | | |
| | Book value | Fair value | Difference |
| (1) Cash and deposits | **$927,084** | **$927,084** | **$—** |
| (2) Notes and accounts receivable–trade | **1,304,256** | | |
| Allowance for doubtful accounts (*1) | **(2,850)** | | |
| | **1,301,406** | **1,310,776** | **9,370** |
| (3) Securities and investment securities | | | |
| 1) Securities to be held until maturity | **75** | **75** | **—** |
| 2) Available-for-sale securities | **383,412** | **383,412** | **—** |
| | **383,487** | **383,487** | **—** |
| (4) Guarantee deposits paid (*2) | **67,896** | **67,868** | **(28)** |
| Total assets | **$2,679,873** | **$2,689,215** | **$9,342** |
| (1) Notes and accounts payable–trade | **$953,982** | **$953,982** | **$—** |
| (2) Short-term bank loans | **54,019** | **54,019** | **—** |
| (3) Deposits received | **248,905** | **248,905** | **—** |
| (4) Long-term debt (*3) | **1,568,995** | **1,585,042** | **16,047** |
| Total liabilities | **$2,825,901** | **$2,841,948** | **$16,047** |
| Derivatives (*4) | | | |
| Amounts not subject to hedge accounting | **$326** | **$326** | **$—** |
| Amount subject to hedge accounting | **(37)** | **(37)** | **—** |
| Total derivatives | **$289** | **$289** | **$—** |

*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 |
|---|---|---|---|
| | **2018** | 2017 | **2018** |
| (a) Stock of subsidiaries | **¥4,312** | ¥3,953 | **$40,160** |
| (b) Stock of affiliates | **47,964** | 42,787 | **446,717** |
| (c) Unlisted stocks | **1,780** | 1,872 | **16,578** |
| (d) Guarantee deposits paid | **23,204** | 24,603 | **216,113** |

(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 | | | |
|---|---|---|---|---|
| | **2018** | | | |
| | Within 1 year | Over 1 year but within 5 years | Over 5 years but within 10 years | Over 10 years |
| Cash and deposits | **¥99,541** | **¥—** | **¥—** | **¥—** |
| Notes and accounts receivable–trade | **137,455** | **2,210** | **313** | **61** |
| Securities and investment securities | | | | |
| 1) Securities to be held until maturity | **—** | **8** | **—** | **—** |
| 2) Available-for-sale securities with maturity dates | **—** | **—** | **—** | **—** |
| Guarantee deposits paid | **1,029** | **2,979** | **2,518** | **764** |
| Total | **¥238,025** | **¥5,197** | **¥2,831** | **¥825** |

| | 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 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2018** | | | |
| | Within 1 year | Over 1 year but within 5 years | Over 5 years but within 10 years | Over 10 years |
| Cash and deposits | **$927,084** | **$—** | **$—** | **$—** |
| Notes and accounts receivable–trade | **1,280,200** | **20,583** | **2,915** | **568** |
| Securities and investment securities | | | | |
| 1) Securities to be held until maturity | **—** | **75** | **—** | **—** |
| 2) Available-for-sale securities with maturity dates | **—** | **—** | **—** | **—** |
| Guarantee deposits paid | **9,584** | **27,745** | **23,452** | **7,115** |
| Total | **$2,216,868** | **$48,403** | **$26,367** | **$7,683** |

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

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | | | | | |
| | 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 | **4,520** | **7,520** | **36,025** | **13,041** | **41** | **32,203** |
| Total | **¥44,520** | **¥7,520** | **¥61,025** | **¥23,041** | **¥41** | **¥32,203** |

| | 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 |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | **2018** | | | | | |
| | 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 | **$372,544** | **$—** | **$232,840** | **$93,136** | **$—** | **$—** |
| Long-term debt—Long-term loans | **42,097** | **70,038** | **335,522** | **121,459** | **382** | **299,925** |
| Total | **$414,641** | **$70,038** | **$568,362** | **$214,595** | **$382** | **$299,925** |

## 5 DEPOSITED ASSETS

The deposited assets required by the Installment Sales Laws at February 28, 2018 and 2017 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Cash and deposits | ¥1,429 | ¥1,249 | $13,309 |
| Marketable securities | — | 2,000 | — |
| Leasehold and other deposits | 10 | 10 | 93 |
| Total | ¥1,439 | ¥3,259 | $13,402 |

## 6 SECURITIES

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of February 28, 2018 and 2017:

(1) Held-to-maturity debt securities:

Securities with available fair values exceeding book values:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| **Type** | Book value | Fair value | Difference | Book value | Fair value | Difference |
| Government bonds | ¥— | ¥— | ¥— | ¥2,000 | ¥2,012 | ¥12 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2018 | | |
| **Type** | Book value | Fair value | Book value |
| Government bonds | $— | $— | $— |

Securities with available fair values not exceeding book values:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| **Type** | Book value | Fair value | Difference | Book value | Fair value | Difference |
| Corporate bonds | ¥8 | ¥8 | ¥— | ¥8 | ¥8 | ¥— |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2018 | | |
| **Type** | Book value | Fair value | Difference |
| Corporate bonds | $75 | $75 | $— |

(2) Available-for-sale securities:

Securities with book values exceeding acquisition costs:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| **Type** | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity securities | ¥15,951 | ¥38,540 | ¥22,589 | ¥17,217 | ¥38,002 | ¥20,785 |
| Government bonds | — | — | — | — | — | — |
| Corporate bonds | — | — | — | — | — | — |
| Others | 143 | 174 | 31 | 161 | 173 | 12 |
| Total | ¥16,094 | ¥38,714 | ¥22,620 | ¥17,378 | ¥38,175 | ¥20,797 |

| Type | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2018 | | |
| | Acquisition cost | Book value | Difference |
| Equity securities | $148,561 | $358,946 | $210,385 |
| Government bonds | — | — | — |
| Corporate bonds | — | — | — |
| Others | 1,332 | 1,620 | 288 |
| Total | $149,893 | $360,566 | $210,673 |

Securities with book value not exceeding acquisition costs:

| Type | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity securities | ¥2,590 | ¥2,453 | ¥(137) | ¥2,636 | ¥2,319 | ¥(317) |
| Goverment bonds | — | — | — | — | — | — |
| Corporate bonds | — | — | — | — | — | — |
| Others | — | — | — | — | — | — |
| Total | ¥2,590 | ¥2,453 | ¥(137) | ¥2,636 | ¥2,319 | ¥(317) |

| Type | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2018 | | |
| | Acquisition cost | Book value | Difference |
| Equity securities | $24,122 | $22,846 | $(1,276) |
| Goverment bonds | — | — | — |
| Corporate bonds | — | — | — |
| Others | — | — | — |
| Total | $24,122 | $22,846 | $(1,276) |

(3) The total sales for available-for-sale securities sold in the year ended February 28, 2018 amounted to ¥4,100 million ($38,186 thousand).

The related gains amounted to ¥2,627 million ($24,467 thousand) in the year ended February 28, 2018.

The related losses were not recorded in the year ended February 28, 2018.

## 7 INVENTORIES

Inventories at February 28, 2018 and 2017 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2018** | 2017 | **2018** |
| Merchandise | **¥43,484** | ¥41,177 | **$404,992** |
| Products | **29** | 12 | **270** |
| Work in process | **112** | 2,749 | **1,043** |
| Raw materials | **19** | 36 | **177** |
| Supplies | **1,102** | 1,076 | **10,264** |
| Total | **¥44,746** | ¥45,050 | **$416,746** |

## 8 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, 2018.

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, 2018 and 2017.

| | % | |
|---|---|---|
| Years ended February 28, 2018 and 2017 | **2018** | 2017 |
| Statutory tax rate | This note has been omitted, as the difference between the effective statutory tax rate and the effective income tax rate after applying tax effect accounting is 5% or less of the effective statutory tax rate. | 33.1% |
| Permanent differences (including dividends) | | (3.4) |
| Difference in statutory tax rate of foreign subsidiaries | | (3.2) |
| Elimination of dividends received | | 2.8 |
| Increase in valuation allowance | | 6.7 |
| Equity in gain of affiliated companies | | (2.2) |
| Effect arising from change in tax rate | | 3.1 |
| Others | | 0.7 |
| Effective tax rate | | 37.6% |

Significant components of the Companies' deferred tax assets and liabilities as of February 28, 2018 and 2017 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| **Deferred tax assets (current):** | | | |
| Accrued enterprise tax | ¥681 | ¥563 | $6,343 |
| Undeductible allowance for doubtful accounts | 105 | 119 | 978 |
| Accrued bonuses | 66 | 64 | 615 |
| Undeductible write-down of inventories | 553 | 537 | 5,150 |
| Allowance for Point Gift Certificates | 1,414 | 1,370 | 13,169 |
| Adjustment of gift certificates | 6,959 | 6,569 | 64,813 |
| Others | 1,106 | 1,045 | 10,301 |
| Gross deferred tax assets | 10,884 | 10,267 | 101,369 |
| Less: Valuation allowance | (35) | (44) | (326) |
| Total deferred tax assets | 10,849 | 10,223 | 101,043 |
| Net of deferred tax liabilities | (685) | (764) | (6,380) |
| Net deferred tax assets | ¥10,164 | ¥9,459 | $94,663 |
| **Deferred tax liabilities (current):** | | | |
| Adjustments of allowance for doubtful accounts | ¥40 | ¥41 | $373 |
| Adjustment of gift certificates | 645 | 700 | 6,007 |
| Others | — | 23 | — |
| Total deferred tax liabilities | 685 | 764 | 6,380 |
| Net of deferred tax assets | (685) | (764) | (6,380) |
| Net deferred tax liabilities | ¥— | ¥— | $— |
| **Deferred tax assets (non-current):** | | | |
| Unrealized intercompany profits | ¥1,568 | ¥1,988 | $14,604 |
| Undeductible net defined benefit liability | 16,809 | 17,888 | 156,552 |
| Undeductible write-down of securities | 533 | 625 | 4,964 |
| Undeductible amortization of software costs | 89 | 122 | 829 |
| Loss on impairment of property, plant and equipment | 1,185 | 1,777 | 11,037 |
| Tax loss carryforward | 6,028 | 4,159 | 56,142 |
| Undeductible allowance for doubtful accounts | 513 | 663 | 4,778 |
| Devaluation of property, plant and equipment resulting from spin-off | 718 | 718 | 6,687 |
| Allowance for loss on repair construction of building | 584 | 1,158 | 5,439 |
| Allowance for environmental measures | 105 | 162 | 978 |
| Others | 743 | 1,526 | 6,920 |
| Gross deferred tax assets | 28,875 | 30,786 | 268,930 |
| Less: Valuation allowance | (8,510) | (7,789) | (79,259) |
| Total deferred tax assets | 20,365 | 22,997 | 189,671 |
| Net of deferred tax liabilities | (15,418) | (14,741) | (143,597) |
| Net deferred tax assets | ¥4,947 | ¥8,256 | $46,074 |
| **Deferred tax liabilities (non-current):** | | | |
| Reserve for deferred capital gains of property | ¥8,923 | ¥8,934 | $83,105 |
| Valuation difference on available-for-sale securities | 6,490 | 5,805 | 60,445 |
| Others | 292 | 47 | 2,720 |
| Gross deferred tax liabilities | 15,705 | 14,786 | 146,270 |
| Net of deferred tax assets | (15,418) | (14,741) | (143,597) |
| Net deferred tax liabilities | ¥287 | ¥45 | $2,673 |

## 9 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, 2018 and 2017 were as follows:

**Amounts on the Consolidated Balance Sheets**

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Book value | | | Fair value |
| | March 1, 2017 | Increase (decrease) | February 28, 2018 | February 28, 2018 |
| Rental property | ¥49,306 | ¥7,055 | ¥56,361 | ¥69,853 |
| Real estate including spaces used as rental properties | 358,175 | 19,485 | 377,660 | 551,114 |

| | 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 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Book value | | | Fair value |
| | March 1, 2017 | Increase (decrease) | February 28, 2018 | February 28, 2018 |
| Rental property | $459,216 | $65,707 | $524,923 | $650,582 |
| Real estate including spaces used as rental properties | 3,335,895 | 181,475 | 3,517,370 | 5,132,849 |

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, 2018 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, 2018 primarily represents the acquisition, and the decrease primarily represents depreciation.
4. The fair value as of the end of the fiscal year was calculated 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, 2018 and 2017 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2018 | | | |
| | Rental income | Rental expenses | Difference | Other, net |
| Rental property | ¥14,591 | ¥10,639 | ¥3,952 | ¥— |
| Real estate including spaces used as rental properties | 27,385 | 21,993 | 5,392 | — |

| | 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) |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2018** | | | |
| | Rental income | Rental expenses | Difference | Other, net |
| Rental property | **$135,894** | **$99,087** | **$36,807** | **$—** |
| Real estate including spaces used as rental properties | **255,053** | **204,834** | **50,219** | **—** |

Note: Since real estate including spaces used as rental properties is used 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.

## 10 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 revaluation" 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 |

## 11 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 |
|---|---|---|---|
| | **2018** | 2017 | **2018** |
| Buildings and structures | **¥160** | ¥172 | **$1,490** |
| Total | **¥160** | ¥172 | **$1,490** |

## 12 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.

## 13 PRESENTATION OF GOODWILL AND NEGATIVE GOODWILL

The partial offsetting of goodwill by negative goodwill at February 28, 2018 and 2017 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2018** | 2017 | **2018** |
| Goodwill | **¥375** | ¥563 | **$3,493** |
| Negative goodwill | **277** | 370 | **2,580** |
| Goodwill, net | **¥98** | ¥193 | **$913** |

## 14 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 Companies' reportable segments are components of the Companies 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.

### 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, 2018 and 2017 was as follows:

| | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ended February 28, 2018 | Department Store | Real Estate | Finance | Contract & Design | Total of Reportable Segments | Others | Total | Adjustments | Consolidated |
| Sales and other operating revenue: | | | | | | | | | |
| Outside customers | ¥826,562 | ¥47,476 | ¥14,188 | ¥25,916 | ¥914,142 | ¥35,430 | ¥949,572 | ¥— | ¥949,572 |
| Intersegment | 9,105 | 15,783 | 4,255 | 3,708 | 32,851 | 22,639 | 55,490 | (55,490) | — |
| Total | 835,667 | 63,259 | 18,443 | 29,624 | 946,993 | 58,069 | 1,005,062 | (55,490) | 949,572 |
| Segment income | ¥13,509 | ¥11,394 | ¥4,563 | ¥1,208 | ¥30,674 | ¥3,331 | ¥34,005 | ¥1,314 | ¥35,319 |
| Segment assets | ¥668,273 | ¥185,692 | ¥109,117 | ¥17,133 | ¥980,215 | ¥26,440 | ¥1,006,655 | ¥29,152 | ¥1,035,807 |
| Goodwill amortization | — | 188 | — | — | 188 | — | 188 | — | 188 |
| Investment expenditures for affiliated company accounted for by equity method | 15,309 | 27,683 | — | — | 42,992 | — | 42,992 | — | 42,992 |
| Depreciation | 14,501 | 4,040 | 66 | 73 | 18,680 | 247 | 18,927 | 131 | 19,058 |
| Increase in property, plant and equipment, and intangibles | 58,901 | 10,500 | 3 | 230 | 69,634 | 284 | 69,918 | (432) | 69,486 |

| | 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 |

| | Thousands of U.S. dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Year ended February 28, 2018 | Department Store | Real Estate | Finance | Contract & Design | Total of Reportable Segments | Others | Total | Adjustments | Consolidated |
| Sales and other operating revenue: | | | | | | | | | |
| Outside customers | $7,698,259 | $442,172 | $132,141 | $241,371 | $8,513,943 | $329,980 | $8,843,923 | $— | $8,843,923 |
| Intersegment | 84,800 | 146,997 | 39,629 | 34,535 | 305,961 | 210,850 | 516,811 | (516,811) | — |
| Total | 7,783,059 | 589,169 | 171,770 | 275,906 | 8,819,904 | 540,830 | 9,360,734 | (516,811) | 8,843,923 |
| Segment income | $125,817 | $106,119 | $42,498 | $11,251 | $285,685 | $31,024 | $316,709 | $12,238 | $328,947 |
| Segment assets | $6,224,020 | $1,729,459 | $1,016,271 | $159,569 | $9,129,319 | $246,251 | $9,375,570 | $271,510 | $9,647,080 |
| Goodwill amortization | — | 1,751 | — | — | 1,751 | — | 1,751 | — | 1,751 |
| Investment expenditures for affiliated company accounted for by equity method | 142,582 | 257,828 | — | — | 400,410 | — | 400,410 | — | 400,410 |
| Depreciation | 135,056 | 37,627 | 615 | 680 | 173,978 | 2,300 | 176,278 | 1,220 | 177,498 |
| Increase in property, plant and equipment, and intangibles | 548,579 | 97,793 | 28 | 2,142 | 648,542 | 2,645 | 651,187 | (4,023) | 647,164 |

(b) Related information

Amortization of goodwill and unamortized balance by reportable segment:

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As of and for the year ended February 28, 2018 | Department Store | Real Estate | Finance | Contract & Design | Total of Reportable Segments | Others | Adjustments | Consolidated |
| Goodwill: | | | | | | | | |
| Amortization | ¥— | ¥188 | ¥— | ¥— | ¥188 | ¥— | ¥— | ¥188 |
| Unamortized balance | ¥— | ¥375 | ¥— | ¥— | ¥375 | ¥— | ¥— | ¥375 |
| Negative goodwill: | | | | | | | | |
| Amortization | ¥— | ¥— | ¥— | ¥93 | ¥93 | ¥— | ¥— | ¥93 |
| Unamortized balance | ¥— | ¥— | ¥— | ¥277 | ¥277 | ¥— | ¥— | ¥277 |

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As of and for the year ended February 28, 2017 | Department Store | Real Estate | Finance | Contract & Design | Total of Reportable Segments | Others | Adjustments | Consolidated |
| 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

| | Thousands of U.S. dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As of and for the year ended February 28, 2018 | Department Store | Real Estate | Finance | Contract & Design | Total of Reportable Segments | Others | Adjustments | Consolidated |
| Goodwill: | | | | | | | | |
| Amortization | $— | $1,751 | $— | $— | $1,751 | $— | $— | $1,751 |
| Unamortized balance | $— | $3,493 | $— | $— | $3,493 | $— | $— | $3,493 |
| Negative goodwill: | | | | | | | | |
| Amortization | $— | $— | $— | $866 | $866 | $— | $— | $866 |
| Unamortized balance | $— | $— | $— | $2,580 | $2,580 | $— | $— | $2,580 |

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

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As of and for the year ended February 28, 2018 | Department Store | Real Estate | Finance | Contract & Design | Total of Reportable Segments | Others | Adjustments | Consolidated |
| Loss on impairment | ¥1,598 | ¥— | ¥— | ¥— | ¥1,598 | ¥— | ¥— | ¥1,598 |

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As of and for the year ended February 28, 2017 | Department Store | Real Estate | Finance | Contract & Design | Total of Reportable Segments | Others | Adjustments | Consolidated |
| 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.

| | Thousands of U.S. dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As of and for the year ended February 28, 2018 | Department Store | Real Estate | Finance | Contract & Design | Total of Reportable Segments | Others | Adjustments | Consolidated |
| Loss on impairment | $14,883 | $— | $— | $— | $14,883 | $— | $— | $14,883 |

## 15 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 0.33% and 0.36% at February 28, 2018 and 2017, respectively.

Long-term debt at February 28, 2018 and 2017 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2018** | 2017 | **2018** |
| 0.0% convertible bonds due 2018 | **¥40,063** | ¥40,142 | **$373,130** |
| 0.0% convertible bonds due 2020 | **25,050** | 25,068 | **233,306** |
| 0.451% bonds due 2021 | **10,000** | 10,000 | **93,136** |
| Loans from banks, insurance companies and others due serially to 2024: | | | |
| Unsecured (bearing interest at rates from 0.23% to 1.00% at February 28, 2018) | **93,350** | 74,105 | **869,423** |
| | **168,463** | 149,315 | **1,568,995** |
| Less: Current portion of long-term debt | **(44,583)** | (3,060) | **(415,228)** |
| Total | **¥123,880** | ¥146,255 | **$1,153,767** |

The current conversion price of 0.0% convertible bonds due 2018 issued by the Company is ¥1,439.3 ($13.41). At February 28, 2018, the convertible bonds were convertible into approximately 27,791 thousand shares of common stock.

The current conversion price of 0.0% convertible bonds due 2020 issued by the Company is ¥1,339.7 ($12.48). At February 28, 2018, the convertible bonds were convertible into approximately 18,661 thousand shares of common stock.

| Years ending February 28 (29) | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2019 | **¥44,520** | **$414,641** |
| 2020 | **7,520** | **70,038** |
| 2021 | **61,025** | **568,362** |
| 2022 | **23,041** | **214,595** |
| 2023 and thereafter | **32,244** | **300,307** |
| Total | **¥168,350** | **$1,567,943** |

## 16 DERIVATIVE TRANSACTIONS

### 1. Derivatives to which hedge accounting is not applied

#### (1) Currency related derivatives

| | | Millions of yen | | | |
|---|---|---|---|---|---|
| | | **2018** | | | |
| 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 | **¥3,290** | **¥—** | **¥35** | **¥35** |
| Total | | **¥3,290** | **¥—** | **¥35** | **¥35** |

| | | 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 | | | |
|---|---|---|---|---|---|
| | | **2018** | | | |
| 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 | **$30,642** | **$—** | **$326** | **$326** |
| Total | | **$30,642** | **$—** | **$326** | **$326** |

## 2. Derivatives to which hedge accounting is applied

### (1) Currency related derivatives

| | | | Millions of yen | | |
|---|---|---|---|---|---|
| | | | **2018** | | |
| 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 | | **¥122** | **¥—** | **¥(4)** |
| | To buy Euros | | **31** | **—** | **(0)** |
| | To buy G.B. pounds | | **1** | **—** | **(0)** |
| Total | | | **¥154** | **¥—** | **¥(4)** |

| | | | 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 |

| | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|
| | | | **2018** | | |
| 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 | | **$1,137** | **$—** | **$(37)** |
| | To buy Euros | | **289** | **—** | **(0)** |
| | To buy G.B. pounds | | **9** | **—** | **(0)** |
| Total | | | **$1,435** | **$—** | **$(37)** |

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 | | |
|---|---|---|---|---|---|
| | | | **2018** | | |
| | | | 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 | | **¥29,000** | **¥26,000** | **¥—** |
| | Pay fixed rate | | | | |
| Total | | | **¥29,000** | **¥26,000** | **¥—** |

| 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 | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|
| | | | **2018** | | |
| | | | 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 | | **$270,094** | **$242,153** | **$—** |
| | Pay fixed rate | | | | |
| Total | | | **$270,094** | **$242,153** | **$—** |

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 | | |
|---|---|---|---|---|---|
| | | | **2018** | | |
| | | | 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 | | |
|---|---|---|---|---|---|
| | | | 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 | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|
| | | | 2018 | | |
| | | | 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 | $93,136 | $93,136 | $— |
| Total | | | $93,136 | $93,136 | $— |

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.

## 17 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, 2018 and 2017 are as follows:**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Balance at beginning of the year | ¥111,047 | ¥113,836 | $1,034,246 |
| Service cost | 2,748 | 2,869 | 25,594 |
| Interest cost | 707 | 735 | 6,585 |
| Actuarial gains and losses | (37) | (967) | (345) |
| Benefit paid | (4,721) | (5,425) | (43,969) |
| Amount of prior service cost incurred | (1,620) | — | (15,088) |
| Balance at end of the year | ¥108,124 | ¥111,048 | $1,007,023 |

**(2) The changes in plan assets for the years ended February 28, 2018 and 2017 are as follows:**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Balance at beginning of the year | ¥54,288 | ¥53,347 | $505,616 |
| Expected return on plan assets | 1,357 | 1,334 | 12,639 |
| Actuarial gains and losses | 1,271 | 821 | 11,838 |
| Contribution from the employer | 1,063 | 2,314 | 9,900 |
| Benefit paid | (3,121) | (3,528) | (29,068) |
| Balance at end of the year | ¥54,858 | ¥54,288 | $510,925 |

### (3) Reconciliation between the liability recorded in the Consolidated Balance Sheet and the balance of benefit obligation and plan assets as of February 28, 2018 and 2017 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Funded defined benefit obligation | ¥57,526 | ¥59,182 | $535,774 |
| Plan assets | (54,858) | (54,288) | (510,925) |
| | 2,668 | 4,894 | 24,849 |
| Unfunded defined benefit obligation | 50,598 | 51,866 | 471,249 |
| Net liability for defined benefit obligation | ¥53,266 | ¥56,760 | $496,098 |
| Net defined benefit liabilities | 53,266 | 56,760 | 496,098 |
| Net liability for defined benefit obligation | ¥53,266 | ¥56,760 | $496,098 |

### (4) The components of periodic benefit costs for the years ended February 28, 2018 and 2017 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Service cost | ¥2,748 | ¥2,870 | $25,594 |
| Interest cost | 707 | 735 | 6,585 |
| Expected return on plan assets | (1,357) | (1,334) | (12,639) |
| Amortization of actuarial gains and losses | 935 | 967 | 8,708 |
| Amount of prior service cost recognized | (68) | — | (633) |
| Total | ¥2,965 | ¥3,238 | $27,615 |

### (5) The components of other comprehensive income on defined retirement benefits plans, before tax, on February 28, 2018 and 2017 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Prior service cost | ¥1,552 | — | $14,455 |
| Actuarial gains and losses | 2,243 | 2,756 | $20,890 |
| Total | ¥3,795 | ¥2,756 | $35,345 |

### (6) Accumulated other comprehensive income on defined retirement benefits plans, before tax, on February 28, 2018 and 2017 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Unrecognized prior service cost | ¥1,552 | — | $14,455 |
| Unrecognized actuarial gains and losses | 3,479 | 1,236 | 32,402 |
| Total | ¥5,031 | ¥1,236 | $46,857 |

### (7) Plan assets

1) Components of plan assets are as follows:

| | % | |
|---|---|---|
| | 2018 | 2017 |
| Debt investments | 64% | 67% |
| Equity investments | 26 | 24 |
| General accounts with life insurance companies | 9 | 9 |
| Cash and deposits | 1 | 0 |
| 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, 2018 and 2017 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, 2018 and 2017 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Balance at beginning of the year | ¥1,492 | ¥1,386 | $13,896 |
| Employees' retirement benefit cost | 216 | 181 | 2,011 |
| Benefit paid | (358) | (75) | (3,334) |
| Balance at end of the year | ¥1,350 | ¥1,492 | $12,573 |

### (2) Reconciliation between the liability recorded in the Consolidated Balance Sheet and the balance of benefit obligation and plan assets as of February 28, 2018 and 2017 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Funded defined benefit obligation | ¥— | ¥— | $— |
| Plan assets | — | — | — |
| | — | — | — |
| Unfunded defined benefit obligation | 1,350 | 1,492 | 12,573 |
| Net liability for defined benefit obligation | ¥1,350 | ¥1,492 | $12,573 |
| Defined benefit liability | 1,350 | 1,492 | 12,573 |
| Net liability for defined benefit obligation | ¥1,350 | ¥1,492 | $12,573 |

**(3) Employees' benefit cost of the conventional method are ¥216 million ($2,012 thousand) for the year ended February 28, 2018 and ¥181 million for the year ended February 28, 2017.**

**4. Defined contribution pension plan**

The Companies paid ¥674 million ($6,277 thousand) as defined contribution pension costs for the year ended February 28, 2018 and ¥681 million for the year ended February 28, 2017.

## 18 CONTINGENT LIABILITIES

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2018** | 2017 | **2018** |
| Guarantees on loans from financial institutions: | | | |
| Keppel Land Watco II Co., Ltd. | **¥5,028** | ¥3,582 | **$46,829** |
| Keppel Land Watco III Co., Ltd. | **1,552** | 1,709 | **14,454** |
| Loan guarantees made for employees and others | **83** | 111 | **773** |
| Total | **¥6,663** | ¥5,402 | **$62,056** |

Note: ¥685 million ($6,380 thousand) of ¥6,580 million ($61,283 thousand) for guarantees on loans from financial institutions for the consolidated fiscal year under review have been counter-guaranteed from Keppel Land Limited.

## 19 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.

## 20 PER SHARE INFORMATION

Reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended February 28, 2018 and 2017 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Basic net income attributable to owners of parent per share | | | |
| Income (numerator): | | | |
| Net income attributable to owners of parent | ¥23,659 | ¥20,870 | $220,350 |
| Amounts not belonging to common stockholders | — | — | — |
| Net income attributable to owners of parent concerning common stock | 23,659 | 20,870 | 220,350 |
| Shares, thousands (denominator): | | | |
| Weighted average number of shares | 349,478 | 349,487 | — |
| Basic EPS (yen and U.S. dollars) | ¥67.69 | ¥59.71 | $0.63 |
| Diluted net income attributable to owners of parent per share | | | |
| Income (numerator): | | | |
| Net income attributable to owners of parent | ¥23,659 | ¥20,870 | $220,350 |
| Amounts not belonging to common stockholders | — | — | — |
| Net income attributable to owners of parent concerning common stock | 23,659 | 20,870 | 220,350 |
| Effect of dilutive securities — convertible bonds | (68) | (65) | (633) |
| Adjusted net income attributable to owners of parent | 23,591 | 20,805 | 219,717 |
| Shares, thousands (denominator): | | | |
| Weighted average number of shares | 349,478 | 349,487 | — |
| Assumed conversion of convertible bonds | 46,452 | 46,359 | — |
| Adjusted weighted average number of shares | 395,930 | 395,846 | — |
| Diluted EPS (yen and U.S. dollars) | ¥59.58 | ¥52.55 | $0.55 |

Net assets per share as of February 28, 2018 and 2017 were calculated as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| Net assets per share | | | |
| Net assets (numerator): | | | |
| Total net assets | ¥449,526 | ¥421,890 | $4,186,700 |
| Non-controlling interests in consolidated subsidiaries | (10,354) | (9,665) | (96,433) |
| Adjusted net assets | 439,172 | 412,225 | 4,090,267 |
| Common stock, thousands (denominator): | | | |
| Issued number of shares | 355,519 | 355,519 | — |
| Treasury stock | (6,045) | (6,036) | — |
| Outstanding number of shares | 349,474 | 349,483 | — |
| Net assets per share (yen and U.S. dollars) | ¥1,256.66 | ¥1,179.52 | $11.70 |

## 21 IMPAIRMENT LOSS

| | | | | Millions of yen | Thousands of U.S. dollars |
|---|---|---|---|---|---|
| | | | | 2018 | 2018 |
| | Location | Category by use | Assets | Impairment loss | |
| Shanghai Takashimaya Co.,Ltd. | Shanghai, China | Stores | Buildings | ¥1,572 | $14,641 |
| | | | Others | ¥26 | $242 |
| Total | | | | ¥1,598 | $14,883 |

Impairment loss is recognized following asset groups.

The Company and its consolidated subsidiaries identify each store as the smallest cash generating unit.

* Impairment loss: the book value of the asset group that is expected to continue to post a loss from operating activities is reduced to fair value, and such reduction is recorded as an impairment loss of ¥1,598 million ($14,883 thousand) under other expense. Fair values are measured using the cost approach.

| | Location | Category by use | Assets | Millions of yen<br>2017<br>Impairment loss |
|---|---|---|---|---|
| The Company Semboku store | Sakai, Japan | Stores | Buildings | ¥715 |
| | | | Others | 125 |
| The Company Konandai store | Yokohama, Japan | Stores | Buildings | 544 |
| | | | Others | 153 |
| Okayama Takashimaya Co., Ltd. | Okayama, Japan | Stores | Buildings | 781 |
| | | | Others | 101 |
| Yonago Takashimaya Co., Ltd. | Tottori, Japan | Stores | Land | 699 |
| | | | Buildings | 1,107 |
| | | | Others | 152 |
| Select Square Co., Ltd | Tokyo, Japan | Business Assets | Software | 83 |
| | | | Others | 30 |
| | | — | Goodwill | 98 |
| Total | | | | ¥4,588 |

Impairment loss is recognized for the following asset groups.

The Company and its consolidated subsidiaries identify each store as the smallest cash generating unit.

* Impairment loss: 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 under other expense. 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.

## 22 OTHER COMPREHENSIVE INCOME

The recycling and effect of deferred income tax on the other comprehensive income for the years ended February 28, 2018 and 2017 were summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2018 | 2017 | 2018 |
| **Valuation difference on available-for-sale securities** | | | |
| Occurrence amount | ¥4,262 | ¥2,307 | $39,694 |
| Recycling | (2,252) | (5,274) | (20,974) |
| Before tax effect | 2,010 | (2,967) | 18,720 |
| Tax effect | (685) | 1,515 | (6,380) |
| Valuation difference on available-for-sale securities | 1,325 | (1,452) | 12,340 |
| **Deferred gains or losses on hedges** | | | |
| Occurrence amount | (6) | 23 | (56) |
| Tax effect | 2 | (7) | 19 |
| Deferred gains or losses on hedges | (4) | 16 | (37) |
| **Revaluation reserve for land** | — | 238 | — |
| **Foreign currency translation adjustment** | 2,067 | (2,333) | 19,251 |
| **Remeasurements of defined benefit plans, net of tax** | | | |
| Occurrence amount | 2,860 | 1,788 | 26,637 |
| Recycling | 935 | 967 | 8,708 |
| Before tax effect | 3,795 | 2,755 | 35,345 |
| Tax effect | (1,129) | (888) | (10,515) |
| Remeasurements of defined benefit plans, net of tax | 2,666 | 1,867 | 24,830 |
| **Share of other comprehensive income of entities accounted for using equity method** | | | |
| Occurrence amount | 1,730 | (1,125) | 16,113 |
| Recycling | (2) | 229 | (19) |
| Share of other comprehensive income of entities accounted for using equity method | 1,728 | (896) | 16,094 |
| Total other comprehensive income | ¥7,782 | ¥(2,560) | $72,478 |

## 23 CASH DIVIDENDS

On May 22, 2018, the shareholders of the Company approved the following appropriations.

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends | ¥2,097 | $19,531 |

## 24 LEASES

### Operating leases

Future minimum lease payments subsequent to February 28, 2018 for noncancellable operating leases are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Years ending February 28 (29) | 2018 | 2018 |
| 2018 | ¥7 | $65 |
| 2019 and thereafter | 1 | 10 |
| Total | ¥8 | $75 |

## 25 SIGNIFICANT SUBSEQUENT EVENTS

### Change in the number of shares per share unit and share consolidation

At the meeting of the Company's Board of Directors held on April 9, 2018, the Company resolved to submit a proposal concerning a share consolidation at the 152nd Ordinary General Meeting of Shareholders to be held on May 22, 2018.

Furthermore, on the condition that the proposal concerning a share consolidation is approved and adopted at the General Meeting of Shareholders, the Company passed a resolution for its incorporation.

The proposal concerning a share consolidation was approved and adopted at the General Meeting of Shareholders.

The main points of the meeting are as follows:

(1) The objectives of the change in the number of shares per share unit and share consolidation
All domestic stock exchanges announced the "Action Plan for Consolidation Trading Units," with an aim to standardize the trading units for common shares issued by all listed domestic corporations at 100 shares by October 1, 2018.

In light of the intent of this action plan, the Company — as it is listed on the Tokyo Stock Exchange — resolved at the Board of Directors meeting held on April 9, 2018 to change the number of shares constituting one unit, which is the trading unit of the Company's stock, from 1,000 shares to 100 shares effective September 1, 2018, provided that the Company proposes to consolidate shares with a ratio of two shares to one share for the purpose of adjusting the investment unit to an appropriate level, taking into consideration medium- to long-term share price fluctuations.

(2) Details of the share consolidation

(a) Class of shares to be consolidated: Common shares

(b) Method and ratio of share consolidation

Effective September 1, 2018, the Company will consolidate the shares at a ratio of two shares to one share held by shareholders registered on the final shareholder register as of August 31, 2018.

(c) Decrease in the number of shares resulting from the share consolidation (the number of shares to be reduced might vary.)

| | |
|---|---|
| Total number of shares outstanding before the consolidation (as of February 28, 2018) | 355,518,963 shares |
| Decrease in the number of shares resulting from the share consolidation | 177,759,482 shares |
| Total number of shares outstanding after the share consolidation | 177,759,481 shares |

Note: "Decrease in the number of shares resulting from the share consolidation" and "Total number of shares outstanding after the share consolidation" are theoretical numbers calculated by multiplying "Total number of shares outstanding before the consolidation (as of February 28, 2018)" by the share consolidation ratio.

(3) Processing for fractional shares

If fractional shares arise as a result of the share consolidation, the Company will dispose all such fractional shares and distribute the proceeds to shareholders having fractional shares in proportion to their respective fractions, pursuant to the provisions of the Companies Act.

(4) Total number of shares authorized to be issued as of the effective date

300,000,000 shares

The total number of shares authorized to be issued will be decreased in the same ratio as the share consolidation ratio, from 600,000,000 shares to 300,000,000 shares.

(5) Details of the change in the number of shares per share unit

When the share consolidation comes into effect, the Company will change the number of shares per share unit of common shares from 1,000 shares to 100 shares.

(6) Schedule of the share consolidation and the change in the number of shares per share unit

| | |
|---|---|
| Date of resolution of the Board of Directors | April 9, 2018 |
| Date of resolution of the General Meeting of Shareholders | May 22, 2018 |
| Effective date of change in the number of shares per share unit | September 1, 2018 |
| Effective date of share consolidation | September 1, 2018 |
| Effective date of partial amendments to the articles of incorporation | September 1, 2018 |

(7) Effect on per share information

If the share consolidation had hypothetically been carried out at the beginning of the previous fiscal year, the per share information in the previous fiscal year under review would be as shown below.

| | yen | | U.S. dollars |
|---|---|---|---|
| | **2018** | 2017 | **2018** |
| Net assets per share | **2,513.33** | 2,359.05 | **23.41** |
| Basic EPS | **135.39** | 119.43 | **1.26** |
| Diluted EPS | **119.16** | 105.11 | **1.11** |

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, 2018 and 2017, 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.

### 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 judgment, 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, 2018 and 2017, 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, 2018 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

June 29, 2018
Tokyo, Japan

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